



Centlec (Pty) Ltd  
Annual Financial Statements  
for the year ended 30 June 2011

# **Centlec (Pty) Ltd**

Annual Financial Statements for the year ended 30 June 2011

## **General Information**

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<b>Legal form of entity</b>	Private company
<b>Nature of business and principal activities</b>	Electricity distribution
<b>Chief Executive Officer (CEO)</b>	IJ Poolo
<b>Chief Finance Officer (CFO)</b>	M Matsimela (Acting)
<b>Directors</b>	SJ Cronje L de Jager P Helepi KM Moroka
<b>Registered office</b>	Fort Street Oranjesig Bloemfontein 9324
<b>Business address</b>	30 Rhodes Avenue Bloemfontein 9324
<b>Postal address</b>	Private Bag X14 Brandhof Bloemfontein 9324
<b>Municipal entity</b>	Municipal entity incorporated in Mangaung Local Municipality
<b>Auditors</b>	Auditor General of South Africa
<b>Secretary</b>	LR Bomela
<b>Company registration number</b>	2003/011612/07

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

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

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## Abbreviations

DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MFMA	Municipal Finance Management Act

# Centlec (Pty) Ltd

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## Director's Responsibilities and Approval

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The directors are required by the Municipal Finance Management Act (Act 56 of 2003) and Companies Act (Act 71 of 2008), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the annual financial statements fairly present the state of affairs of the municipal entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

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

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

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

The directors have reviewed the municipal entity's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, they are satisfied that the municipal entity has access to adequate resources to continue in operational existence for the foreseeable future.

The municipal entity is dependent on the Mangaung Local Municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipal entity is a going concern and that the Mangaung Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipal entity.

The annual financial statements set out on pages 6 to 48, which have been prepared on the going concern basis, were approved by the board on 31 August 2011 and were signed on its behalf by:



P Helepi  
Director



**Report of the Auditor General**

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**Auditor General of South Africa**

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Director's Report

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The directors submit their report for the year ended 30 June 2011.

### 1. Review of activities

#### Main business and operations

The municipal entity is engaged in electricity distribution to industries, businesses and households

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

Net deficit of the municipal entity was R 112,895,450 (2010: surplus R 16,541,735).

The resulting net deficit for the year is largely due to the revised depreciation charge determined on the basis of revalued property plant and equipment. The entity has revalued the property plant and equipment during the 2010 financial year resulting in a increase of R2 020 5678 843 included in accumulated surplus.

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

### 2. Going concern

The annual 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.

### 3. Subsequent events

The director's are not aware of any matter or circumstance arising since the end of the financial year.

### 4. Share capital

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

### 5. Municipal entity

The municipal entity is wholly owned by Mangaung Local Municipality.

### 6. Auditors

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

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Statement of Financial Position

	Note(s)	2011 R	2010 R
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	8	33,867,874	44,301,665
Other financial assets	6	424,818,222	313,968,797
Trade and other receivables from exchange transactions	9	24,114,772	3,077,627
VAT receivable	10	21,408,869	19,162,271
Consumer debtors	11	142,525,160	173,492,390
Cash and cash equivalents	12	14,790,004	216,358
		<b>661,524,901</b>	<b>554,219,108</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	4	2,671,445,846	2,778,274,884
Intangible assets	5	705,551	-
Other financial assets	6	4,090,615	4,579,416
		<b>2,676,242,012</b>	<b>2,782,854,300</b>
<b>Total Assets</b>		<b>3,337,766,913</b>	<b>3,337,073,408</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Other current financial liabilities	13	13,689,962	13,838,035
Finance lease obligation	14	111,000	186,446
Trade and other payables from exchange transactions	16	284,718,833	184,767,349
Consumer deposits	17	46,331,130	38,368,918
Conditional grants and receipts	15	1,327,382	1,040,792
		<b>346,178,307</b>	<b>238,201,540</b>
<b>Non-Current Liabilities</b>			
Loans from shareholders	45	676,453,638	657,303,375
Other current financial liabilities	13	136,089,716	149,779,678
Finance lease obligation	14	231,611	79,728
		<b>812,774,965</b>	<b>807,162,781</b>
<b>Total Liabilities</b>		<b>1,158,953,272</b>	<b>1,045,364,321</b>
<b>Net Assets</b>		<b>2,178,813,641</b>	<b>2,291,709,087</b>
<b>Net Assets</b>			
Share capital		100	100
Reserves			
Revaluation reserve		2,016,819,307	2,016,819,307
Accumulated surplus		161,994,234	274,889,680
<b>Total Net Assets</b>		<b>2,178,813,641</b>	<b>2,291,709,087</b>

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Statement of Financial Performance

	Notes	2011 R	2010 R
<b>Revenue from exchange transactions</b>			
Sale of electricity		963,135,868	771,929,580
Sale of Prepaid electricity		222,285,673	180,089,183
Maintenance on street lights		6,125,000	6,987,366
Free services recovered		10,001,535	33,215,925
		<u>1,201,548,076</u>	<u>992,222,054</u>
<b>Revenue from non-exchange transactions</b>			
Government grants & subsidies	19	15,502,883	6,079,798
		<u>15,502,883</u>	<u>6,079,798</u>
<b>Other Income</b>			
Administration and management fees received		9,208,595	7,930,867
Fees earned		1,991,554	2,858,252
Network upgrade		11,706,337	12,267,290
Sale of redundant material		253,961	53,060
Interest received - investment	23	20,861,289	19,304,716
<b>Total income</b>		<u>1,261,072,695</u>	<u>1,040,716,037</u>
<b>Expenditure</b>			
Employee related costs	22	(1,588,697)	(3,969,480)
Administration and management fees		(103,801,220)	(95,611,745)
Transfer payments		182,163	610,993
Depreciation and amortisation	24	(144,449,696)	(42,473,782)
Impairment loss	25	(1,073,762)	-
Finance costs	26	(165,732,853)	(131,854,264)
Debt impairment	46	(82,482,760)	(10,525,297)
Collection costs		(451,250)	(529,710)
Repairs and maintenance		(22,350,420)	(32,126,721)
Bulk purchases	27	(758,698,272)	(592,477,353)
Cost of maintenance on street lights		(13,807,224)	(3,783,668)
Services rendered by Mangaung Metro Municipality		(9,519,379)	(8,769,308)
General expenses	20	(70,194,775)	(102,663,967)
<b>Total Expenditure</b>		<u>(1,373,968,145)</u>	<u>(1,024,174,302)</u>
Taxation	47	-	-
<b>(Deficit) surplus for the year</b>	21	<u>(112,895,450)</u>	<u>16,541,735</u>

## Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

### Statement of Changes in Net Assets

	Share capital	Revaluation reserve	Accumulated surplus	Total net assets
	R	R	R	R
Opening balance as previously reported	100	2,016,731,380	258,071,380	2,274,802,860
Adjustments				
Prior year adjustments	-	-	276,565	276,565
<b>Balance at 01 July 2009 as restated</b>	<b>100</b>	<b>2,016,731,380</b>	<b>258,347,945</b>	<b>2,275,079,425</b>
Changes in net assets				
Prior period adjustment	-	87,927	-	87,927
Net income (losses) recognised directly in net assets	-	87,927	-	87,927
Surplus/(Deficit) for the year	-	-	16,541,735	16,541,735
Total recognised income and expenses for the year	-	87,927	16,541,735	16,629,662
Total changes	-	87,927	16,541,735	16,629,662
Opening balance as previously reported	100	2,020,655,770	271,623,222	2,292,279,092
Adjustments				
Prior year adjustments	-	(3,836,463)	3,266,462	(570,001)
<b>Balance at 01 July 2010 as restated</b>	<b>100</b>	<b>2,016,819,307</b>	<b>274,889,684</b>	<b>2,291,709,091</b>
Changes in net assets				
Deficit for the year	-	-	(112,895,450)	(112,895,450)
Total changes	-	-	(112,895,450)	(112,895,450)
<b>Balance at 30 June 2011</b>	<b>100</b>	<b>2,016,819,307</b>	<b>161,994,234</b>	<b>2,178,813,641</b>

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Cash flow statement

	Note	2011 R	2010 R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		1,149,977,850	938,025,054
Interest income received		20,861,289	19,304,716
		<u>1,170,839,139</u>	<u>957,329,770</u>
<b>Payments</b>			
Cash paid to suppliers and employees		(847,289,168)	(715,022,127)
Finance costs		(165,678,157)	(131,819,941)
		<u>(1,012,967,325)</u>	<u>(846,842,068)</u>
<b>Net cash flows from operating activities</b>	<b>28</b>	<u><b>157,871,814</b></u>	<u><b>110,487,702</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(40,276,908)	(98,726,762)
Proceeds from sale of property, plant and equipment	4	2,656,250	4,333
Purchase of other intangible assets	5	(705,551)	-
Advances / repayments of loan amounts		(110,360,624)	(123,165,061)
Proceeds from sale of financial assets		-	-
		<u>(148,686,833)</u>	<u>(221,887,490)</u>
<b>Net cash flows from investing activities</b>		<u><b>(148,686,833)</b></u>	<u><b>(221,887,490)</b></u>
<b>Cash flows from financing activities</b>			
Repayment of other current financial liabilities		(13,838,035)	47,749,715
Repayment of shareholders loan		19,150,263	17,403,624
Finance lease payments		76,437	(110,453)
		<u>5,388,665</u>	<u>65,042,886</u>
<b>Net cash flows from financing activities</b>		<u><b>5,388,665</b></u>	<u><b>65,042,886</b></u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u><b>14,573,646</b></u>	<u><b>(46,356,902)</b></u>
Cash and cash equivalents at the beginning of the year		216,358	46,573,260
<b>Cash and cash equivalents at the end of the year</b>	<b>12</b>	<u><b>14,790,004</b></u>	<u><b>216,358</b></u>

# **Centlec (Pty) Ltd**

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Policies**

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### **1. Presentation of annual financial statements**

Centlec (Pty) Ltd ("the municipal entity") is a municipal entity wholly owned by Mangaung local municipality, a local government institution in Bloemfontein in the Free State.

### **2. Presentation of annual financial statements**

#### **2.1 Statement of compliance**

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

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand. All financial information has been rounded to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied, are described below. These accounting policies are consistent with the previous year's financial statements, unless explicitly stated otherwise.

#### **2.2 Going concern assumption**

The annual financial statements have been prepared the assumption that the entity will continue to operate as a going concern for the next 12 months.

#### **2.3 Property, plant and equipment**

##### **Initial recognition and measurement**

Items of property, plant and equipment are initially measured at cost on acquisition date.

The cost of an item of property plant and equipment is recognised as an asset when it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. The cost, if any, also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use.

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

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

##### **Subsequent cost**

##### **Cost model**

Motor vehicles and office equipment are measured at cost less accumulated depreciation and accumulated impairment losses

##### **Revaluation model**

Land, buildings and Plant and machinery are measured at revalued amounts, being the fair value at the date of revaluation less any accumulated depreciation and accumulated impairment losses. The costs of the day-to-day servicing of property, plant and equipment are recognised in surplus or deficit as incurred.

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

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 2.3 Property, plant and equipment (continued)

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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

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

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits or service potential associated with the item will flow to the municipal entity and the cost or fair value of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

#### Depreciation

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

Depreciation commences when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with GRAP 100 *Non-current assets held for sale and discontinued operations*. A non-current asset or disposal group is not depreciated while it is classified as held for sale.

Depreciation is recognised in surplus or deficit on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Land is not depreciated.

The useful lives for the current and previous financial year are as follows:

Item	Estimated useful life
Land and buildings	
Y Land	Indefinite
Y Buildings	40 years
Plant and machinery	
Y Plant transmissions and distribution network	5 - 60 Years
Y Machinery	5 Years
IT equipment	3 Years
Other assets	
Y Furniture and fittings	5 - 15 Years
Y Motor vehicles	4 - 10 Years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

#### Derecognition

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits or service potential is expected from its continued use or disposal.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other revenue in surplus or deficit.

### 2.4 Intangible assets

Development activities involve a plan or design for the production of new or substantially improved products and processes. An intangible asset arising from development is recognised when:

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

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 2.4 Intangible assets (continued)

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

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

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

#### Subsequent expenditure

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

#### Amortisation

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

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

Item	Useful life
Computer software	3 Years

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

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

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

### 2.5 Financial Instruments

#### Classification

The municipal entity classifies financial instruments, or their component parts, on initial recognition as financial assets, a financial liabilities or equity instruments in accordance with the substance of the contractual arrangement.

- Y Loans and receivables
- Y Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

#### *Non-derivative financial assets*

The municipal entity initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through surplus or deficit) are recognised initially on the trade date at which the municipal entity becomes a party to the contractual provisions of the instrument.

The municipal entity derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the municipal entity is recognised as a separate asset or liability.

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 2.5 Financial instruments (continued)

The municipal entity has the following classes and categories of financial assets as reflected in the notes thereto:

Class of financial asset	IAS 39 category
Other receivables	Loans and receivables
Cash & cash equivalent	Loans and receivables
Trade and other payables from exchange transactions	Loans and receivables
Other payables	Loans and receivables
Loans from shareholders	Loans and receivables
Other financial liabilities	Loans and receivables
Other financial assets	Loans and receivables
Trade and other payables from exchange transactions (consumer debtors)	Loans and receivables

#### Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less an allowance for impairment losses.

#### Non-derivative financial liabilities

The municipal entity initially recognises financial liabilities, including liabilities designated at fair value through surplus or deficit, on the trade date at which the municipal entity becomes a party to the contractual provisions of the instrument.

The municipal entity derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

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

- Loans and borrowings
- Trade and other payables from exchange transactions
- Short-term loans
- Current portion of loans and borrowings
- Consumer deposits

The above financial liabilities form part of the "other financial liabilities carried at amortised cost" category per IAS 39 and are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Consumer deposits are subsequently recorded in accordance with the accounting policy of trade and other payables. The interest rate specific to consumer deposits are 4% per annum.

#### Derivative financial instruments

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 2.5 Financial instruments (continued)

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are measured at amortised cost, using the effective interest rate method.

### 2.6 Inventories

#### Cost

The cost of inventories comprises all costs of purchase and other cost incurred in bringing the inventory to its present location and condition. Where inventories are acquired at no cost, or for nominal consideration, the cost is deemed to be the fair value as at the date of acquisition. Cost is generally determined using the first-in-first-out principle except where stated otherwise.

#### Subsequent measurement

Consumable stores and raw materials are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 2.7 Impairment

#### Financial assets

A financial asset, not carried at fair value through profit or loss, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the municipal entity on terms that the municipal entity would not consider otherwise and indications that a debtor or issuer will enter bankruptcy.

The municipal entity considers evidence of impairment at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. A report on the various categories of customers is drafted to substantiate the impairment evaluation. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the municipal entity uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in surplus or deficit and reflected in an allowance account against receivables. If impaired financial assets are written off, the write off is made against the allowance account. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through surplus or deficit, subject to the restriction that the carrying amount of the financial instrument shall not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses are not subsequently reversed for equity instruments which are carried at cost because fair value was not determinable.

#### Impairment of Non-financial assets

##### Cash generating assets

Cash-generating assets are those assets held by the municipal entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 2.7 Impairment (continued)

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

The carrying amounts of the municipal entity's cash generating assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in surplus or deficit.

In the event where a revaluation was done, the impairment losses are recognised against the revaluation reserve to the extent that it relates to a revalued item of property, plant or equipment.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of its recoverable amount and the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

In the event where a revaluation was done, any reversal of an impairment loss of a revalued item of property, plant or equipment is treated as a revaluation increase.

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

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

The carrying amounts of the municipal entity's non-cash generating assets are reviewed at each reporting date to determine whether there is any indication of impairment. A non-cash-generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. The recoverable service amount is the greater of an asset's fair value less costs to sell and its value in use.

The value in use of a non-cash-generating asset is the present value of the non-cash-generating asset's remaining service potential.

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

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

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable service amount. Impairment losses are recognised in surplus or deficit.

In the event where a revaluation was done, the impairment losses are recognised against the revaluation reserve to the extent that it relates to a revalued item of property, plant or equipment.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable service amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

In the event where a revaluation was done, any reversal of an impairment loss of a revalued item of property, plant or equipment is treated as a revaluation increase.

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 2.8 Revenue

Revenue from exchange transactions includes revenue from trading activities and other services provided while revenue from non-exchange transactions includes rates levied, fines, donations and grants from other spheres of government.

#### Revenue from exchange transactions

Revenue is generally recognised when it is probable that future economic benefits or service potential will flow to the municipal entity and these benefits or service potential can be measured reliably, except when specifically stated otherwise. Revenue from the rendering of services is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting date.

Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, estimated returns, rebates and discounts.

#### Services

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

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

#### Service charges

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

#### Pre-paid electricity

Revenue from the sale of electricity pre-paid meter cards is recognised based on consumption, except where a reliable estimate cannot be made after every reasonable effort to gather the appropriate information had been made. In these instances revenue is recognised at the point-of-sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership are transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, there is no continuing managerial involvement with the goods, and the amount of revenue can be measured reliably.

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### Revenue from non-exchange transactions

#### Conditional grants and receipts

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

#### Recognition

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

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

#### Measurement

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

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

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

## 2.9 Provisions

A provision is recognised if, as a result of a past event, the municipal entity has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

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

#### Reimbursements

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

## 2.10 Employee benefits

### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past service or performance and the obligation can be estimated reliably.

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 2.10 Employee benefits (continued)

#### Defined contribution plans

Payments to defined contribution retirement benefits are charged as an expense as they fall due.

Payments made to industry- managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipal entity's obligation under the scheme is equivalent to those arising in a defined contribution retirement benefit plan.

### 2.11 Leases

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

#### Finance leases - municipal entity as lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

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

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

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

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

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. The classification of the lease is determined using the standard of GRAP on leases.

#### Operating leases - municipal entity as lessee

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

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

### 2.12 Borrowing costs

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for the intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings
  - Weighted average of the borrowing costs applicable to the group on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred
- The capitalisation of borrowing costs commences when all the following conditions have been met:
- Expenditures for the asset have been incurred
  - borrowing costs have been incurred; and
  - activities that are necessary to prepare the asset for its intended use or sale are undertaken

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 2.13 Tax

#### Value added tax (VAT)

The municipal entity accounts for VAT on the cash basis. The municipal entity is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipal entity accounts for VAT on a monthly basis.

### 2.14 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipal entity or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 2.15 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000) and the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the municipal entity's supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 2.16 Fruitless and wasteful expenditure

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

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 2.17 Comparative figures

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

### 2.18 Accounting estimates and judgements

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

#### Trade receivables and loans and receivables

The municipal entity assesses its trade receivables, held to maturity investments and loans and receivables for impairment. The impairment of the municipal entity's trade and other receivables is based on incurred losses in accordance with the requirements of IAS 39. The historical loss experience of the municipal entity, based on observable data through the passage of time, is used to estimate the impairment of trade and other receivables. Any changes in the payment status of customers in a specific group or national or local economic conditions that correlate with defaults on the assets in the group will have an impact on the impairment of trade and other receivables.

#### Provisions

Provisions were raised and management determined an estimate based on the information available.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

#### Allowance for slow moving, damaged and obsolete stock

An allowance is made for slow-moving, damaged and obsolete inventory to write down to the lower of cost or net realisable value. Management has made estimates of the selling price and direct cost to sell of certain inventory items. The write down, if any, is included in the statement of financial performance.

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 2.18 Accounting estimates and judgements (continued)

#### Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price. Where quoted market prices are available, that is not an estimate. However where fair value techniques are used to determine fair value, a sense of estimation may be needed.

#### Critical judgements in applying accounting policies

##### Useful life and residual values

The municipal entity re-assess the useful lives and residual values of property, plant and equipment on an annual basis. In re-assessing the useful lives and residual values of property, plant and equipment management considers the condition and use the individual assets, to determine the remaining period over which the asset will be used.

##### Effective interest rate

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

### 2.19 Share capital

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

### 2.20 Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in surplus or deficit, using the effective interest method. Dividend income is recognised in surplus or deficit on the date that the municipality's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs are recognised in surplus or deficit using the effective interest method.

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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2011 R	2010 R
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### 3. New standards and interpretations

#### 3.1 Standards issued and not yet effective

The following standards expected to be applicable to the municipal entity have been issued, but are not yet effective:

The GRAP standards below will be applied by the municipal entity from the effective date determined by the Minister of Finance. The effective dates are currently unknown. International Financial Reporting Standards will be applied from the effective date of the Standard as indicated below.

##### **GRAP 104: Financial Instruments**

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one entity and a financial liability or residual interest in another entity. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests.

Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument.

Residual interests entitle an entity to a portion of another entity's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

The standard contains further detailed guidance on the initial recognition, measurement and subsequent measurement of financial instruments and mainly distinguished between those financial instruments carried at fair value and those at amortised cost.

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

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

	2011	2010
	R	R

### 4. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value
Land	7,560,000	-	7,560,000	7,560,000	-	7,560,000
Buildings	62,140,500	(2,285,594)	59,854,906	62,140,500	-	62,140,500
Plant and machinery	2,737,610,534	(139,770,160)	2,597,840,374	2,700,744,578	-	2,700,744,578
Motor vehicles	5,177,469	(3,507,435)	1,670,034	5,177,469	(2,902,110)	2,275,359
Office equipment	10,982,196	(6,711,407)	4,270,789	10,772,661	(5,466,773)	5,305,888
Leased Assets	997,027	(747,284)	249,743	795,590	(547,031)	248,559
<b>Total</b>	<b>2,824,467,726</b>	<b>(153,021,880)</b>	<b>2,671,445,846</b>	<b>2,787,190,798</b>	<b>(8,915,914)</b>	<b>2,778,274,884</b>

### Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Depreciation	Total
Land	7,560,000	-	-	-	7,560,000
Buildings	62,140,500	-	-	(2,285,594)	59,854,906
Plant and machinery	2,700,744,578	39,865,935	(2,656,250)	(140,113,889)	2,597,840,374
Motor vehicles	2,275,359	-	-	(605,325)	1,670,034
Office equipment	5,305,888	209,535	-	(1,244,634)	4,270,789
Leased Assets	248,559	201,438	-	(200,254)	249,743
	<b>2,778,274,884</b>	<b>40,276,908</b>	<b>(2,656,250)</b>	<b>(144,449,696)</b>	<b>2,671,445,846</b>

### Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Revaluations	Depreciation	Total
Land	-	-	-	7,560,000	-	7,560,000
Buildings	20,092,157	-	-	42,048,343	-	62,140,500
Plant and machinery	671,247,706	98,555,822	-	1,971,047,427	(40,106,377)	2,700,744,578
Motor vehicles	3,024,571	-	-	-	(749,212)	2,275,359
Office equipment	6,701,464	67,240	-	-	(1,462,816)	5,305,888
Leased Assets	300,237	103,700	(4,333)	-	(151,045)	248,559
	<b>701,366,135</b>	<b>98,726,762</b>	<b>(4,333)</b>	<b>2,020,655,770</b>	<b>(42,469,450)</b>	<b>2,778,274,884</b>

### Revaluations

The effective date of the revaluations was 30 June 2010. Revaluations were performed by independent valuer, Ruan Bolha of corrective power. Corrective power is not connected to the municipal entity.

Land and buildings are re-valued independently every 5 years.

The valuation was performed using the depreciated replacement cost method. These assumptions were based on current market conditions.

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

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## **Centlec (Pty) Ltd**

Annual Financial Statements for the year ended 30 June 2011

### **Notes to the Annual Financial Statements**

	2011	2010
	R	R
<b>4. Property, plant and equipment (continued)</b>		
<b>Restrictions on title</b>		
<b>Carrying value of assets not yet legally transferred from Mangaung Local Municipality to Centlec (Pty) Ltd in accordance with the Sale of Business agreement:</b>		
Land and buildings	67,414,906	69,700,500
The intention of the sale of business agreement was to sell the land and buildings to Centlec for operational usage. Centlec has been using the land and buildings for operational usage since inception, 1 July 2005, but as at yearend 30 June 2011 the land and buildings have not yet been legally transferred from Mangaung Local Municipality to Centlec.	-	-
Motor vehicles	1,670,034	2,275,359
The intention of the sale of business agreement was to sell the motor vehicles to Centlec for operational usage. Centlec has been using the motor vehicles for operational usage since inception, 1 July 2005, but as at yearend 30 June 2011 the motor vehicles have not yet been legally transferred from Mangaung Local Municipality to Centlec.	-	-
	<b>69,084,940</b>	<b>71,975,859</b>

## Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

### Notes to the Annual Financial Statements

	2011	2010
	R	R

#### 5. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, internally generated	705,551	-	705,551	-	-	-

#### Reconciliation of intangible assets - 2011

Computer software, internally generated	Opening balance	Additions	Total
	-	705,551	705,551

#### Pledged as security

No intangible assets pledged as security:

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

	2011 R	2010 R
<b>6. Other financial assets</b>		
<b>Loans and receivables</b>		
Kopanong Local Municipality The capital funding provided to the Kopanong Local Municipality is repayable in monthly instalments based on the estimated useful life of the capital asset. The capital advances bears interest at 10%	2,590,899	2,849,556
Inter company loan account The nature of the intercompany loan account is a current account which reflect the net effect of transactions between Centlec and Mangaung Local Municipality. The annual average capital amount will bears interest annually at an interest rate equal to the prime lending rate on the first day of the financial year and will thereafter be fixed for the entire financial year. No fixed repayment terms	424,329,419	313,471,449
Mohokare Local Municipality The capital funding provided to the Mohokare Local Municipality is repayable in monthly instalments based on the estimated useful life of the capital asset. The capital advances bears interest at 10%	1,337,754	1,462,598
Naledi Local Municipality The capital funding provided to the Naledi Local Municipality is repayable in monthly instalments based on the estimated useful life of the capital asset. The capital advances bears interest at 10%	650,765	764,610
	<u>428,908,837</u>	<u>318,548,213</u>
<b>Non-current assets</b>		
Loans and receivables	<u>4,090,615</u>	<u>4,579,416</u>
<b>Current assets</b>		
Loans and receivables	<u>424,818,222</u>	<u>313,968,797</u>
	<u>428,908,837</u>	<u>318,548,213</u>

### Renegotiated terms

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

None of the loans or receivables were pledged as security for any financial liabilities and no securities are held for any of the non-current loans and receivables

### Loans and receivables past due but not impaired

Loans and receivables which are less than 1 month past due are not considered to be impaired. At 30 June 2011, R 34,857,787 (2010: R 163,258,120) were past due but not impaired.

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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	2011	2010
	R	R

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### 7. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

#### 2011

	Loans and receivables	Total
Other financial assets	424,818,222	424,818,222
Trade and other receivables	24,114,772	24,114,772
Cash and cash equivalents	14,790,004	14,790,004
Consumer debtors	142,525,160	142,525,160
VAT receivable	21,408,869	21,408,869
	<hr/> <b>627,657,027</b>	<hr/> <b>627,657,027</b>

#### 2010

	Loans and receivables	Total
Other financial assets	313,968,797	313,968,797
Trade and other receivables	3,077,627	3,077,627
Cash and cash equivalents	216,358	216,358
Consumer debtors	173,492,390	173,492,390
VAT receivable	19,162,271	19,162,271
	<hr/> <b>509,917,443</b>	<hr/> <b>509,917,443</b>

### 8. Inventories

Raw materials, components	<hr/> 33,867,874	<hr/> 44,301,665
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The cost of inventories recognised as an expense/surplus during the period is R1 351 012 (2009: R1 354 814).

The write down of inventory to the lower of cost and net realisable value is R1 074 000 (2010 - nil).

#### Inventory pledged as security

No inventory was pledged as security.

## Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

### Notes to the Annual Financial Statements

	2011	2010
	R	R
<b>9. Trade and other receivables from exchange transactions</b>		
Other receivables	12,225,875	1,334,157
Kopanong	4,214,108	124,184
Mohokare	4,837,005	1,137,491
Naledi	2,837,784	481,795
	<u>24,114,772</u>	<u>3,077,627</u>

#### Trade and other receivables pledged as security

No trade and other receivables were pledged as security for overdraft facilities of the municipal entity.

The creation and release of provision for impaired receivables have been included in expenses in surplus or deficit (note 46). Unwinding of discount is included in interest received in surplus or deficit (note 23). 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.

#### 10. VAT receivable

VAT receivable	<u>21,408,869</u>	<u>19,162,271</u>
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VAT is payable on the receipts basis. VAT is paid over to the South African Revenue Services (SARS) only once payment is received from debtors.

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

	2011 R	2010 R
<b>11. Consumer debtors</b>		
<b>Gross balances</b>		
Electricity	265,192,260	221,494,581
<b>Less: Provision for debt impairment</b>		
Electricity	(122,667,100)	(48,002,191)
<b>Net balance</b>		
Electricity	142,525,160	173,492,390
<b>Electricity</b>		
Current (0 -30 days)	107,667,373	10,234,270
31 - 60 days	27,071,499	18,834,572
61 - 90 days	14,363,101	9,232,744
91 days +	117,751,681	174,098,640
Unallocated deposits	-	9,476,355
less provision for doubtful debts	(122,667,100)	(48,002,191)
Less discounting of debtors	(1,661,394)	(382,000)
	<b>142,525,160</b>	<b>173,492,390</b>
<b>Reconciliation of debt impairment provision</b>		
Balance at beginning of the year	(48,002,191)	(37,476,894)
Contributions to provision	(82,482,760)	(10,525,297)
Debt impairment written off against provision	7,817,851	-
	-	-
	<b>(122,667,100)</b>	<b>(48,002,191)</b>

### Consumer debtors pledged as security

No consumer debtors were pledged as security in the current or prior financial period.

### Credit quality of consumer debtors

### Fair value of consumer debtors

Consumer debtors 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.

The creation and release of provision for impaired receivables have been included in expenses in the statement of financial performance (note 46). Unwinding of discount is included in note 23 in 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 loan mentioned above. The municipality does not hold any collateral as security.

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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	2011	2010
	R	R

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### 12. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	14,790,004	216,358
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The economic entity had the following bank accounts

Account number	Bank statement balances			Cash book balances		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
ABSA BANK - Cheque account - 4058833582	14,790,004	216,358	46,573,260	14,790,004	216,358	46,573,260

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### 13. Other current financial liabilities

Measured at amortised cost

Advances Mangaung Local Municipality	149,779,678	163,617,713
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The capital funding provided to Centlec is repayable in monthly instalments based on the estimated useful life of the capital asset as initially determined by Mangaung Local Municipality. The capital funding provided to Centlec shall 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. Interest for the periods prior to 1 July 2009 is fixed at 10%. The interest rate at 1 July 2011 is 10% (2010: 11%).

Non-current liabilities

At amortised cost	136,089,716	149,779,678
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Current liabilities

At amortised cost	13,689,962	13,838,035
	<u>149,779,678</u>	<u>163,617,713</u>

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# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

	2011 R	2010 R
<b>14. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	172,487	206,900
- in second to fifth year inclusive	268,989	86,691
- later than five years	-	-
	<u>441,476</u>	<u>293,591</u>
less: future finance charges	(98,865)	(27,417)
<b>Present value of minimum lease payments</b>	<u>342,611</u>	<u>266,174</u>
<b>Present value of minimum lease payments due</b>		
- within one year	111,000	186,446
- in second to fifth year inclusive	231,611	79,728
- later than five years	-	-
	<u>342,611</u>	<u>266,174</u>
Non-current liabilities	231,611	79,728
Current liabilities	111,000	186,446
	<u>342,611</u>	<u>266,174</u>
It is municipal entity's policy to lease certain photo copiers under finance leases.		
The average lease term is 4 years and the average effective borrowing rate was 10% (2010: 11%).		
Initial lease payment varied between R215 and R7 926 per month for lease periods of between 3-5 years and subject to prime lending rates.		
<b>15. Conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
DME Grant	362,548	-
Demand Side Management Grant	964,834	1,040,792
	<u>1,327,382</u>	<u>1,040,792</u>
<b>Movement during the year</b>		
Balance at the beginning of the year	1,040,792	2,535,502
Received during the year	15,789,473	4,585,088
Income recognition during the year	(15,502,883)	(6,079,798)
	<u>1,327,382</u>	<u>1,040,792</u>

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

	2011 R	2010 R
<b>16. Trade and other payables from exchange transactions</b>		
Trade payables	277,000,062	182,472,705
Other payables	1,021,165	1,128,848
Accrued leave pay	55,883	32,552
Mantsopa	903,405	1,039,417
Lease accrual	161,247	93,827
Operating expense accrual	5,577,071	-
	<b>284,718,833</b>	<b>184,767,349</b>

The fair value approximates the carrying amount.

### 17. Consumer deposits

Electricity	46,331,130	38,368,918
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### 18. Financial liabilities by category

The accounting policies for financial instruments have been applied to the column items below:

#### 2011

	Financial liabilities at amortised cost	Total
Loans from shareholders	676,453,638	676,453,638
Other financial liabilities	149,779,678	149,779,678
Trade and other payables	284,718,834	284,718,834
Consumer deposits	46,331,130	46,331,130
Finance lease obligation	342,611	342,611
	<b>1,157,625,891</b>	<b>1,157,625,891</b>

#### 2010

	Financial liabilities at amortised cost	Total
Loans from shareholders	657,303,375	657,303,375
Other financial liabilities	163,617,713	163,617,713
Trade and other payables	184,767,350	184,767,350
Finance lease obligation	266,174	266,174
Consumer deposits	38,368,918	38,368,918
	<b>1,044,323,530</b>	<b>1,044,323,530</b>

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

	2011	2010
	R	R
<b>19. Government grants and subsidies</b>		
DME grant	11,040,961	3,611,818
Electricity Demand side government grant	4,461,922	2,467,980
	<b>15,502,883</b>	<b>6,079,798</b>
<b>DME Grant</b>		
Balance unspent at beginning of year	-	-
Current-year receipts	11,403,509	3,611,818
Conditions met - transferred to revenue	(11,040,961)	(3,611,818)
	<b>362,548</b>	<b>-</b>
<b>Electricity Demand side government grant</b>		
Balance unspent at beginning of year	1,040,792	2,535,502
Current-year receipts	4,385,964	973,270
Conditions met - transferred to revenue	(4,461,922)	(2,467,980)
	<b>964,834</b>	<b>1,040,792</b>

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

	2011	2010
	R	R
<b>20. General expenses</b>		
Advertising	452,560	696,685
Assessment rates & municipal charges	-	3,955,630
Auditors remuneration	4,381,257	5,054,276
Bank charges	2,188,830	2,317,307
Loss on sale of assets	2,656,250	-
Cleaning	105,951	244,082
Commission paid	25,586,673	20,286,934
Computer expenses	189,521	184,635
Licence fees	526,602	940,027
Consulting and professional fees	3,137,057	25,403,949
Consumables	1,103	890
Tools plant and equipment	447	16,368
Settlement	-	20,000,000
Electricity	358,077	402,413
Entertainment	263,518	205,788
Travelling	1,239,125	1,258,403
Skills development levy	843,613	799,915
Workman's compensation	84,022	78,446
Furniture and office equipment	93,667	168,742
Stock adjustments	(1,351,012)	(1,354,821)
Fuel and oil	2,559,033	2,479,423
Vehicle tracking system	41,779	31,302
Hire equipment	728,932	475,563
Leave provision	352,209	(129,581)
Contractors fees	7,118,154	7,551,708
Insurance	3,121,694	3,600,969
Lease rentals on operating lease	481,979	457,519
Marketing	8,346,175	-
Railway siding facilities	100,000	99,000
Postage and courier	3,999	1,905
Printing and stationery	1,001,058	946,846
Employment agencies	299,849	1,941,502
Protective clothing	468,045	297,373
Security services	2,441,562	1,860,341
Software expenses not capitalised	3,864	7,846
Staff welfare	678,564	-
Subscriptions and membership fees	100,259	19,346
Telephone and internet	865,815	984,416
Training	724,544	1,370,450
Water	-	8,370
	<b>70,194,775</b>	<b>102,663,967</b>

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

	2011 R	2010 R
<b>21. Operating surplus</b>		
Operating surplus for the year is stated after accounting for the following:		
<b>Operating lease charges</b>		
Premises		
Contingent amounts	481,979	457,519
Depreciation on property, plant and equipment	144,449,696	42,473,782
Employee costs	1,588,697	3,969,480
<b>22. Employee related costs</b>		
Basic	1,429,518	1,720,213
Medical aid - company contributions	39,179	28,633
Car allowance	120,000	250,000
Final settlement payment	-	1,970,634
	<b>1,588,697</b>	<b>3,969,480</b>
<b>Remuneration of Chief Executive Officer</b>		
Annual Remuneration	-	393,307
Car Allowance	-	120,000
Contributions to UIF, Medical and Pension Funds	-	896
Final settlement payment	-	1,970,632
	-	<b>2,484,835</b>
<b>Remuneration of company secretary LR Bomela</b>		
Annual Remuneration	961,518	958,585
Car Allowance	120,000	130,000
Contributions to UIF, Medical and Pension Funds	39,179	27,738
Salary adjustment	-	-
	<b>1,120,697</b>	<b>1,116,323</b>
<b>23. Investment revenue</b>		
<b>Finance income</b>		
Interest charged on trade and other receivables	20,861,289	19,304,716
<b>24. Depreciation and amortisation</b>		
Property, plant and equipment	144,449,696	42,473,782

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

	2011 R	2010 R
<b>25. Impairment of assets</b>		
<b>Impairments</b>		
Inventories	1,073,762	-
Write down of inventory to the lower of cost and net realisable value.		
<b>26. Finance costs</b>		
Shareholders loan	118,635,227	109,407,757
Capital advances MLM	16,361,771	12,990,386
Trade and other payables	30,681,159	9,421,798
Finance leases	54,696	34,323
	<b>165,732,853</b>	<b>131,854,264</b>
<b>27. Bulk purchases</b>		
Electricity	758,698,272	592,477,353
<b>28. Cash generated from operations</b>		
(Deficit) surplus	(112,895,450)	16,541,735
<b>Adjustments for:</b>		
Depreciation and amortisation	144,449,696	42,473,782
Fair value adjustments	-	(3,836,463)
Finance leases	54,696	34,323
Impairment deficit	1,073,762	-
Debt impairment	82,482,760	10,525,297
<b>Changes in working capital:</b>		
Inventories	9,360,029	(466,472)
Trade and other receivables from exchange transactions	(21,037,145)	(968,772)
Consumer debtors	(51,570,228)	(48,617,112)
Trade and other payables from exchange transactions	99,951,490	110,210,562
VAT receivable / payable	(2,246,598)	(18,764,534)
Conditional grants and receipts	286,590	(1,494,710)
Consumer deposits	7,962,212	4,850,066
	<b>157,871,814</b>	<b>110,487,702</b>

## Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

### Notes to the Annual Financial Statements

	2011	2010
	R	R
<b>29. Capital commitments</b>		
<b>29.1 Commitments in respect of capital expenditure</b>		
<b>Approved and contracted for</b>		
ÿ Property, plant and equipment	26,626,911	784,220
ÿ Infrastructure	5,101,356	-
	<b>31,728,267</b>	<b>784,220</b>
<b>Approved but not yet contracted for</b>		
ÿ Property, plant and equipment	37,053,772	-
ÿ Infrastructure	731,044	-
	<b>37,784,816</b>	<b>-</b>
<b>This expenditure will be financed from</b>		
ÿ Government grants	13,480,872	-
ÿ Own resources	56,032,211	784,220
	<b>69,513,083</b>	<b>784,220</b>

A contract was entered into for a Smart Metering System. The original contract was signed in 2009 and an addendum to the contract was signed in June 2011.

#### 29.2 Operating leases - as lessee (expense)

<b>Minimum lease payments due</b>		
- within one year	319,527	290,479
- in second to fifth year inclusive	1,631,214	1,950,740
- later than five years	-	-
	<b>1,950,741</b>	<b>2,241,219</b>

Centlec (Pty) Ltd rents a building from Free State Development Corporation (FDC) situated in Botshabelo for an indefinite period terminable by way of a 3 month cancellation clause. Management has estimated to rent from FDC until 2016. The lease rentals are escalated annually on 1 December at 10 %.

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

	2011	2010
	R	R
<b>30. Contingencies</b>		
<b>Contingent liabilities</b>		
<b>Contingent liability 2011</b>		
<b>Matter description:</b> Centlec (Pty) Ltd has terminated the services of Vuyani Security in terms of provisions of termination for breach. Vuyani served Centlec a letter of demand relating to the damages suffered by Vuyani.		
<b>Financial Implications:</b> The probable loss is R 614 000		
<b>Matter description:</b> Centlec (Pty) Ltd has terminated the services of MNK accountants due to non performance in terms of the contract. This resulted in the litigation against Centlec.		
<b>Financial Implications:</b> The probable loss is R31 000 000		
<b>Matter description:</b> Centlec (Pty) Ltd has terminated the services of Monnamakga Construction & development cc due to non performance in terms of the contract. This resulted in the litigation against Centlec.		
<b>Financial Implications:</b> The probable loss is R480 000		
<b>Matter description:</b> There is a possibility that Centlec (Pty) Ltd will be liable for tax due to that they have not yet obtained the tax exemption.		
<b>Financial implication:</b> At the date of preparing the AFS, the tax liability amount was not yet available.		
<b>Contingent liability 2010</b>		
<b>Matter description:</b> Early termination of the services of Vuyani Security. Vuyani served Centlec a letter of demand relating to the damages suffered by Vuyani.		
<b>Financial Implications:</b> Centlec may have to pay up to the claim of R2 176 000		
<b>Matter description:</b> The close corporation, Monnamakga Construction has instituted a claim against Centlec for the termination of a contract.		
<b>Financial Implications:</b> Centlec may have to pay up to the claim of R700 000		
<b>Matter description:</b> Mrs Ramakarane has instituted a claim against Centlec for not appointing her		
<b>Financial Implications:</b> Centlec may have to pay up to R600 000		
<b>Matter description:</b> There is a possibility that Centlec (Pty) Ltd will be liable for tax due to that they have not yet obtained the tax exemption.		
<b>Financial implication:</b> At the date of preparing the AFS, the tax liability amount was not yet available.		
<b>Contingent assets</b>		
There is a disputed amount of unpaid interest of R 36,89 million on the Mangaung Local Municipality intercompany loan account as disclosed in Note 6. It is possible that this will result in the recovery of the full amount but this recovery is not virtually certain.		

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

	2011	2010
	R	R
<b>31. Related parties</b>		
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:		
<ul style="list-style-type: none"><li>• entities that are directly or indirectly controlled by the municipality;</li><li>• associates;</li><li>• joint ventures and management;</li><li>• key management personnel, and close members of the family of key management personnel;</li><li>• 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.</li><li>• entities that control or exert significant influence over the municipality</li></ul>		
Mangaung Local Municipality is the sole shareholder of Centlec (Pty) Ltd. Centlec (Pty) Ltd was formed to take over all activities in respect of the supply of electricity.		
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity. The economic 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.		
Relationships		
Ultimate controlling entity	Mangaung Local Municipality	
Members of key management	P Helepi KM Moroka L de Jager SJ Cronje I Poolo M Seoke L Kritzinger L Bomela M Pobe M Matsimela	
The executive management are seconded employees from Mangaung Local Municipality and their salary related costs are included in management fees.		
<b>Related party balances</b>		
<b>Loan accounts - Owing (to) by related parties</b>		
Mangaung Local Municipality	(676,453,638)	(657,303,375)
Mangaung Local Municipality - Capital advances	(149,779,678)	(163,617,713)
Mangaung Local Municipality - Intercompany loan	424,329,419	313,471,449

## Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

### Notes to the Annual Financial Statements

	2011	2010
	R	R
<b>31. Related parties (continued)</b>		
<b>Related party transactions</b>		
<b>Interest paid to (received from) related parties</b>		
Mangaung Local Municipality - Advances	16,361,771	12,990,386
Mangaung Local Municipality - Shareholder loan	118,635,227	109,407,757
<b>Revenue</b>		
Maintenance on street lights	(6,125,000)	(6,987,366)
<b>Administration fees paid to (received from) related parties</b>		
Mangaung Local Municipality	8,729,170	7,131,792
<b>Services rendered by MLM</b>		
Mangaung local municipality	9,516,440	9,269,308
<b>Employee related costs paid</b>		
Mangaung Local Municipality	104,639,888	97,121,310
<b>Insurance paid</b>		
Mangaung Local Municipality	853,855	774,968
<b>Management fees paid</b>		
Mangaung Local Municipality	1,787,270	2,137,516
<b>Water, rates and service charges paid</b>		
Mangaung Local Municipality- water	-	8,370
Mangaung Local Municipality- rates and service	-	3,955,630
<b>Electricity charges received</b>		
Mangaung Local Municipality	(54,924,430)	(25,039,056)
Water and rates are treated as interdepartmental charges by the parent entity Mangaung Local Municipality at year end and no transactions are recorded at Centlec (Pty) Ltd		
There were no loans to / from key management personnel for 2011 and 2010 financial periods.		
<b>Compensation to other key management</b>		
Short-term employee benefits	4,120,000	3,644,000
Post-employment benefits - Pension - Defined contribution plan	120,000	2,220,634
Termination benefits	-	1,970,632
	<b>4,240,000</b>	<b>7,835,266</b>

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

	2011	2010
	R	R

### 32. Directors emoluments

R468 000 emoluments were paid to the directors during the year (2010: R364 822).

#### Non-executive

2011	Emoluments	Pension paid or receivable	Compensation for loss of office	Gain on exercise of options	Total
For services as directors	468,000	-	-	-	468,000

  

2010	Emoluments	Pension paid or receivable	Compensation for loss of office	Gain on exercise of options	Total
For services as directors	364,822	-	-	-	364,822

#### Details of service contracts

P Helepi, MK Moroka, Lde Jager and SJ Cronje were in service for the full year under review.

### 33. Prior period errors

The Municipal entity corrected the following prior period errors retrospectively and restated comparative amounts:

The salary of the Company Secretary previously included as management fees instead of employee cost. This resulted in the reclassification of the amount to increase employee cost and reduce management fees with R3 328 074.13.

The salary of an employee was incorrectly calculated and subsequently a liability have been raised to correct the salary

The effect of the correction is that the opening balance of the 2009/2010 accumulated surplus is R14 597 less than reported and the surplus for 2009/2010 is R273 084 less than previously reported.

Directors remuneration incorrectly disclosed

Directors remuneration to the value of R14 000 were disclosed as an expense (and liability) in the prior year, however the amount was not due to the directors and they also did not receive the payment.

The effect of the correction is that the surplus for 2009/2010 is R10 500 (R14 000 remuneration less R3 500 tax expense) more than reported and the liability included in the inter-company loan for stale cheques is less than reported)

Chairman acting allowance not recognised in prior year

The effect of the correction is that the surplus for 2009/2010 is R110 000 less than reported

The provision for leave pay was incorrectly calculated in the prior year. The effect of the correction is that the surplus for 2009/2010 is R129 581 less than reported

Bulk electricity purchases of Southern Free state Towns was incorrectly included in Centlec purchases. The effect of the correction is that trade and other receivables will increase by R1 033 157 and trade payables will decrease by R1 039 334. The effect of the correction is that the surplus for 2009/2010 is R2 072 491 more than reported

Smoothing of operating lease payments per GRAP 13. The effect of the correction is that the surplus for 2009/2010 is R93 827 less than reported

Inventory written off instead of being capitalised

The effect of the correction is that the surplus for 2009/2010 is R3 836 463 more than reported

Inventory was incorrectly written off in the prior year

The effect of the correction is that the surplus for 2009/2010 is R20 197 more than reported

Inventory written off was incorrectly written back

The effect of the correction is that the surplus for 2009/2010 is R54 366 less than reported

2008 Stock take adjustment accounted for in balance sheet and not income statement

The effect of the correction is that the opening balance of the 2009/2010 accumulated surplus is R977 343 less than reported

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

	2011	2010
	R	R
<b>33. Prior period errors (continued)</b>		
Inventory belonging to MLM included in Centlec The effect of the correction is that the inventory balance is more than reported and the Intercompany loan balance is less than reported with R14 318.88		
2009 Stock take adjustment accounted for in balance sheet and not income statement The effect of the correction is that the surplus for the year is less than reported with R1 712 354.		
Inventory credit notes not captured on the general ledger . The effect of the correction is that the inventory balance and the creditors balance is more than reported with R350 135		
Discounting of debtors per IFRS 7 The effect of the correction is that the opening balance of the 2009/2010 is R334 420 less than reported. Furthermore sales in 2010 decreased with R18 029 471, finance income increased with R18 745 735 and debtors reduced with R 381 844		
Interest on capital advances loan was calculated by using 10% instead of 11% prime rate at the beginning of the 200/10 year. The effect of the correction is that the surplus for the 2009/10 year is more than reported with R1 180 944.		
Vendor commission of 2010 captured in 2011 and no accrual was raised in 2010. The effect of the correction is that the surplus for the 2009/10 year is more than reported with R2 147 076.		
Interest of 2010 captured in 2011 and no accrual was raised in 2010. The effect of the correction is that the surplus for the 2009/10 year is more than reported with R712 691 .		
The correction of the error(s) results in adjustments as follows		
<b>Statement of financial position</b>		
Increase in Opening Accumulated Surplus or Deficit	-	(276,565)
Increase in Closing Accumulated Surplus or Deficit due to changes in profit	-	(3,266,462)
Increase in Inventory	-	2,291,074
Increase in VAT receivable	-	165,085
Increase in Intercompany loan account	-	(1,156,125)
Increase in Trade and other receivables	-	651,314
Increase in Trade and other payables	-	2,244,781
Decrease in revaluation reserve	-	3,836,463
<b>Statement of financial performance</b>		
Increase in employee costs due to employee costs reclassified from management fees	-	3,328,074
Decrease in management fees due to employee costs reclassified	-	(3,328,074)
Increase in Employee cost corrected	-	273,084
Increase in Tax on directors remuneration	-	3,500
Chairman allowance not previously recognised	-	110,000
Provision for leave pay increased	-	(129,581)
Decrease in bulk electricity purchases of South Free State towns	-	(2,072,491)
Increase in operating lease expense due to smoothing	-	93,827
Inventory write off reduced as inventory is capitalised	-	(3,836,463)
Inventory previously incorrectly written off	-	(20,197)
Inventory previously incorrectly written back	-	54,366
Decrease in Inventory write off cleared to income statement	-	(1,712,354)
Increase in interest income due to discounting of consumer debtors	-	(18,745,735)
Decrease in sales	-	18,793,158
Decrease in bulk purchases due to allowance not recognised in 2010	-	(609,920)
Increase in Penalties and interest due to allowance not recognised	-	695,309
Increase in operating lease payments to account for 12 months	-	60,795
Vendor commission not claimed	-	(250,474)
Decrease in insurance due to reallocation of lease payments to hire equipment	-	84,764
Increase in Hire equipment due to reallocation of lease payments to hire equipment	-	(84,764)
Increase in interest on capital advances loan	-	1,180,944
Increase in vendor commission	-	2,147,076
Increase in interest on electricity	-	712,691

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

	2011	2010
	R	R
<b>34. Risk management</b>		
<b>Financial risk management</b>		
<p>This note presents information about the entity's exposure to each of the financial risks below and the entity's objectives, policies and procedures for measuring and managing financial risks. Further quantitative disclosures are included in the Annual Financial Statements</p>		
<p>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.</p>		
<p>The municipal entity monitors and manages the financial risks relating to the operations of the municipal entity through internal risk reviews which analyse exposures by degree and magnitude of risks. These risks include the following</p>		
<ul style="list-style-type: none"><li>• credit risk;</li><li>• liquidity risk; and</li><li>• market risk (including interest rate risk).</li></ul>		
<p>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 foreign exchange risk, 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.</p>		
<b>Credit risk</b>		
<p>Credit risks consists mainly of cash deposits, cash equivalent and trade debtors. The municipal entity only deposits cash with major banks with high quality credit standing and limits exposure to any on counter-party</p>		
<p>Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently related, 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. Bank guarantees are obtained for prepaid electricity vendors when deemed appropriate.</p>		
<p>Trade receivables are presented net of an allowance for impairment. To reduce the risk, customers rotational meters are being replaced with prepaid meters</p>		
<p>Financial assets which expose the economic entity to credit risk at year end were as follows:</p>		
	2011	2010
Financial instrument		
Bank balances	14,790,004	216,358
Consumer debtors	142,525,160	173,492,390
VAT receivable	21,408,869	19,162,271
Trade and other receivables	24,114,772	3,077,627
<p>These balances represent the maximum exposure to credit risk.</p>		

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

	2011	2010
	R	R

### 34. Risk management (continued)

#### Liquidity risk

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

Centlec's exposure to liquidity risk is a result of the funds 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. Furthermore the municipal entity is reducing stock balances to avail more cash for liquidity purposes.

The table below analyses the municipality'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.

At 30 June 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Shareholder loan	-	-	267,869,789	1,071,479,156
Trade and other payables	284,718,834	-	-	-
Capital advances loan	13,689,962	13,447,336	27,379,540	95,262,840
At 30 June 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Shareholder loan	-	-	267,869,789	1,071,479,156
Trade and other payables	184,767,349	-	-	-
Capital advances loan	13,838,035	13,689,962	33,526,833	102,562,883

#### Market risk

Market risk is the risk that changes in market prices, interest rates and equity prices will affect the economic 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.

The municipal entity is not exposed to market risks.

#### 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 economic entity's policy is to minimise interest rate cash flow risk exposures on long-term financing. The economic entity's exposures to interest rates on financial assets and financial liabilities are detailed below.

The municipal entity's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipal entity to fair value interest rate risk.

The contracted interest rates are not based on prime and therefore fluctuations in prime will not affect the municipal entity.

#### Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Shareholders loan	5.17 %	-	-	-	267,869,789	1,071,479,156

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

	2011	2010
	R	R

### 35. Going concern

The annual 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.

### 36. 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 annual financial statements.

### 37. Fruitless and wasteful expenditure

#### Reconciliation of fruitless and wasteful expenditure

Opening balance	12,688,200	-
Fruitless and wasteful expenditure - current year	29,116,994	12,688,200
	<u>41,805,194</u>	<u>12,688,200</u>

Penalties and interest paid to SARS due to late VAT payments of R1 362 676.

Interest incurred due to late payment to Eskom of R27,624,929. Steps have been taken to recover the amount from Mangaung Local Municipality.

Use of suite at Vodacom Park to the value of R94 263.

Interest charged by AGSA to the amount of R29 996.

Suite tickets Vodacom park Macufe celebration which was not necessary for Centlec to incur to the value of R5 130

### 38. Irregular expenditure

Opening balance	51,813,000	-
Irregular Expenditure - current year	40,337,914	51,813,000
	<u>92,150,914</u>	<u>51,813,000</u>

#### Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
No proof that the request was advertised on the notice board for a period of 7 days as required	None	2,116,083
Appointment in the absence of an approved deviation	None	840,158
Supporting documentation not available	None	4,942,201
Appointment without following a competitive bidding process	None	72,975
Appointment of supplier where deviation has been approved after service was rendered	None	397,123
Late cancellation of finance lease resulted in over payment of R4218	None	4,218
Non-compliance with supply chain management regulations	None	31,965,156
		<u>40,337,914</u>

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

	2011 R	2010 R
<b>39. Presentation of budget information</b>		
<b>39.1 Reconciliation between budget and statement of financial performance</b>		
Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:		
Net (deficit) surplus per the statement of financial performance	(112,895,450)	16,541,735
<b>40. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Audit fees</b>		
Current year subscription / fee	4,381,257	5,054,276
<b>PAYE and UIF</b>		
Current year subscription / fee	272,979	159,359
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	52,000	39,000
<b>VAT</b>		
VAT receivable	21,408,869	19,162,271
All VAT returns have been submitted throughout the year. 3 returns were submitted late.		
<b>41. Utilisation of Long-term liabilities reconciliation</b>		
Long-term liabilities raised	149,779,678	163,617,713
Used to finance property, plant and equipment	(149,779,678)	(163,617,713)
Cash set aside for the repayment of long-term liabilities	-	-
	-	-
Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act.		
<b>42. Actual operating expenditure versus budgeted operating expenditure</b>		
Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.		
<b>43. Actual capital expenditure versus budgeted capital expenditure</b>		
Refer to Appendix A for the comparison of actual capital expenditure versus budgeted expenditure.		
<b>44. Distribution losses</b>		
Electricity distribution losses for the year were estimated to be 7.40% (2010: 8.06%). Management's best estimated value of these losses are as follows:		
Electricity	130 533 189	140 595 651

## Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

### Notes to the Annual Financial Statements

	2011 R	2010 R
<b>45. Loans to (from) shareholders</b>		
Mangaung Local Municipality	(676,453,638)	(657,303,375)

The loans are unsecured and bears interest at the lower of 15% of the revenue (sale of electricity and pre-paid electricity) of Centlec (Pty) Ltd 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.

Instalments of R267 867 789 are payable every five (5) years with the initial payment on 30 June 2015.

#### Fair value of loans to and from shareholders

Loans from shareholders	(676,453,638)	(657,303,375)
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Shareholder loan is measured at amortised cost. The present value of future cash flows was discounted using the average prime rate for the 5 years up to 30 June 2005. This is done to normalise fluctuations that might occur in prime interest rates.

#### 46. Debt impairment

Contributions to debt impairment provision	82,482,760	10,525,297
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#### 47. Taxation

Centlec (Pty) Ltd is in the process of application for tax exemption from the revenue authorities.

# Centlec (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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	2011	2010
	R	R

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### 48. Non-compliance with MFMA

*Chapter 2 paragraph 2.22 of the King 111 code of governance. The assessment of the board's performance not finalised*

*Chapter 7 paragraph 7.1.3 of the King code of governance. Internal audit charter not approved*

*Non-compliance with Municipal supply chain management regulations as published in GNR 868 of 30 May 2005 under paragraph 6.*

1. Report on implementation of the supply chain management policy and proof of submission of this report to the board of directors.
2. Proof of submission of the report on implementation of supply chain management policy to the parent municipality.
3. Quarterly reports on implementation of supply chain management policy and proof of submission of these reports to the board of directors.

*Non-compliance with King code of governance paragraph 2.23.*

Remuneration committed requirements not included in the annual report.

*Non-compliance with Municipal supply chain management regulations as published in GNR 868 of 30 May 2005 under paragraph 5(3) sub delegation.*

Supply chain management unit of Centlec did compile the monthly reports for awards made during the financial year under review.

However no proof was provided to confirm that these were submitted to the Chief Financial Officer's office or any other officer as prescribed in the regulation.

*Section 88(1) 94 and 104 of MFMA.*

Supporting documentation not provided.

CENTLEC (PTY) LTD  
APPENDIX A for the year ended 30 June 2011  
ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2011

	Budget	Actual	Difference	Variance
<b>INCOME:SERVICES CHARGED</b>	<b>-1,167,996,963</b>	<b>-1,185,421,541</b>	<b>17,424,578</b>	
SALE OF ELECTRICITY	-1,001,601,525	-963,135,868	-38,465,657	4%
SALE OF PREPAID ELECTRICITY	-166,395,438	-222,285,673	55,890,235	-34%
<b>INCOME: OTHER INCOME</b>	<b>-108,184,111</b>	<b>-75,650,433</b>	<b>-32,533,678</b>	
DISCONNECTION	-4,352,098	-	-4,352,098	100%
ELEC.DEMAND SIDE MANAGEMENT GRANT CENTLE	-5,000,000	-15,502,883	10,502,883	-210%
FREE SERVICES RECOVERABLE	-34,692,600	-10,001,535	-24,691,065	71%
INTEREST ON INVESTMENTS	-18,415,445	1,252	-18,416,697	100%
INTEREST ON LONG-TERM DEBTORS	-542,431	-20,861,289	20,318,858	-3746%
PARKING FEES	-61,320	-62,166	846	-1%
PRIVATE TELEPHONE CALLS RECOVERABLE	-3,285	-532	-2,753	84%
PROFIT ON SALE OF ASSETS	-36,135	-	-36,135	100%
RECONNECTION TEST AND REMOVAL - METERS	-485,406	-970,047	484,641	-100%
RECOVER SUNDRY SERVICES	-10,960,384	-343,944	-10,616,440	97%
SALE OF REDUNDANT MATERIAL	-96,270	-253,961	157,691	-164%
SALE OF TENDER DOCUMENTS	-144,540	-187,023	42,483	-29%
SERVICES	-2,279,280	-428,374	-1,850,906	81%
SERVICES SOUTHERN FREE STATE	-5,822,697	-9,208,595	3,385,898	-58%
STREET LIGHTING MANGAUNG	-4,340,000	-6,125,000	1,785,000	-41%
NETWORK UPGRADES	-19,887,120	-11,706,337	-8,180,783	41%
TRAINING	-1,065,100	-	-1,065,100	100%
<b>TOTAL INCOME</b>	<b>-1,276,181,074</b>	<b>-1,261,071,974</b>	<b>-15,109,100</b>	
<b>EMPLOYEE SALARIES AND ALLOWANCES</b>	<b>116,707,267</b>	<b>104,921,917</b>	<b>11,785,350</b>	<b>10%</b>
<b>DIRECTORS FEES</b>	<b>959,911</b>	<b>468,000</b>	<b>491,911</b>	<b>51%</b>
<b>GENERAL EXPENDITURE</b>	<b>925,139,490</b>	<b>961,602,820</b>	<b>-36,463,330</b>	<b>-4%</b>
ADMINISTRATION CHARGES	7,729,206	7,729,170	36	0%
ADVERTISING	625,800	452,560	173,240	28%
AIR CONDITIONING	195,300	46,964	148,336	76%
APPRENTICE CLASS FEES	34,720	4,292	30,428	88%
AUCTION EXPENSES	5,013	-	5,013	100%
BANK CHARGES	1,584,000	2,188,830	-604,830	-38%
BULK PURCHASES ELECTRICITY - ESKOM	769,690,840	758,698,272	10,992,568	2%
BURSARIES-EMPLOYEES	250,000	92,397	157,603	63%
CELLULAR PHONES	520,377	149,449	370,928	71%
CENTLEC LODGE RUGBY	162,750	115,525	47,225	29%
COMPUTER SOFTWARE	136,800	3,864	132,936	97%
CONFERENCES AND DELEGATIONS	818,466	432,872	385,594	47%
ELECTRICITY	559,100	358,077	201,023	36%
EMPLOYEE WELLNESS	810,000	678,564	131,436	16%
FUEL	3,083,018	2,559,033	523,985	17%
FURNITURE AND OFFICE EQUIPMENT	623,570	93,667	529,903	85%
HIRE-EQUIPMENT	858,587	728,932	129,655	15%
INSURANCE	3,808,682	3,121,694	686,988	18%
INTEREST - CONSUMER DEPOSITS	2,833,960	1,662,306	1,171,654	41%
INTEREST - EXTERNAL LOANS	11,586,800	16,361,771	-4,774,971	-41%
INTEREST - SHAREHOLDERS LOAN	99,484,963	118,635,227	-19,150,264	-19%

INTERNAL AUDIT FEES	3,000,000	-	3,000,000	100%
INTERNET LINE	24,491	13,337	11,154	46%
LAUNDRY	7,636	6,024	1,612	21%
LEGAL EXPENSES	345,625	272,157	73,468	21%
LICENSES - OTHER	1,950,513	176,078	1,774,435	91%
LICENSES RADIO	26,040	25,989	51	0%
LICENSES VEHICLE	195,226	324,535	-129,309	-66%
MARKETING	-	8,346,175	-8,346,175	0%
METER READING CHARGED	1,406,400	1,406,400	-	0%
METERING COMMUNICATION	230,000	446,081	-216,081	-94%
OCCUPATIONAL HEALTH CHARGED CENTLEC	251,878	254,817	-2,939	-1%
PENALTIES AND INTEREST - LATE PAYMENTS	-	29,017,601	-29,017,601	0%
POSTAGE	10,850	3,999	6,851	63%
PRINTING AND STATIONERY	1,316,037	1,001,058	314,979	24%
RAILWAY SIDING FACILITIES	-	100,000	-100,000	0%
RECEPTIONS DELEGATIONS ETC.	71,355	18,378	52,977	74%
RECRUITMENT COSTS	50,000	-	50,000	100%
REFRESHMENTS	183,579	147,993	35,586	19%
RENTAL - OFFICES	511,881	481,979	29,902	6%
RENTAL - PARKING GARAGE	23,208	23,530	-322	-1%
REPROGRAPHICAL SERVICES 9-04-32-0-907-6	105,462	105,462	-	0%
SHIFTING OF RDP CONNECTIONS	1,000,000	572,216	427,784	43%
SKILLS DEVELOPMENT LEVY	888,026	843,613	44,413	5%
SPARES AND CONSUMABLES	1,504	1,103	401	27%
STORES AND MATERIAL	502,652	35,772	466,880	93%
SUBSCRIPTIONS	191,677	100,259	91,418	48%
TELEPHONE	1,314,343	680,930	633,413	48%
TELKOM DATA LINES	70,000	22,631	47,369	68%
TOOLS PLANT AND EQUIPMENT	314,653	185,727	128,926	41%
TRAINING COSTS	1,422,264	624,455	797,809	56%
TRAINING INTERNAL	1,000,000	-	1,000,000	100%
TRAINING MECHANICAL SERVICES	55,448	3,400	52,048	94%
TRAVELING AND SUBSISTENCE	1,648,011	1,239,125	408,886	25%
UNIFORMS AND PROTECTIVE CLOTHING	572,199	468,045	104,154	18%
VEHICLE TRACKING SYSTEM	184,450	41,779	142,671	77%
VENDING COMMUNICATION	464,033	414,684	49,349	11%
WATER	314,075	-	314,075	100%
WORKMEN'S COMPENSATION CONTRIBUTIONS	84,022	84,022	-	0%

**GENERAL EXPENDITURE - CONTRACTED SERVICES**

45,745,579                      43,214,042                      2,531,537

AUOIT FEES	4,360,000	4,381,257	-21,257	0%
CLEANSING SERVICES	399,600	99,926	299,674	75%
COMMISSION VENDORS	23,726,492	25,586,673	-1,860,181	-8%
CONSULTANT FEES	4,127,244	2,864,900	1,262,344	31%
CONTRACTORS FEES	10,194,620	7,350,354	2,844,266	28%
EMPLOYMENT AGENCY	60,000	299,849	-239,849	-400%
SECURITY SERVICES	2,493,500	2,441,562	51,938	2%
TRANSLATIONS	7,031	-	7,031	100%
WEB SERVICES	377,092	189,521	187,571	50%

**REPAIR AND MAINTANANCE**

42,373,722                      35,423,593                      6,950,129

BUILDINGS AND STRUCTURES	2,383,178	576,108	1,807,070	76%
ELECTRICITY MAINS	314,332	215,938	98,394	31%
FURNITURE TOOLS PLANT AND EQUIPMENT	698,489	350,755	347,734	50%
MATERIAL	19,356,385	13,612,901	5,743,484	30%
METERING	3,204,025	2,258,204	945,821	30%
METERING - MATERIAL	467,093	34,412	432,681	93%

SITE	95,000	55,948	39,052	41%
STREET LIGHTING MANGAUNG	4,340,000	13,807,224	-9,467,224	-218%
SUBSTATIONS	-	6,395	-6,395	0%
SUPERVISORY & CONTROL: UPGRADING	50,858	22,160	28,698	56%
TYRES AND TUBES	575,496	451,822	123,674	21%
VEHICLES	10,888,866	4,031,725	6,857,141	63%
<b>OTHER EXPENDITURE</b>	<b>58,361,775</b>	<b>228,337,051</b>	<b>-169,975,276</b>	
BAD DEBTS RESERVE	21,356,947	82,482,760	-61,125,813	-286%
DEPRECIATION	36,675,950	144,449,696	-107,773,746	-294%
HANDLING FEE	-	-182,163	182,163	0%
IMPAIRMENT OF INVENTORY	-	1,073,762	-1,073,762	0%
INTEREST ON FINANCE CHARGES	-	54,696	-54,696	0%
LOSS ON SALE OF ASSETS	-	2,656,250	-2,656,250	0%
FOOD AND BEVERAGES	-	-232,200	232,200	0%
STOCK ADJUSTMENTS	-	-2,317,959	2,317,959	0%
LEAVE PROVISION	328,878	352,209	-23,331	-7%
<b>TOTAL EXPENDITURE</b>	<b>1,189,287,744</b>	<b>1,373,967,423</b>	<b>-184,679,679</b>	
<b>NETT SURPLUS/DEFICIT FOR THE YEAR</b>	<b>-86,893,330</b>	<b>112,895,449</b>	<b>-199,788,779</b>	