



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

MUNICIPALITY OF KEEMANSHOOP

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

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REPUBLIC OF NAMIBIA



TO THE HONOURABLE SPEAKER OF THE NATIONAL ASSEMBLY

I have the honour to submit herewith my report on the accounts of the Municipality of Keetmanshoop for the financial year ended 30 June 2008, in terms of Article 127(2) of the Namibian Constitution. The report is transmitted to the Honourable Minister of Finance in terms of Section 27(1) of the State Finance Act, 1991, (Act 31 of 1991) to be laid upon the Table of the National Assembly in terms of Section 27(4) of the Act.

WINDHOEK, June 2010

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF
THE MUNICIPALITY OF KEETMANSHOOP
FOR THE FINANCIAL YEAR ENDED
30 JUNE 2008**

1. INTRODUCTION

The above accounts of the Municipality of Keetmanshoop for the year ended 30 June 2008 are being reported on in accordance with the provisions set out in the State Finance Act, 1991 (Act 31 of 1991) and the Local Authorities Act, 1992 (Act 23 of 1992).

The firm BDO of Windhoek has been appointed in terms of Section 26(2) of the State Finance Act, 1991, to audit the accounts of the Municipality on behalf of the Auditor-General and under his supervision.

Figures in the report are rounded off to the nearest Namibian Dollar.

2. FINANCIAL STATEMENTS

The Municipality's financial statements were submitted to the Auditor-General by the Accounting Officer in compliance with Section 87(1) of the Local Authorities Act, 1992, **except that they were only signed on 3 December 2009 instead of within three months after year-end as required by the Act.** The audited financial statements are in agreement with the general ledger and are filed in the Office of the Auditor-General. The abridged balance sheet at Annexure A is a true reflection of the original. The following annexures are also attached to this report:

Annexure B:	Abridged income statement
Annexure C:	Cash flow statement
Annexure D:	Notes to the financial statements

3. SCOPE OF THE AUDIT

The Accounting Officer of the Municipality is responsible for the preparation of the financial statements and for ensuring the regularity of the financial transactions. It is the responsibility of the Auditor-General to form an independent opinion, based on the audit, on those statements and on the regularity of the financial transactions included in them and to report his opinion to the National Assembly.

The audit as carried out by the said firm, included:

- (a) Examination on a test basis of the evidence relevant to the amounts, disclosure and regularity of financial transactions included in the financial statements;
- (b) assessment of the significant estimates and judgements made by the Accounting Officer of the Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed; and
- (c) evaluation of the overall adequacy of the presentation of information in the financial statements.

The audit was planned and performed so as to obtain all the information and explanations considered necessary to provide sufficient evidence to give reasonable assurance that:

- The financial statements are free from material misstatement, whether caused by error, fraud or other irregularity;
- in all material respect, the expenditure and income have been applied to the purposes intended; and

- The financial transactions conform to the authorities which govern them.

4. AUDIT OBSERVATIONS AND COMMENTS

4.1 Financial results

The Council made a surplus of N\$ 3 433 636 (2007: N\$ 1 688 989). The accumulated deficit as at year-end amounted to N\$ 8 700 077 (2007: N\$ 20 577 005).

4.2 Existence and completeness of property, plant and equipment

The Municipality could not provide the auditors with a detailed fixed asset register as at 30 June 2008 and consequently they could not verify the existence and completeness of property, plant and equipment.

4.3 Arrear external loans

External loans were, as in previous years, not repaid but the repayments are provided for as arrear loan instalments. The total instalments in arrears amount to N\$ 11 911 244 (2007: N\$ 11 098 968). (See note 8 of Annexure D).

4.4 Value Added Taxation

The Municipality does not declare its zero rated and exempt sales as per the requirements of the Value Added Tax Act. Financial losses could be incurred due to non-compliance.

4.5 Trade receivables – Overdue accounts

The trade debtors balance increased from N\$ 12 471 039 in 2007 to N\$ 16 264 680 in current year and the average debtors outstanding in days increased with 7 days. This indicates that the Municipality is having difficulties in collecting its debts.

4.6 Differences between capital statements and property, plant and equipment

Council corrected depreciation previously charged to accumulate deficit instead of the two capital accounts, Contribution from Revenue and General Capital, during the year under review. However the total adjustment was made to Contributions from Revenue instead of to the two capital accounts. The Contributions from Revenue is now understated by N\$ 2 286 364 and the General Capital overstated by the same amount. This should be corrected in the next financial year.

4.7 Depreciation

No depreciation was provided for during the financial year. Fixed assets are thus overstated.

4.8 Existence and completeness of cash and bank

Included in the bank and cash balance is a balance of N\$ 706 114 relating to money allegedly stolen by staff members in prior year. The probability of recovering the balance is very remote and thus the balance, as recommended in the previous report, is unrecoverable and should be written off against revenue. In addition, the auditors could not be provided with the cash up sheets for the year and as a result, they could not verify the completeness and existence of receipts.

4.9 Existence and completeness of expenditures

The auditors could not obtain supporting documentation for town planning expenses totalling N\$ 352 919. Furthermore, water purchases amounting to N\$ 984 155 could not be traced to the general ledger.

4.10 Housing Fund

There were adjustments made to the opening balance which the auditors could not verify. Secondly, they could not obtain a list of advances made in current year. As a result they could not verify the existence, accuracy, valuation and completeness of these advances.

4.11 Completeness and existence of Leave Pay Provision

The Municipality could not provide the auditors with a calculation on how they determine their leave pay provision. There were also movements on the account which could not be explained and as a result they could not satisfy themselves on the existence and completeness of the balance of N\$ 436 586.

4.12 Distribution losses - Water

The Municipality could not provide the auditors with a list of units sold during the year and as a result they could not determine the distribution losses for current year.

4.13 Going concern considerations

The Municipality has been unable to meet its liabilities, most notably, there are loan instalments totalling N\$ 11 911 244 (2007: N\$ 11 098 968) owed to the government. The Municipality's accumulated deficit however decreased with N\$ 11 876 928 to N\$ 8 700 077. Temporary advances to revenue remained high, with a balance of N\$ 5 757 834 as at year end.

The ability of the Municipality to continue as a going concern in the future is dependent on a number of factors, some of which have been highlighted in the preceding notes above.

The most significant of these are:

- The profitability of operations
- Turn-around strategy
- The recovery of long outstanding trade receivables
- Further negotiations with the Government to either further extend the postponement of loan redemption payments in arrears, or to write them off.
- The extension of existing levels of finance by major trade payables.

4.14 Opening balance adjustments

The Council could not provide the auditors with supporting documentation or explanations for the adjustments made on the opening balances. It was thus not possible to verify these adjustments.

5. ACKNOWLEDGEMENT

The assistance and co-operation given by the staff of the Municipality during the audit is appreciated

6. FINANCIAL RESULTS

The results of the various operations and transactions on the Revenue Account for the year are as follows:

	Revenue	Expenditure	Surplus/ (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated deficit 01/07/2007				(20 577 005)
General accounts				
Non-profitable services	21 218 212	19 474 054	1 744 158	
Self-supporting services	7 649 937	5 865 485	1 784 452	
Trade accounts				
Electricity	1 718 926	1 525 697	193 229	
Water	9 554 077	9 842 280	(288 203)	
	40 141 152	36 707 516	3 433 636	
Surplus for the year				3 433 636
Adjustments and appropriations (Note 11, Annexure D)				8 443 292
Accumulated deficit 30/06/2008				(8 700 077)

7. CURRENT BANK ACCOUNT

The favourable cash-book balance at 30 June 2008 amounted to N\$ 895 504 (2007: N\$ 1 169 251 - unfavourable). The total outstanding cheques at 30 June 2008 amounted to N\$ 2 084 838 (2007: N\$ 2 025 913), N\$ 706 114 money allegedly stolen by one of the staff members in the prior year, resulting in the favourable bank statement on the current account which amounted to N\$ 2 274 228 (2007: N\$ 466 553).

8. INVESTMENTS AND INTEREST PROCEEDS

The investments as at 30 June 2008 and the interest thereon were as follows:

Institution	2008		2007	
	Investment	Interest	Investment	Interest
	N\$	N\$	N\$	N\$
Invested at:				
Commercial banks	520 454	184 647	2 464 478	184 647
Nampost	133 081	8 075	123 468	8 075
	653 535	192 722	2 587 946	192 722
Distribution:				
Fixed Property Fund	-	-	-	54 787
Housing Fund - Keetmanshoop	260 249	53 069	-	12 403
Housing Fund - Tseiblaagte	-	-	-	9 425
Housing Fund - Kronlein	-	-	-	12 765
Capital Development Fund	-	-	-	42 546
Revenue Account	393 286	780 195	2 587 946	60 796
	653 535	833 264	2 587 946	192 722

9. FUND ACCOUNTS

The position of internal Funds and Reserves is shown in note 7 at annexure D.

10. TRADE ACCOUNTS

10.1 Operating results

The results for the financial year under review and the previous year were as follows:

	Electricity		Water	
	2008	2007	2008	2007
	N\$	N\$	N\$	N\$
Royalties/Sales	1 710 559	1 671 339	9 542 772	10 438 280
Cost of bulk purchases	-	-	(8 399 008)	(9 923 118)
Gross profit	1 710 559	1 671 339	1 143 764	515 162
Other income/ (expenses)	(1 517 330)	(1 616 463)	(1 371 967)	(1 524 447)
NET PROFIT/ (LOSS)	193 229	54 876	(228 203)	(1 009 285)
Gross profit on bulk purchases	N/A	N/A	13.6%	4.9%
(Deficit) percentage on bulk purchases	N/A	N/A	(2.7%)	(9.7%)

The loss on water decreased during the year, the Municipality should however strive to turn the loss into a surplus.

10.2 Water distribution results, in cubic meters.

	2008	2007
	N\$	N\$
Total cubic meters sold for the year	*-	1 106 240
Total cubic meters bought for the year	(1 582 321)	(1 704 882)
Loss (cubic meters)	-	(598 642)
Percentage loss on sales	-	54.1%
Percentage loss on purchases	-	35.1%

* The cubic meters of water sold during the year could not be provided by the Council. Seeing that the water distribution losses was very high the previous year, the Office of the Auditor-General see this omission in a very serious light. Council should put measures in place to ensure that the required information is always available.

11. SELF-SUPPORTING EXTERNAL SERVICES

The net result of these services, compared with the previous year, is as follows:

	Revenue	Expenditure	Surplus/ (Deficit)	Surplus/ (Deficit)
	2008	2008	2008	2007
	N\$	N\$	N\$	N\$
Official residences	-	-	-	211 770
Commonage and pound	270 832	378 077	(107 245)	(129 551)
Sewerage	3 111 296	2 154 089	957 207	905 085
Health and sanitation	4 236 567	3 202 941	1 033 626	259 544
Caravan Park	31 242	130 378	(99 136)	(213 761)
	7 649 937	5 865 485	1 784 452	1 033 087

As mentioned in previous reports, Council should strive to run all these services as self-supporting.

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No such expenditure was revealed.

13. SUSPENSE ACCOUNTS

There is a credit balance of N\$ 20 735 disclose as a suspense account for sundry deposits. This compares as follows with the previous year:

Suspense account	2008	2007
	N\$	N\$
Build Together	-	(904 811)
Informal settlement	-	(961 543)
Sundry deposits	(20 735)	(15 535)
Housing Fund - Tseiblaagte	-	(71 689)
General	-	4 268
Total	-	
	(20 735)	(1 949 310)

The Council is congratulated in their efforts to clear the suspense accounts during the current year.

14. IRREGULARITIES AND LOSSES

14.1 No irregularities were noted and reported in current year.

14.2 No losses were reported.

15. CAPITAL PROJECTS

Capital expenditure for the 2008 financial year amounted to N\$ 3 274 113 (2007: N\$ 2 204 409) and comprise of the following:

	FINANCED BY			2008	2007
	Capital Account	Loan Account	Revenue Account	TOTAL	TOTAL
	N\$	N\$	N\$	N\$	N\$
CEO	-	-	13 480	13 480	354 713
Human resources	-	-	20 679	20 679	-
Administration	-	218 141	-	218 141	46 974
Council disbursement	-	-	-	-	27 902
Fire brigade	-	1 322 854	7 429	1 330 283	-
General administration	(11 040)	-	42 268	31 228	-
Parks, plains and sports grounds	(18 597)	-	164 113	145 516	192 867
Public health	-	-	-	-	5 699
Informal settlement	176 496	-	-	176 496	-
Sanitation	(110 950)	-	195 835	84 885	447 007
Streets	225 041	-	16 894	241 935	824 263
Town engineer	-	-	16 656	16 656	2 240
Workshop	-	-	8 572	8 572	-
Water reticulation	(11 673)	63 158	32 386	83 871	2 240
Traffic control	-	-	-	-	5 699
Treasury	-	-	78 746	78 746	13 900
Electricity reticulation	-	-	823 625	823 625	280 905
	249 277	1 604 153	1 420 683	3 274 113	2 204 409

The general capital additions should be N\$ 176 496. An unexplained difference of N\$ 72 781 existed. Transfers of assets relating to fully redeemed loans of N\$ 342 005 were not transferred to revenue assets. As previously reported, fully redeemed loans in prior years were transferred to general capital assets instead of revenue contributions. These transfers were not yet done and should be done in the next financial year.

According to the capital statements expenditure related water reticulation is N\$ 32 386 while the vote indicates N\$ 31 773. The same occurred with electricity reticulation where the capital statement is stating N\$ 823 625 whereas the vote indicates N\$ 741 201. Council was unable to provide reasons for these differences.

As reported in paragraph 4.2, no detailed fixed asset register could be availed to the auditors.

16. STUDY LOANS/BURSARIES

The Municipality awarded bursaries totalling N\$ 24 682. A breakdown of the amount to indicate beneficiaries could however not be provided by the Municipality.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No contributions, grants and financial aid were made during the year.

18. COMPENSATION PAYMENTS

No compensation payments were made during the year.

19. VISITS TO FOREIGN COUNTRIES

No visits to foreign countries were undertaken.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received during the year.

21. GIFTS AND DONATIONS BY THE LOCAL AUTHORITY

The Municipality made donations totalling N\$ 4 776. A breakdown of the amount could not be provided by the Municipality.

22. TRANSFER OF PROPERTY TO/FROM THE LOCAL AUTHORITY

No property was transferred to/or from the Local Authority.

23. DEBTORS/CREDITORS

23.1 Debtors on 30 June 2008 comprise the following:

	2008	2007
	N\$	N\$
TRADE DEBTORS		
Rates/services	16 264 680	12 471 039
Customer deposits	(526 080)	(523 707)
Provision for bad debts	(7 328 622)	(7 333 208)
	8 409 978	4 614 124
SUBSIDIES RECEIVABLE		
Southern Electricity Company	-	150 759
OTHER		
Suspense accounts	-	4 268
VAT	1 765 367	1 296 431
Sundry debtors	292 608	-
Natis	-	75 466
	10 467 953	6 141 048
Analysis of services and general debtors:		
Average monthly levy	3 345 096	2 579 589
Debtors	16 264 680	12 471 039
Average credit terms in days	148 days	141 days

The debtors' collection period has worsened from 141 days to 148 days, which implies that the Council is taking a week longer to collect from debtors than was the case in the previous year. The normal standard collection period should be 30 days; the Council is advised to apply more pressure on its residents so that they pay on time.

As was highlighted in the prior year, the increase in debtors' collection days is a matter of concern, the analysis above shows that more and more of the Council's resources are locked in none paying debtors.

It is imperative to note that the inability of the Council to collect the arrears had an adverse impact on the operating cash flow of the Municipality.

23.2 Creditors on 30 June 2008 comprise the following:

	2008	2007
	N\$	N\$
Trade creditors	3 902 907	4 368 676
Deposits	20 735	-
Provisions	436 586	566 513
Suspense accounts	-	1 953 578
	4 360 228	6 888 767

24. ASSESSMENT RATES

Proceeds from assessment rates amounted to N\$ 8 522 798 (2007: N\$ 8 049 033), of which an amount of N\$ 426 141 (2007: N\$ 402 497) was paid to the Regional Council.

The tariffs varied between the different townships and areas from between N\$ 0.115 to N\$ 0.130 per dollar on site valuations and N\$ 0.012 to N\$ 0.013 per dollar on the valuation of improvements.

25. LOANS

25.1 External loans

The balances due to third parties were as follows:

	2008	2007
	N\$	N\$
CAPITAL SECTION AND FUNDS		
Capital section	7 576 422	6 530 455
Fixed Property Fund	171 562	179 623
Payments in arrear	10 286 421	9 784 427
Interest in arrear	663 889	445 845
HOUSING FUNDS		
Keetmanshoop	155 741	182 161
Kronlein	98 213	127 030
Tseiblaagte	240 302	256 847
Payments in arrear	960 934	868 696
REVENUE SECTION	-	6 136
	20 153 484	18 381 220

The balances as detailed above correspond to the balances per actuarial tables. As also recommended in previous reports, the Council should reconsider its policies towards the repayments of loans. All loan assets have been capitalised and no loan assets are disposed of before the loan is completely redeemed.

25.2 Due to the Municipality

	2008	2007
	N\$	N\$
HOUSING FUNDS Tseiblaagte, Keetmanshoop and Kronlein	2 668 430	158 707
FIXED PROPERTY FUND Land owners	-	(293)
ELECTRICAL WIRING	-	21 637
	2 668 430	180 051

25.3 Loans written off

No loans were written off in current year.

26. SALE OF ERVEN

The Municipality could not provide the auditors with the list of ervens sold during the year.

27. PROPERTY SOLD ON AN INSTALMENT BASIS

No erven was sold on an instalment basis.

28. TARIFF ADJUSTMENTS

Tariff adjustments were applied in accordance with the relevant Official Government Notices.

29. APPROVALS**29.1 Revenue written off**

No revenue was written off in current year.

29.2 Excess on approved budget

The auditors could not obtain the budget for the 2007/2008 financial year from the Municipality. This is seen in a serious light by the Office of the Auditor-General. The Council should see to it that an approved budget is available at all times.

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles

	Sedan vehicles		LDV and kombi's		Heavy vehicles (Lorries and busses)	
	Number	Value	Number	Value	Number	Value
On hand 01/07/2007	6	N\$ 277 685	12	N\$ 99 570	19	N\$ 484 957
Additions	3	344 457	-	-	1	1 259 696
Depreciation	-	-	-	-	-	-
On hand 30/06/2008	9	622 142	12	99 570	20	1 744 653
Kilometres Travelled		*		*		*
Fuel Consumption		*		*		*

* The Municipality could not provide the auditors with a fixed asset register nor any information on distance travelled and fuel consumed. As a result the auditors only added the current year's additions to prior year closing balance to determine the closing value of the vehicles since assets were not depreciated in current year.

30.2 Inventory

The inventory comprises of stores, fuel and lubricants of which the total value amounted to N\$ 393 206 at 30 June 2008 (2007: N\$ 276 819). No provision was made for slow moving/obsolete inventories.

31. SPECIAL INVESTIGATIONS

No special investigations were carried out during the year.

32. GENERAL

The accounting and internal controls applied by the Municipality are not sufficient.

33. FORMAL AND INFORMAL QUERIES

33.1 **Formal** queries are embodied in this report.

33.2 **Informal** queries addressed to the Chief Executive Officer consist of:

- Bad and doubtful debts;
- Existence of fixed assets;
- Arrear external loans
- Trade receivables - Overdue Accounts
- Value added tax
- Existence and completeness of bank and cash
- Existence and completeness of expenditures
- Maintenance of minutes
- Unavailability of documentation
- Differences in capital statements and asset accounts

34. QUALIFIED AUDIT OPINION

The accounts of the Municipality of Keetmanshoop for the financial year ended 30 June 2008, summarized in Annexure A to D, were audited by me in terms of the provisions of Section 85 of the Local Authorities Act, 1992, read with Section 25(1) (b) of the State Finance Act, 1991.

The audit opinion has been qualified due to the following reasons

- The Council could not provide a fixed asset register.
- No depreciation was provided for during the year. Therefore fixed assets are overstated.
- The amount of N\$ 706 114 which is included in the bank balance represents allegedly stolen money. The recoverability of this money is remote.
- Cash-up sheets for the year could not be provided therefore the completeness and existence of receipts could not be verified.
- Supporting documents related to town planning – N\$ 352 919 and water purchases – N\$ 984 155 could not be provided for audit purposes.
- The opening balance of the Housing Fund was adjusted from the previous year's closing balance which the auditors could not identify a reason for.
- No formula could be provided on how the Council calculate the leave pay provision. The movement from N\$ 501 513 of the prior year to N\$ 436 586 the current year could also not be explained.
- The Council has been unable to meet its liabilities. The biggest creditor is the Central Government with an outstanding amount of N\$ 11 911 243. It is doubtful if the Council would be able to honour this commitment.
- No supporting documentation or explanations for the adjustments made in the opening balances could be provided.

Except for the effects of any adjustments which might have been necessary as mentioned above, in my opinion, these financial statements fairly present the financial position of the Municipality at 30 June 2008, and the results of operations and cash flows for the year then ended in accordance with generally accepted accounting practice.

WINDHOEK, June 2010

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

BALANCE SHEET AS AT 30 JUNE 2008

	Notes	2008	2007
ASSETS		N\$	N\$
Non-current assets		30 857 973	27 029 893
Property, plant and equipment	2	27 536 008	24 261 895
Investments	3	653 535	2 587 946
Loans	4	2 668 430	180 052
Current assets		11 756 964	6 733 873
Inventory	5	393 206	276 819
Accounts receivable	6	10 467 953	6 141 048
Cash and bank balances	9	895 805	-
Unspent loan monies		-	316 006
TOTAL ASSETS		42 614 937	33 763 766
EQUITY AND LIABILITIES			
Equity		18 101 225	7 326 828
Funds	7.1	26 801 302	27 903 833
Accumulated deficit	7.2	(8 700 077)	(20 577 005)
Non-current liabilities		8 242 240	7 282 253
Interest bearing borrowings	8	8 242 240	7 282 253
Current liabilities		16 271 472	19 154 685
Bank overdraft	9	-	1 166 951
Accounts payable	10	4 360 228	6 888 767
Short term portion of interest bearing borrowings	8	11 911 244	11 098 967
TOTAL EQUITY AND LIABILITIES		42 614 937	33 763 766

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	<u>2008</u>	<u>2007</u>
		N\$	N\$
INCOME		39 360 957	32 381 683
EXPENDITURE		<u>(36 707 516)</u>	<u>(30 753 490)</u>
OPERATING LOSS FOR THE YEAR		2 653 441	1 628 193
INVESTMENT INTEREST EARNED FOR FUND ACCOUNTS		<u>80 195</u>	<u>60 796</u>
NET PROFIT FOR THE YEAR		3 433 636	1 688 989
Add : Appropriation and adjustments	11	<u>8 443 292</u>	<u>(1 309 671)</u>
RETAINED INCOME/(LOSS) FOR THE YEAR		11 876 928	379 318
- Beginning of the year		<u>20 577 005)</u>	<u>(20 956 323)</u>
- End of the year		<u>(8 700 077)</u>	<u>(20 577 005)</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008	2007
		N\$	N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		35 034 052	29 942 766
Cash paid to suppliers		(30 909 150)	(31 157 474)
Cash (Utilised)/generated by operations	12	4 124 902	(1 214 708)
Investment income		780 195	192 723
Movement in Fund accounts			
- Fund accounts - increase		(1 102 531)	3 811 817
Cash generated by operating activities		<u>3 802 566</u>	<u>2 789 832</u>
CASH GENERATED BY INVESTING ACTIVITIES			
		(3 828 080)	(2 142 725)
Capital expenditure		(3 274 113)	(2 204 409)
Decrease in investments		1 934 411	57 951
Increase in secured loans		(2 488 378)	3 733
CASH UTILIZED BY FINANCING ACTIVITIES			
Increase/(Decrease) in long term liabilities		<u>1 772 264</u>	<u>(107 574)</u>
Net increase in cash and cash equivalents		1 746 750	539 533
Cash and cash equivalents at the beginning of the year		<u>(850 945)</u>	<u>(1 390 478)</u>
Cash and cash equivalents' at the end of the year	9	<u>895 805</u>	<u>(850 945)</u>

MUNICIPALITY OF KEETMANSHOOP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

1. ACCOUNTING POLICIES

The financial statements set out in Annexures A, B and C, are prepared on the historical cost basis and incorporate the following principal accounting policies which are consistent with those applied in the previous year:

1.1 Property, plant and equipment

Property, plant and equipment acquired with loan funds are stated at cost and no depreciation is provided thereon until the loan is fully redeemed. All other items of property, plant and equipment are stated at cost or valuation, and except fixed property, the cost or valuation of these items of property, plant and equipment is depreciated on the reducing-balance basis over their expected useful lives.

1.2 Inventories

Inventories are valued at the lower of landed cost or net realisable value on a first-in first-out basis.

1.3 Fund accounts

The following Funds were maintained:

Capital Development Fund

The fund was created to make provision for unforeseen expenditure as approved by the Council.

Fixed Property Fund

Proceeds from the sale of land that has been developed by the Municipality, accumulates in this Fund. Costs incurred on the development of land are charged to this Fund.

Housing Fund

The purpose of this Fund is to provide for housing loans. Income to this Fund is transferred from the general income account, external loans from government and interest on investments and loans.

1.4 Capital redemption on loans

Capital redemption on external loans is charged against income. A similar amount is credited to the Loan Redemption account for the duration of the loans. As and when the loan is fully redeemed, the loan amount is to be transferred to the Revenue Contribution Capital Account.

MUNICIPALITY OF KEETMANSHOOP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (continued)

	2008	2007
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Consists of :		
Property, plant and equipment	27 536 008	24 261 895
Financed by :		
Revenue account	12 938 293	11 517 610
General capital	3 788 921	3 612 425
Loans assets	10 808 794	9 131 860
	27 536 008	24 261 895
3. INVESTMENTS		
Allocated to:		
Commercial banks	520 454	2 464 478
Nampost	133 081	123 468
	653 535	2 587 946
4. LOANS		
LOANS GIVEN AGAINST FIRST MORTGAGE BONDS OVER:		
HOUSING FUNDS		
- Tseiblaagte, Keetmanshoop and Kronlein	2 668 430	158 708
FIXED PROPERTY FUND		
- Land owners	-	(293)
ELECTRICAL WIRING LOANS GIVEN	-	21 637
	2 668 430	180 052
5. INVENTORY		
Inventories consist of :		
Fuel and lubricants	113 208	23 024
Stores	279 998	253 795
	393 206	276 819

MUNICIPALITY OF KEETMANSHOOP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (continued)

	2008	2007
	N\$	N\$
6. ACCOUNTS RECEIVABLE		
Trade debtors	16 264 680	12 471 039
Consumer deposits	(526 080)	(523 707)
Provision for doubtful debts	(7 328 622)	(7 333 208)
	8 409 978	4 614 124
SUBSIDIES RECEIVABLE		
Southern Electricity Company	-	150 759
OTHER	2 057 975	1 376 165
Suspense accounts	-	4 268
Value Added Taxation	1 765 367	1 296 432
Sundry debtors	292 608	
Natis	-	75 465
	10 467 953	6 141 048
7. FUNDS AND ACCOUNTS		
7.1 Internal Funds	26 801 302	27 903 833
Housing Fund	1 811 819	159 401
Capital Development Fund	1 689 533	1 689 533
Fixed Property Fund	2 555 316	2 477 361
Unallocated interest	-	164 069
Loans redeemed	3 232 372	2 917 409
Revenue contributions	*10 651 924	14 597 266
General Capital contributions	*6 860 338	5 898 794
7.2 Unappropriated surplus/(deficit)		
Accumulated funds	(8 700 077)	(20 577 005)
Total	18 101 225	7 326 828

* See paragraph 4.6

MUNICIPALITY OF KEETMANSHOOP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (continued)

	2008	2007
	N\$	N\$
8. INTEREST BEARING BORROWINGS		
Capital section (Rates varying from 1% -14%)	18 698 294	16 940 350
Housing Fund (Rates varying from 1.5%-11.3%)	1 455 190	1 434 734
Capitalised deferred expenses	-	6 136
Less: Short-term portion	(11 911 244)	(11 098 967)
	8 242 240	7 282 253
9. CASH AND CASH EQUIVALENTS		
	895 805	(1 166 951)
Bank	895 505	(1 169 251)
Petty cash	-	2 000
Floats	300	300
Unspent loan monies	-	316 005
	895 805	(850 946)
10. ACCOUNTS PAYABLE		
Trade payables	3 902 907	4 368 676
Provisions	436 586	566 513
Deposits	20 735	-
Suspense accounts	-	1 953 578
	4 360 228	6 888 767
11. ADJUSTMENTS AND APPROPRIATIONS		
Prior years depreciation reversed	5 366 025	-
Creditors	-	(23)
Depreciation for the year	-	(1 268 472)
Other adjustments	3 077 267	-
Overprovision for audit fees	-	4 611
Provision for leave pay - Adjustment	-	(83 656)
10% Deposit housing loans	-	29 774
Store surplus /(shortages)	-	8 095
	8 443 292	(1 309 671)

MUNICIPALITY OF KEETMANSHOOP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (continued)

	2008	2007
	N\$	N\$
12. CASH UTILISED IN OPERATIONS		
Net operating profit	3 433 636	1 688 989
Adjustments (appropriations)	8 443 292	(1 309 671)
Investment income	(780 195)	(192 722)
OPERATIONAL INCOME BEFORE CHANGE IN WORKING CAPITAL	11 096 733	186 596
GENERATION OF WORKING CAPITAL		
(Increase)/Decrease in inventory	(116 387)	2 337
Decrease in accounts receivable	(4 326 905)	(2 306 991)
Depreciation charge for the year	-	1 268 471
Asset transfer errors	-	133 931
Decrease in accounts payable	(2 528 539)	(499 052)
	4 124 902	(1 214 708)