

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

2. New standards and interpretations (continued)

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.

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.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|---------------------------------------|-------------------|-------------------|
| 3. Cash and cash equivalents | | |
| Cash and cash equivalents consist of: | | |
| Bank balances | 32 388 424 | 13 403 965 |
| Short-term deposits | 5 008 | 151 944 |
| | 32 393 432 | 13 555 909 |

Short-term deposits consist of:

| | | |
|---------------------------|-------|---------|
| ABSA - 1 Day call account | 5 008 | 151 944 |
|---------------------------|-------|---------|

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 2020 | 30 June 2019 | 30 June 2018 | 30 June 2020 | 30 June 2019 | 30 June 2018 |
| ABSA Bank - Cheque account - 4058833582 | 7 339 445 | 5 807 147 | 67 092 738 | 12 217 477 | 10 081 227 | 74 971 033 |
| ABSA Bank - Cheque account - 4055133721 | 65 118 | 733 | 12 597 | 65 118 | 733 | 12 597 |
| ABSA Bank - Cheque account - 4054065339 | 508 858 | 59 655 | 292 339 | 505 129 | 64 395 | 300 339 |
| ABSA Bank - Cheque account - 470001402 | 28 037 946 | 5 497 729 | 3 598 112 | 21 868 526 | 5 498 154 | 3 605 869 |
| ABSA Bank - Cheque account - 4054530924 | 815 | (19 612) | 3 619 | (325) | (19 551) | 3 619 |
| ABSA Bank - Cheque account - 4078209583 | 905 890 | 43 229 | 92 981 | (2 044 416) | (664 145) | (426 626) |
| ABSA Bank - Cheque account - 4080522070 | 66 316 | 1 806 | 78 579 | (399 124) | (1 526 429) | 84 674 |
| ABSA Bank - Cheque account - 4080521896 | 128 543 | 1 504 | 77 894 | 128 543 | 1 504 | 77 894 |
| ABSA Bank - Cheque account - 9326102088 | 60 816 | 3 337 | 208 912 | 47 496 | (31 923) | 208 913 |
| Total | 37 113 747 | 11 395 528 | 71 457 771 | 32 388 424 | 13 403 965 | 78 838 312 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|--|----------------------|--------------------|
| 4. Consumer receivables from exchange transactions | | |
| Gross balances | | |
| Electricity | 1 125 310 833 | 947 929 998 |
| Less: Allowance for impairment | | |
| Electricity | (256 759 338) | (179 084 722) |
| Net balance | | |
| Electricity | 868 551 495 | 768 845 276 |
| Electricity | | |
| Current (0 -30 days) | 315 011 235 | 116 185 981 |
| 31 - 60 days | 25 055 231 | 27 472 048 |
| 61 - 90 days | 26 163 572 | 19 131 568 |
| 90+ days | 594 016 642 | 624 094 919 |
| Meter reading estimate at year end (Consumption across year end) | 165 099 316 | 165 064 827 |
| Discounting | (35 163) | (1 229 163) |
| Transferred to non-current receivables | - | (2 790 182) |
| | 1 125 310 833 | 947 929 998 |
| Summary of debtors by customer classification | | |
| Residential and sundry | | |
| Current (0 -30 days) | 8 987 539 | 9 660 509 |
| 31 - 60 days | 1 506 814 | 1 399 018 |
| 61 - 90 days | 1 106 688 | 964 030 |
| 90+ days | 132 818 348 | 134 001 063 |
| | 144 419 389 | 146 024 620 |
| Business/Commercial and municipal | | |
| Current (0 -30 days) | 78 392 941 | 84 902 672 |
| 31 - 60 days | 14 972 970 | 10 910 905 |
| 61 - 90 days | 15 156 959 | 3 398 094 |
| 90+ days | 131 489 674 | 95 077 995 |
| | 240 012 544 | 194 289 666 |
| Government | | |
| Current (0 -30 days) | 227 630 754 | 21 622 799 |
| 31 - 60 days | 8 575 447 | 15 162 124 |
| 61 - 90 days | 9 899 925 | 14 769 443 |
| 90+ days | 329 708 620 | 395 015 861 |
| | 575 814 746 | 446 570 227 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|--|----------------------|----------------------|
| 4. Consumer receivables from exchange transactions (continued) | | |
| Total | | |
| Current (0 -30 days) | 315 011 235 | 116 185 981 |
| 31 - 60 days | 25 055 231 | 27 472 048 |
| 61 - 90 days | 26 163 572 | 19 131 568 |
| 90+ days | 594 016 642 | 624 094 919 |
| Meter reading estimate at year end (Consumption across year end) | 165 099 316 | 165 064 827 |
| Discounting | (35 163) | (1 229 163) |
| Transferred to non-current receivables | - | (2 790 182) |
| | 1 125 310 833 | 947 929 998 |
| Less: Provision for debt impairment | (256 759 338) | (179 084 722) |
| | 868 551 495 | 768 845 276 |
| Less: Provision for debt impairment | | |
| Provision for debt impairment | (256 759 338) | (179 084 722) |
| Reconciliation of allowance for impairment | | |
| Balance at beginning of the year | (179 084 722) | (232 785 202) |
| Debt impairment written off against allowance | - | 745 751 |
| Reversal/(Contributions) of allowance | (77 674 616) | 52 954 729 |
| | (256 759 338) | (179 084 722) |
| 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 2020, R 694 953 743 (2019: R 607 792 601) 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: | | |
| Current (0 -30 days) | 305 121 665 | 114 633 116 |
| 31 - 60 days | 17 205 924 | 25 945 440 |
| 61 - 90 days | 14 886 159 | 17 580 068 |
| 90+ days | 357 739 995 | 449 633 977 |
| | 694 953 743 | 607 792 601 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|--|-----------|-----------|
|--|-----------|-----------|

4. Consumer receivables from exchange transactions (continued)

Consumer debtors impaired

As of 30 June 2020, consumer debtors of R 256 759 338 (2019: R 179 084 722) were impaired and provided for.

The ageing of these loans is as follows:

| | | |
|----------------------|--------------------|--------------------|
| Current (0 -30 days) | 9 565 138 | 1 552 865 |
| 31 - 60 days | 7 569 458 | 1 526 608 |
| 61 - 90 days | 10 819 686 | 1 551 500 |
| 90+ days | 228 805 056 | 174 453 749 |
| | 256 759 338 | 179 084 722 |

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

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

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

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

5. Inventories

| | | |
|---------------------------|--------------------|-------------------|
| Raw materials, components | 110 121 195 | 88 792 053 |
| | 110 121 195 | 88 792 053 |
| NRV adjustment | (2 345 148) | (1 424 116) |
| | 107 776 047 | 87 367 937 |

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 R55 269 714 (2019: R51 249 457), of which a portion was capitalised.

Inventory pledged as security

No inventory was pledged as security.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|--|-------------------|-------------------|
| 6. Other financial assets | | |
| At amortised cost | | |
| Kopanong Local Municipality | 729 576 | 909 504 |
| 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% | | |
| Mohokare Local Municipality | 394 835 | 490 377 |
| 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% | | |
| Consumer debtors - Arrangements | - | 2 790 182 |
| Consumer debtors with arrangements which stretches over a period longer than 12 months. | | |
| | 1 124 411 | 4 190 063 |
| Non-current assets | | |
| Loans and receivables | 848 941 | 3 914 593 |
| 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. | | |
| 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. | | |
| 7. Other receivables from exchange transactions | | |
| Deposits | 1 032 338 | 1 006 367 |
| Kopanong Local Municipality | 14 256 305 | 15 540 615 |
| Mohokare Local Municipality | 41 029 182 | 36 173 210 |
| Other receivables | 1 810 282 | 3 982 161 |
| DOE Grant - Southern Free State Towns | 4 737 728 | 4 737 728 |
| Receipt reversal | 734 887 | 1 043 416 |
| Vendors | 15 015 291 | 5 864 163 |
| | 78 616 013 | 68 347 660 |

Other receivables pledged as security

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

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 | 2019 |
|--|------|------|
| | R | R |

7. Other receivables from exchange transactions (continued)

Fair value of other receivables

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

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

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

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

Centlec (SOC) Ltd

(Registration number 2003/011612/30)
Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

Figures in Rand

8. Property, plant and equipment

| | 2020 | | | | 2019 | | | |
|------------------|----------------------|---|----------------------|----------------------|---|----------------------|--|--|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | | |
| Land | 9 331 312 | - | 9 331 312 | 9 859 500 | - | 9 859 500 | | |
| Buildings | 105 948 517 | (12 079 848) | 93 868 669 | 87 573 926 | (9 342 043) | 78 231 883 | | |
| Motor vehicles | 96 706 204 | (76 727 150) | 19 979 054 | 97 041 966 | (71 019 612) | 26 022 354 | | |
| Office equipment | 69 287 047 | (40 370 667) | 28 916 380 | 65 941 743 | (34 157 517) | 31 784 226 | | |
| Infrastructure | 7 137 564 718 | (863 318 505) | 6 274 246 213 | 4 440 974 211 | (735 484 968) | 3 705 489 243 | | |
| Leased assets | 969 283 | (969 283) | - | 969 283 | (899 892) | 69 391 | | |
| Total | 7 419 807 081 | (993 465 453) | 6 426 341 628 | 4 702 360 629 | (850 904 032) | 3 851 456 597 | | |

Reconciliation of property, plant and equipment - 2020

| | Opening balance | Additions | Disposals | Capital work in progress | Revaluations | Depreciation | Impairment loss | Total |
|------------------|----------------------|--------------------|--------------------|-----------------------------|----------------------|----------------------|--------------------|----------------------|
| Land | 9 859 500 | - | - | - | (528 188) | - | - | 9 331 312 |
| Buildings | 78 231 883 | 1 728 503 | - | - | 16 646 088 | (2 737 805) | - | 93 868 669 |
| Infrastructure | 3 705 489 243 | 97 067 017 | (9 005 685) | (10 817 923) | 2 621 110 854 | (125 239 089) | (4 358 204) | 6 274 246 213 |
| Motor vehicles | 26 022 354 | - | (75 489) | - | - | (5 965 922) | (1 889) | 19 979 054 |
| Office equipment | 31 784 226 | 5 925 987 | (566 123) | - | - | (8 006 878) | (220 832) | 28 916 380 |
| Leased Assets | 69 391 | - | - | - | - | (69 391) | - | - |
| | 3 851 456 597 | 104 721 507 | (9 647 297) | (10 817 923) | 2 637 228 754 | (142 019 085) | (4 580 925) | 6 426 341 628 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

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) | (100 828) | (107 904 148) | - | 3 705 489 243 |
| Motor vehicles | 30 823 382 | 1 622 256 | (537 688) | - | - | (5 881 994) | (3 602) | 26 022 354 |
| Office equipment | 24 950 474 | 14 995 837 | (976 734) | - | - | (7 183 456) | (1 895) | 31 784 226 |
| Leased Assets | 189 304 | - | - | - | - | (119 913) | - | 69 391 |
| | 3 809 542 638 | 192 215 747 | (1 658 699) | (24 944 662) | (100 828) | (123 592 102) | (5 497) | 3 851 456 597 |

Property, plant and equipment pledged as security

No property, plant and equipment are pledged as security

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 | 2019 |
|--|------|------|
| | R | R |

8. Property, plant and equipment (continued)

Revaluations

The effective date of the revaluations for land and buildings was year end 30 June 2020. 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 are not connected to the municipal entity.

The effective date of the revaluations for the infrastructure assets was year end 30 June 2020. Revaluations for infrastructure assets was performed by the independent valuers, Mr Marius Koch (B Eng Civil, BSC ITM (Information Technology) and Mrs. Anré Swart (Pr.Eng, GCC, MBA), Engineering Council of South Africa (ECSA) (Reg.no 20110016) from EMS Solutions (Pty) Ltd. EMS Solutions (Pty) Ltd is not connected to the municipal entity.

The valuations were performed using the depreciated replacement costs method.

Unit rates are obtained for each asset through quotation. Unit rates are adjusted with the following factors:

- Preliminary & General (P & G's)
- Contingencies
- Engineering fees
- Location factor

The depreciated replacement costs are calculated by taking into account the estimated useful life and the condition of the asset.

Depreciated replacement costs = (Current Replacement Cost – Residual Value) x (Remaining Useful Life / Estimated Useful life) + Residual Value.

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:

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 2020 the land and buildings have not yet been legally transferred from Mangaung Metropolitan Municipality to the municipal entity.

| | |
|-------------------|-------------------|
| 94 832 285 | 77 723 173 |
| <u>94 832 285</u> | <u>77 723 173</u> |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|--------------------|--------------------|
| 8. Property, plant and equipment (continued) | | |
| Property, plant and equipment in the process of being constructed or developed | | |
| Cumulative expenditure recognised in the carrying value of property, plant and equipment | | |
| Buildings | 8 442 664 | 8 442 664 |
| Infrastructure | 173 423 348 | 184 241 270 |
| | 181 866 012 | 192 683 934 |
| Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected | | |
| Buildings | 8 442 664 | 8 442 664 |
| The project to convert the old power station into offices was halted due to financial constraints, there was no indication of impairment at year end and therefore the work in progress value was not adjusted. | | |
| Botshabelo substation and 132kv line project | 98 327 336 | 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 2020/2021. | | |
| | 106 770 000 | 106 770 000 |
| Reconciliation of Work-in-Progress 2020 | | |
| | Included within | Total |
| | Infrastructure | |
| Opening balance | 184 241 270 | 184 241 270 |
| Additions/capital expenditure | 88 344 038 | 88 469 737 |
| Transferred to completed items | (97 067 018) | (97 219 901) |
| Transferred to operating expenditure | (2 094 944) | (2 094 944) |
| | 173 423 346 | 173 396 162 |
| Reconciliation of Work-in-Progress 2019 | | |
| | Included within | Total |
| | Infrastructure | |
| 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 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|-------------------|-------------------|
| 8. Property, plant and equipment (continued) | | |
| 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 | 34 294 101 | 52 256 695 |
| General expenses | 13 361 050 | 11 536 471 |
| | 47 655 151 | 63 793 166 |

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.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

Figures in Rand

9. Intangible assets

| | 2020 | | 2019 | | | |
|--------------------------------|---------------------|---|-------------------|---------------------|---|-------------------|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software and licenses | 55 609 005 | (37 973 648) | 17 635 357 | 41 555 187 | (29 713 168) | 11 842 019 |
| Servitudes | 69 406 369 | 8 836 197 | 78 242 566 | 85 020 874 | (15 800 785) | 69 220 089 |
| Total | 125 015 374 | (29 137 451) | 95 877 923 | 126 576 061 | (45 513 953) | 81 062 108 |

Reconciliation of intangible assets - 2020

| | Opening balance | Additions | Work in progress | Amortisation | Impairment loss | Impairment reversal | Total |
|--------------------------------|--------------------|-------------------|---------------------|--------------------|--------------------|------------------------|-------------------|
| Computer software and licenses | 11 842 019 | 14 053 819 | - | (8 211 692) | (48 789) | - | 17 635 357 |
| Servitudes | 69 220 089 | - | 186 280 | - | - | 8 836 197 | 78 242 566 |
| Total | 81 062 108 | 14 053 819 | 186 280 | (8 211 692) | (48 789) | 8 836 197 | 95 877 923 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

Figures in Rand

9. Intangible assets (continued)

Reconciliation of intangible assets - 2019

| | Opening balance | Additions | Work in progress | Disposals | Amortisation | Total |
|--------------------------------|--------------------|-------------------|---------------------|--------------------|---------------------|-------------------|
| Computer software and licenses | 15 874 408 | 10 952 902 | - | (3 531 164) | (11 454 127) | 11 842 019 |
| Servitudes | 69 144 931 | - | 75 158 | - | - | 69 220 089 |
| | 85 019 339 | 10 952 902 | 75 158 | (3 531 164) | (11 454 127) | 81 062 108 |

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

Servitudes

186 280

75 158

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|--|------------------------|----------------------|
| 10. Deferred tax | | |
| Deferred tax liability | | |
| Opening balance | (667 591 871) | (575 253 899) |
| Property, plant and equipment | (745 017 301) | (92 326 529) |
| Taxable temporary differences | (48 815) | (11 443) |
| Total deferred tax liability | (1 412 657 987) | (667 591 871) |
| Deferred tax asset | | |
| Opening balance | 454 432 719 | 372 919 868 |
| Taxable temporary differences | 19 370 003 | (9 006 334) |
| Tax losses available for set off against future taxable income | 750 702 036 | 90 519 185 |
| Total deferred tax asset | 1 224 504 758 | 454 432 719 |
| Deferred tax liability | (1 412 657 987) | (667 591 871) |
| Deferred tax asset | 1 224 504 758 | 454 432 719 |
| Total net deferred tax liability | (188 153 229) | (213 159 152) |
| Reconciliation of deferred tax asset \ (liability) | | |
| At beginning of year | (213 159 152) | (202 334 031) |
| Depreciable assets | (745 017 301) | (92 326 529) |
| Finance lease | - | 824 |
| Provisions | 19 321 188 | (9 018 601) |
| Assessed loss | 750 702 036 | 90 519 185 |
| | (188 153 229) | (213 159 152) |

Recognition of deferred tax asset

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

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

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

Deferred tax assumptions

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

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 | 2019 |
|--|------|------|
| | R | R |

10. Deferred tax (continued)

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 judgment in determining an accurate write off period for the Infrastructure assets was used as follows:

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

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

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

Non-Infrastructure assets

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

Debt impairment

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

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|--|-----------|-----------|
|--|-----------|-----------|

11. Consumer deposits

| | | |
|-------------|-------------|-------------|
| Electricity | 128 776 174 | 115 053 108 |
|-------------|-------------|-------------|

Guarantees in lieu of vendor deposits amounted to R 2 153 891 (2019: R 2 103 891).

Guarantees in lieu of consumer deposits amounted to R 39 164 721 (2019: R 37 859 074).

Fair value approximates the carrying value of the vendor deposits.

12. Long service awards

Reconciliation of long service awards - 2020

| | Opening Balance | Actuarial (gains)/losses | Utilised during the year | Current service costs | Interest costs | Total |
|----------------------------------|--------------------|-----------------------------|--------------------------------|--------------------------|----------------|------------|
| Provision for long service award | 20 282 000 | (2 095 649) | (1 548 351) | 2 392 000 | 1 969 000 | 20 999 000 |

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 |

| | | |
|--|-------------------|-------------------|
| Non-current liabilities | 17 728 000 | 18 713 000 |
| Current liabilities | 3 271 000 | 1 569 000 |
| Present value of long service awards obligation | 20 999 000 | 20 282 000 |

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 648 (2019 - 664) employees were eligible for long service bonuses.

The current service cost for the ensuing year is estimated to be R 2 392 000 (2019 - R 2 232 000) whereas the interest-cost for the next year is estimated to be R 1 969 000 (2019 - R 1 980 000).

As at the valuation date, the long service 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

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|------------------|------------------|
| 12. Long service awards (continued) | | |
| The key assumptions utilised by management in determining the long service awards liability are listed below: | | |
| Discount rate | Yield Curve | Yield Curve |
| Normal salary increase rate | CPI + 1% | CPI + 1% |
| Net effective discount rate | Yield Curve | Yield Curve |
| | Based | Based |
| Mortality | SA 85-90 | SA 85-90 |
| | mortality tables | mortality tables |
| Normal retirement age | 65 | 65 |
| Average retirement age | 63 | 63 |
| Consumer price inflation (CPI) | Difference | Difference |
| | between | between |
| | nominal and real | nominal and real |
| | yield curve | yield curve |
| Total expense recognised in the statement of financial performance under the line item employee related costs: | | |
| Current service cost | 2 392 000 | 2 232 000 |
| Interest cost | 1 969 000 | 1 980 000 |
| Actuarial (gains) / losses | (2 095 649) | (2 398 178) |
| | 2 265 351 | 1 813 822 |

Present value of long service award obligation:

| | |
|--|--------------|
| Present value of long service award as at 30 June 2020 | (20 999 000) |
| 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 2020 supplied by the JSE was used to determine the discounted rates and CPI assumptions at each relevant time period.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 | 2019 |
|--|------|------|
| | R | R |

12. Long service awards (continued)

The net effective discount rate:

The net effective discount rate is different for each relevant time period of the yield curves' various durations and therefore the net effective discount rate is based on the relationship between the (yield curve based) discount rate for each relevant time period and the (yield curve based) salary inflation for each relevant time period.

Normal salary 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 2020 of 6.25%. The next salary increase was assumed to take place on 01 July 2021.

Interest cost:

The interest cost represents the accrual of interest on the accrued defined benefit obligation, allowing for benefit payments, over the corresponding year. This arises because the long service benefits are one year closer to payment.

Current service cost:

The current service cost reflects the additional liability that is expected to accrue in respect of in 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 2020 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 1,578,000.
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 R517,649.

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 municipal entity. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the municipal entity 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:

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R | |
|--|--------------------------------|-------------------------|--------------------------------|
| 12. Long service awards (continued) | | | |
| Withdrawal rate | -20% Withdrawal rate | Valuation Assumption | +20% Withdrawal rate |
| Total Accrued Liability | 22 100 000 | 20 999 000 | 20 001 000 |
| Current Service Cost | 2 414 000 | 2 255 000 | 2 114 000 |
| Interest Cost | 2 679 000 | 2 534 000 | 2 404 000 |
| | 27 193 000 | 25 788 000 | 24 519 000 |
| 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 | 19 765 000 | 20 999 000 | 22 349 000 |
| Current Service Cost | 2 110 000 | 2 255 000 | 2 415 000 |
| Interest Cost | 2 374 000 | 2 534 000 | 2 709 000 |
| | 24 249 000 | 25 788 000 | 27 473 000 |
| 13. Other financial liabilities | | | |
| At amortised cost | | | |
| Capital Advances Mangaung Metropolitan Municipality | | 67 700 656 | 74 397 665 |
| 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 2019 was 10.25% (2018/19: 10%) | | | |
| Intercompany loan | | 850 541 758 | 507 498 287 |
| 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 2019 was 10.25% (2018/19: 10%) | | | |
| | | 918 242 414 | 581 895 952 |
| Total other financial liabilities | | 918 242 414 | 581 895 952 |
| There were no defaults on the financial liability during the reporting period. | | | |
| Non-current liabilities | | | |
| At amortised cost | | 911 545 405 | 575 198 943 |
| Current liabilities | | | |
| At amortised cost | | 6 697 009 | 6 697 009 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|--|----------------------|------------------------|
| 14. Payables from exchange transactions | | |
| Accrued bonus | 8 439 819 | 8 047 915 |
| Accrued leave pay | 36 024 307 | 31 374 286 |
| Deferred revenue | 18 201 411 | 13 037 709 |
| Electricity connections | 13 607 092 | 12 781 371 |
| Mantsopa Local Municipality | 2 659 168 | 2 665 081 |
| Operating expense accrual | 15 271 652 | 26 751 544 |
| Retention creditors | 818 538 | 1 291 656 |
| Salary control | 3 551 908 | 5 947 900 |
| Trade payables | 390 358 933 | 319 785 113 |
| Unallocated consumer and vendor payments received in advance | 56 563 726 | 64 671 953 |
| | 545 496 554 | 486 354 528 |
| 15. VAT liability | | |
| VAT liability | 135 341 840 | 100 994 946 |
| 16. Loans to (from) shareholders | | |
| Mangaung Metropolitan Municipality | (803 609 369) | (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) | (803 609 369) |
| Current liabilities | - | (267 869 789) |
| | (803 609 369) | (1 071 479 158) |
| 17. Share capital / contributed capital | | |
| Authorised | | |
| 1000 Ordinary shares of par value of R1 | 1 000 | 1 000 |
| Issued | | |
| 100 Ordinary shares | 100 | 100 |
| 18. Revaluation reserve | | |
| Revaluation surplus beginning of period | 1 460 029 577 | 1 460 130 406 |
| Movements in the reserve for the year | 2 637 228 753 | (100 829) |
| | 4 097 258 330 | 1 460 029 577 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|--|----------------------|----------------------|
| 19. 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. | | |
| Non-distributable reserve beginning of period | 60 000 000 | 60 000 000 |
| Movements in the reserve for the year | - | - |
| Closing balance | 60 000 000 | 60 000 000 |
| 20. Service charges | | |
| Free services recoverable | 17 762 839 | 15 703 133 |
| Sale of electricity | 1 528 629 017 | 1 462 886 317 |
| Sale of pre-paid electricity | 957 330 446 | 858 427 169 |
| | 2 503 722 302 | 2 337 016 619 |
| 21. Other income | | |
| Advertisement | 46 750 | - |
| Credit control fees | 5 463 290 | 8 925 800 |
| Fines & reconnection income | 2 777 793 | 5 060 191 |
| Insurance claim recovery | 415 142 | 1 358 316 |
| New connections | 9 949 952 | 20 415 044 |
| Sale of clearance certificates | 614 189 | 588 341 |
| Sale of tender documents | 12 026 | 21 774 |
| Street lighting | 72 070 304 | 61 661 787 |
| Training income | 5 904 | 415 547 |
| | 91 355 350 | 98 446 800 |
| 22. Interest Income | | |
| Interest revenue | | |
| Interest on ABSA current account | 2 354 213 | 3 430 317 |
| Interest on loans and other receivables from exchange transactions | 139 988 | 167 535 |
| Interest on consumer receivables from exchange transactions | 25 239 164 | 25 446 813 |
| Interest on bank investments | 584 064 | 837 008 |
| Interest received - Eskom deposit | 25 970 | 68 864 |
| | 28 343 399 | 29 950 537 |

Short-term deposits consists of an 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

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|--|-----------|-----------|
|--|-----------|-----------|

23. Government grants & subsidies

Capital grants

| | | |
|--|-------------------|-------------------|
| National electrification programme grant | - | 13 434 783 |
| Urban settlements development grant | 22 608 696 | - |
| | 22 608 696 | 13 434 783 |

National Electrification Programme

| | | |
|---|---|--------------|
| Current-year receipts | - | 13 434 783 |
| Conditions met - transferred to revenue | - | (13 434 783) |
| | - | - |

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.

Urban Settlements Development Grant

| | | |
|---|--------------|---|
| Current-year receipts | 22 608 696 | - |
| Conditions met - transferred to revenue | (22 608 696) | - |
| | - | - |

The purpose of the grant is to upgrade informal settlements, either by creating formal housing or by upgrading services to informal settlements.

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

24. Revenue

| | | |
|----------------------------------|----------------------|----------------------|
| Service charges | 2 503 722 302 | 2 337 016 619 |
| Agency services | 5 566 565 | 8 195 007 |
| Inventories reversal | 1 787 308 | 1 112 666 |
| Other income | 91 355 350 | 98 446 800 |
| Interest received | 28 343 399 | 29 950 537 |
| Government grants & subsidies | 22 608 696 | 13 434 783 |
| Public contributions & donations | 6 183 336 | 1 497 768 |
| | 2 659 566 956 | 2 489 654 180 |

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

| | | |
|-----------------|----------------------|----------------------|
| Service charges | 2 503 722 302 | 2 337 016 619 |
| Interest income | 5 566 565 | 8 195 007 |
| Other income | 91 355 350 | 98 446 800 |
| Interest income | 28 343 399 | 29 950 537 |
| | 2 628 987 616 | 2 473 608 963 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|--------------------|--------------------|
| 24. Revenue (continued) | | |
| The amount included in revenue arising from non-exchange transactions is as follows: | | |
| Transfer revenue | | |
| Government grants & subsidies | 22 608 696 | 13 434 783 |
| Public contributions & donations | 6 183 336 | 1 497 768 |
| | 28 792 032 | 14 932 551 |
| 25. Employee related costs | | |
| Basic salary and wages | 237 750 941 | 217 967 767 |
| Bargaining council | 76 158 | 73 841 |
| Housing benefits and allowances | 1 345 315 | 1 129 334 |
| Leave pay provision charge | 4 650 014 | 9 594 396 |
| Long-service awards | 2 265 351 | 1 813 822 |
| Medical aid - company contributions | 21 186 349 | 18 558 136 |
| Overtime payments | 42 065 447 | 41 508 125 |
| Pension and provident fund contributions | 35 942 279 | 33 108 634 |
| Travel, motor car, accommodation, subsistence and other allowances | 24 662 575 | 22 905 895 |
| UIF | 1 219 377 | 1 240 005 |
| | 371 163 806 | 347 899 955 |
| Remuneration of Chief Executive Officer - Mr. AN Mgoqi | | |
| Annual remuneration | 2 044 716 | 2 046 767 |
| Travel, motor car, accommodation, subsistence and other allowances | 24 294 | 24 160 |
| Contributions to UIF, medical and pension funds | 65 701 | 65 696 |
| | 2 134 711 | 2 136 623 |
| Remuneration of Chief Financial Officer - Mr. MM Matsimela | | |
| Annual remuneration | 1 430 637 | 666 813 |
| Travel, motor car, accommodation, subsistence and other allowances | 99 566 | 49 200 |
| Contributions to UIF, medical and pension funds | 16 371 | 8 021 |
| Acting allowance | - | 1 752 |
| | 1 546 574 | 725 786 |

During the 2017 financial year the board decided to suspend the then Chief Financial Officer, Mr. TJ Ramulondi. Mr. MM Matsimela was appointed as the Acting Chief Financial Officer and was subsequently appointed as the permanent Chief Financial Officer during January 2019.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|--|------------------|----------------|
| 25. Employee related costs (continued) | | |
| Remuneration of Executive Manager: Compliance and Performance - Me. NA Leteno | | |
| Annual remuneration | 963 613 | 495 082 |
| Travel, motor car, accommodation, subsistence and other allowances | 254 400 | 87 200 |
| Contributions to UIF, medical and pension funds | 13 061 | 6 608 |
| Acting allowance | - | 83 192 |
| | 1 231 074 | 672 082 |

Me. PN Mboobo 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.

Remuneration of Company Secretary - Mr. T Malgas

| | | |
|--|------------------|----------------|
| Annual remuneration | 1 311 956 | 206 591 |
| Travel, motor car, accommodation, subsistence and other allowances | 143 121 | 2 400 |
| Contributions to UIF, medical and pension funds | 33 241 | 2 405 |
| | 1 488 318 | 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 | 1 002 613 | 531 082 |
| Travel, motor car, accommodation, subsistence and other allowances | 215 400 | 51 200 |
| Contributions to UIF, medical and pension funds | 13 139 | 6 680 |
| Acting allowance | - | 39 485 |
| | 1 231 152 | 628 447 |

Me. 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 | 1 297 263 | 617 170 |
| Travel, motor car, accommodation, subsistence and other allowances | 132 294 | 66 000 |
| Contributions to UIF, medical and pension funds | 15 319 | 7 657 |
| Acting allowance | - | 35 694 |
| | 1 444 876 | 726 521 |

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.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|--------------------|--------------------|
| 25. Employee related costs (continued) | | |
| Remuneration of Executive Manager: Human Resources - Me. S Molefe | | |
| Annual remuneration | 1 359 973 | 1 294 732 |
| Travel, motor car, accommodation, subsistence and other allowances | 197 251 | 194 400 |
| Contributions to UIF, medical and pension funds | 16 423 | 16 421 |
| | 1 573 647 | 1 505 553 |
| Remuneration of non-executive directors | | |
| Annual remuneration | 597 228 | 406 169 |
| Contributions to UIF, medical and pension funds | 11 300 | 7 801 |
| | 608 528 | 413 970 |
| Refer to note 42 for details of the remuneration per person. | | |
| 26. Depreciation and amortisation | | |
| Property, plant and equipment | 142 019 086 | 123 592 102 |
| Intangible assets | 8 211 692 | 11 454 127 |
| | 150 230 778 | 135 046 229 |
| 27. Impairment loss / (reversal of impairments) | | |
| Impairments | | |
| Property, plant and equipment | 4 629 715 | 5 497 |
| 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. | | |
| Inventories | 921 032 | 746 694 |
| An assessment of the net realisable value against cost was performed and inventory was written down. | | |
| | 5 550 747 | 752 191 |
| Reversal of impairments | | |
| Intangible assets - Servitudes | (8 836 197) | - |
| The recoverable amount of the servitudes was assessed at the end of the financial year by comparing the servitudes value against the updated municipal property valuation roll. The nett recoverable amount was found to be more than the carrying amount of the asset and an impairment reversal was raised. | | |
| Total impairment losses (recognised) reversed | (3 285 450) | 752 191 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|--------------------|--------------------|
| 28. Finance costs | | |
| Capital advances Mangaung Metropolitan Municipality | 7 625 761 | 8 109 467 |
| Finance leases | - | 4 354 |
| Interest on intercompany loan | 62 582 404 | 50 934 642 |
| Shareholders loan | 171 577 388 | 164 965 040 |
| Trade and other payables | 17 443 293 | 9 336 073 |
| | 259 228 846 | 233 349 576 |
| 29. (Reversal of) / Contributions to debt impairment provision | | |
| (Reversal of) / Contributions to debt impairment provision | 77 674 615 | (52 954 729) |
| 30. Bulk purchases | | |
| Electricity - Eskom | 1 692 794 873 | 1 519 656 103 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|--------------------|--------------------|
| 31. General expenses | | |
| Advertising & marketing | 738 350 | 1 913 679 |
| Auditors remuneration | 5 981 519 | 6 371 263 |
| Bank charges | 1 463 439 | 1 703 166 |
| Bursaries | 247 273 | 141 553 |
| Cleaning | 839 442 | 815 138 |
| Commission paid | 53 807 642 | 102 812 607 |
| Conferences and delegations | 284 852 | 258 257 |
| Consulting and professional fees | 22 856 704 | 13 974 299 |
| Contractors fees | 536 988 | 2 985 548 |
| Credit control fees | 15 186 | 166 003 |
| Entertainment | 120 527 | 173 807 |
| Fuel and oil | 7 642 862 | 7 987 521 |
| Fumigation | 2 659 860 | - |
| Insurance | 4 665 783 | 4 677 481 |
| Internal audit fee | 1 705 890 | 5 370 388 |
| Lease rentals on operating lease | 690 369 | 630 677 |
| Legal costs | 1 423 537 | 2 736 339 |
| Legal settlements | 10 000 | 610 000 |
| License fees | 439 906 | 3 174 891 |
| Meter reading | 5 447 444 | 7 760 951 |
| Other expenses | 101 982 | 148 406 |
| Postage and courier | - | 1 848 |
| Printing and stationery | 2 530 874 | 2 584 881 |
| Protective clothing | 1 461 269 | 1 295 224 |
| Rented office buildings utilities - Water | 179 133 | 108 883 |
| Repairs and maintenance | 47 655 151 | 63 793 166 |
| Security services | 869 960 | 5 483 762 |
| Skills development levy | 3 046 173 | 2 843 634 |
| Staff welfare | 11 704 | 1 199 |
| Stores and materials | 771 825 | 815 945 |
| Subscriptions and membership fees | 70 532 | 125 800 |
| Telephone and fax | 3 734 525 | 9 310 527 |
| Training | 2 724 342 | 1 218 985 |
| Travelling | 741 106 | 561 392 |
| Workman's compensation | 4 415 049 | 4 175 348 |
| | 179 891 198 | 256 732 568 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|--|---------------------|--------------------|
| 32. Taxation | | |
| Major components of the tax (income) expense | | |
| Current | | |
| Local income tax - current period | - | - |
| Deferred | | |
| Originating and reversing temporary differences | 725 696 113 | 101 344 306 |
| Assessed loss used | 396 476 621 | 305 957 436 |
| Assessed loss raised | (1 147 178 657) | (396 476 621) |
| | (25 005 923) | 10 825 121 |
| Reconciliation of the tax expense | | |
| Reconciliation between accounting surplus and tax expense. | | |
| Accounting (deficit) surplus | (77 779 009) | 45 858 673 |
| Tax at the applicable tax rate of 28% (2019: 28%) | (21 778 123) | 12 840 428 |
| Tax effect of adjustments on taxable income | | |
| Non-taxable income | (6 330 435) | (3 761 739) |
| Non-deductible expenses | 3 102 635 | 1 746 432 |
| | (25 005 923) | 10 825 121 |
| 33. Net cash flows from operating activities | | |
| (Deficit) surplus | (52 773 086) | 35 033 552 |
| Adjustments for: | | |
| Depreciation and amortisation | 150 230 778 | 135 046 229 |
| (Gain)/Loss on sale of assets and liabilities | 9 647 299 | 3 313 614 |
| Finance costs - Finance leases | - | 4 354 |
| Impairment | (3 285 450) | 752 191 |
| Debt impairment | 77 674 615 | (52 954 729) |
| Movements in long service awards | 717 000 | 470 000 |
| Annual charge for deferred tax | (25 005 923) | 10 825 121 |
| Changes in working capital: | | |
| Inventories | (21 329 142) | 14 099 711 |
| Other receivables from exchange transactions | (10 268 353) | (547 756) |
| Consumer receivables from exchange transactions | (177 380 834) | (129 448 528) |
| Payables from exchange transactions | 59 142 026 | 70 538 994 |
| VAT receivable / payable | 34 346 894 | 28 329 560 |
| Consumer deposits | 13 723 066 | 582 052 |
| | 55 438 890 | 116 044 365 |
| 34. Auditors' remuneration | | |
| Audit fees | 5 981 519 | 6 371 263 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|-------------------|-------------------|
| 35. Commitments | | |
| Authorised capital expenditure | | |
| Approved and contracted for | | |
| • Property, plant and equipment- infrastructure | 36 842 421 | 44 781 644 |
| Total capital commitments | | |
| Approved and contracted for | 36 842 421 | 44 781 644 |
| This expenditure will be financed from | | |
| • Government grants | - | 13 434 783 |
| • Own resources | 36 842 421 | 31 346 861 |
| | 36 842 421 | 44 781 644 |
| Authorised operational expenditure | | |
| Approved and contracted for | | |
| • Contracted services | 12 754 413 | 24 816 953 |
| Total operational commitments | | |
| Approved and contracted for | 12 754 413 | 24 816 953 |
| Total commitments | | |
| Total commitments | | |
| Authorised capital expenditure | 36 842 421 | 44 781 644 |
| Authorised operational expenditure | 12 754 413 | 24 816 953 |
| | 49 596 834 | 69 598 597 |

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

Operating leases - as lessee (expense)**Minimum lease payments due**

| | | |
|-------------------|---------|---------|
| - within one year | 759 406 | 690 369 |
|-------------------|---------|---------|

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%.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|--|-----------|-----------|
| 36. 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 | | |
| 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 |
| 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 |
| 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 |
| 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 | 1 120 771 |
| 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 | 30 000 |
| Litigations of Centlec (SOC) Ltd vs KM Moroole - Litigation relating to a summons for a motor vehicle accident. | 100 000 | 100 000 |
| Litigations of Centlec (SOC) Ltd vs Combrinck - Action instituted against Centlec and MMM due to improper disconnection. | 50 000 | 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 |
| Litigations of Centlec (SOC) Ltd vs Blueise Garments CC and Wilrand Trading CC - Litigation relating to Blueise Garments CC obtaining a Garnishee order against Centlec, for payment to be made by Centlec to Blueise in respect of the judgment obtained by Blueise 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 | 50 000 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|--|-------------------|-------------------|
| 36. Contingencies (continued) | | |
| 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 |
| Litigations of Centlec (SOC) Ltd vs Mankhele - Litigation relating to pension fund claim documentation submission to SALA. | 1 000 000 | - |
| Litigations of Centlec (SOC) Ltd vs C Strydom - Litigation relating to electrical tampering. | 130 000 | - |
| Litigations of Centlec (SOC) Ltd vs Bonakele Daniel - Litigation relating to damages to electrical appliances. | 60 000 | - |
| | 19 940 771 | 21 985 771 |

37. Change in estimate

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 residual values, estimated useful lives and depreciation method of all other movable assets, which led to a change in the depreciation for the current year and is expected to affect future periods as well.

The aggregate effect of the changes in accounting estimate on the financial statements for the year ended 30 June 2020 is as follows:

| | |
|---|-------------------|
| Depreciation expense before remaining useful lives review | 24 967 958 |
| Future reduction in depreciation due to review | (2 619 465) |
| Depreciation expense after remaining useful lives review | 22 348 493 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|-----------|--------------|
| 38. 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: | | |
| 38.1. Prior period error - Payables from exchange transactions: | | |
| During the period under review it was noted that an accrual for legal settlements as a payable from exchange transaction as at 30 June 2019 was incorrectly duplicated. One of these duplication accruals was also incorrectly accrued for against legal costs. A correction was made and the comparative statements for the 2018/19 financial year have been restated. The effect of the correction of the error(s) is summarised below: | | |
| Statement of financial position | | |
| Decrease in payables from exchange transactions - Operating expense accrual | | 610 000 |
| Statement of financial performance | | |
| Decrease in general expenditure | | (610 000) |
| 38.2. Prior period error - Inventories: | | |
| During the period under review it was noted that the 2017/18 financial year end stock adjustments were incorrectly allocated to the statement of financial position instead of the statement of financial performance. A correction was made and the comparative statements for the 2018/19 financial year have been restated. The effect of the correction of the error(s) is summarised below: | | |
| Statement of financial position | | |
| Increase in inventories | | 2 465 490 |
| Statement of financial performance | | |
| Increase in opening accumulated surplus or deficit | | (2 465 490) |
| 38.3. Prior period error - Value added tax: | | |
| During the period under review it was noted that there was an error relating to the accounting system generated VAT journal. The accounting system software was updated during June & July 2018 and part of the upgrade was to allow the system to enhance the accounting for VAT on the cash basis. Unfortunately an error occurred with the first few times the system generated journal was generated resulting in duplicate transactions in the general ledger. A correction was made and the comparative statements for the 2018/19 financial year have been restated. The effect of the correction of the error(s) is summarised below: | | |
| Statement of financial position | | |
| Decrease in VAT liability | | 2 761 719 |
| Decrease in inventories | | (2 761 719) |
| 38.4. Prior period error - Intangible assets | | |
| During the period under review it was noted that prior period fair value adjustments relating to servitudes was not accounted for accurately due to outdated property valuation roll information. A correction was made and the comparative statements for the 2018/19 financial year have been restated. The effect of the correction of the error(s) is summarised below: | | |
| Statement of financial position | | |
| Decrease in intangible assets - Servitudes | | (15 800 785) |
| Statement of financial performance | | |
| Decrease in opening accumulated surplus or deficit | | 15 800 785 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|-----------|--------------|
| 38. Prior period errors (continued) | | |
| 38.5. Prior period error - Other receivables from exchange transactions: | | |
| During the period under review it was noted that pre-paid vendor sales relating to the 2018/19 and prior financial years was not accounted for accurately. A correction was made and the comparative statements for the 2018/19 financial year have been restated. The effect of the correction of the error(s) is summarised below: | | |
| Statement of financial position | | |
| Increase in other receivables from exchange transactions - Vendors | | 1 011 084 |
| Statement of financial performance | | |
| Increase in service charges - Sale of pre-paid electricity | | (238 870) |
| Increase in opening accumulated surplus or deficit | | (772 214) |
| 38.6. Prior period error - Payables from exchange transactions: | | |
| During the period under review approval was obtained from the board of directors to write off vendors with credit balances. Upon inspection of the vendors with credit balances it was noted that the credit balances originated from prior period transactions and should have been written off in the prior period. A correction was made and the comparative statements for the 2018/19 financial year have been restated. The effect of the correction of the error(s) is summarised below: | | |
| Statement of financial position | | |
| Decrease in payables from exchange transactions | | 22 823 856 |
| Statement of financial performance | | |
| Increase in opening accumulated surplus or deficit | | (22 823 856) |
| 38.7. Prior period error - Impairment loss: | | |
| During the period under review it was noted that an impairment loss on property plant and equipment relating to the 2018/19 financial year was incorrectly classified as a loss on disposal of assets. A reclassification adjustment was made and the comparative statements for 2018/19 financial year have been restated. The effect of the restatement is summarised below: | | |
| Statement of financial performance | | |
| Increase in impairment loss | | 5 497 |
| Decrease in loss on disposal of assets and liabilities | | (5 497) |
| 38.8. Prior period error - Property, plant and equipment: | | |
| During the period under review it was noted that office equipment was incorrectly classified as part of motor vehicles during the 2018/19 financial year. A reclassification adjustment was made and the comparative statements for 2018/19 financial year have been restated. The effect of the restatement is summarised below: | | |
| Statement of financial position | | |
| Property, plant and equipment - Motor vehicles | | (2 177) |
| Property, plant and equipment - Office equipment | | 2 177 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|--|-----------|-----------|
|--|-----------|-----------|

38. Prior period errors (continued)

38.9. Prior period error - Taxation:

During the period under review restatements were made to the 2018/19 comparative figures resulting in a change to the deferred and income tax calculations. The calculation was adjusted and the comparative statements for 2018/19 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position

| | |
|------------------------------------|--------|
| Decrease in deferred tax liability | 79 240 |
|------------------------------------|--------|

Statement of financial performance

| | |
|----------------------|----------|
| Decrease in taxation | (79 240) |
|----------------------|----------|

38.10. Prior period error - Payables from exchange transactions:

During the period under review it was noted that expenditure relating to the 2018/19 and 2017/18 financial years was incorrectly recorded during the 2019/20 financial year. The comparative statements for 2018/19 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 | (872 942) |
| Decrease in VAT liability | 113 773 |

Statement of financial performance

| | |
|--|---------|
| Increase in general expenditure | 742 175 |
| Decrease in opening accumulated surplus or deficit | 16 994 |

39. 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.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 | 2019 |
|--|------|------|
| | R | R |

40. 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:

- Current assets (R 1 087 612 457) exceed current liabilities (R 819 582 577)
- Total assets (R 8 835 185 707) exceed total liabilities (R 3 965 123 338).
- The municipal entity has an accumulated surplus and other reserves of R 712 803 939.

Management has reviewed the municipal entity's cash flow forecast for the year to 30 June 2021. The municipal entity reported a trading deficit of R 52 773 086 mainly due to the negative impact arising out of the COVID-19 lockdown regulations which resulted in an abnormal increase in the debt impairment. Other contributing factors include the interest expense on the shareholder's - and intercompany loans.

The municipal entity and the parent municipality have continued with the resolution to defer the current liabilities related to the deemed sale of business agreement and the intercompany loans.

Discussions with the parent municipality to revise the entire sale of business agreement are still ongoing. Upon resolution of the new revised agreement it is expected to minimise the impact that the shareholder loan, capital redemption and interest charged on the intercompany related loans will have on the municipal entity's operations.

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 2020/21 financial year's first quarter payment records of the consumer debtors have shown a significant improvement.

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.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|--|---------------|-----------------|
| 41. 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, 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 | | |
| Mangaung Metropolitan Municipality - Advances | (67 700 656) | (74 397 665) |
| Mangaung Metropolitan Municipality - Shareholders loan | (803 609 368) | (1 071 479 158) |
| Mangaung Metropolitan Municipality - Intercompany loan balance | (850 541 759) | (507 497 129) |
| Mangaung Metropolitan Municipality - Consumer debtor balance * | 74 337 559 | - |
| Issued share capital | | |
| Mangaung Metropolitan Municipality | 100 | 100 |
| Percentage of shares owned by Mangaung Metropolitan Municipality | 100% | 100% |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|-------------------|------------------|
| 41. Related parties (continued) | | |
| Related party transactions | | |
| Interest accrued to (accrued from) related parties | | |
| Mangaung Metropolitan Municipality - Advances | 7 625 761 | 8 109 467 |
| Mangaung Metropolitan Municipality - Shareholder loan | 171 577 388 | 164 965 040 |
| Mangaung Metropolitan Municipality - Intercompany loan | 62 582 404 | 50 934 642 |
| Purchases from (sales to) related parties | | |
| Mangaung Metropolitan Municipality - Amounts received on behalf of Mangaung Metropolitan Municipality (SOC) Ltd | - | 30 054 |
| Mangaung Metropolitan Municipality - Amounts received on behalf of Centlec (SOC) Ltd | (764) | - |
| Mangaung Metropolitan Municipality - Electricity charges - Municipal consumption & training | (64 641 355) | (59 714 564) |
| Mangaung Metropolitan Municipality - Reimbursable expenses - DOE & USDG grants | (22 608 696) | (15 450 000) |
| Mangaung Metropolitan Municipality - Reimbursable expenses - Free basic services | (17 762 839) | (15 704 140) |
| Mangaung Metropolitan Municipality - Shareholder loan capital redemption | 267 869 789 | - |
| Mangaung Metropolitan Municipality - Streetlight consumption | (72 070 304) | (70 911 055) |
| Mangaung Metropolitan Municipality - Capital advance redemption | 6 697 009 | 6 697 009 |
| Transfers made to (received from) related parties | | |
| Mangaung Metropolitan Municipality - Cash transfers to Mangaung Metropolitan Municipality | 70 000 000 | 112 276 877 |
| 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. | | |
| * The parent municipality and municipal entity took the resolution that with effect from 1 July 2019 the Mangaung Metropolitan Municipality - Consumer debtor balance will not be set off against the intercompany loan accounts and will be disclosed separately. | | |
| Compensation to directors and other key management | | |
| Annual remuneration | 9 410 773 | 5 858 238 |
| Travel, motor car, accommodation, subsistence and other allowances | 1 066 326 | 474 560 |
| Contributions to UIF, medical and pension funds | 184 557 | 121 287 |
| Acting allowance | - | 160 122 |
| Directors fee | 597 228 | 406 169 |
| | 11 258 884 | 7 020 376 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|--|-----------|-----------|
|--|-----------|-----------|

42. Directors' emoluments**Non-executive****2020**

| | Directors' fees | Company contribution - UIF | Company contribution - SDL | Total |
|-----------------------------------|-----------------|----------------------------|----------------------------|----------------|
| Mr. N Mokhesi (Chairperson) | 242 892 | 1 785 | 2 429 | 247 106 |
| Me. DC Myeni (Deputy Chairperson) | 161 928 | 1 619 | 1 619 | 165 166 |
| Mr. KM Moroka | 96 204 | 962 | 962 | 98 128 |
| Mr. CAK Choeu | 96 204 | 962 | 962 | 98 128 |
| | 597 228 | 5 328 | 5 972 | 608 528 |

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 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|--|-------------------|
| 43. Fruitless and wasteful expenditure | | |
| Opening balance | 10 133 000 | 1 333 647 |
| Expenditure incidents identified during the financial year | 23 233 086 | 8 799 353 |
| Closing balance | 33 366 086 | 10 133 000 |
| Expenditure identified in the current year include those listed below: | | |
| Incident | Disciplinary steps taken/criminal proceedings | |
| Interest incurred on late payment of ESKOM, TELKOM and AGSA accounts | The interest was incurred due to the cash flow challenges the entity was facing at the time. No official of the entity is liable and expense has been submitted to council for consideration of write off. | 17 443 293 |
| Additional costs relating to Elite distribution centre | The expenditure was incurred due to additional payments made to the service provider responsible for the construction of the Elite distribution centre. These additional costs relate to the reimbursement of the service provider for costs incurred due to unforeseen deviations from the original agreed upon construction plans. No official of the entity is liable and the expense has been submitted to council for consideration of write off. | 5 789 793 |
| | | 23 233 086 |
| Analysis of fruitless and wasteful expenditure to be considered for write off by council are as follows: | | |
| Relating to prior years | | 10 133 000 |
| Current year | | 23 233 086 |
| | | 33 366 086 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|---|--------------------|
| 44. Irregular expenditure | | |
| Opening balance | 188 805 229 | 176 320 491 |
| Expenditure incidents identified during the financial year | 311 230 313 | 12 484 738 |
| Closing balance | 500 035 542 | 188 805 229 |
| Incidents/cases identified in the current year include those listed below: | | |
| Incident | Disciplinary steps taken/criminal proceedings | |
| Procurement 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 extent 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. | 1 389 259 |
| Non-compliance to Municipal Financial Management Act section 87(8) due to overspending of budget. | Overspending on items such as employee related costs, bulk purchases, finance costs and general expenses occurred during the financial year. No disciplinary steps were taken as the overspending is mainly attributed to - actual figures at year end including provision amounts such as leave-, bonus- and long service provisions which could not be budgeted for accurately due to their unpredictable nature. - an increase in un-anticipated factors such as overtime and acting allowances which could not be budgeted for - severe expenditure budget cuts during the adjustment budget resulting in under budgeting on bulk purchases and several general expenditure line items. The expenditure has been submitted to council for consideration of being written off. | 309 841 054 |
| Total 2019/20 irregular expenditure. | | 311 230 313 |
| Analysis of expenditure to be considered for write off by council per age classification | | |
| Current year | 311 230 313 | 12 484 738 |
| Prior years | 188 805 229 | 176 320 491 |
| | 500 035 542 | 188 805 229 |
| 45. Additional disclosure in terms of Municipal Finance Management Act | | |
| Audit fees | | |
| Opening balance | 139 994 | 391 933 |
| Current year fee | 5 841 525 | 6 119 325 |
| Amount paid - current year | (5 841 525) | (5 979 331) |
| Amount paid - previous years | (139 994) | (391 933) |
| | - | 139 994 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 | 2019 |
|--|------|------|
| | R | R |

45. Additional disclosure in terms of Municipal Finance Management Act (continued)**Distribution losses**

In the current year the energy losses were 8.04% (2019: 8.67%). These losses are the result off theft, vandalism, faulty meters and variances in monthly consumption estimates. Management has determined that these losses are not recoverable.

| | | |
|-------------|-------------|-------------|
| kWh - units | 127 757 457 | 144 172 798 |
| Rand value | 138 776 833 | 138 097 200 |
| Percentage | 8,04% | 8,67% |

For the 2019/20 financial year the distribution losses amount to 8.04% (2019: 8.67%). 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 42 585 819 kWh - units (2019: 48 057 599 kWh - units) with a Rand value of R 46 258 944 (2019: R 46 032 400).

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 85 171 638 kWh - units (2019: 96 115 199 kWh - units) with a Rand value of R 92 517 889 (2019: R 92 064 800).

PAYE, UIF and SDL

| | | |
|---------------------------------------|------------------|------------------|
| Opening balance | 5 257 904 | 4 482 751 |
| Payable for the current year | 68 250 892 | 62 115 153 |
| Amount paid - current year | (67 199 983) | (56 857 249) |
| Amount paid/refunded - previous years | (5 257 904) | (4 482 751) |
| | 1 050 909 | 5 257 904 |

Pension and Medical Aid Deductions

| | | |
|---------------------------------------|---------------|-----------------|
| Opening balance | (31 947) | (75 347) |
| Payable for the current year | 89 416 920 | 80 738 757 |
| Amount paid - current year | (89 351 819) | (80 695 357) |
| Amount paid/refunded - previous years | 31 947 | - |
| | 65 101 | (31 947) |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 | 2019 |
|--|------|------|
| | R | R |

45. 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 2020 | Rand value 2020 | Number of deviations 2019 | Rand value 2019 |
|---------------|------------------------------|------------------|------------------------------|------------------|
| Sole supplier | 5 | 697 155 | 6 | 1 722 475 |
| Urgent | - | - | 21 | 177 422 |
| Other | 12 | 318 043 | 9 | 777 496 |
| | 17 | 1 015 198 | 36 | 2 677 393 |

VAT

| | | |
|-------------|-------------|-------------|
| VAT payable | 135 341 840 | 100 994 946 |
|-------------|-------------|-------------|

All VAT returns have been submitted by the due date throughout the year.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

| | 2020 | 2019 |
|--|------|------|
| | R | R |

45. 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 2020:

| Councillor | July 2019 | August 2019 | September 2019 | October 2019 |
|-----------------------|---------------|---------------|----------------|---------------|
| MB Monanyane | 66 222 | 65 015 | 65 309 | 64 098 |
| E Snyman van Deventer | 454 | 454 | 454 | 454 |
| CSK Sechoaro | 3 826 | 3 826 | 3 826 | 3 826 |
| | 70 502 | 69 295 | 69 589 | 68 378 |
| Councillor | November 2019 | December 2019 | January 2020 | February 2020 |
| MB Monanyane | 62 881 | 63 165 | 63 449 | 63 726 |
| E Snyman van Deventer | 454 | 454 | 454 | 454 |
| CSK Sechoaro | 3 826 | 3 826 | 3 826 | 3 826 |
| | 67 161 | 67 445 | 67 729 | 68 006 |
| Councillor | March 2020 | April 2020 | May 2020 | June 2020 |
| MB Monanyane | 64 003 | 64 254 | 64 480 | 64 693 |
| E Snyman van Deventer | 454 | 454 | 454 | 454 |
| CSK Sechoaro | 3 826 | 3 826 | 3 826 | 3 826 |
| | 68 283 | 68 534 | 68 760 | 68 973 |

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

Figures in Rand

46. Risk management

Financial risk management

This note presents information about the municipal entity's exposure to each of the financial risks below and the municipal entity's objectives, policies and procedures for measuring and managing financial risks. Further quantitative disclosures are included in the 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 with the exception of where the municipal entity experienced challenges arising from the COVID-19 lockdown.

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.

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.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

Figures in Rand

46. Risk management (continued)**2020**

| | Less than 1 year | Between 1 and 2 years |
|-------------------------------------|--------------------|-----------------------|
| Consumer deposits | 128 776 174 | - |
| Other financial liabilities | 6 697 009 | 857 196 468 |
| Payables from exchange transactions | 545 496 554 | - |
| | 680 969 737 | 857 196 468 |

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 | 6 697 009 |
| Payables from exchange transactions | 486 354 528 | - |
| | 875 974 434 | 6 697 009 |

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: During the financial year under review there has been an abnormal increase in the provision for debt impairment. This is attributed to the impact of the lockdown regulations as a result of COVID-19. A number of consumer debtors were unable to settle their accounts on time during the COVID-19 lockdown period resulting in their accounts falling within the impairment methodology parameters. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the 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 | 2020 | 2019 |
|---|-------------|-------------|
| Cash and cash equivalents | 32 393 432 | 13 555 909 |
| Consumer receivables from exchange transactions | 868 551 495 | 768 845 276 |
| Other financial assets | 1 124 411 | 4 190 063 |
| Other receivables from exchange transactions | 78 616 013 | 68 347 660 |

These balances represent the maximum exposure to credit risk.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

Figures in Rand

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

Fair values

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

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

Cash and cash equivalents

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

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

Figures in Rand

46. 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.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

Figures in Rand

47. 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 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 2019 to 30 June 2020.

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 mainly attributed to the impact of the lock down during which the KWH units sold dropped sales dropped as compared to the prior year. The KWH units sold for 2019/20 were 1 462 049 490 units as compared to 1 510 191 674 units sold in the 2018/19 financial year. Other factors include 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 partly due to the reduced level of engagement on the Southern Free State municipalities activities during the COVID-19 lock down period.
3. Other Income - The variance is mainly due to the revision of the number of street lights and streetlight luminaire that are used as a basis to calculate the street light consumption revenue following the 2019/20 assets verification.
4. Interest income received - During the budget preparation process there was an expectation that there was going to be a strict implementation of the credit control processes, thus there was likely to be a drop in the interest on the consumer receivables. However due to the impact of the COVID-19 lock down, the credit control processes were not effectively implemented and a number of customers accounts that were in arrears accumulated interest as there were no or slow payments during the lock down period.
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 as the timing and amount of the handover is uncertain and not under the municipal entities' control.
7. Personnel related costs - The variance can be attributed to un-anticipated acting allowances that were paid during the year as posts became vacant. Other factors include overtime, provisions and allowances which are variable in nature.
8. Depreciation and amortisation - The variance is mainly due to the underestimation of the depreciation and amortisation values which are influenced by condition assessment of individual assets at year end.
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 due to interest on the shareholder's loan and intercompany loan with Mangaung Metropolitan Municipality which was not budgeted for as it was assumed during the budget process that the sale of the business agreement was to be revised. Other factors include the interest charged by ESKOM due to the late settlement of bulk purchases bill due to the impact of COVID-19 lock down
11. Debt impairment - The budget was prepared based on the prior debt impairment reversal and prior to the COVID-19 lockdown. As a result of the COVID-19 lock down, many of the customers were unable to pay their accounts in time. This resulted in an increase in the long outstanding debt which in turn resulted in a larger debt impairment provision than budgeted for.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

Figures in Rand

47. Budget differences (continued)

12. Bulk purchases - The variance is attributed to an under provision for the bulk purchases budget during the adjustment budget process.

13. General Expenses - The variance is attributed to under provision on some of the individual line items in the general expenses category.

14. Loss on disposal of assets and liabilities - As a result of the asset verification and revaluation process undertaken during the year, more assets were identified as due for disposal than initially anticipated during the budget preparation

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 - A large volume of high value items were received towards the end of the year resulting in a larger actual balance for inventory than initially budgeted for. Furthermore, the operations of the municipal entity was also impacted by the COVID-19 lockdown resulting in a slower turnover time for inventory items.

2. Other receivables from exchange transactions - The unpredictable nature of the various line items that make up the total balance makes it impossible to prepare a reasonable budget.

3. Consumer debtors - The variance is mainly attributed to the effect of the COVID-19 lockdown when the credit control measures could not be implemented. A number of customers' accounts went into arrears during this period.

4. Cash and cash equivalents - The variance is mainly attributed to the fact that there was a proposal to revise the sale of the business agreement between the municipal entity and the parent municipality (MMM). This would have resulted in better cash flow for the municipal entity linked to the shareholder's loan and the intercompany loan. As this revision did not materialize the cash reserves budget for, were not realized.

Non-Current Assets

1. Property, plant and equipment - The variance is mainly attributed to the revaluation of infrastructure assets resulting in a large increase in the asset value. The actual revaluation amount was larger than initially budgeted for.

2. Intangible assets - The variance is mainly due to the lower than anticipated amortization value in the current year compared to the prior year. There was also an increase in the assessed values of the land on which the servitudes are held that was only confirmed during the current year assets verification and revaluation process.

3. Deferred Tax - The variance is mainly attributed to the larger than anticipated taxable loss resulting in a large temporary tax difference.

Current Liabilities

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

1. Payables from exchange transactions - The variance is within acceptable levels.

2. Consumer deposits - The municipal entity's budgets assumption were that customers on rotational meters were to be converted to prepaid meters which could have resulted in a reduction in the consumer deposit. This assumption was affected by the COVID-19 lockdown.

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

Figures in Rand

47. Budget differences (continued)

Non-Current Liabilities

1. Loans from shareholders - The budget was prepared on the basis that the sale of business agreement was to be replaced with a new settlement agreement, thus no budget was made for the loan balance.
2. Other financial liabilities - The budget was prepared on the basis that the sale of business agreement was to be replaced with a new settlement agreement, thus no budget was made for the loan balance.
3. Deferred tax - The variance is mainly attributed to a larger than anticipated asset revaluation resulting in a large temporary tax difference.
4. Long service awards - The variance is attributed to the drop in the number of staff that qualify for the long service award in the current year from 664 to 648 employees. Other factors include the variance in the key assumptions used in determining the long service award such as the discount rates and the CPI.

Share Capital

1. Share capital - At the time the budget was finalised it was assumed that the sale of business agreement was to be revised and the debt converted to equity. This did not materialise and the confirmation only came after year end.
2. Revaluation reserve - The variance is mainly attributed to the revaluation of infrastructure assets resulting in a large increase in the asset value. The actual revaluation amount was larger than initially budgeted for.

48. Inter-departmental consumption

| | 2020 | 2019 |
|--------------------------------|-----------|-----------|
| Inter-departmental consumption | 2 689 278 | 1 045 009 |

The inter-departmental consumption is based on units consumed as per the meter records.

49. 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 72 575 576 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:

Centlec (SOC) Ltd

(Registration number 2003/011612/30)

Financial Statements for the year ended 30 June 2020

Notes to the Financial Statements

Figures in Rand

49. Non-compliance with Municipal Finance Management Act and other Legislation (continued)

- 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 2020

| 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 |
|-------------------------------------|--|--------------------|---|---|------------|-----------------------|------------|-----------|---|--|
| | | | | | | | | | | |
| Urban Settlements Development Grant | National Government | - | - | - | 22 608 696 | 4 416 203 | 10 740 833 | 7 451 660 | - | Yes |
| | | - | - | - | 22 608 696 | 4 416 203 | 10 740 833 | 7 451 660 | - | |

The purpose of the urban settlements development grant is to upgrade informal settlements, either by creating formal housing or by upgrading services to informal settlements.

