Centlec (SOC) Ltd
(Registration number 2003/011612/30)
Financial statements
for the year ended 30 June 2019

General Information

Country of incorporation and domicile	South Africa
Legal form of entity	State owned company
Nature of business and principal activities	The principal activity of the municipal entity is the distribution of electricity to industries, businesses and households mainly in the Mangaung and Southern Free state area
Chief Executive Officer (CEO)	Mr. AN Mgoqi
Chief Finance Officer (CFO)	Mr. MM Matsimela
Directors	Mr. N Mokhesi (Chairperson) Me. DC Myeni (Deputy Chairperson) Mr. KM Moroka Mr. CAK Choeu
Registered office	30 Rhodes Avenue Oranjesig Bloemfontein Free State 9301
Postal address	Private Bag X14 Brandhof Bloemfontein 9324
Controlling entity	Mangaung Metropolitan Municipality incorporated in South Africa
Bankers	ABSA
Auditors	Auditor-General of South Africa
Company Secretary	Mr. T Malgas
Company registration number	2003/011612/30
Tax reference number	9487328156
Attorneys	Bokwa Attorneys Malebogo Maeyane Attorneys Mthembu Attorneys Phatsoane Henney Inc. SMO Seobe Attorneys Inc.
Enabling Legislation	Local Government: Municipal Finance Management Act (Act 56 of 2003) Local Government: Municipal System Act (Act 32 of 2000) Local Government: Municipal System Act (Act 117 of 1998) Division of Revenue Act (Act 1 of 2018) Companies Act (Act 71 of 2008)

Contents

The reports and statements set out below comprise the financial statements presented to the provincial legislature:

Contents

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

Corporate Governance Report

The Board & Administrative Governance

Introduction to Governance

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

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

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

Board Governance

1. Board of Directors

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

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

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

Type of Meeting	Date	Venue
Ordinary	20 August 2018	Centlec (SOC) Ltd, 30 Rhodes Avenue, Oranjesig, Bloemfontein
Special	29 August 2018	Centlec (SOC) Ltd, 30 Rhodes Avenue, Oranjesig, Bloemfontein
Ordinary	13 November 2018	Centlec (SOC) Ltd, 30 Rhodes Avenue, Oranjesig, Bloemfontein
Ordinary	20 December 2018	Centlec (SOC) Ltd, 30 Rhodes Avenue, Oranjesig, Bloemfontein
Ordinary	01 February 2019	Centlec (SOC) Ltd, 30 Rhodes Avenue, Oranjesig, Bloemfontein
Special	01 March 2019	Centlec (SOC) Ltd, 30 Rhodes Avenue, Oranjesig, Bloemfontein
Ordinary	17 May 2019	Centlec (SOC) Ltd, 30 Rhodes Avenue, Oranjesig, Bloemfontein

2. Board Committees

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

2.1 Audit & Risk Committee

N.P. Lubanga	Chairperson
M.R. Tsupa	Member
T. Malakoane	Member
N.S. Ntingane	Member
E.T. Tsoaeli	Member

2.2. Finance Committee

N. Mokhesi	Chairperson
K.M. Moroka	Member
M. Mohale *	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee

* M. Mohale resigned on 22 May 2019.

2.3. Human Resources & Remuneration Committee

C. Choeu	Chairperson
M. Mohale *	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
EM: Compliance and Performance	Invitee
EM: Human Resources	Invitee

* M. Mohale resigned on 22 May 2019.

2.4. Social Responsibility & Ethics Committee

K.M. Moroka	Chairperson
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
EM: Compliance and Performance	Invitee

2.5. Information Technology Governance Committee

M. Mohale*	Chairperson
C. Choeu	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
EM: Compliance and Performance	Invitee
EM: Engineering (Retail)	Invitee

* M. Mohale resigned on 22 May 2019.

2.6. Engineering Committee

D. Myeni	Chairperson
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
EM: Compliance and Performance	Invitee
EM: Engineering (Wires)	Invitee

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

Committee	No. of Meetings	Dates of meetings
IT Governance	2	16 July 2018
		30 January 2019
Engineering	2	24 July 2018
		25 April 2019
HR & Remuneration	2	30 January 2019
		29 April 2019
Social Responsibility & Ethics	1	24 & 26 July 2018
Finance	3	23 July 2018
		18 January 2019
		30 April 2019
Audit & Risk	6	23 July 2018
		29 August 2018
		29 October 2018
		28 November 2018
		17 January 2019
		10 May 2019

Risk Management

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

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

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

Director's Responsibilities and Approval

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

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

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

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

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

The directors have reviewed the municipal entity's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, they are satisfied that the municipal entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The financial statements set out on pages 17 - 129, which have been prepared on the going concern basis, were approved by the directors on 30 August 2019 and were signed on its behalf by:

Mr. N Mokhesi
Chairperson of the Board of Directors

Audit and Risk Committee Report

We are pleased to present our report for the financial year ended 30 June 2019.

Audit and Risk Committee members and attendance

The purpose of this report is to communicate to the Board and Parent Municipality the audit and risk committee’s progress to date in carrying out its responsibilities in terms of section 166 of the Municipal Finance Management Act, 2003 (Act No.56 of 2003, as amended) MFMA.

The MFMA obliges every municipality to establish an independent audit committee, which advise the municipal council, political office bearers, accounting officer and management staff of municipality as well as the accounting officer and management staff of the municipality entity, on matters relating to internal financial controls and internal audits, risk management, accounting policies, the adequacy, reliability and accuracy of financial reporting and information, performance management, effective governance, compliance with the MFMA, and any other applicable legislation, and any other issues referred to it by the entity. The audit committee is governed by formal terms of reference (charter) which are reviewed and approved by the Board annually. The committee is pleased to present its report for the financial year ended 30 June 2019.

Audit and Risk Committee members and attendance

The committee was established in accordance with section 166 (2) of the MFMA.

The council of the parent municipality approved the appointment of a standalone audit committee for the municipal entity for a period of four (4) years with effect from 1 October 2017 until 31 October 2021. The audit and risk committee comprises of the five (5) following members:

N.P. Lubanga (Chairperson)
M.R. Tsupa
T. Malakoane
N.S. Ntingane
E.T. Tsoaeli

In terms of section 166(4) (b) of the MFMA, the audit committee must meet as often as is required to perform its functions, but at least four times a year. During the financial year ended 30 June 2019, the audit and risk committee met six (6) times. The table below shows the attendance of these meetings:

Member	2018/07/23	2018/08/29	2018/10/29	2018/11/28	2019/01/17	2019/05/10
N.P. Lubanga (Chairperson)	Yes	Yes	Yes	Yes	Yes	Yes
M.R. Tsupa	Yes	No	Yes	No	Yes	No
T. Malakoane	Yes	No	No	No	No	Yes
N.S. Ntingane	Yes	Yes	Yes	Yes	Yes	Yes
E.T. Tsoaeli	No	No	No	No	Yes	No

All members of the audit and risk committee were independent, with no interest in the management or conduct of the business of the municipality and its entities.

Audit and Risk Committee responsibility

The audit and risk committee reports that it has complied with its responsibilities arising from section 166(2) (a) of the MFMA in terms of its defined responsibilities as an advisory body to the municipal entity and a sub-committee of the Board.

The audit and risk committee also reports that it adopted appropriate formal terms of reference as its audit and risk committee charter and regulated its affairs in compliance with this charter and discharged all its responsibilities as contained therein.

Audit and Risk Committee Report

The effectiveness of internal control

The audit and risk committee acknowledge management's efforts to strengthen system of controls within in the entity. The audit and risk committee is concerned that in certain instances the matters reported by the external auditors and internal audit function in prior years have not been fully and satisfactorily addressed. Management has given assurance that effective corrective action will be implemented in respect of all internal control weaknesses. Management corrective action plans to address the previous internal and external audit findings is monitored and reported to the audit and risk on a quarterly basis.

Executive management positions which were vacant within the entity were all filled including the position of the company secretary during the 1st quarter of the period under review. As a drive to improve management accountability for internal control environment of the entity, all executive managers of the entity are having a standing invitation for the attendance of all the audit and risk committee.

Performance Management

Part of the responsibilities of the audit committee includes the review of performance management. The audit and risk committee has in terms of the performance of the entity performed the following:

- Review and comment on compliance with statutory requirements and performance management best practices and standards.
- Review and comment on the relevance of the indicators to ensure that they are measurable and relate to services performed.
- Review of the quarterly performance reports submitted by management.
- Review of the quarterly internal audit report on performance information.

The audit and risk committee has not been satisfied with the consistency, accuracy and validity of the reported quarterly performance information. Reported actual achieved targets on quarterly performance information reports by management were found to be without the portfolio of evidence or supporting documentations to satisfy the validity of the reported performance information. Effective performance management systems within the entity needs to be developed to ensure integrity, accuracy and validity of the non-financial/ performance information reported by the entity.

Internal audit

The accounting officer is obliged, in terms of section 165 of the MFMA, to ensure that the entity has an internal audit unit under the control and direction of the audit committee. The entity's has established the internal audit unit, which is co-sourced with PricewaterhouseCoopers (PwC) during the period under review.

The audit and risk committee approved the three-year strategic internal audit plan for the year ending 2018-2021 and annual operational internal audit plan for the year ending 30 June 2019.

The following internal audit reviews were performed by the internal audit unit during the period under review:

Performance Information Quarter 1-4	Review of KPIs for 18/19 and 19/20 SDBIPs
Corporate Governance	Asset Management
Cash flow Management	Maintenance of Infrastructure
Compliance – Engineering Wires	Human Resource Compliance
Compliance – Occupational Health and Safety	Data Purification
Security Management	Revenue Management (Retail & Finance)
Budget process	Information Communication Technology
Supply Chain Management	

Audit and Risk Committee Report

Of the internal audit reviews performed by the internal audit function during the period under review, two hundred and fifty-three (253) controls were tested. 10% of these controls were found to be inadequate, 32% of these controls were found to be ineffective, 22% of these controls required room for improvement and 36% of these controls were found to the effective.

The overall conclusion of on control environment of the entity is satisfactory.

The audit and risk committee is satisfied that the internal audit function maintains an effective internal quality assurance and programme that covers all aspects of the internal audit activity.

The internal audit function went through an external quality assessment review and received a generally conformance rating which allows internal audit to use the term "Conforms with the International Standards for the Professional Practice of internal Auditing" until 30 June 2019.

Risk Management

The audit and risk committee is responsible for the oversight of the risk management function.

Centlec (SOC) Ltd has a risk management strategy and framework in place that was approved by the board. The entity has performed the strategic risk assessment during the period under review. Top ten (10) strategic risks of the entity has been monitored by the audit and risk committee and reported to the board on a quarterly basis.

Fraud risk assessments and information technology risk assessment are amongst the risk assessments which were performed by the entity and monitored by the audit committee on a quarterly basis.

A risk management implementation plan for the period ending 30 June 2019 which outlines the risk management activities to be performed by the risk management function was developed and approved by the audit and risk committee.

The progress status on the execution of the risk management implementation plan was reported to the audit and risk on a quarterly basis.

The committee is of the opinion that the risk management activities of the entity still requires a room for improvement. Management should strive to improve the risk management processes within the entity to reach a risk maturity level.

Evaluation of the annual financial statements

The audit and risk committee has reviewed the draft annual financial statements prior submission to the external auditors on the 31 August 2019 and has focused on the following:

- Compliance with accounting standards and legal requirements.
- Quality and acceptability of, and any changes in, accounting policies and practices.
- Clarity and completeness of disclosures and whether disclosures made have been set properly in context.
- Significant financial reporting judgments and estimates contained in the annual financial statements.

The audit and risk committee is satisfied that the annual financial statements have been prepared in accordance with GRAP and MFMA requirements.

External auditor's report

The audit and risk committee has discussed the conclusion and audit opinion of the external auditors (AGSA) on the annual financial statements of the entity and it accepts the audit opinion. The entity has received an unqualified audit opinion for the financial year under review, compared to the disclaimer audit opinion of the previous financial year.

The audit committee was available for any assistance that was required from it during the audit process and it was appraised of the issues giving rise to the audit opinion.

Audit and Risk Committee Report

The external audit function is performed by the Auditor General of South Africa which is independent of the entity. The committee met with the external auditors during the year under review to ensure that there were no unresolved issues.

A meeting between the committee and external auditors was held during the month of November 2019 prior the sign off of the audit report and management report.

The audit and risk management would like to thank management and the officials of the entity for their co-operation with the Auditor General of South Africa during the time of the audit.

N.P. Lubanga (Chairperson of the Audit Committee)

Date: ______________________

Director's Report

The directors submit their report for the year ended 30 June 2019.

1. General information and nature of activities

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

The municipal entity operates primarily in the Free State Province and employs 717 people. The address of the municipal entity's registered office is 30 Rhodes Avenue, Oranjesig, Bloemfontein, 9301.

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

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

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

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

The financial statements set out fully the financial position, results of operations and cash flows of the municipal entity for the reporting period ended 30 June 2019.

Main business and operations

The principal activity of the municipal entity is the distribution of electricity to industries, businesses and households mainly in the mangaung and southern free state area and other Free State Municipalities.

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

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

2. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. 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 5 344 344 199) exceed total liabilities (R 3 069 167 210).

- The municipal entity made a current year surplus of R 34 847 618.

- The municipal entity has an accumulated surplus and other reserves of R 2 275 176 989.

Management has reviewed the municipal entity's cash flow forecast for the year to 30 June 2020. In light of this review and the current financial position, management has noted that the current liabilities exceed its current assets. This is mainly attributed to the existence of the deemed sale of the business (SOB) agreement between the entity and the parent municipality that requires the entity to settle the second redemption of the capital portion of the shareholder’s loan of R 267 869 789 by June 2020.

The entity and the Parent municipality have reached a resolution to cancel the deemed sale of business agreement and any other related intercompany loan and capital advances loan effective from the 01 July 2019.

The arrangement reached provides for a relief to the entity as the loans are to be converted into equity with effect from the 2019/20 financial year. This has had a positive impact on the municipal entity's financial health further strengthening the going concern assumption.

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 its revenue collection and cash flow by improving on the debt recoverability processes.

The revenue protection unit's effort to curb meter tampering/bypassing is likely to improve revenue collection.

Other supplementary considerations include the fact that the entity managed to report an operating surplus of R 34 847 618 despite the fact that the sale of business agreement and the related interest charges were reported as though still in existence.

The entity still has the capacity and ability to continue with providing the services it is mandated to at the approved rates and will thus generate revenue from services in the future.

3. Subsequent events

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

4. Accounting policies

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

Director's Report

5. Share capital / contributed capital

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

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

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

Authorised:

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

Issued:

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

6. Non-current assets

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

7. Directors

The current Board of Directors consists of five (5) non-executive directors and two (2) executive directors.

The council of the parent municipality took a decision in the meeting held on 2 August 2018 to terminate the term of office of Centlec (SOC) Ltd's existing board of directors. An interim board of directors was appointed with effect from 2 August 2018.

During a council meeting held on the 4th of December 2018 it was decided to re-instate the previously terminated board of Centlec (SOC) Ltd to complete their original term as directors of the municipal entity. The re-instatement was with effect from 16 January 2019.

Mr. MP Mohale resigned as director of the municipal entity on 22 May 2019.

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

Mr. N Mokhesi (Chairperson)	Reappointed 01 July 2016
Me. DC Myeni (Deputy Chairperson)	Appointed 01 July 2016
Mr. KM Moroka	Reappointed 01 July 2016
Mr. CAK Choeu	Appointed 01 July 2016
Mr. MP Mohale	Resigned 22 May 2019

8. Dividends

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

9. Company secretary

Phatshoane Henney Inc. was appointed to oversee the activities of the Company Secretary while the position was vacant.

During May 2019 Mr. T Malgas was appointed as the new Company Secretary. His contact details are as follows:

Business address:

30 Rhodes Avenue
Oranjesig
Bloemfontein
South Africa
9300

10. Member and executive managers' emoluments

Directors' and officers' personal financial interests in contracts

In terms of the supply chain management policy of the municipal entity, directors and the municipal entity's officers are prohibited from entering into commercial transactions with the municipal entity.

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

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

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

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

Directors' and prescribed officers' emoluments

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

11. Corporate governance

General

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

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

Board of directors

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

Chairperson and chief executive

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

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

Director's Report

Remuneration

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

Board meetings

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

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

Audit and risk committee

The chairperson of the audit committee is Me. NP Lubanga (non-executive director). The committee met 6 times during the financial year to review matters necessary to fulfil its role.

In terms of Section 166 of the Municipal Finance Management Act, Mangaung Metropolitan Municipality, as a parent municipality, must appoint members of the Audit Committee. Notwithstanding that non-executive directors appointed by the parent municipality constituted the municipal entities' Audit Committees, National Treasury policy requires that parent municipalities should appoint further members of the municipal entity's audit committees who are not directors of the municipal entity onto the audit committee. Mangaung Metropolitan Municipality, as a parent municipality, was satisfied that the Audit Committee of the municipal entity then, constituted by the non-executive directors was properly constituted to fulfil its role and advise the Board of its responsibilities as provided in Section 166 of the Municipal Finance Management Act.

Internal audit

The municipal entity has appointed its own internal audit function with assistance from PricewaterhouseCoopers Inc who continued to perform this function from the previous year while the municipal entity is still developing its internal capacity. This is in compliance with the Municipal Finance Management Act, Section 62(c)(i) & 165, 2003.

12. Controlling entity

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

13. Bankers

ABSA Limited

14. Auditors

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

Company Secretary's Certification

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

In accordance with the provisions of the Companies Act 71 of 2008, Mr. T Malgas , the Company Secretary of Centlec State Owned Company Ltd, hereby certify that:

In respect of the reporting period ended 30 June 2019, the Company has lodged with the Commissioner of the Companies and Intellectual Property Commission (CIPC), all returns and notices prescribed by the Act and that all such returns and notices are true, correct and up to date.

Mr. T Malgas
Company Secretary of Centlec (SOC) Ltd

Statement of Financial Position as at 30 June 2019

	Note(s)	2019 R	2018 Restated* R
Assets			
Current Assets			
Cash and cash equivalents	3	13 555 909	81 467 990
Consumer receivables from exchange transactions	4	768 845 276	586 442 019
Inventories	5	87 664 166	99 748 852
Investments	6	-	53 265 198
Other financial assets	7	275 470	275 470
Other receivables from exchange transactions	8	67 336 576	67 027 689
		937 677 397	**888 227 218**
Non-Current Assets			
Property, plant and equipment	9	3 851 456 597	3 809 542 638
Intangible assets	10	96 862 893	100 820 124
Other financial assets	7	3 914 593	4 566 241
Deferred tax	11	454 432 719	372 919 868
		4 406 666 802	**4 287 848 871**
Total Assets		**5 344 344 199**	**5 176 076 089**
Liabilities			
Current Liabilities			
Consumer deposits	12	115 053 108	114 471 056
Finance lease obligation	13	-	116 968
Long service awards	14	1 569 000	821 000
Loans from shareholders	18	267 869 789	-
Other financial liabilities	15	6 697 009	6 697 009
Payables from exchange transactions	16	508 915 442	438 619 947
VAT liability	17	103 870 439	72 667 833
		1 003 974 787	**633 393 813**
Non-Current Liabilities			
Loans from shareholders	18	803 609 369	1 071 479 158
Other financial liabilities	15	575 198 943	636 528 023
Deferred tax	11	667 671 111	575 253 899
Long service awards	14	18 713 000	18 991 000
		2 065 192 423	**2 302 252 080**
Total Liabilities		**3 069 167 210**	**2 935 645 893**
Net Assets		**2 275 176 989**	**2 240 430 196**
Share capital / contributed capital	19	100	100
Reserves			
Revaluation reserve	20	1 460 029 577	1 460 130 406
Other NDR	21	60 000 000	60 000 000
Accumulated surplus		755 147 312	720 299 690
Total Net Assets		**2 275 176 989**	**2 240 430 196**

* See Note 40

Statement of Financial Performance

	Note(s)	2019 R	2018 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	22	2 336 777 749	2 193 332 987
Agency services		8 195 007	2 327 162
Other income	23	98 446 800	88 961 253
Interest income	24	29 950 537	26 692 781
Inventories reversal		1 112 666	-
Total revenue from exchange transactions		**2 474 482 759**	**2 311 314 183**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	25	13 434 783	17 506 380
Public contributions and donations		1 497 768	1 706 656
Forfeits		-	2 672 302
Total revenue from non-exchange transactions		**14 932 551**	**21 885 338**
Total revenue	26	**2 489 415 310**	**2 333 199 521**
Expenditure			
Employee related costs	27	347 899 955	303 823 081
Depreciation and amortisation	28	135 046 229	134 238 465
Impairment loss/ (reversal of impairments)	29	746 694	9 453 222
Finance costs	30	233 349 576	216 130 925
(Reversal of) / Contributions to debt impairment provision	31	(52 954 729)	14 769 602
Bulk purchases	32	1 519 656 103	1 429 508 907
Loss on disposal of assets and liabilities		3 319 110	877 029
General expenses	33	256 600 393	303 715 425
Total expenditure		**2 443 663 331**	**2 412 516 656**
Surplus (deficit) before taxation		**45 751 979**	**(79 317 135)**
Taxation	34	(10 904 361)	25 923 752
Surplus (deficit) for the year		**34 847 618**	**(53 393 383)**

* See Note 40

Statement of Changes in Net Assets

	Share capital / contributed capital	Revaluation reserve	Other NDR	Total reserves	Accumulated surplus	Total net assets
	R	R	R	R	R	R
Opening balance as previously reported	100	1 460 130 406	60 000 000	1 520 130 406	773 080 875	2 293 211 381
Adjustments						
Prior year adjustments	-	-	-	-	612 198	612 198
Balance at 01 July 2017 as restated*	**100**	**1 460 130 406**	**60 000 000**	**1 520 130 406**	**773 693 073**	**2 293 823 579**
Changes in net assets						
Surplus/(Deficit) for the year	-	-	-	-	(53 393 383)	(53 393 383)
Total changes	-	-	-	-	(53 393 383)	(53 393 383)
Opening balance as previously reported	1 714 784 887	1 460 130 406	60 000 000	1 520 130 406	594 556 050	3 829 471 343
Adjustments						
Prior year adjustments	(1 714 784 787)	-	-	-	125 743 644	(1 589 041 143)
Restated* Balance at 01 July 2018 as restated*	**100**	**1 460 130 406**	**60 000 000**	**1 520 130 406**	**720 299 694**	**2 240 430 200**
Changes in net assets						
Impairment losses on revalued capital assets	-	(100 829)	-	(100 829)	-	(100 829)
Net income (losses) recognised directly in net assets	-	(100 829)	-	(100 829)	-	(100 829)
Surplus for the year	-	-	-	-	34 847 618	34 847 618
Total recognised income and expenses for the year	-	(100 829)	-	(100 829)	34 847 618	34 746 789
Total changes	-	(100 829)	-	(100 829)	34 847 618	34 746 789
Balance at 30 June 2019	**100**	**1 460 029 577**	**60 000 000**	**1 520 029 577**	**755 147 312**	**2 275 176 989**
Note(s)	19	20	21			

* See Note 40

Cash Flow Statement

	Note(s)	2019 R	2018 Restated* R
Cash flows from operating activities			
Receipts			
Sale of goods and services		2 313 662 141	2 243 148 749
Grants, public contributions and donations		14 932 551	21 885 338
Interest income		29 950 537	26 692 781
		2 358 545 229	2 291 726 868
Payments			
Employee costs		(347 429 955)	(299 464 081)
Suppliers		(1 885 734 835)	(1 941 756 189)
Finance costs		(9 336 073)	(62 050)
		(2 242 500 863)	(2 241 282 320)
Net cash flows from operating activities	35	**116 044 366**	**50 444 548**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(167 265 585)	(113 337 519)
Proceeds from sale of property, plant and equipment	9	1 870 753	711 948
Purchase of intangible assets	10	(11 028 059)	(7 355 395)
Investments		53 265 198	109 456 423
(Purchase of)/Proceeds from sale of financial assets		651 648	(2 575 658)
Net cash flows from investing activities		**(122 506 045)**	**(13 100 201)**
Cash flows from financing activities			
Proceeds from/(Repayment of) other financial liabilities		(61 329 080)	(80 597)
Finance lease payments		(121 322)	(943 337)
Net cash flows from financing activities		**(61 450 402)**	**(1 023 934)**
Net increase/(decrease) in cash and cash equivalents		**(67 912 081)**	**36 320 413**
Cash and cash equivalents at the beginning of the year		81 467 990	45 147 577
Cash and cash equivalents at the end of the year	3	**13 555 909**	**81 467 990**

* See Note 40

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	2 581 620 323	-	**2 581 620 323**	2 336 777 749	**(244 842 574)**	Note 49
Agency services	5 817 513	-	**5 817 513**	8 195 007	**2 377 494**	Note 49
Other income	30 144 156	-	**30 144 156**	98 446 800	**68 302 644**	Note 49
Interest income	20 396 008	-	**20 396 008**	29 950 537	**9 554 529**	Note 49
Total revenue from exchange transactions	**2 637 978 000**	**-**	**2 637 978 000**	**2 473 370 093**	**(164 607 907)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	15 450 000	-	**15 450 000**	13 434 783	**(2 015 217)**	Note 49
Public contributions and donations	-	-	**-**	1 497 768	**1 497 768**	Note 49
Total revenue from non-exchange transactions	**15 450 000**	**-**	**15 450 000**	**14 932 551**	**(517 449)**	
Total revenue	**2 653 428 000**	**-**	**2 653 428 000**	**2 488 302 644**	**(165 125 356)**	
Expenditure						
Employee related costs	(323 785 317)	-	**(323 785 317)**	(347 899 955)	**(24 114 638)**	Note 49
Depreciation and amortisation	(99 383 339)	-	**(99 383 339)**	(135 046 229)	**(35 662 890)**	Note 49
Impairment loss/ Reversal of impairments	-	-	**-**	(746 694)	**(746 694)**	Note 49
Finance costs	(120 051 339)	-	**(120 051 339)**	(233 349 576)	**(113 298 237)**	Note 49
Debt impairment	(8 417 347)	-	**(8 417 347)**	52 954 729	**61 372 076**	Note 49
Bulk purchases	(1 571 442 771)	-	**(1 571 442 771)**	(1 519 656 103)	**51 786 668**	Note 49
General expenses	(344 118 419)	-	**(344 118 419)**	(256 600 393)	**87 518 026**	Note 49
Total expenditure	**(2 467 198 532)**	**-**	**(2 467 198 532)**	**(2 440 344 221)**	**26 854 311**	
Operating surplus	**186 229 468**	**-**	**186 229 468**	**47 958 423**	**(138 271 045)**	
Gain/Loss on disposal of assets and liabilities	324 868	-	**324 868**	(3 319 110)	**(3 643 978)**	Note 49
Inventories losses/gains	-	-	**-**	1 112 666	**1 112 666**	
	324 868	**-**	**324 868**	**(2 206 444)**	**(2 531 312)**	
Surplus before taxation	**186 554 336**	**-**	**186 554 336**	**45 751 979**	**(140 802 357)**	
Taxation	-	-	**-**	(10 904 361)	**(10 904 361)**	Note 49
Actual Amount on Comparable Basis	**186 554 336**	**-**	**186 554 336**	**34 847 618**	**(151 706 718)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Position						
Assets						
Current Assets						
Cash and cash equivalents	55 404 809	-	**55 404 809**	13 555 909	**(41 848 900)**	Note 49
Consumer receivables from exchange transactions	707 391 393	-	**707 391 393**	768 845 276	**61 453 883**	Note 49
Inventories	85 000 000	-	**85 000 000**	87 664 166	**2 664 166**	Note 49
Investments	60 000 000	-	**60 000 000**	-	**(60 000 000)**	Note 49
Other receivables from exchange transactions	-	-	**-**	67 336 576	**67 336 576**	Note 49
	907 796 202	**-**	**907 796 202**	**937 401 927**	**29 605 725**	
Non-Current Assets						
Property, plant and equipment	3 831 981 050	-	**3 831 981 050**	3 851 456 597	**19 475 547**	Note 49
Intangible assets	78 147 378	-	**78 147 378**	96 862 893	**18 715 515**	Note 49
Other financial assets	-	-	**-**	4 190 063	**4 190 063**	Note 49
Deferred tax	230 245 210	-	**230 245 210**	454 432 719	**224 187 509**	Note 49
	4 140 373 638	**-**	**4 140 373 638**	**4 406 942 272**	**266 568 634**	
Total Assets	**5 048 169 840**	**-**	**5 048 169 840**	**5 344 344 199**	**296 174 359**	
Liabilities						
Current Liabilities						
Loans from shareholders	-	-	**-**	267 869 789	**267 869 789**	Note 49
Consumer deposits	91 187 106	-	**91 187 106**	115 053 108	**23 866 002**	Note 49
Payables from exchange transactions	519 870 940	-	**519 870 940**	508 915 442	**(10 955 498)**	Note 49
VAT liability	-	-	**-**	103 870 439	**103 870 439**	
	611 058 046	**-**	**611 058 046**	**995 708 778**	**384 650 732**	
Non-Current Liabilities						
Loans from shareholders	-	-	**-**	803 609 369	**803 609 369**	Note 49
Other non-current financial liabilities	-	-	**-**	581 895 952	**581 895 952**	Note 49
Deferred tax	590 696 790	-	**590 696 790**	667 671 111	**76 974 321**	Note 49
Long service awards	21 981 893	-	**21 981 893**	20 282 000	**(1 699 893)**	Note 49
	612 678 683	**-**	**612 678 683**	**2 073 458 432**	**1 460 779 749**	
Total Liabilities	**1 223 736 729**	**-**	**1 223 736 729**	**3 069 167 210**	**1 845 430 481**	
Net Assets	**3 824 433 111**	**-**	**3 824 433 111**	**2 275 176 989**	**(1 549 256 122)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Net Assets						
Net Assets Attributable to Controlling Entity						
Share capital	1 714 784 887	-	**1 714 784 887**	100	**(1 714 784 787)**	Note 49
Reserves						
Revaluation reserve	1 072 175 517	-	**1 072 175 517**	1 460 029 577	**387 854 060**	
Other NDR	60 000 000	-	**60 000 000**	60 000 000	**-**	
Accumulated surplus	977 472 707	-	**977 472 707**	755 147 312	**(222 325 395)**	
Total Net Assets	**3 824 433 111**	**-**	**3 824 433 111**	**2 275 176 989**	**(1 549 256 122)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	2 351 521 179	-	**2 351 521 179**	2 313 662 141	**(37 859 038)**	
Grants, forfeits, public contributions and donations	22 212 339	-	**22 212 339**	14 932 551	**(7 279 788)**	
Interest income	20 755 561	-	**20 755 561**	29 950 537	**9 194 976**	
	2 394 489 079	**-**	**2 394 489 079**	**2 358 545 229**	**(35 943 850)**	
Payments						
Suppliers and employee costs	(2 089 893 781)	-	**(2 089 893 781)**	(2 233 164 790)	**(143 271 009)**	
Finance costs	(51 339)	-	**(51 339)**	(9 336 073)	**(9 284 734)**	
	(2 089 945 120)	**-**	**(2 089 945 120)**	**(2 242 500 863)**	**(152 555 743)**	
Net cash flows from operating activities	**304 543 959**	**-**	**304 543 959**	**116 044 366**	**(188 499 593)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(91 814 817)	-	**(91 814 817)**	(167 265 585)	**(75 450 768)**	
Proceeds from sale of property, plant and equipment	324 868	-	**324 868**	1 870 753	**1 545 885**	
Purchase of other intangible assets	-	-	**-**	(11 028 059)	**(11 028 059)**	
Investments	-	-	**-**	53 265 198	**53 265 198**	
Proceeds from sale of financial assets	-	-	**-**	651 648	**651 648**	
Net cash flows from investing activities	**(91 489 949)**	**-**	**(91 489 949)**	**(122 506 045)**	**(31 016 096)**	
Cash flows from financing activities						
Repayment of other financial liabilities	(120 000 000)	-	**(120 000 000)**	-	**120 000 000**	
Net movement on other financial liabilities	(22 796 777)	-	**(22 796 777)**	(61 329 080)	**(38 532 303)**	
Finance lease payments	-	-	**-**	(121 322)	**(121 322)**	
Net cash flows from financing activities	**(142 796 777)**	**-**	**(142 796 777)**	**(61 450 402)**	**81 346 375**	
Net increase/(decrease) in cash and cash equivalents	70 257 233	-	**70 257 233**	(67 912 081)	**(138 169 314)**	
Cash and cash equivalents at the beginning of the year	45 147 577	-	**45 147 577**	81 467 990	**36 320 413**	
Cash and cash equivalents at the end of the year	**115 404 810**	**-**	**115 404 810**	**13 555 909**	**(101 848 901)**	

Appropriation Statement - Unaudited

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
2019											
Financial Performance											
Service charges	2 381 620 323	200 000 000	2 581 620 323	-		2 581 620 323	2 336 777 749		(244 842 574)	91 %	98 %
Investment revenue	20 396 008	-	20 396 008	-		20 396 008	29 950 537		9 554 529	147 %	147 %
Other own revenue	28 684 204	7 602 333	36 286 537	-		36 286 537	107 754 473		71 467 936	297 %	376 %
Total revenue (excluding capital transfers and contributions)	**2 430 700 535**	**207 602 333**	**2 638 302 868**	**-**		**2 638 302 868**	**2 474 482 759**		**(163 820 109)**	**94 %**	**102 %**
Employee costs	(324 022 474)	237 157	(323 785 317)	-	-	(323 785 317)	(347 899 955)	-	(24 114 638)	107 %	107 %
Debt impairment	(8 417 347)	-	(8 417 347)			(8 417 347)	52 954 729	-	61 372 076	(629)%	(629)%
Depreciation and asset impairment	(99 383 339)	-	(99 383 339)			(99 383 339)	(135 792 923)	-	(36 409 584)	137 %	137 %
Finance charges	(120 051 339)	-	(120 051 339)	-	-	(120 051 339)	(233 349 576)	-	(113 298 237)	194 %	194 %
Materials and bulk purchases	(1 480 442 771)	(91 000 000)	(1 571 442 771)	-	-	(1 571 442 771)	(1 519 656 103)	-	51 786 668	97 %	103 %
Other expenditure	(288 455 036)	(55 663 383)	(344 118 419)	-	-	(344 118 419)	(259 919 503)	-	84 198 916	76 %	90 %
Total expenditure	**(2 320 772 306)**	**(146 426 226)**	**(2 467 198 532)**	**-**	**-**	**(2 467 198 532)**	**(2 443 663 331)**	**-**	**23 535 201**	**99 %**	**105 %**
Surplus/(Deficit)	**109 928 229**	**61 176 107**	**171 104 336**	**-**		**171 104 336**	**30 819 428**		**(140 284 908)**	**18 %**	**28 %**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	15 450 000	-	15 450 000	-		15 450 000	13 434 783		(2 015 217)	87 %	87 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	1 497 768		1 497 768	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**125 378 229**	**61 176 107**	**186 554 336**	**-**		**186 554 336**	**45 751 979**		**(140 802 357)**	**25 %**	**36 %**
Taxation	-	-	-	-		-	10 904 361		10 904 361	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	**125 378 229**	**61 176 107**	**186 554 336**	**-**		**186 554 336**	**34 847 618**		**(151 706 718)**	**19 %**	**28 %**

Capital expenditure and funds sources

	Original budget	Budget adjustments	Final adjustments budget	Shifting of funds	Virement	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Total capital expenditure	96 647 176	89 388 178	186 035 354	-		186 035 354	182 548 423		(3 486 931)	98 %	189 %
Sources of capital funds											
Transfers recognised - capital	15 450 000	-	15 450 000	-		15 450 000	13 822 419		(1 627 581)	89 %	89 %
Public contributions and donations	6 318 000	4 444 339	10 762 339	-		10 762 339	10 574 850		(187 489)	98 %	167 %
Internally generated funds	74 879 176	84 943 839	159 823 015	-		159 823 015	158 151 154		(1 671 861)	99 %	211 %
Total sources of capital funds	**96 647 176**	**89 388 178**	**186 035 354**	**-**		**186 035 354**	**182 548 423**		**(3 486 931)**	**98 %**	**189 %**

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

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

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

A summary of the significant accounting policies are disclosed below.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. 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 5 344 344 199) exceed total liabilities (R 3 069 167 210).

- The municipal entity made a current year surplus of R 34 847 618.

- The municipal entity has an accumulated surplus and other reserves of R 2 275 176 989.

Management has reviewed the municipal entity's cash flow forecast for the year to 30 June 2020. In light of this review and the current financial position, management has noted that the current liabilities exceed its current assets. This is mainly attributed to the existence of the deemed sale of the business (SOB) agreement between the entity and the parent municipality that requires the entity to settle the second redemption of the capital portion of the shareholder’s loan of R 267 869 789 by June 2020.

The entity and the Parent municipality have reached a resolution to cancel the deemed sale of business agreement and any other related intercompany loan and capital advances loan effective from the 01 July 2019.

The arrangement reached provides for a relief to the entity as the loans are to be converted into equity with effect from the 2019/20 financial year. This has had a positive impact on the municipal entity's financial health further strengthening the going concern assumption.

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 its revenue collection and cash flow by improving on the debt recoverability processes.

1.2 Going concern assumption (continued)

The revenue protection unit's effort to curb meter tampering/bypassing is likely to improve revenue collection.

Other supplementary considerations include the fact that the entity managed to report an operating surplus of R 34 847 618 despite the fact that the sale of business agreement and the related interest charges were reported as though still in existence.

The entity still has the capacity and ability to continue with providing the services it is mandated to at the approved rates and will thus generate revenue from services in the future.

1.3 Transfer of functions between entities under common control

Definitions

An acquirer is the entity that obtains control of the acquiree or transferor.

Carrying amount of an asset or liability is the amount at which an asset or liability is recognised in the statement of financial position.

Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified.

Transfer date is the date on which the acquirer obtains control of the function and the transferor loses control of that function.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another entity.

A transferor is the entity that relinquishes control of a function.

Common control - For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity's objectives, either by providing economic benefits or service potential. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of an entity or can consist of the whole entity. Although functions may have outputs, outputs are not required to qualify as a function. The three elements of a function are defined as follows:

- Input: Any resource that creates, or has the ability to create, outputs when one or more processes are applied to it.
- Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.
- Output: The result of inputs and processes applied to achieve and improve efficiency. This may be in the form of achieving service delivery objectives, or the delivery of goods and/or services.

1.3 Transfer of functions between entities under common control (continued)

Identifying the acquirer and transferor

For each transfer of functions between entities under common control an acquirer and transferor are identified. All relevant facts and circumstances are considered in identifying the acquirer and transferor.

The terms and conditions of a transfer of functions undertaken between entities under common control are set out in a binding arrangement. The binding arrangement governing the terms and conditions of a transfer of functions may identify which entity to the transaction or event is the transferor(s) and which entity is the acquirer. Where the binding arrangement does not clearly identify the acquirer or the transferor, the behaviour or actions of the entities may indicate which entity is the acquirer and which entity is the transferor.

Determining the acquirer includes a consideration of, amongst other things, which of the entities involved in the transfer of functions initiated the transaction or event, the relative size of the entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event is accounted for in terms of the Standard of GRAP on Mergers.

Determining the transfer date

The acquirer and the transferor identify the transfer date, which is the date on which the acquirer obtains control and the transferor loses control of that function.

All relevant facts and circumstances are considered in identifying the transfer date.

1.3 Transfer of functions between entities under common control (continued)

Assets acquired [transferred] and liabilities assumed [relinquished]

The recognition of assets and liabilities, is subject to the following conditions:

The assets acquired and the liabilities assumed are part of what had been agreed to in terms of the binding arrangement (if applicable), rather than the result of separate transactions.

Determining what is part of the transfer of functions transaction

Where the entity and the transferor have a pre-existing relationship before or when negotiations for a transfer of functions began, or where a binding arrangement is entered into during the negotiations that are separate from a transfer of functions, any amounts that are not part of what were transferred in a transfer of functions are identified. This policy only applies to the consideration transferred and the assets acquired and liabilities assumed in a transfer of functions as governed by the terms and conditions of the binding arrangement.

The following factors are considered, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of a transfer of function or whether the transaction is separate:
- the reasons for the transaction
- the timing of the transaction

Effective settlement of a pre-existing relationship between the entity (as acquirer) and transferor in a transfer of functions

A pre-existing relationship between the entity (as acquirer) and the transferor may be contractual or non-contractual. If a transfer of functions in effect settles a pre-existing relationship, the entity (as acquirer) recognises a gain or loss, measured as follows:
- for a pre-existing non-contractual relationship, fair value.
- for a pre-existing contractual relationship, the lesser of the following:
  - the amount by which the binding arrangement is favourable or unfavourable from the perspective of the entity (as acquirer) when compared with terms for current market transactions for the same or similar items.
  - the amount of any stated settlement provisions in the binding arrangement available to the counterparty to whom the contract is unfavourable.

If the latter is less, the difference is included as part of a transfer of functions accounting. The amount of gain or loss recognised may depend in part on whether the entity (as acquirer) had previously recognised a related asset or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements.

Other criteria for the entity (as acquirer)

The assets acquired and liabilities assumed that qualify for recognition as set out in the binding arrangement meets the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements and the recognition criteria in the applicable Standards of GRAP at the transfer date.

Costs that the entity expects, but which it is not obliged to incur in the future to effect its plan to exit an activity of the transferor or to terminate the employment of, or relocate the transferor's employees, is not accounted for as part of the liabilities at the transfer date. The entity does not recognise those costs as part of a transfer of functions. Instead, the entity recognises these costs in its financial statements after the transfer has occurred, in accordance with the applicable Standards of GRAP.

1.3 Transfer of functions between entities under common control (continued)

Accounting by the entity as acquirer

Initial recognition and measurement

As of the transfer date, the entity recognises the purchase consideration paid to the transferor and all the assets acquired and liabilities assumed in a transfer of functions. The assets acquired and liabilities assumed are measured at their carrying amounts.

If, prior to the transfer of functions, the transferor was not applying the accrual basis of accounting, the transferor changes its basis of accounting to the accrual basis of accounting prior to the transfer.

The consideration paid by the entity can be in the form of cash, cash equivalents or other assets. If the consideration paid is in the form of other assets, the entity de-recognises such assets on the transfer date at their carrying amounts.

The difference between the carrying amounts of the assets acquired, the liabilities assumed and the consideration paid to the transferor, is recognised in accumulated surplus or deficit.

Measurement period

If the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs, the entity reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the entity retrospectively adjust the provisional amounts recognised at the transfer date to reflect new information obtained about facts and circumstances that existed as of the transfer date and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the entity receives the information it was seeking about facts and circumstances that existed as of the transfer date or learns that more information is not obtainable. However, the measurement period does not exceed two years from the transfer date.

The entity considers all relevant factors in determining whether information obtained after the transfer date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the transfer date.

The entity recognises an increase (decrease) in the provisional amount recognised for an asset (liability) by means of decreasing (increasing) the excess of the purchase consideration paid over the carrying amount of the assets acquired and liabilities assumed previously recognised in accumulated surplus or deficit. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability.

During the measurement period, the entity recognises adjustments to the provisional amounts as if the accounting for the transfer of functions had been completed at the transfer date. Thus, the entity revises comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

After the measurement period ends, the entity revises the accounting for a transfer of functions only to correct an error in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Acquisition-related costs

Acquisition-related costs are costs that the entity incurs to affect the transfer of functions. These costs include advisory, legal, accounting and other professional or consulting fees, general administrative costs, and costs of registering and issuing debt and equity securities. The entity accounts for acquisition-related costs as expenses in the period in which the costs are incurred and the services are received, with the exception of the costs incurred to issue debt or equity securities, which are recognised in accordance with the Standard of GRAP on Financial Instruments.

Subsequent measurement

The entity subsequently measure any assets acquired and any liabilities assumed in a transfer of functions in accordance with the applicable Standards of GRAP.

1.3 Transfer of functions between entities under common control (continued)

At the transfer date, the entity classifies or designates the assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequently. The entity makes those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions that exist at the transfer date. An exception is that the entity classifies the following contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the transfer date):

- classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on Leases; and
- classification of a contract as an insurance contract in accordance with the International Financial Reporting Standard on Insurance Contracts.

1.4 Significant judgements and sources of estimation uncertainty

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

Trade receivables and/or loans and receivables

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

Allowance for slow moving, damaged and obsolete inventory items

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

Impairment testing

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

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

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

Provisions

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

1.4 Significant judgements and sources of estimation uncertainty (continued)

Taxation

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

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

Current tax assets and liabilities

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

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

Deferred tax

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

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

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

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

Tax expense

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

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

- a business combination.

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

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of property, plant and equipment and other assets

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

Effective interest rate

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

Allowance for impairment

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

1.5 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipal entity; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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

1.5 Property, plant and equipment (continued)

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

Subsequent measurement:

Cost model

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

Revaluation model

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

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

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

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

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

The revaluation surplus relating to an asset will be realised over time by transferring some or the whole of the surplus to accumulated surplus or deficit by way of, either:
- Through the use of the asset: transferring the portion, as the asset to which the surplus relates to, is depreciated; or
- When the asset is derecognised: transferring the portion, when the asset to which the surplus relates to, is disposed.

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

Depreciation

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

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

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

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

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

1.5 Property, plant and equipment (continued)

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

1.5 Property, plant and equipment (continued)

- Street lights 45 years

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

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

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

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

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

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

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

The municipal entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 9).

The municipal entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 9).

1.6 Intangible assets

An asset is identifiable if it either:

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

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

Initial recognition

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipal entity; and
- the cost or fair value of the asset can be measured reliably.

The municipal entity assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initially recognised at cost.

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

Accounting Policies

1.6 Intangible assets (continued)

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Servitudes are classified as intangible assets. Servitudes are rights that are not amortised as they have an indefinite useful life.

Subsequent measuring

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

Servitudes are subsequently measured in accordance with the revaluation model.

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

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

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

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

Subsequent expenditure

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

Amortisation

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

Servitudes are not amortised as their nature are similar to that of land rights, which is not a depreciable item. Servitudes are rights that are not amortised as they have an indefinite useful life.

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

Item	**Useful life**
Computer software & licenses	1-5 years
Servitudes	Indefinite

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

1.6 Intangible assets (continued)

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Intangible assets are derecognised on disposal or when no future economic benefits or services potential are expected from its use or disposal. The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in the Statement of Financial Performance when the asset is derecognised.

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

1.7 Commitments

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

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

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

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation is disclosed in a note to the financial statements, if both the following criteria are met:
- contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts should relate to something other than the routine, steady, state business of the municipal entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.8 Financial instruments

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

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

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

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

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

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

1.8 Financial instruments (continued)

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

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

Classification

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

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

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

Class	**Category**
Consumer deposit	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Loan from shareholder	Financial liability measured at amortised cost
Other current liabilities	Financial liability measured at amortised cost
Other non-current liabilities	Financial liability measured at amortised cost
Payable from exchange transactions	Financial liability measured at amortised cost

1.8 Financial instruments (continued)

Initial recognition

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

The municipal entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipal entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Fair value measurement considerations

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

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

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

Reclassification

The municipal entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

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

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

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

Gains and losses

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

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

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

1.8 Financial instruments (continued)

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced directly (i.e. in the cases of other receivables and investments) or through the use of an allowance account (i.e. in the case of consumer receivables). The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

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

Financial assets measured at cost:

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

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

1.8 Financial instruments (continued)

Derecognition

Financial assets

The municipal entity derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

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

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

1.8 Financial instruments (continued)

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

Presentation

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

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

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

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

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipal entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipal entity does not offset the transferred asset and the associated liability.

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at amortised cost. Fair value approximates the carrying amount. However, where the asset is not readily convertible into cash amounts for a period exceeding three months these are treated as investments.

1.9 Tax

Current tax assets and liabilities

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

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

1.9 Tax (continued)

Deferred tax assets and liabilities

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

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

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

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

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

Value added tax (VAT)

The municipal entity is registered with the South African Revenue Services (SARS) for VAT on the payments/cash basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991) and accounts for VAT on this basis. The municipal entity is liable to account for VAT at the standard rate of 15% after 1 April 2018 (14% prior to 1 April 2018) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipal entity accounts for VAT on a monthly basis.

1.10 Leases

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

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

1.10 Leases (continued)

Finance leases - municipal entity as lessee

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

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

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

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

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

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

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

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

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

1.11 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

1.11 Inventories (continued)

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

1.12 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

Identification

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

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

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

1.12 Impairment of cash-generating assets (continued)

Value in use

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

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

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

Basis for estimates of future cash flows

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

Composition of estimates of future cash flows

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

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

Discount rate

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

1.12 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Cash-generating units

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

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

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

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

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

In allocating an impairment loss, the municipal entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

Redesignation

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

1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

Identification

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

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

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

Value in use

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

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

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

Depreciated replacement cost approach

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

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.14 Share capital / contributed capital

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

1.15 Employee benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

1.15 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

1.15 Employee benefits (continued)

Other long-term employee benefits

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

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

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

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

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

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

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

The municipal entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.16 Provisions and contingencies

Provisions are recognised when:
- the municipal entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Reimbursements

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

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

1.16 Provisions and contingencies (continued)

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

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

Provisions are not recognised for future operating deficits.

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipal entity

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

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

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

After their initial recognition, contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

1.17 Revenue from exchange transactions

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

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

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

Measurement

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

1.17 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipal entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

Service charges

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

Pre-paid electricity

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

1.18 Revenue from non-exchange transactions

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

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

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

Conditional grants and receipts

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipal entity and the amount of the revenue can be measured reliably and to the extent that there has been compliance with any restrictions associated with the grant.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

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

Measurement

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

When, as a result of a non-exchange transaction, the municipal entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability.

Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.18 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, which-ever 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.

1.19 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.

1.20 Investment income

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

1.21 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.

1.22 Comparative figures

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

1.23 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.

1.24 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.

1.25 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.

1.26 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.

1.27 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 2018-07-01 to 2019-06-30.

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.

Accounting Policies

1.27 Budget information (continued)

Comparative information is not required.

1.28 Related parties

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

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

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

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

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

Management are those persons responsible for planning, directing and controlling the activities of the 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, that management in their dealings with the municipal entity.

The municipal entity is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipal entity to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the entity is exempt from the disclosures in accordance with the above, the municipal entity discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its financial statements.

1.29 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.

1.30 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.

Notes to the Financial Statements

	2019	2018
	R	R

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the entity has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 12 (as amended 2016): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology

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

The entity has adopted the amendment for the first time in the 2018/2019 financial statements.

The impact of the amendment is not material.

GRAP 17 (as amended 2016): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term "specialist military equipment" in IPSAS 17 was replaced with the term "weapon systems" and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

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

The entity has adopted the amendment for the first time in the 2018/2019 financial statements.

The impact of the amendment is not material.

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 21 (as amended 2016): Impairment of non-cash-generating assets

Amendments to the Standard of GRAP on Impairment of Non-cash Generating Assets resulted from changes made to IPSAS 21 on Impairment of Non-Cash-Generating Assets (IPSAS 21) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:
- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

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

The entity has adopted the amendment for the first time in the 2018/2019 financial statements.

The impact of the amendment is not material.

GRAP 26 (as amended 2016): Impairment of cash-generating assets

Amendments Changes to the Standard of GRAP on Impairment of Cash Generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets (IPSAS 26) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:
- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

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

The entity has adopted the amendment for the first time in the 2018/2019 financial statements.

The impact of the amendment is not material.

GRAP 31 (as amended 2016): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:
- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

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

The entity has adopted the amendment for the first time in the 2018/2019 financial statements.

The impact of the amendment is not material.

Notes to the Financial Statements

2. New standards and interpretations (continued)

2.2 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 2019 or later periods:

GRAP 104 (revised): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

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

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

The entity is unable to reliably estimate the impact of the standard on the financial statements.

Guideline: Guideline on the Application of Materiality to Financial Statements

The objective of this guideline: The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. This Guideline aims to assist entities in achieving the overall financial reporting objective. This Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting ("the Conceptual Framework") and other relevant Standards of GRAP. This Guideline includes examples and case studies to illustrate how an entity may apply the principles in this Guideline, based on specific facts presented.

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, assessing whether information is material, applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting & References to pronouncements used in the Guideline.

The Guideline does not have an effective date as it is non-mandatory. GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors already requires consideration of materiality. The Guideline merely provides guidance on how to consider materiality.

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The entity expects to adopt the standard for the first time in the 2019/2020 financial statements.

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

GRAP 110 (as amended 2016): Living and Non-living Resources

The objective of this Standard is to prescribe the:
- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The subsequent amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the standard is for years beginning on or after 01 April 2020.

The entity expects to adopt the standard for the first time in the 2020/2021 financial statements.

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

IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue

The amendments to this Interpretation of the Standard of GRAP clarifies that the entity should also consider other factors in assessing the probability of future economic benefits or service potential to the entity. Entities are also uncertain of the extent to which factors, other than the uncertainty about the collectability of revenue, should be considered when determining the probability of the inflow of future economic benefits or service potential on initial recognition of revenue. For example, in providing certain goods or services, or when charging non-exchange revenue, the amount of revenue charged may be reduced or otherwise modified under certain circumstances. These circumstances include, for example, where the entity grants early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria, or as a result of adjustments to revenue already recognised following the outcome of any review, appeal or objection process.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The consensus is that on initial recognition of revenue, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will impact the probable inflow of future economic benefits or service potential, based on past experience and current facts and circumstances that exist on initial recognition.

An entity applies judgement based on past experience and current facts and circumstances.

The effective date of the amendment is for years beginning on or after 01 April 2020.

The entity expects to adopt the standard for the first time in the 2020/2021 financial statements.

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

Directive 7 (revised): The Application of Deemed Cost

This Directive was originally issued by the Accounting Standards Board (the Board) in December 2009. Since then, it has been amended by:

- Consequential amendments when the following Standards of GRAP were amended to clarify some of the principles:
  - GRAP 105 Transfer of Functions Between Entities Under Common Control
  - GRAP 107 Mergers
- Consequential amendments arising from GRAP 110 *Living and Non-living Resources* issued in December 2017.
- Consequential amendments arising from the following Standards of GRAP in May 2018:
  - GRAP 34 *Separate Financial Statements*
  - GRAP 35 *Consolidated Financial Statements*
  - GRAP 36 *Investments in Associates and Joint Ventures*
  - GRAP 37 *Joint Arrangements*
  - GRAP 38 *Disclosure of Interests in Other Entities*

The effective date of this Directive coincides with the effective dates of the applicable Standards of GRAP, as determined by the Minister of Finance. If an entity has assets that it previously could not recognise and/or measure in accordance with the Standards of GRAP on their initial adoption on the transfer date or the merger date because information about the acquisition cost of the assets was not available, an entity applies this Directive to those assets. The fair value of those assets is determined at the date of adopting the Standards of GRAP on the transfer date or the merger date in accordance with the Directive’s Appendix paragraph A3.

The effective date of this revised directive is for years beginning on or after 01 April 2019.

The entity expects to adopt the directive for the first time in the 2018/2019 financial statements.

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

GRAP 18 (as amended 2016): 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 municipality. 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 municipality’s overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The subsequent amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2020.

The entity expects to adopt the standard for the first time in the 2020/2021 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.

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).

Notes to the Financial Statements

2. New standards and interpretations (continued)

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.

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 for years beginning on or after 01 April 2020.

The entity expects to adopt the standard for the first time in the 2020/2021 financial statements.

It is unlikely that the standard will have a material impact on the entity's 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 for years beginning on or after 01 April 2019.

The entity expects to adopt the standard for the first time in the 2019/2020 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.

GRAP 105 (as amended): Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2019.

The entity expects to adopt the standard for the first time in the 2019/2020 financial statements.

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 106 (as amended 2016): Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The subsequent amendments to the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control resulted from changes made to IFRS 3 on Business Combinations (IFRS 3) as a result of the IASB's amendments on Annual Improvements to IFRSs 2010 – 2012 Cycle issued in December 2013.

The most significant changes to the Standard are:

- IASB amendments: To require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting period.

The effective date of the standard is for years beginning on or after 01 April 2019.

The entity expects to adopt the standard for the first time in the 2019/2020 financial statements.

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

GRAP 107 (as amended): Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2019.

The entity expects to adopt the standard for the first time in the 2019/2020 financial statements.

It is unlikely that the amendment will have a material impact on the entity's 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 for years beginning on or after 01 April 2019.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The entity expects to adopt the standard for the first time in the 2019/2020 financial statements.

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

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 for years beginning on or after 01 April 2019.

The entity expects to adopt the standard for the first time in the 2019/2020 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.

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 for years beginning on or after 01 April 2019.

The entity expects to adopt the standard for the first time in the 2019/2020 financial statements.

The adoption of this interpretation 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.

Notes to the Financial Statements

2. New standards and interpretations (continued)

2.3 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 2019 or later periods but are not relevant to its operations:

Guideline: Guideline on Accounting for Landfill Sites

The objective of this guideline: The Constitution of South Africa, Act No. 108 of 1996 (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised by preparers about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the landfill site and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land in a landfill, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, closure, end-use and monitoring, Other considerations, and Annexures with Terminology, Summary of guidance from other standard setters & References to pronouncements used in the Guideline.

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

The entity does not envisage the adoption of the guideline 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 35: Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

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.

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 36: Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

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 37: Joint Arrangements

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020

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 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

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.

Notes to the Financial Statements

2. New standards and interpretations (continued)

Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges

The objective of this Directive is to prescribe the transitional provisions for the adoption of Standards of GRAP by CET colleges. Standards of GRAP set out the recognition, measurement, presentation and disclosure requirements for financial reporting in the public sector. As a result, this Directive should be read in conjunction with the relevant Standards of GRAP. The Directive prescribes the transitional provisions to be applied by CET colleges established in terms of the Continuing Education and Training Act, Act No. 16 of 2006 (as amended).

The effective date of the directive is for years beginning on or after 01 April 2019.

The entity does not envisage the adoption of the directive 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.

Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The objective of this guideline: Entities in the public sector are frequently involved in the construction of houses as part of government’s housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act, Act No. 107 of 1997 provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the Board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

The effective date of the guideline is for years beginning on or after 01 April 2019.

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

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

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of ‘minority interest’ has been amended to ‘non-controlling interest’, and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

2. New standards and interpretations (continued)

The effective date of the amendment is for years beginning on or after 01 April 2019.

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

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

GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

The effective date of the standard is for years beginning on or after 01 April 2019.

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 amendment will have a material impact on the entity's financial statements.

GRAP 8 (as revised 2010): Interests in Joint Ventures

Paragraph .04 was amended by the Improvements to the Standards of GRAP issued in November 2010. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers added paragraph .50 and amended paragraphs .51 and .52. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

The effective date of the standard is for years beginning on or after 01 April 2019.

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 amendment will have a material impact on the entity's financial statements.

IGRAP 11: Consolidation – Special purpose entities

An entity may be created to accomplish a narrow and well-defined objective (e.g. to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity (‘SPE’) may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (ie they operate on so-called ‘autopilot’). The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties (‘capital providers’) may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE. A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits or service potential of the SPE’s activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE’s activities, even though it may own little or none of the SPE’s net assets.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The Standard of GRAP on Consolidated and Separate Financial Statements requires the consolidation of entities that are controlled by the reporting entity. However, the Standard of GRAP does not provide explicit guidance on the consolidation of SPEs. The issue is under what circumstances an entity should consolidate an SPE. This interpretation of the Standards of GRAP does not apply to post-employment benefit plans or other long-term employee benefit plans to which the Standard of GRAP on Employee Benefits applies.

A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of the Standard of GRAP on Consolidated and Separate Financial Statements and this Interpretation of the Standards of GRAP may mean that the entity should consolidate the SPE. This Interpretation of the Standards of GRAP does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

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

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

IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures

Paragraph .54 in the Standard of GRAP on Interests in Joint Ventures refers to both contributions and sales between a venturer and a joint venture as follows: ‘When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction’. In addition, paragraph 31 in the Standard of GRAP on Interests in Joint Ventures says that ‘a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest’. There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities (‘JCEs’).

Contributions to a JCE are transfers of assets by venturers in exchange for an interest in the net asset in the JCE. Such contributions may take various forms. Contributions may be made simultaneously by the venturers either upon establishing the JCE or subsequently. The consideration received by the venturer(s) in exchange for assets contributed to the JCE may also include cash or other consideration that does not depend on future cash flows of the JCE (‘additional consideration’).

The issues are:

- when the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an interest in the net assets in the JCE should be recognised by the venturer in surplus or deficit;
- how additional consideration should be accounted for by the venturer; and
- how any unrealised gain or loss should be presented in the consolidated

This Interpretation of the Standards of GRAP deals with the venturer’s accounting for non-monetary contributions to a JCE in exchange for an interest in the net assets in the JCE that is accounted for using either the equity method or proportionate consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

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

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

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

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

IGRAP 19: Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

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

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

GRAP 16 (as amended 2016): Investment Property

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

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

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

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

GRAP 27 (as amended 2016): Agriculture

Amendments to the Standard of GRAP on Agriculture resulted from changes made to IPSAS 27 on Agriculture (IPSAS 27) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27. In addition to the changes made by the IPSASB, a consequential amendment has been made to GRAP 103 on Heritage Assets. The IPSASB currently does not have a pronouncement on this topic.

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

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

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 103 (as amended 2016): Heritage Assets

Amendments to the Standard of GRAP on Heritage Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from editorial changes to the original text.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets

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

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

It is unlikely that the amendment 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 directive is for years beginning on or after 01 April 2018.

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

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

Notes to the Financial Statements

	2019 R	2018 R

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	13 403 965	78 838 312
Short-term deposits	151 944	2 629 678
	13 555 909	**81 467 990**

Short-term deposits consist of:

ABSA - 1 Day call account	151 944	2 629 678

Short-term deposits consist of the following short-term investment with ABSA. The details and interest earned on this investment is set out below:

- 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 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
ABSA Bank - Cheque account - 4058833582	5 807 147	67 092 738	36 794 498	10 081 227	74 971 033	42 969 184
ABSA Bank - Cheque account - 4055133721	733	12 597	19 947	733	12 597	19 947
ABSA Bank - Cheque account - 4054065339	59 655	292 339	45 648	64 395	300 339	51 948
ABSA Bank - Cheque account - 470001402	5 497 729	3 598 112	2 441 731	5 498 154	3 605 869	2 382 682
ABSA Bank - Cheque account - 4054530924	(19 612)	3 619	621	(19 551)	3 619	611
ABSA Bank - Cheque account - 4078209583	43 229	92 981	924 852	(664 145)	(426 626)	(1 344 076)
ABSA Bank - Cheque account - 4080522070	1 806	78 579	7 785	(1 526 429)	84 674	8 335
ABSA Bank - Cheque account - 4080521896	1 504	77 894	498	1 504	77 894	195
ABSA Bank - Cheque account - 9326102088	3 337	208 912	2 882	(31 923)	208 913	(31 304)
Total	**11 395 528**	**71 457 771**	**40 238 462**	**13 403 965**	**78 838 312**	**44 057 522**

Notes to the Financial Statements

	2019 R	2018 R

4. Consumer receivables from exchange transactions

	2019 R	2018 R
Gross balances		
Electricity	947 929 998	819 227 221
Less: Allowance for impairment		
Electricity	(179 084 722)	(232 785 202)
Net balance		
Electricity	768 845 276	586 442 019
Electricity		
Current (0 -30 days)	116 185 981	105 980 289
31 - 60 days	27 472 048	26 709 265
61 - 90 days	19 131 568	18 044 918
90+ days	624 094 919	510 995 968
Meter reading estimate at year end	165 064 827	163 062 397
Discounting	(1 229 163)	(2 399 256)
Transferred to non-current receivables	(2 790 182)	(3 166 360)
	947 929 998	**819 227 221**

Summary of debtors by customer classification

	2019 R	2018 R
Residential and sundry		
Current (0 -30 days)	9 660 509	9 349 215
31 - 60 days	1 399 018	1 639 314
61 - 90 days	964 030	896 729
90+ days	134 001 063	139 472 212
	146 024 620	**151 357 470**
Business/Commercial and municipal		
Current (0 -30 days)	84 902 672	82 608 312
31 - 60 days	10 910 905	18 222 985
61 - 90 days	3 398 094	10 479 477
90+ days	95 077 995	264 713 198
	194 289 666	**376 023 972**
Government		
Current (0 -30 days)	21 622 799	14 022 763
31 - 60 days	15 162 124	6 846 966
61 - 90 days	14 769 443	6 668 712
90+ days	395 015 861	106 810 558
	446 570 227	**134 348 999**

Notes to the Financial Statements

	2019 R	2018 R

4. Consumer receivables from exchange transactions (continued)

Total

	2019 R	2018 R
Current (0 -30 days)	116 185 981	105 980 289
31 - 60 days	27 472 048	26 709 265
61 - 90 days	19 131 568	18 044 918
90+ days	624 094 919	510 995 968
Meter reading estimate	165 064 827	163 062 397
Discounting	(1 229 163)	(2 399 256)
Transferred to non-current receivables	(2 790 182)	(3 166 360)
	947 929 998	819 227 221
Less: Provision for debt impairment	(179 084 722)	(232 785 202)
	768 845 276	**586 442 019**

Less: Provision for debt impairment

	2019 R	2018 R
Provision for debt impairment	(179 084 722)	(232 785 202)

Reconciliation of allowance for impairment

	2019 R	2018 R
Balance at beginning of the year	(232 785 202)	(218 015 600)
Debt impairment written off against allowance	745 751	-
Reversal/(Contributions) of allowance	52 954 729	(14 769 602)
	(179 084 722)	**(232 785 202)**

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 2019, R 607 792 601 (2018: R 320 639 508) were past due but not impaired.

Government debt is not considered for impairment which results in consumer debtors past due but not impaired.

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

	2019 R	2018 R
Current (0 -30 days)	114 633 116	15 245 639
31 - 60 days	25 945 440	13 522 634
61 - 90 days	17 580 068	13 667 664
90+ days	449 633 977	278 203 571
	607 792 601	**320 639 508**

Notes to the Financial Statements

	2019 R	2018 R

4. Consumer receivables from exchange transactions (continued)

Consumer debtors impaired

As of 30 June 2019, consumer debtors of R 179 084 722 (2018: R 128 062 972) were impaired and provided for.

The ageing of these consumer debtors is as follows:

	2019 R	2018 R
Current (0 -30 days)	1 552 865	3 297 334
31 - 60 days	1 526 608	3 268 987
61 - 90 days	1 551 500	3 012 990
90+ days	174 453 749	118 483 661
	179 084 722	**128 062 972**

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

	2019 R	2018 R
Raw materials, components	89 088 282	100 426 274
	89 088 282	100 426 274
Inventories (write-downs)	(1 424 116)	(677 422)
	87 664 166	**99 748 852**

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 R51 249 457 (2018: R62 286 346), of which a portion was capitalised.

Inventory pledged as security

No inventory was pledged as security.

Notes to the Financial Statements

	2019 R	2018 R

6. Investments

Bank investments

ABSA The investment is a short-term dynamic fixed deposit for a period of 365 days which earns interest at 7% (2017: 7.96%). The initial investment matured during July 2017 and was paid out to the municipal entity. A portion of the investment was re-invested. The re-invested capital amount was withdrawn during the 2017/18 financial year due to operational need and the interest earned at that point was left in the investment up until the date of maturity of 29 June 2018, however the invested amount and interest earned was only paid over to Centlec (SOC) Ltd after year end on 2 July 2018.	-	1 646 362
Standard Bank The investment is a short-term 32 day notice fixed deposit which earns interest at 8.15%. The investment matured during July 2018 and no reinvestment was made.	-	51 618 836
	-	**53 265 198**

Fair value of the investments approximates the carrying value at year-end.

7. Other financial assets

At amortised cost		
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%	909 504	1 089 432
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%	490 377	585 919
Consumer debtors - Arrangements Consumer debtors with arrangements which stretches over a period longer than 12 months.	2 790 182	3 166 360
	4 190 063	**4 841 711**
Non-current assets		
Loans and receivables	3 914 593	4 566 241
Current assets		
Loans and receivables	275 470	275 470

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.

	2019 R	2018 R

7. Other financial assets (continued)

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

	2019 R	2018 R
Deposits	1 006 367	937 504
DOE Grant - Southern Free State Towns	4 737 728	4 737 728
Kopanong Local Municipality	15 540 615	17 732 260
Mohokare Local Municipality	36 173 210	35 288 566
Other receivables	3 982 161	2 945 235
Receipt reversal	1 043 416	599 272
Vendors	4 853 079	4 787 124
	67 336 576	**67 027 689**

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.

Notes to the Financial Statements

Figures in Rand

9. Property, plant and equipment

	2019			2018		
	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	87 573 926	(9 342 043)	78 231 883	89 250 642	(9 760 955)	79 489 687
Infrastructure	4 440 974 211	(735 484 968)	3 705 489 243	4 291 894 625	(627 664 334)	3 664 230 291
Motor vehicles	97 044 143	(71 019 612)	26 024 531	97 555 618	(66 732 236)	30 823 382
Office equipment	65 939 566	(34 157 517)	31 782 049	55 980 058	(31 029 584)	24 950 474
Leased assets	969 283	(899 892)	69 391	969 283	(779 979)	189 304
Total	**4 702 360 629**	**(850 904 032)**	**3 851 456 597**	**4 545 509 726**	**(735 967 088)**	**3 809 542 638**

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Capital work in progress	Revaluations	Depreciation	Impairment loss	Total
Land	9 859 500	-	-	-	-	-	-	9 859 500
Buildings	79 489 687	1 270 825	(26 038)	-	-	(2 502 591)	-	78 231 883
Infrastructure	3 664 230 291	174 326 829	(118 239)	(24 944 662)	(100 829)	(107 904 147)	-	3 705 489 243
Motor vehicles	30 823 382	1 624 433	(537 688)	-	-	(5 881 994)	(3 602)	26 024 531
Office equipment	24 950 474	14 993 660	(976 734)	-	-	(7 183 456)	(1 895)	31 782 049
Leased Assets	189 304	-	-	-	-	(119 913)	-	69 391
	3 809 542 638	**192 215 747**	**(1 658 699)**	**(24 944 662)**	**(100 829)**	**(123 592 101)**	**(5 497)**	**3 851 456 597**

Notes to the Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Capital work in progress	Depreciation	Impairment loss	Total
Land	9 859 500	-	-	-	-	-	9 859 500
Buildings	77 434 797	-	-	4 627 984	(2 573 094)	-	79 489 687
Infrastructure	3 679 189 507	40 931 612	(15 205)	61 161 365	(106 880 839)	(10 156 149)	3 664 230 291
Motor vehicles	38 764 663	-	(513 437)	-	(7 427 844)	-	30 823 382
Office equipment	25 580 859	6 616 564	(1 060 333)	-	(6 183 713)	(2 903)	24 950 474
Leased Assets	999 004	-	-	-	(809 700)	-	189 304
	3 831 828 330	**47 548 176**	**(1 588 975)**	**65 789 349**	**(123 875 190)**	**(10 159 052)**	**3 809 542 638**

Property, plant and equipment pledged as security

No property, plant and equipment are pledged as security

Notes to the Financial Statements

	2019 R	2018 R

9. Property, plant and equipment (continued)

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:	2019 R	2018 R
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 2019 the land and buildings have not yet been legally transferred from Mangaung Metropolitan Municipality to the municipal entity. Property, plant and equipment class 2	77 723 173	79 889 729
	77 723 173	**79 889 729**

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment	2019 R	2018 R
Buildings	8 442 664	8 442 664
Infrastructure	184 241 270	209 185 932
	192 683 934	**217 628 596**

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected	2019 R	2018 R
Elite distribution centre project	-	39 245 527
The project was delayed due to the environmental impact assessment, planning and design process taking 18 months to complete, followed by an additional 6 month delay due to land and property disputes. The civil works on the project started during July 2017 and construction is still on-going.		
Botshabelo substation and 132kv line project	98 327 336	-
The commissioning of the projects have been delayed as Eskom needs to do the necessary connections. This should take place in early 2019/2020.		
	98 327 336	**39 245 527**

	2019	2018
	R	R

9. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Total
Opening balance	209 185 932	209 185 932
Additions/capital expenditure	62 366 187	62 366 187
Transferred to completed items	(87 310 849)	(87 310 849)
	184 241 270	**184 241 270**

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Total
Opening balance	148 024 567	148 024 567
Additions/capital expenditure	71 085 778	71 085 778
Transferred to completed items	(9 924 413)	(9 924 413)
	209 185 932	**209 185 932**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services	52 256 695	57 722 427
General expenses	11 536 471	15 689 115
	63 793 166	**73 411 542**

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 entity.

Notes to the Financial Statements

	2019 R	2018 R

10. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software and licenses	41 555 187	(29 713 168)	11 842 019	49 415 382	(33 540 974)	15 874 408
Servitudes	85 020 874	-	85 020 874	84 945 716	-	84 945 716
Total	**126 576 061**	**(29 713 168)**	**96 862 893**	**134 361 098**	**(33 540 974)**	**100 820 124**

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Work in progress	Disposals	Amortisation	Total
Computer software and licenses	15 874 409	10 952 901	-	(3 531 164)	(11 454 127)	11 842 019
Servitudes	84 945 716	-	75 158	-	-	85 020 874
	100 820 125	**10 952 901**	**75 158**	**(3 531 164)**	**(11 454 127)**	**96 862 893**

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Work in progress	Amortisation	Total
Computer software and licenses	18 908 265	7 329 420	-	(10 363 276)	15 874 409
Servitudes	84 919 741	-	25 975	-	84 945 716
	103 828 006	**7 329 420**	**25 975**	**(10 363 276)**	**100 820 125**

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.

Intangible assets in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of Intangible assets

	2019	2018
Servitudes	75 158	148 871

	2019 R	2018 R

11. Deferred tax

Deferred tax liability

Opening balance	(575 253 899)	(508 989 251)
Property, plant and equipment	(92 405 769)	(66 218 433)
Taxable temporary differences	(11 443)	(46 215)
Total deferred tax liability	**(667 671 111)**	**(575 253 899)**

Deferred tax asset

Opening balance	372 919 868	280 731 467
Taxable temporary differences	(9 006 334)	6 618 814
Tax losses available for set off against future taxable income	90 519 185	85 569 587
Total deferred tax asset	**454 432 719**	**372 919 868**

Deferred tax liability	(667 671 111)	(575 253 899)
Deferred tax asset	454 432 719	372 919 868
Total net deferred tax liability	**(213 238 392)**	**(202 334 031)**

Reconciliation of deferred tax asset \ (liability)

At beginning of year	(202 334 031)	(228 257 785)
Depreciable assets	(92 405 769)	(66 218 432)
Finance lease	824	(21 904)
Provisions	(9 018 601)	6 594 503
Assessed loss	90 519 185	85 569 587
	(213 238 392)	**(202 334 031)**

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.

11. Deferred tax (continued)

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 pronunciation is made by SARS on the municipal entity's tax calculation. In the absence of a pronunciation 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 act 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;

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.

Notes to the Financial Statements

	2019 R	2018 R

11. Deferred tax (continued)

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	115 053 108	114 471 056

Guarantees in lieu of vendor deposits amounted to R 2 153 891 (2018: R 13 723 891).

Guarantees un lieu of consumer deposits amounted to R 37 859 074 (2018: R 36 645 499).

Fair value approximates the carrying value of the vendor deposits.

13. Finance lease obligation

Minimum lease payments due		
- within one year	-	121 322
- later than five years	-	-
	-	121 322
less: future finance charges	-	(4 354)
Present value of minimum lease payments	**-**	**116 968**

Present value of minimum lease payments due		
- within one year	-	116 968
- later than five years	-	-
	-	**116 968**

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% (2018: 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.

All finance leases's lease terms came to an end during the current financial year.

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

	2019	2018
	R	R

14. Long service awards

Reconciliation of long service awards - 2019

	Opening Balance	Actuarial (gains)/losses	Utilised during the year	Current service costs	Interest costs	Total
Provision for long service award	19 812 000	(2 398 178)	(1 343 822)	2 232 000	1 980 000	20 282 000

Reconciliation of long service awards - 2018

	Opening Balance	Actuarial (gains)/losses	Utilised during the year	Current service costs	Interest costs	Total
Provision for long service award	15 453 000	1 899 076	(825 076)	1 736 000	1 549 000	19 812 000

	2019	2018
Non-current liabilities	18 713 000	18 991 000
Current liabilities	1 569 000	821 000
Present value of long service awards obligation	**20 282 000**	**19 812 000**

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 664 (2018 - 610) employees were eligible for long service bonuses.

The current service cost for the ensuing year is estimated to be R 2 232 000 (2018 - R 1 736 000) whereas the interest-cost for the next year is estimated to be R 1 980 000 (2018 - R 1 549 000).

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.

Valuation Method

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

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

	2019	2018
Discount Rate	Yield Curve	Yield Curve
Normal Salary Increase Rate	CPI + 1%	CPI + 1%
Net Effective Discount Rate	Yield Curve Based	Yield Curve Based
Mortality	SA 85-90 mortality tables	SA 85-90 mortality tables
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

	2019 R	2018 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	2 232 000	1 736 000
Interest cost	1 980 000	1 549 000
Actuarial (gains) / losses	(2 398 178)	1 899 076
	1 813 822	**5 184 076**

Present value of long service award obligation:

Present value of long service award as at 30 June 2019	(20 282 000)
Present value of long service award as at 30 June 2018	(19 812 000)
Present value of long service award as at 30 June 2017	(15 453 000)
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 29 June 2019 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 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 Inflation/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. Our 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 2019 of 7.36%. The next salary increase was assumed to take place on 01 July 2020.

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.

14. Long service awards (continued)

Current Service Cost:

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

Actuarial gain:

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

1. Changes in economic variables - We used the nominal and real zero curves as at 30 June 2019 supplied by the JSE to determine our 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 690,000.

2. Membership and other experience changes– Over the past financial year, membership and other demographic changes was different to what was assumed in the previous valuation. This, along with some other smaller factors, resulted in a decrease in liability of around R 1,708,000.

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	21 433 000	20 282 000	19 247 000
Current Service Cost	2 584 000	2 392 000	2 224 000
Interest Cost	2 093 000	1 969 000	1 858 000
	26 110 000	**24 643 000**	**23 329 000**

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	19 027 000	20 282 000	21 666 000
Current Service Cost	2 227 000	2 392 000	2 577 000
Interest Cost	1 837 000	1 969 000	2 116 000
	23 091 000	**24 643 000**	**26 359 000**

	2019 R	2018 R

15. Other financial liabilities

	2019 R	2018 R
At amortised cost		
Capital Advances Mangaung Metropolitan Municipality 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 2018 was 10% (2017/18: 10.5%)	74 397 665	81 094 674
Intercompany loan The repayment terms of the intercompany loan was amended to be payable at the end of June 2022. The intercompany loan bears interest annually at the interest rate equal to the prime lending rate on the first day of each financial year calculated on the average of the opening balance and closing balance of the loan. The prime interest rate at 1 July 2018 was 10% (2017/18: 10.5%	507 498 287	562 130 358
	581 895 952	**643 225 032**
Total other financial liabilities	**581 895 952**	**643 225 032**

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

	2019 R	2018 R
Non-current liabilities		
At amortised cost	575 198 943	636 528 023
Current liabilities		
At amortised cost	6 697 009	6 697 009

16. Payables from exchange transactions

	2019 R	2018 R
Accrued leave pay	31 374 286	25 173 963
Accrued bonus	8 047 915	6 640 320
Deferred revenue	13 037 709	13 008 695
Electricity connections	12 781 371	16 225 872
Mantsopa Local Municipality	2 665 081	4 881 798
Operating expense accrual	27 361 544	22 598 036
Retention creditors	1 291 656	2 194 403
Salary control	5 947 900	4 988 285
Trade payables	318 912 171	263 126 331
Unallocated consumer and vendor payments received in advance	87 495 809	79 782 244
	508 915 442	**438 619 947**

17. VAT liability

	2019 R	2018 R
VAT liability	103 870 439	72 667 833

Notes to the Financial Statements

	2019 R	2018 R

18. 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.

Non-current liabilities	(803 609 369)	(1 071 479 158)
Current liabilities	(267 869 789)	-
	(1 071 479 158)	**(1 071 479 158)**

19. Share capital / contributed capital

Authorised

1000 Ordinary shares of par value of R1	1 000	1 000

Issued

101 Ordinary shares	100	100

20. Revaluation reserve

Opening balance	1 460 130 406	1 460 130 406
Change during the year	(100 829)	-
	1 460 029 577	**1 460 130 406**

21. 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

22. Service charges

Free services recoverable	15 703 133	15 514 789
Sale of electricity	1 462 886 317	1 402 345 583
Sale of pre-paid electricity	858 188 299	775 472 615
	2 336 777 749	**2 193 332 987**

Notes to the Financial Statements

	2019 R	2018 R

23. Other income

Credit control fees	8 925 800	4 186 863
Insurance claim recovery	1 358 316	1 098 919
Fines & reconnection income	5 060 191	8 780 307
Sale of clearance certificates	588 341	554 819
Sale of tender documents	21 774	47 471
Training income	415 547	1 696 780
Street lighting	61 661 787	55 822 725
New connections	20 415 044	16 773 369
	98 446 800	**88 961 253**

24. Interest Income

Interest revenue

Interest on ABSA Current account	3 430 317	3 468 407
Interest on loans and other receivables from exchange transactions	167 535	195 082
Interest on consumer receivables from exchange transactions	25 446 813	16 789 490
Interest on bank investments	837 008	6 159 677
Interest received - SARS	-	80 125
Interest received - Eskom deposit	68 864	-
	29 950 537	**26 692 781**

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 1 Day call account with varying interest rates between 0.00% and 6.45% depending on the amount invested and the change in the prime interest rate.

- ABSA 365 day dynamic fixed investment with an interest rate of 7% (2018: 7%).

- Standard bank 32 day notice fixed deposit with an interest rate of 8.15%

25. Government grants and subsidies

Capital grants

National electrification programme grant	13 434 783	17 506 380
	13 434 783	**17 506 380**

National Electrification Programme

Current-year receipts	13 434 783	17 506 380
Conditions met - transferred to revenue	(13 434 783)	(17 506 380)
	-	-

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.

Notes to the Financial Statements

	2019 R	2018 R

26. Revenue

Agency services	8 195 007	2 327 162
Fines, Penalties and Forfeits	-	2 672 302
Government grants & subsidies	13 434 783	17 506 380
Interest received	29 950 537	26 692 781
Inventories reversal	1 112 666	-
Other income	98 446 800	88 961 253
Public contributions and donations	1 497 768	1 706 656
Service charges	2 336 777 749	2 193 332 987
	2 489 415 310	**2 333 199 521**

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

Agency services	8 195 007	2 327 162
Interest income	29 950 537	26 692 781
Other income	98 446 800	88 961 253
Service charges	2 336 777 749	2 193 332 987
	2 473 370 093	**2 311 314 183**

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

Transfer revenue

Government grants & subsidies	13 434 783	17 506 380
Public contributions and donations	1 497 768	1 706 656
Fines, Penalties and Forfeits	-	2 672 302
	14 932 551	**21 885 338**

Notes to the Financial Statements

	2019 R	2018 R

27. Employee related costs

Basic salary and wages	217 967 767	191 981 294
Bargaining council	73 841	62 269
Housing benefits and allowances	1 129 334	1 026 034
Leave pay provision charge	9 594 396	7 439 028
Long-service awards	1 813 822	5 184 077
Medical aid - company contributions	18 558 136	15 307 199
Overtime payments	41 508 125	27 377 982
Pension and provident fund contributions	33 108 634	27 772 502
Travel, motor car, accommodation, subsistence and other allowances	22 905 895	26 512 950
UIF contributions	1 240 005	1 159 746
	347 899 955	**303 823 081**

Remuneration of Chief Executive Officer - Mr. AN Mgoqi

Annual Remuneration	2 046 767	2 044 730
Travel, motor car, accommodation, subsistence and other allowances	24 160	24 294
Contributions to UIF, Medical and Pension Funds	65 696	65 688
	2 136 623	**2 134 712**

Remuneration of Chief Financial Officer - Mr. MM Matsimela

Annual Remuneration	666 813	593 896
Travel, motor car, accommodation, subsistence and other allowances	49 200	95 021
Contributions to UIF, Medical and Pension Funds	8 021	74 752
Acting allowance	1 752	111 714
	725 786	**875 383**

During the 2017 financial year the board took a decision to suspend Mr. TJ Ramulondi. During December 2016 Mr. MM Matsimela was appointed as the Acting Chief Financial Officer.

During January 2019 Mr. MM Matsimela was appointed as the Chief Financial Officer.

Remuneration of Executive Manager: Compliance and Performance - Me. NA Leteno

Annual Remuneration	495 082	689 703
Travel, motor car, accommodation, subsistence and other allowances	87 200	52 695
Contributions to UIF, Medical and Pension Funds	6 608	8 112
Acting allowance	83 192	109 827
	672 082	**860 337**

Me. PN Mbobo was appointed as Acting Executive Manager: Compliance and Performance from December 2017 until December 2018.

During January 2019 Me. NA Leteno was appointed as the Executive Manager: Compliance and Performance.

	2019 R	2018 R

27. Employee related costs (continued)

Remuneration of Company Secretary - Mr. T Malgas

Annual Remuneration	206 591	-
Travel, motor car, accommodation, subsistence and other allowances	2 400	-
Contributions to UIF, Medical and Pension Funds	2 405	-
	211 396	**-**

The municipal entity used the services of Phatshoane Henney Inc for company secretarial services until May 2019 when Mr. T Malgas was appointed as the new Company Secretary.

Remuneration of Executive Manager: Retail - Mr. SS Mokoena

Annual Remuneration	531 082	-
Travel, motor car, accommodation, subsistence and other allowances	51 200	-
Contributions to UIF, Medical and Pension Funds	6 680	-
Acting allowance	39 485	78 463
	628 447	**78 463**

MJ Lenka was appointed as Acting Executive Manager: Retail until December 2018.

During January 2019 Mr. SS Mokoena was appointed as the the Executive Manager: Retail.

Remuneration of Executive Manager: Wires - Mr. MS Sekoboto

Annual Remuneration	617 170	-
Travel, motor car, accommodation, subsistence and other allowances	66 000	-
Contributions to UIF, Medical and Pension Funds	7 657	-
Acting allowance	35 694	135 841
	726 521	**135 841**

Mr. XG Faku was appointed as the acting Executive Manager: Wires from April 2018 to December 2018

During January 2019 Mr. MS Sekoboto was appointed as the Executive Manager: Wires.

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

Annual Remuneration	1 294 732	1 331 694
Travel, motor car, accommodation, subsistence and other allowances	194 400	194 400
Contributions to UIF, Medical and Pension Funds	16 421	16 783
	1 505 553	**1 542 877**

	2019 R	2018 R

27. Employee related costs (continued)

Remuneration of directors

Annual Remuneration	406 169	1 262 584
Contributions to UIF, Medical and Pension Funds	7 801	21 845
	413 970	**1 284 429**

Refer to note 44 for details of the remuneration per person.

28. Depreciation and amortisation

Property, plant and equipment	123 592 102	123 875 189
Intangible assets	11 454 127	10 363 276
	135 046 229	**134 238 465**

29. Impairment loss / (reversal of impairments)

Impairments

Property, plant and equipment The recoverable amount of the asset was assessed at the end of the financial year and it was found to be less than the carrying amount of the asset and an impairment loss was raised.	-	10 159 049
Inventories An assessment of the net realisable value against cost was performed and inventory was written down.	746 694	(705 827)
	746 694	**9 453 222**

30. Finance costs

Capital advances Mangaung Metropolitan Municipality	8 109 467	9 243 943
Finance leases	4 354	55 409
Interest on intercompany loan	50 934 642	55 737 214
Shareholders loan	164 965 040	151 032 309
Trade and other payables	9 336 073	62 050
	233 349 576	**216 130 925**

31. (Reversal of) / Contributions to debt impairment provision

(Reversal of) / Contributions to debt impairment provision	(52 954 729)	14 769 602

32. Bulk purchases

Electricity	1 519 656 103	1 429 508 907

Notes to the Financial Statements

	2019 R	2018 R

33. General expenses

Advertising & marketing	1 913 679	883 620
Auditors remuneration	6 371 263	6 719 172
Bank charges	1 703 166	1 645 069
Bursaries	141 553	162 676
Cleaning	815 138	74 330
Commission paid	102 812 607	113 954 878
Conferences and delegations	258 257	115 122
Consulting and professional fees	13 653 075	18 265 089
Contractors fees	2 796 576	10 423 141
Credit control fees	166 003	768 790
Entertainment	173 807	190 470
Fines and penalties	-	777 647
Fuel and oil	7 987 521	7 141 502
Insurance	4 677 481	3 241 796
Internal audit fee	5 370 388	3 972 834
Lease rentals on operating lease	630 677	2 467 287
Legal costs	3 307 839	2 811 652
Legal settlements	610 000	550 000
License fees	3 174 891	2 931 101
Meter reading	7 760 951	6 777 694
Other expenses	148 406	273 838
Postage and courier	1 848	458
Printing and stationery	2 584 881	1 652 290
Protective clothing	1 295 224	1 237 621
Rented office buildings utilities - Electricity	-	557 704
Rented office buildings utilities - Water	108 883	179 866
Repairs and maintenance	63 793 166	73 867 072
Security services	5 483 762	6 730 356
Skills development levy	2 843 634	2 387 960
Staff welfare	1 199	26 550
Stores and materials	815 945	442 692
Subscriptions and membership fees	125 800	81 068
Telephone and fax	9 117 048	23 026 958
Training	1 218 985	1 512 064
Travelling	561 392	358 249
Workman's compensation	4 175 348	7 506 809
	256 600 393	**303 715 425**

Notes to the Financial Statements

	2019 R	2018 R

34. Taxation

Major components of the tax expense (income)

	2019 R	2018 R
Current		
Local income tax - current period	-	-
Deferred		
Originating and reversing temporary differences	22 441 546	59 645 834
Assessed loss used	305 957 436	220 387 849
Assessed loss raised	(317 494 621)	(305 957 435)
	10 904 361	**(25 923 752)**

Reconciliation of the tax expense

Reconciliation between accounting surplus and tax expense.

	2019 R	2018 R
Accounting surplus (deficit)	45 751 979	(79 317 135)
Tax at the applicable tax rate of 28% (2018: 28%)	12 810 554	(22 208 798)
Tax effect of adjustments on taxable income		
Non-taxable income	(3 761 739)	(4 901 785)
Non-deductible expenses	1 855 546	1 186 830
	10 904 361	**(25 923 753)**

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

35. Net cash flows from operating activities

	2019 R	2018 R
Surplus (deficit)	34 847 618	(53 393 383)
Adjustments for:		
Depreciation and amortisation	135 046 229	134 238 465
(Gain)/Loss on sale of assets and liabilities	3 319 110	877 029
Finance costs - Finance leases	4 354	55 409
Impairment	746 694	9 453 222
Debt impairment	(52 954 729)	14 769 602
Movements in long service awards	470 000	4 359 000
Annual charge for deferred tax	10 904 361	(25 923 752)
Changes in working capital:		
Inventories	11 337 992	(5 294 987)
Other receivables from exchange transactions	(308 887)	(7 618 824)
Consumer receivables from exchange transactions	(129 448 528)	(33 853 829)
Payables from exchange transactions	70 295 494	(20 350 497)
VAT receivable / payable	31 202 606	34 009 126
Consumer deposits	582 052	(882 033)
	116 044 366	**50 444 548**

Notes to the Financial Statements

	2019 R	2018 R

36. Auditors' remuneration

	2019 R	2018 R
Audit fees	6 371 263	6 719 172

37. Commitments

Authorised capital expenditure

	2019 R	2018 R
Approved and contracted for		
• Property, plant and equipment- Infrastructure	44 781 644	115 678 350
Approved but not yet contracted for		
• Property, plant and Equipment- infrastructure	-	23 022 278
Total capital commitments		
Approved and contracted for	44 781 644	115 678 350
Approved but not yet contracted for	-	23 022 278
	44 781 644	**138 700 628**
This expenditure will be financed from		
• Government grants	13 434 783	17 506 380
• Own resources	31 346 861	121 194 248
	44 781 644	**138 700 628**

Authorised operational expenditure

	2019 R	2018 R
Approved and contracted for		
• Contracted services	24 816 953	23 990 358
Total operational commitments		
Approved and contracted for	24 816 953	23 990 358

Total commitments

	2019 R	2018 R
Total commitments		
Authorised capital expenditure	44 781 644	138 700 628
Authorised operational expenditure	24 816 953	23 990 358
	69 598 597	**162 690 986**

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.

Notes to the Financial Statements

	2019 R	2018 R

37. Commitments (continued)

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	690 369	627 609

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 agreed to rent from FDC for the next financial year at the end of which management will re-assess the likelihood of extending the lease further. The lease rental is escalated annually on 1 December by 10%.

	2019 R	2018 R

38. 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. The possibility for reimbursements relating to these liabilities are uncertain.

Contingent liabilities

	2019 R	2018 R
Litigation against Centlec (SOC) Ltd vs Rakhoabane- Litigation against Centlec (SOC) Ltd relating restoration of electricity.	-	50 000
Litigations of Centlec (SOC) Ltd vs RR Burger - Litigation against Centlec (SOC) Ltd relating to fines levied on tampering of electricity.	50 000	50 000
Litigations of Centlec (SOC) Ltd vs RPS Engineering - Litigation against Centlec (SOC) Ltd relating to payments.	7 000 000	7 000 000
Litigations of Centlec (SOC) Ltd vs Jimmy Roos School and one other - Litigation relating to damages caused by fire.	-	1 300 000
Litigation of Centlec (SOC) Ltd vs Van Niekerk- Litigation relating to damages suffered due to Centlec employees negligence.	200 000	200 000
Litigation of Centlec (SOC) Ltd vs Mokhele - Litigation relating to damages due to Centlec employee negligent driving.	-	150 000
Litigation of Centlec (SOC) Ltd vs De Villiers and others- Litigation relating to prohibiting Centlec from disconnecting electricity.	-	200 000
Litigations of Centlec (SOC) Ltd vs Pudumo- Litigation relating to repayment of an amount paid by the plaintiff in respect of a quotation for tampering	50 000	50 000
Litigations of Centlec (SOC) Ltd vs Makola- Litigation relating to repayment of an amount paid by the plaintiff in respect of a quotation for tampering	50 000	50 000
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	750 000
Litigations of Centlec (SOC) Ltd vs IMATU obo Mkhwane - Litigation relating to the review application that was withdrawn on the 6th of April 2018.	-	900 000
L Masepole and 3 others vs Centlec (SOC) Ltd . Litigation relating to declaring the revocation of their promotion unlawful.	500 000	500 000
SAMWU OBO M N Zweni vs Centlec (SOC) Ltd litigation relates to unfair labour practice.	1 500 000	1 500 000
Litigations of Centlec (SOC) Ltd vs H Potgieter .	1 120 771	5 448 570
Litigations of Centlec (SOC) Ltd 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	7 000 000
Litigations of Centlec (SOC) Ltd vs LP Mkhwane - Litigation relating to a claim for outstanding salaries since the finalisation of the arbitration hearing against Centlec (SOC) Ltd.	2 500 000	-
Litigations of Centlec (SOC) Ltd vs Roberts - Litigation relating to a rescission application and instruction to oppose the matter.	30 000	-
Litigations of Centlec (SOC) Ltd vs KM Moroole - Litigation relating to a summons for a motor vehicle accident that occurred.	100 000	-
Litigations of Centlec (SOC) Ltd vs Combrinck - Action instituted against Centlec and MMM due to improper disconnection.	50 000	-
Litigations of Centlec (SOC) Ltd vs T Gaba - Litigation relating to an unfair dismissal claim at the SALGBC.	250 000	-
Litigations of Centlec (SOC) Ltd vs T Matshepe - Litigation relating to an unfair dismissal claim at the SALGBC.	250 000	-
Litigations of Centlec (SOC) Ltd vs R Molatedi - Litigation relating to an urgent application on ex parte basis obtained against Centlec for reconnection of electricity meter premised on Spoliation.	40 000	-

	2019 R	2018 R

38. Contingencies (continued)

Litigations of Centlec (SOC) Ltd vs Bluese Garments CC and Wilrand Trading CC - Litigation relating to Bluese Garments CC obtaining a Garnishee order against Centlec, for payment to be made by Centlec to Bluese in respect of the judgment obtained by Bluese against Wilrand Trading CC.	35 000	-
Litigations of Centlec (SOC) Ltd vs MJ Makofane - Litigation relating to restoration of electricity supply and damages.	50 000	-
Litigations of Centlec (SOC) Ltd vs Wessels and Ikageng - Litigation relating to an issued summons against Centlec and Ikageng for alleged damage caused to Plaintiff's motor vehicle as a result of a trench dug in road by Ikageng, an independent service provider.	10 000	-
Litigations of Centlec (SOC) Ltd vs Copper Sunset Trading 443 (PTY) Ltd - Litigation relating to an urgent application brought against Centlec to restore electricity disconnected.	300 000	-
Litigations of Centlec (SOC) Ltd vs S Molefe - Litigation relating to labour dispute.	150 000	-
	21 985 771	**25 148 570**

39. Change in estimate

Buildings

During the year, the municipal entity changed its accounting estimates with respect to building assets. In order to conform with the benchmark treatment of GRAP17, the municipal entity re-assessed the remaining useful lives of all building 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 2019 is as follows:

Depreciation expense before remaining useful lives review	2 524 135
Future decrease in depreciation due to review	(137 194)
Depreciation expense after remaining useful lives review	**2 386 941**

Other assets

During the year, the municipal entity changed its accounting estimates with respect to other movable assets. In order to conform with the benchmark treatment of GRAP17, the municipal entity re-assessed the remaining useful lives of all building 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 2019 is as follows:

Depreciation expense before remaining useful lives review	25 439 169
Future reduction in depreciation due to review	(3 607 362)
Depreciation expense after remaining useful lives review	**21 831 807**

	2019	2018
	R	R

40. 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:

40.1. Prior period error - Property, plant and equipment:

During the period under review it was noted that certain movable assets scrapped in previous financial years had been brought back into use at 30 June 2018. The comparative statements for 2017/2018 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	175 957

Statement of financial performance	
Decrease in loss on disposal of assets	(34 224)
Decrease in impairment expense	(503)
Increase in depreciation and amortisation	39 140
Increase in opening accumulated surplus or deficit	(180 370)

40.2. Prior period error - Payables from exchange transactions - Retention creditors:

During the period under review it was noted that retentions payable for the 2017/18 and prior financial years was not accounted for. A correction was made and the comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase in payables from exchange transactions - Retention creditors	(193 259)

Statement of financial performance	
Increase in general expenditure	201 491
Increase in opening accumulated surplus or deficit	(8 233)

40.3. Prior period error - Payables from exchange transactions:

During the period under review it was noted that material for repairs & maintenance was incorrectly expensed against the Mantsopa Local Municipality receivable during the 2017/18 and prior financial years. A correction was made and the comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase in payables from exchange transactions	(283 173)

Statement of financial performance	
Increase in general expenses	254 038
Decrease in opening accumulated surplus or deficit	29 134

	2019 R	2018 R

40. Prior period errors (continued)

40.4. Prior period error - Payables from exchange transactions - Mantsopa Local Municipality:

During the period under review it was noted that indigent debtor accounts with credit balances existed due to estimate reversals relating to estimates made during the prior financial year. A correction was made and the comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

	2019 R	2018 R
Statement of financial position		
Decrease in payables from exchange transactions		452 730
Statement of financial performance		
Increase in opening accumulated surplus or deficit		(452 730)

40.5. Prior period error - Retention creditor

During the period under review the municipal entity and its parent municipality, Manguang Metropolitan Municipality, reviewed the sale of business agreement and it was agreed that Centlec (SOC) Ltd would account for all intercompany transactions in accordance with the sale of business agreement for both the 2017/18 and current financial year up until the original sale of business agreement is revised and replaced with a new agreement. A correction was made and the comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

	2019 R	2018 R
Statement of financial position		
Decrease Other receivables from non-exchange transactions		(2 427)
Decrease in VAT liability		6 133 579
Increase in other financial liabilities - Capital advances		(81 094 674)
Increase in other financial liabilities - Intercompany loan		(562 130 358)
Increase in loans from shareholders		(1 071 479 158)
Decrease in share capital		1 714 784 787
Decrease in payables from exchange transactions		47 276 877
Statement of financial performance		
Decrease in other income		40 890 527
Increase in employee related costs		109 564
Increase in general expenditure		2 136
Increase in finance costs		216 013 466
Decrease in dividends		(310 504 319)

40.6. Prior period error - Payables from exchange transactions:

During the period under review it was noted that the nature of items classified as other payables in the note for payables from exchange transactions is the same as the nature of items classified as operating expense accrual. A reclassification adjustment was made and the comparative statements for 2017/18 financial year have been restated. The effect of the restatement is summarised below:

	2019 R	2018 R
Statement of financial position		
Decrease in payables from exchange transactions - Other payables		27 218
Increase in payables from exchange transactions - Operating expense accrual		(27 218)

	2019 R	2018 R

40. Prior period errors (continued)

40.7. Prior period error - Taxation:

During the period under review restatements were made to the 2017/18 comparative figures resulting in a change to the net surplus/(deficit) before taxation which resulted in a change to the deferred and income tax calculations. The calculation was adjusted and the comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

	2019 R	2018 R
Statement of financial position		
Increase in deferred tax asset		72 102 761
Statement of financial performance		
Decrease in taxation		(72 102 761)

40.8. Prior period error - General expenses:

During the period under review it was noted that in the prior year commission paid to third party vendors was incorrectly classified as consulting and professional fees. A reclassification adjustment was made and the comparative statements for 2017/18 financial year have been restated. The effect of the restatement is summarised below:

	2019 R	2018 R
Statement of financial performance		
Increase in general expenses - Commission paid		3 272 222
Decrease in general expenses - Consulting and professional fees		(3 272 222)

41. 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.

Notes to the Financial Statements

	2019	2018
	R	R

42. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. 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 5 344 344 199) exceed total liabilities (R 3 069 167 210).

- The municipal entity made a current year surplus of R 34 847 618.

- The municipal entity has an accumulated surplus and other reserves of R 2 275 176 989.

Management has reviewed the municipal entity's cash flow forecast for the year to 30 June 2020. In light of this review and the current financial position, management has noted that the current liabilities exceed its current assets. This is mainly attributed to the existence of the deemed sale of the business (SOB) agreement between the entity and the parent municipality that requires the entity to settle the second redemption of the capital portion of the shareholder’s loan of R 267 869 789 by June 2020.

The entity and the Parent municipality have reached a resolution to cancel the deemed sale of business agreement and any other related intercompany loan and capital advances loan effective from the 01 July 2019.

The arrangement reached provides for a relief to the entity as the loans are to be converted into equity with effect from the 2019/20 financial year. This has had a positive impact on the municipal entity's financial health further strengthening the going concern assumption.

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 its revenue collection and cash flow by improving on the debt recoverability processes.

The revenue protection unit's effort to curb meter tampering/bypassing is likely to improve revenue collection.

Other supplementary considerations include the fact that the entity managed to report an operating surplus of R 34 847 618 despite the fact that the sale of business agreement and the related interest charges were reported as though still in existence.

The entity still has the capacity and ability to continue with providing the services it is mandated to at the approved rates and will thus generate revenue from services in the future.

Notes to the Financial Statements

	2019 R	2018 R

43. 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.

Related party balances

Loan accounts - Owing (to) by related parties

	2019 R	2018 R
Mangaung Metropolitan Municipality - Advances	74 397 665	81 094 673
Mangaung Metropolitan Municipality - Shareholders Loan	1 071 479 158	1 071 479 158
Mangaung Metropolitan Municipality - Intercompany loan balance	507 497 129	562 130 358

Issued share capital

	2019 R	2018 R
Mangaung Metropolitan Municipality	100	100
Percentage of shares owned by Mangaung Metropolitan Municipality	100%	100%

Notes to the Financial Statements

	2019 R	2018 R

43. Related parties (continued)

Related party transactions

	2019 R	2018 R
Interest accrued to (accrued from) related parties		
Mangaung Metropolitan Municipality - Advances	8 109 467	9 243 943
Mangaung Metropolitan Municipality - Shareholder loan	164 965 040	151 032 309
Mangaung Metropolitan Municipality - Intercompany loan	50 934 642	55 737 214
Mangaung Metropolitan Municipality - Interest on long outstanding consumer accounts	-	(75 270)
Purchases from (sales to) related parties		
Mangaung Metropolitan Municipality - Amounts received on behalf of Mangaung Metropolitan Municipality (SOC) Ltd	30 054	-
Mangaung Metropolitan Municipality - Employee related costs paid	-	109 563
Mangaung Metropolitan Municipality - Hall rental	-	2 136
Mangaung Metropolitan Municipality - Amounts received on behalf of Centlec (SOC) Ltd	-	(2 427)
Mangaung Metropolitan Municipality - Electricity charges - Municipal consumption & training	(59 714 564)	(69 790 123)
Mangaung Metropolitan Municipality - Reimbursable Expenses - DOE grant	(15 450 000)	(20 000 000)
Mangaung Metropolitan Municipality - Reimbursable Expenses - Free basic services	(15 704 140)	(15 511 202)
Mangaung Metropolitan Municipality - Streetlight consumption	(70 911 055)	(63 778 139)
Mangaung Metropolitan Municipality - Capital advance redemption	6 697 009	6 942 876
Transfers made to (received from) related parties		
Mangaung Metropolitan Municipality - Cash transfers to Mangaung Metropolitan Municipality	112 276 877	35 000 000

The sale of business and service level agreement which govern the relationship between Mangaung Metropolitan Municipality and Centlec (SOC) Ltd were reviewed by council. As a result the recoverability of certain intercompany loan balances and -receivables (included as part of the trade receivables) relating to revenue from streetlighting and electricity usage by Mangaung Metropolitan Municipality properties are also subject to review by council.

Compensation to directors and other key management	2019 R	2018 R
Annual remuneration	5 858 238	4 660 022
Travel, motor car, accommodation, subsistence and other allowances	474 560	366 410
Contributions to UIF, Medical and Pension Funds	121 287	187 179
Acting allowance	160 122	435 845
Directors fee	406 169	1 262 584
	7 020 376	**6 912 040**

Notes to the Financial Statements

	2019	2018
	R	R

44. Directors' emoluments

Non-executive

2019

	Directors' fees	Company contribution - UIF	Company contribution - SDL	Total
Mr. N Mokhesi (Chairperson)	121 446	892	1 214	123 552
Me. DC Myeni (Deputy Chairperson)	148 434	1 484	1 484	151 402
Mr. KM Moroka	48 102	481	481	49 064
Mr. CAK Choeu	48 102	481	481	49 064
Mr. MP Mohale	40 085	401	401	40 887
	406 169	**3 739**	**4 061**	**413 969**

2018

	Directors' fees	Company contribution - UIF	Company contribution - SDL	Total
Mr. N Mokhesi (Chairperson)	404 820	1 617	4 048	410 485
Me. DC Myeni (Deputy Chairperson)	269 880	1 785	2 699	274 364
Mr. KM Moroka	160 332	1 542	1 603	163 477
Me. ZC Uwah	106 888	1 069	1 069	109 026
Mr. CAK Choeu	160 332	1 603	1 603	163 538
Mr. MP Mohale	160 332	1 603	1 603	163 538
	1 262 584	**9 219**	**12 625**	**1 284 428**

Notes to the Financial Statements

	2019 R	2018 R

45. Fruitless and wasteful expenditure

	2019 R	2018 R
Opening balance	1 333 647	500 491
Identified in current year:		
- Current year	8 799 353	833 156
	10 133 000	**1 333 647**

Details of fruitless and wasteful expenditure incidents relating to 2018/19 is set out as follows:

Incident	Disciplinary steps taken/criminal proceedings	
Interest on late payment of UIF,SDL,PAYE to SARS	The interest was incurred due to the technical delays on transfer of funds. No official of the entity is liable and the expense has been submitted to council for consideration of write off.	33
Interest incurred on late payment of ESKOM and TELKOM accounts	The interest was incurred mainly due to the fact that ESKOM charges interest based on a contract agreed to prior to the MFMA. The municipal entity has lodged a dispute with ESKOM to consider reversal of the interest. Other amounts included arise from TELKOM accounts not paid in time due to technical delays on transfer of funds. No official of the entity is liable and the expense has been submitted to council for consideration of write off.	8 799 320
		-
		-
		8 799 353

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

Relating to prior years	1 333 647
Current year	8 799 353
	10 133 000

46. Irregular expenditure

	2019 R	2018 R
Opening balance	176 320 491	69 207 196
Identified in current year		
- Relating to prior year	-	9 103 681
- Current year	12 484 738	98 009 614
	188 805 229	**176 320 491**

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

	2019 R	2018 R
Current year	12 484 738	98 009 614
Prior years	176 320 491	78 310 877
	188 805 229	**176 320 491**

Notes to the Financial Statements

	2019 R	2018 R

46. Irregular expenditure (continued)

Details of irregular expenditure incidents relating to 2018/19

Incident	Disciplinary steps taken/criminal proceedings	
Procurment in contravention with Supply Chain Management policy, Municipal Financial Management Act and Municipal Systems Act.	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 full extend of irregular expenditure is still in the process of being fully determined. The expenditure has been submitted to council for consideration to be written off.	12 484 738
		-
		-
Total 2018/19 irregular expenditure.		**12 484 738**

47. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

	2019	2018
Opening balance	391 933	-
Current year fee	6 119 325	6 719 172
Amount paid - current year	(5 979 331)	(6 327 239)
Amount paid - previous years	(391 933)	-
	139 994	**391 933**

	2019 R	2018 R

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

Distribution losses

In the current year the energy losses were 8.67% (2018: 9.30%). 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.

	2019	2018
kWh - units	144 172 798	155 706 800
Rand value	138 097 200	137 789 865
Percentage	8,67%	9.30%

The electricity distribution loss comprises of technical and non-technical losses. For the 2018/19 financial year the distribution losses amount to 8.67% (2018: 9.30%). 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 11 103 640 kWh - units (2018: 21 764 008 kWh - units) with a Rand value of R10 635 721 (2018: R19 259 658).

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 133 069 158 kWh - units (2018: 133 942 792 kWh - units) with a Rand value of R127 461 479 (2018: R118 530 207).

PAYE, UIF and SDL

	2019	2018
Opening balance	4 482 751	(28 257)
Payable for the current year	62 115 153	50 373 690
Amount paid - current year	(56 857 249)	(45 890 939)
Amount paid/refunded - previous years	(4 482 751)	28 257
	5 257 904	**4 482 751**

Pension and Medical Aid Deductions

	2019	2018
Opening balance	(75 347)	110 208
Payable for the current year	80 738 757	67 402 274
Amount paid - current year	(80 695 357)	(67 477 621)
Amount paid - previous years	-	(110 208)
	(31 947)	**(75 347)**

	2019	2018
	R	R

47. 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 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 2018	Rand value 2019	Number of deviations 2018	Rand value 2018
Sole supplier	6	1 722 475	19	884 214
Urgent	21	177 422	2	13 617
Other	9	777 496	26	1 172 810
	36	**2 677 393**	**47**	**2 070 641**

VAT

	2019	2018
VAT payable	103 870 439	72 667 833

All VAT returns have been submitted by the due date throughout the year.

47. 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 2019:

Councillor	July 2018	August 2018	September 2018	October 2018
MB Monanyane	77 215	76 082	74 939	73 788
E Snyman van Deventer	454	454	454	454
CSK Sechoaro	3 826	3 826	3 826	3 826
J Nothnagel	22 960	22 960	-	-
LA Masoetsa	11 731	11 800	-	-
MA Siyonzana	79 939	80 473	-	-
ED Mashoane	680	680	-	-
ME Marais	23 996	24 161	-	-
	220 801	**220 436**	**79 219**	**78 068**

Councillor	November 2018	December 2018	January 2019	February 2019
MB Monanyane	72 628	71 467	71 807	70 641
E Snyman van Deventer	454	454	454	454
CSK Sechoaro	3 826	3 826	3 826	3 826
	76 908	**75 747**	**76 087**	**74 921**

Councillor	March 2019	April 2019	May 2019	June 2019
MB Monanyane	69 467	68 284	68 601	67 416
E Snyman van Deventer	454	454	454	454
CSK Sechoaro	3 826	3 826	3 826	3 826
	73 747	**72 564**	**72 881**	**71 696**

Notes to the Financial Statements

48. 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 quantitive 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 operations 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.

48. 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.

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.

2019	Less than 1 year	Between 1 and 2 years
Consumer deposits	115 053 108	-
Loans from shareholders	267 869 789	-
Other financial liabilities	6 697 009	-
Payables from exchange transactions	508 915 442	-
	898 535 348	**-**

2018	Less than 1 year	Between 1 and 2 years
Consumer deposits	114 471 056	-
Finance lease obligation	116 968	-
Other financial liabilities	6 697 009	-
Payables from exchange transactions	438 619 947	-
	559 904 980	**-**

48. 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	2019	2018
Cash and cash equivalents	13 555 909	81 467 989
Investments	-	53 265 198
Consumer receivables from exchange transactions	768 845 276	586 442 019
Other financial assets	4 190 063	4 841 711
Other receivables from exchange transactions	67 336 576	67 027 689

These balances represent the maximum exposure to credit risk.

48. 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
- 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

48. 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.

Notes to the Financial Statements

49. 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 2018 to 30 June 2019.

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% or higher deviation on operational revenue and expenditure versus the final budget as material and for capital expenditure the percentage deviation is 5% or higher.

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

1. Service charges - The variance is attributed to the changes in the customers consumption pattern as alternative cheaper sources of energy are becoming a norm in the country

2. Agency services - The variance is mainly due to unforeseen additional ad hoc services rendered to Free State Municipalities.

3. Other Income - The variance is mainly due to the inclusion of the street light consumption following the resolution of the differences between MMM and the entity. The other factor is the inclusion of forfeited unclaimed/unknown consumer deposits.

4. Interest received on investments - The variance is mainly due to more interest levied on the consumer debtors than initially anticipated as well as interest on the entity's current bank account.

5. Government grants & subsidies - The variance is due to the fact that the amount budgeted for included VAT while the actual amount recognized for the grant revenue excludes VAT.

6. Public contributions and donations - The reason for the variance is the that no budget was provided for privately funded projects completed and handed over to the municipal entity during the current financial year.

7. Personnel related costs - The variance is mainly due to the recruitment of new employees in the current financial year.

8. Depreciation and amortisation - The variance is as a result of the condition assessment that was performed on the assets, this condition assessment indicated that the assets were in a better condition than originally estimated. This resulted in a change in estimated that reduced the current years depreciation charge.

9. Impairment loss/ Reversal of impairments - No budget is provided for impairment losses of this nature as they are unpredictable in nature since there is no pattern of such disasters in the history of the entity.

10. Finance costs - The variance is mainly attributed to:
- Changing the basis on which the Annual Financial Statements for 2017/18 and 2018/19 were prepared so as to be in line with the sale of the business agreement which resulted in the inclusion of interest that was not budgeted for.
- The interest charged by ESKOM on overdue account for which the entity has lodged a disagreement with ESKOM

11. Debt impairment - The variance is attributed to the conversion of most of the rotational meters to prepaid that reduced significantly the balance of consumer debtors that could have been subject to impairment. Other factors is the stringent implementation of credit control policy and the revenue protection initiatives.

12. Bulk purchases - The variance is within acceptable levels.

13. General Expenses - The variance is attributed to the percentage paid for vendors commission, reduction in contract fees, reduction in lease rental for photocopiers and lower repairs & maintenance expenses.

49. Budget differences (continued)

14. Loss on disposal of assets and liabilities - An auction of the scrapped assets took place during the current financial year which resulted in the amount received being less than anticipated.

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. Inventories - The variance is within acceptable levels.

2. Investments - The variance is mainly due to the need to finance operations requirements as well as the less that anticipated collection rate of the consumer debtors accounts.

3. Other receivables from exchange transactions - The variance can be attributed to there being an increase receivable from Mohokare and Kopanong Local Municipalities arising from their trading accounts with the entity.

4. Consumer debtors - The increase is attributed to the decrease in the debt impairment amount on the consumer debtors.

5. Cash and cash equivalents - The variance was mainly due to unanticipated increase in operational expenditure close to year end resulting in a decrease in cash on hand.

Non-Current Assets

1. Property, plant and equipment - The variance is within acceptable levels.

2. Intangible assets - The variance is attributed to the additions to intangible assets that was incorrectly budgeted for under operational expenditure.

3. Other financial assets - The variance is attributed to the revenue protection drive that resulted in customers who were tampering with electricity being disconnected and collection of outstanding balances who entered into arrangements to settle their debt.

4. Deferred Tax - The variance is mainly attributed to prior year restatements resulting in an increase in the deferred tax asset.

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 port of the non-current liability.

1. Other financial liabilities - The during the 2017/18 financial year the municipal entity entered into a settlement agreement with Mangaung Metropolitan Municipality that resulted in the conversion of this debt to equity. The settlement agreement is no longer in effect for the 2018/19 financial year hence the application of the sale of business agreement which results in the variance.

2. Payables from exchange transactions - The variance can be attributed to the lower than anticipated year end trade payables.

3. Consumer deposits - The variance is due consumer deposits being higher than anticipated following the completion of a number of public connections projects.

Non-Current Liabilities

1. Loans from shareholders - The 2017/18 financial statements have been restated to reflect the terms of the sale of business agreement instead of the settlement agreement. The entity had considered this amount as equity during the budget process.

49. Budget differences (continued)

2. Other financial liabilities - The 2017/18 financial statements have been restated to reflect the terms of the sale of business agreement instead of the settlement agreement. The entity had considered this amount as equity during the budget process.

3. Finance lease obligation - The variance is mainly due to the fact that no new finance lease agreements were entered into during the year.

4. Deferred tax - The variance is within acceptable levels.

5. Long service awards - The variance is due to the fact that a number of new staff were appointed during the year. Other factors include the salary increase.

Share Capital

1. Share capital - The 2017/18 financial statements have been restated to reflect the terms of the sale of business agreement instead of the settlement agreement. The entity had considered this amount as equity during the budget process and it has to be reversed back to liabilities

50. Inter-departmental consumption

	2019	2018
Inter-departmental consumption	1 045 009	861 567

The inter-departmental consumption is based on units consumed as per the meter records.

51. 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 MFMA sec 65(2)(e)**
  Money owing by the entity to the value R 67 481 974 was not paid within 30 days of receiving the relevant invoice or statement mainly due to lack of proper supporting documents and late submission of invoices by the suppliers

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 IV Code of Governance for South Africa, 2016

The King IV Report on Corporate Governance (2016) 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 evaluation of the board, its committees and the individual directors was not conducted as required by Par 2.22 of the code.

Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2019

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
										Yes/ No
National Electrification Programme Grant	National Government	-	-	3 833 473	9 601 310	-	496 207	3 337 266	9 601 310	Yes
		-	-	3 833 473	9 601 310	-	496 207	3 337 266	9 601 310	

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.