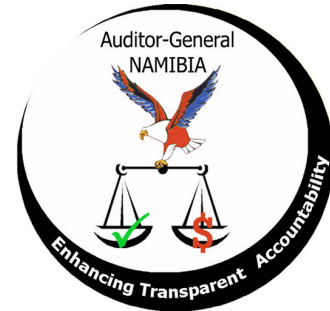




**REPUBLIC OF NAMIBIA**



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE**  
**MUNICIPALITY OF OTJIWARONGO**  
**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 Otjiwarongo 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, February 2009**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

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

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**1. INTRODUCTION**

The above accounts of the Municipality of Otjiwarongo 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 Spencer Steward (Namibia) 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, but not within three months 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 the financial transactions included in the financial statements;
- (b) assessment of the significant estimates and judgements made by the Accounting Officer of the Municipality 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 respects, 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 Municipality made a deficit of N\$ 2 092 565 (2007: N\$ 1 292 601), before any transfers to Funds during the financial year. Council should determine the causes for such continuous deficits and implement measures to return to profitability again.

##### **4.2 Existence of property, plant and equipment**

The auditors could not verify the existence of property, plant and equipment due to the inadequate descriptions on the asset registers. The assets also do not have identification numbers to enable identification.

They could also not verify the validity and accuracy of additions to assets amounting to N\$ 424 941 due to lack of supporting documentation.

##### **4.3 Depreciation of property, plant and equipment**

The depreciation charge for the year was calculated using the straight line method and this is not in line with the Council's policy which prescribes the reducing balance method. This implies that the fixed assets and related reserves are misstated, however, the financial effect could not be ascertained.

##### **4.4 Loans redeemed**

Loans amounting to N\$ 1 976 403 were redeemed in full during the year, however, the related assets were not transferred to revenue assets. This implies that the capital statements are misstated by the amount and also the depreciation charge for the year is understated as depreciation begins upon transfer from loan assets.

##### **4.5 Differences on capital charges**

The redemption amount charged to the income statement is less than the amount per the loan schedule by N\$ 639 132. Management could not identify the cause of the difference.

##### **4.6 Unauthorised over-expenditures**

The auditors could not verify Council approval for over-expenditures amounting to N\$ 1 619 437.

##### **4.7 Valuation of Censored investment**

The value of the Censored investment which is in the Municipality's financial statements is more than the share of assets in Censored by N\$ 2 548 164. This implies that the investment could be overstated. As a result the auditors could not satisfy themselves regarding the valuation of the Censored investment.

##### **4.8 Inadequate consumer deposits**

A comparison of the average monthly bills to deposits held for selected consumers revealed that the deposits held by the Municipality are not adequate. This implies that the deposits will not cover unpaid bills in cases of default by consumers.

## 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\$
<b>Accumulated surplus 01/07/2007</b>				4 157 787
<b>General services</b>				
Non – profitable	11 104 224	24 943 072	( 13 838 848)	
Self – sustaining	5 938 806	4 832 219	1 106 587	
<b>Trade accounts</b>				
Electricity	7 024 548	1 193 557	5 830 991	
Water	16 514 988	11 706 283	4 808 705	
	40 582 566	42 675 131	(2 092 565)	
Deficit for the year				(2 092 565)
Adjustments and appropriations (Note 9, Annexure D)				42 218 901
<b>Accumulated surplus 30/06/2008</b>				<b>44 284 123</b>

The losses on non-profitable services continue to be high. Council should investigate the causes and implement measures to reduce the losses.

## 7. CURRENT BANK ACCOUNT

The favourable bank statement balance of the current bank account amounted to N\$ 1 012 749 (2007: N\$ 596 608) and the unfavourable cash-book balance was N\$ 3 246 739 (2007: N\$ 71 717). Outstanding cheques at 30 June 2008 amounted to N\$ 4 199 576 (2007: N\$ 668 325).

## 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\$
<b>Invested at:</b>				
Insurance companies	2 484 327	506 963	1 977 364	-
Commercial banks	25 922 398	2 851 024	31 145 104	2 602 536
	<b>28 406 725</b>	<b>3 357 987</b>	<b>33 122 468</b>	<b>2 602 536</b>
<b>Distribution</b>				
Housing Fund	674 191	-	767 857	50 384
Fixed Property Fund	2 771 454	289 123	2 850 928	259 493
Renewal Fund	9 922 165	839 497	9 014 856	584 743
Capital Reserve Fund	363 141	167 899	(2 675 393)	-
Betterment Fund	4 517 698	335 799	393 660	44 027
Income Account	(3 201 570)	-	(1 252 005)	5 981
Capital Development Fund	877 082	231 365	3 594 951	298 937
Municipal Study Loan Fund	37 752	-	8 132	-
Municipal Vehicle Fund	-	-	122 549	-
Erven Trust Fund	10 749 285	839 497	10 116 303	653 794
Tariff Stabilisation Fund	-	-	1 225 742	83 164
Housing Levy Fund	-	-	1 111 386	75 406
Personnel Housing Scheme	-	-	4 203 760	278 093
Build Together Fund	(518 223)	-	539 442	72 770
Single Quarter Housing Project	301 603	16 790	1 275 239	77 903
Disaster Fund	221 764	-	222 790	15 116
Social Upliftment Fund	80 219	167 899	290 276	18 968
Capacity Building Fund	56 784	167 899	81 555	-
Marketing and Promotion Fund	188 427	167 899	(4 036)	-
Social Housing Fund	1 364 953	134 320	1 234 476	83 757
	<b>28 406 725</b>	<b>3 357 987</b>	<b>33 122 468</b>	<b>2 602 536</b>

The Housing Fund is shown as N\$ 1 767 230 (2007: N\$ 1 902 913) in the balance sheet which includes external loans owed to the Government to an amount of N\$ 7 717 (2007: N\$ 162 278). This is reflected in the Fund statement as drawn up by the Council. The auditors were unable to confirm this loan balance with the external loan statements of Council. As reported in the prior year, corrective measures should be taken in the next financial year.

The total balance of investments as per balance sheet amounts to N\$ 71 473 694 (2007: N\$ 34 522 468). The difference of N\$ 43 066 969 (2007: N\$ 1 400 000) to the above totals represents an investment in CENORED. This represents a 15% share in CENORED. This investment is overstated at year end as explained in paragraph 4.7.

## 9. FUND ACCOUNTS

The position of internal Funds and Reserves is shown in note 6 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\$
Sales (Electricity – Censored royalty)	7 024 548	8 860 905	15 888 633	14 055 962
Cost of bulk purchases	-	-	(9 406 727)	(9 172 695)
Gross profit	7 024 548	8 860 905	6 481 906	4 883 267
Other income/ (expenses)	(1 193 557)	(1 337 476)	(1 673 201)	(1 761 602)
<b>Net surplus</b>	<b>5 830 991</b>	<b>7 523 429</b>	<b>4 808 705</b>	<b>3 121 665</b>
Gross profit on bulk purchases	-	-	68.9%	53.2%
Net surplus percentage on bulk purchases	-	-	51.1%	34.0%
Net surplus percentage on total expenditure	-	-	43.4%	28.1%

Council is commended for good results being achieved on the water service.

### 10.2 Distribution losses

Water distribution losses were as follows:

	Water	
	2008	2007
	m <sup>3</sup>	m <sup>3</sup>
Bought	1 432 994	1 404 784
Sold	1 238 965	1 215 367
Distribution loss	<b>194 029</b>	<b>189 417</b>
Loss as percentage of units bought	13.5%	13.4%

The water losses are still too high. Management should endeavour to reduce them to levels below 10%.

## 11. SELF-SUPPORTING EXTERNAL SERVICES

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

	Revenue	Expenditure	Surplus/ (Deficit)	Surplus/ (Deficit)
	2008	2008	2008	2007
	N\$	N\$	N\$	N\$
Sanitation	3 563 565	3 297 647	265 917	674 394
Sewerage	2 375 241	1 534 572	840 668	578 365
	<b>5 938 806</b>	<b>4 832 219</b>	<b>1 106 585</b>	<b>1 252 759</b>

Council has successfully maintained the sanitation and sewerage services profitable.

## 12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

The auditors could not verify approval for over-expenditures on some votes. See item 4.6 of this report.

### 13. SUSPENSE ACCOUNTS

The suspense accounts are reconciled on a regular basis.

### 14. IRREGULARITIES AND LOSSES

14.1 No irregularities or losses were identified during the period.

### 15. CAPITAL PROJECTS

Capital expenditure for the 2008 financial year amounted to N\$ 8 914 717 (2007: N\$ 6 105 098) and comprises the following:

	Financed by			
	Total 2008	Internal loans	Revenue	Total 2007
	N\$	N\$	N\$	N\$
Emergency Services	71 053	57 864	13 189	146 327
Town Planning	682 721	682 721	-	541 261
Public Buildings	172 153	172 153	-	902 378
Roads and Street Works	1 582 832	1 582 832	-	2 911 635
Parks and Show Grounds	1 085 828	1 085 828	-	-
Administration HR/PRO	16 991	12 690	4 301	-
Finance, Admin and IT	409 888	409 888	-	397 882
Water	4 217 908	4 217 908	-	446 072
Sewerage	82 090	82 090	-	177 746
Sanitation	570 485	570 485	-	37 541
Council	11 739	-	11 739	9 185
Finance	6 000	-	6 000	-
Multi-purpose Centre	1 629	-	1 629	835
HIV South Project	3 400	-	3 400	7 743
General Administration	-	-	-	1 817
Asset Management	-	-	-	9 000
Orphans and vulnerable children	-	-	-	4 231
Engineering	-	-	-	361 014
Workshop	-	-	-	7 996
Community development	-	-	-	142 462
	<b>8 914 717</b>	<b>8 874 459</b>	<b>40 258</b>	<b>6 105 125</b>

Loans amounting to N\$ 1 976 403 were redeemed in full during the year, however, the related assets were not transferred to revenue. Refer paragraph 4.4.

### 16. BURSARIES

No bursaries were granted during the year.

### 17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No contributions or grants were made and no financial assistance was given during the year.



## 18. COMPENSATION PAYMENTS

No compensation payments were made during the year.

## 19. VISITS TO FOREIGN COUNTRIES

No expenditure was incurred on visits to other countries during the year under review.

## 20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received during the year.

## 21. GIFTS AND DONATIONS BY (TO) THE LOCAL AUTHORITY

21.1 No donations were paid by the Municipality in the year under review.

21.2 The Municipality received the following gifts/donations:

Nature of gifts/donation	Value	Beneficiary
Donations	(157 880)	Home Based Care
Donations	(139 583)	HIV/AIDS Awareness
Donations	(77 339)	Orphans and vulnerable children
	<b>(374 802)</b>	

## 22. TRANSFER OF PROPERTY TO/FROM THE GOVERNMENT

No property was transferred to/or from the Government.

## 23. DEBTORS/CREDITORS

23.1 Debtors on 30 June 2008 comprise the following:

	2008	2007
	N\$	N\$
Consumers	17 559 192	17 334 721
Sundry debtors	1 217 072	595 805
	18 776 264	17 930 526
Less: Provision for bad debts	(5 000 000)	(5 000 000)
	<b>13 776 264</b>	<b>12 930 526</b>
<b>Analysis of services and general debtors:</b>		
Average monthly levy	3 137 014	2 994 215
Debtors	17 559 192	17 334 721
Average credit terms in days	170 days	176 days
Consumer deposits	1 138 489	1 004 022
Percentage of deposits in relation to debtors	6.48%	5.79%

A closer investigation revealed the following:

Of the total debtors balance outstanding as at year end, N\$ 9 867 979 was over 120 days old. This represents 57% of total debtors, an improvement from the prior year rate of 60% and suggests that the Council has increased its collection efforts and this has been shown to be effective.

**23.2** Creditors on 30 June 2008 comprise the following:

	<b>2008</b>	<b>2007</b>
	N\$	N\$
Commitments by purchase and other obligations	1 355 638	1 344 472
Audit fees, provision	50 000	50 000
Work In Progress	-	3 991 351
Sundries	535 631	777 360
Leave and bonus provision	2 868 539	1 724 326
	<b>4 809 808</b>	<b>7 887 509</b>

#### **24. ASSESSMENT RATES**

Proceeds from assessment rates amounted to N\$ 7 760 487 (2007: N\$ 7 005 602), of which an amount of N\$ 387 807 (2007: N\$ 350 500) was paid to the Regional Council. Tariffs determined during the year were N\$ 0.0620 (2007: N\$ 0.0575) per dollar per year on site valuations, N\$ 0.00730 (2007: N\$ 0.00678) per dollar per year on the valuation of improvements.

#### **25. LOANS**

**25.1 External loan** balances, excluding the Housing Fund, due by the Municipality totalled N\$ 3 108 026 at 30 June 2008 (2007: N\$ 3 643 074). (See Note 7 Annexure D). The balances agree with actuarial tables. Loan assets have been capitalised and no loan assets were disposed of before the loan was redeemed. Loan monies were used for the purpose they were obtained for. Arrear loan instalments provided for under current liabilities amount to N\$ 132 669 (2007: N\$ 489 430) as at year end. No interest was provided for on these arrear instalments as at year end.

**25.2 Internal loans** as at 30 June 2008, being N\$ 37 298 818 (2007: N\$ 29 678 895), are not disclosed in the abridged balance sheet. All new internal loans advanced during the year were authorised and all assets financed by internal loans were capitalised.

**25.3 Housing Fund loans were as follows:**

	<b>2008</b>	<b>2007</b>
	N\$	N\$
Balance due to the Government on 18 (2007: 18) loans at interest rates from 1% to 12%.	7 717	162 278

## 25.4 Loans due to the Municipality

	<b>2008</b>	<b>2007</b>
	N\$	N\$
Advances: Build Together	6 078 674	3 916 664
Amount owing on erven sold	481 119	241 050
Housing Advances – Ex loans	218 966	236 425
Municipal Housing Advances	1 274 029	1 336 345
Mobile phones	-	68 044
Single Quarter Advances	4 339 285	4 347 156
Municipal Study Loans	*65 781	102 472
Municipal Vehicle Loans	-	5 728
Clay House Project	381 000	3 023
	<b>12 838 854</b>	<b>10 256 908</b>

\* The Council's balance sheet reflects this amount as N\$ 74 766.

## 26. SALE OF ERVEN

The proceeds of erven and plots sold, which were accounted to the Erven Trust Fund were:

	<b>2008</b>	<b>2007</b>
	N\$	N\$
Erven sold	499 330	1 607 777

## 27. PROPERTY SOLD ON AN INSTALMENT BASIS

No properties were sold on an instalment basis during the year.

## 28. TARIFF ADJUSTMENTS

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

## 29. APPROVALS

The Council authorised bad debt write offs amounting to N\$ 31 000 and approvals for all over-expenditure were obtained.

## 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
		N\$		N\$		N\$
On hand 01/07/2007	9	376 868	18	296 780	23	678 540
Acquisitions	-	-	1	545 000	-	-
	<b>9</b>	<b>376 868</b>	<b>19</b>	<b>841 780</b>	<b>23</b>	<b>678 540</b>
Less: Withdrawals from service	-	-	-	-	-	-
Depreciation	-	(26 238)	-	(21 002)	-	(41 997)
On hand 30/06/2008	<b>9</b>	<b>350 630</b>	<b>19</b>	<b>820 778</b>	<b>23</b>	<b>678 540</b>

No proper records were kept on fuel consumption during the year under review and therefore fuel consumption per litre could not be accurately calculated. The above values are based on the values as reflected in the fixed asset register. The total insured value of the vehicles amounts to N\$ 2 500 000.

### **30.2 Motor vehicle accidents**

No vehicle accidents were reported during the year.

### **30.3 Inventory**

No stock count was performed at year end and consequently no stock balance is reflected in the balance sheet.

## **31. SPECIAL INVESTIGATIONS**

No special investigations were commissioned by the Council.

## **32. GENERAL**

The accounting and internal controls are satisfactory, except where indicated otherwise in this report. The Municipality has implemented controls and are working towards their effectiveness. Much more needs to be done to achieve this.

## **33. FORMAL AND INFORMAL QUERIES**

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

**33.2** Informal queries reported to the Accounting Officer and Town Clerk consisted of:

- VAT on creditors
- Leave pay policy
- Departmental charges
- Investment in Cenored
- Inadequate consumer deposits

### **34. QUALIFIED AUDIT OPINION**

The accounts of the Municipality of Otjiwarongo for the financial year ended 30 June 2008, summarised in Annexures A to D, were audited 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 existence of property, plant and equipment could not be verified as well as additions thereof.
- Depreciation calculations were incorrect.
- Loans redeemed are overstated by N\$ 1 976 403 and contributions from Revenue understated.
- The investment value in Cenored may be overstated by N\$ 2 548 164.

Except for the above-mentioned issues, in my opinion, the financial statements fairly present the financial position of the Municipality at 30 June 2008 and the results of its operations and cash flows for the year then ended.

**WINDHOEK, February 2009**

**JUNIAS ETUNA KANDJEKE  
AUDITOR-GENERAL**

## MUNICIPALITY OF OTJIWARONGO

## BALANCE SHEET AT 30 JUNE

ASSETS	Notes	2008 N\$	2007 N\$
<b>Non-current assets</b>		131 905 834	100 371 939
Property, plant and equipment	2	47 593 286	55 592 563
Loans	3	12 838 854	10 256 908
Investments	4	71 473 694	34 522 468
<b>Current assets</b>		13 781 664	12 935 926
Accounts receivable	5	13 776 264	12 930 526
Cash and cash equivalents		5 400	5 400
<b>TOTAL ASSETS</b>		<b>145 687 498</b>	<b>113 307 865</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>		133 376 720	100 533 266
Capital outlay	6.1	7 186 444	22 270 596
Fund accounts and reserves	6.2	126 190 276	78 262 670
<b>Non-current liabilities</b>		4 114 488	4 669 629
Interest bearing borrowings	7	2 975 999	3 665 607
Consumer deposits		1 138 489	1 004 022
<b>Current liabilities</b>		8 196 290	8 104 970
Accounts payable	8	4 809 808	7 887 509
Bank overdraft		3 246 738	77 717
Short term portion of interest bearing borrowings	7	139 744	139 744
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>145 687 498</b>	<b>113 307 865</b>

## MUNICIPALITY OF OTJIWARONGO

## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	<u>Note</u>	<u>2008</u>	<u>2007</u>
		N\$	N\$
INCOME		40 582 566	38 759 002
EXPENDITURE		<u>(42 675 131)</u>	<u>(40 051 603)</u>
OPERATING LOSS FOR THE YEAR		(2 092 565)	(1 292 601)
INVESTMENT INTEREST EARNED FOR FUND ACCOUNTS		<u>-</u>	<u>-</u>
NET LOSS FOR THE YEAR		(2 092 565)	(1 292 601)
Add : Appropriation and adjustments	9	<u>42 218 901</u>	<u>(660 840)</u>
RETAINED SURPLUS/(LOSS) FOR THE YEAR		40 126 336	(1 953 441)
30 June 2007		<u>4 157 787</u>	<u>6 111 228</u>
30 June 2008		<u><b>44 284 123</b></u>	<u><b>4 157 787</b></u>

## MUNICIPALITY OF OTJIWARONGO

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	<b>Note</b>	<b>2008</b>	<b>2007</b>
		N\$	N\$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash (utilised)/generated by operations		(3 634 233)	1 909 112
Investment income		-	-
Cash (utilised)/generated by operating activities	10	<u>(3 634 233)</u>	<u>1 909 112</u>
<b>CASH GENERATED BY INVESTING ACTIVITIES</b>			
		<u>(6 780 919)</u>	<u>(11 623 206)</u>
Purchase of property, plant & equipment		(8 914 716)	(6 101 317)
Increase in advances		(2 581 946)	(698 449)
Decrease/(increase) in investments		<u>4 715 743</u>	<u>(4 823 440)</u>
<b>CASH UTILIZED BY FINANCING ACTIVITIES</b>			
		<u>7 246 129</u>	<u>10 213 193</u>
Increase in revenue Funds		7 801 270	10 335 279
Decrease in long term liabilities		<u>(555 141)</u>	<u>(122 086)</u>
Net (decrease)/increase in cash and cash equivalents		(3 169 023)	499 099
Cash and cash equivalents at the beginning of the year		<u>(72 317)</u>	<u>(571 416)</u>
Cash and cash equivalents at the end of the year		<u><b>(3 241 340)</b></u>	<u><b>(72 317)</b></u>



## MUNICIPALITY OF OTJIWARONGO

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE

**1. ACCOUNTING POLICIES****1.1 Introduction**

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:

**1.2 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 as follows:

<b>Item</b>	<b>Rate</b>
Land and buildings	5 %
Furniture and equipment	10 %
Vehicles	20 %
Tools and equipment	20 %

**1.3 Fund accounts**

The following Funds were maintained by the Municipality in terms of section 58(1) and 80(4) of the Local Authorities Act (Act 23 of 1992):

**1.3.1 Capital Development Fund**

The purpose of this Fund is to make provision for future capital development projects of the Council. Income is obtained from the Revenue Account as well as a cash donation from Government.

**1.3.2 Renewal Fund**

Its purpose is to provide for the replacement of assets and for additional depreciation on assets which abnormally decrease in value. Income is obtained from the Revenue Account.

**1.3.3 Revenue account**

All monies received by and accrued to and expenses paid, except for allocations to other Funds, are reflected in this account, and are kept in compliance with Section 86(1)(b) of the Act.

## MUNICIPALITY OF OTJIWARONGO

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE  
(continued)**1.3 Fund accounts (continued)**1.3.4 Capital Reserve Fund

The purpose of this Fund is to build up a general capital reserve to ensure that the Municipality's financial position is stable. Income to this Fund is transferred from the general income account.

1.3.5 Erven Trust Fund

Proceeds on sale of property developed by the Municipality accumulate in this Fund. Costs incurred in the development of new townships are charged to this account.

1.3.6 Housing Levy Fund

The purpose of this Fund is to build up a reserve to undertake improvements of the Municipality's infrastructure. The Municipality levies charges to consumers to build up this Fund.

1.3.7 Tariff Stabilisation Fund

The purpose of this Fund is to build up a reserve to prevent unnecessary fluctuation in tariffs for electricity and water during a financial year. Unforeseen increases in electricity and water tariffs and surcharges levied on the electricity accounts of Nampower will be partly subsidised from this account.

1.3.8 Fixed Property Fund

Proceeds on the sale of property developed by the Municipality accumulates to this Fund. Costs incurred in the purchase of land are charged to this account.

1.3.9 Betterment Fund

The purpose of this Fund is to provide for future improvements of municipal assets. Income to this Fund is transferred from the general income account and a certain part of the proceeds of the sale of land.

1.3.10 Housing Scheme Fund

The purpose of this Fund is to provide housing loans to staff. Proceeds of staff houses sold to staff members accumulate in this Fund.

**MUNICIPALITY OF OTJIWARONGO****NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE  
(continued)**

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**1.3 Fund accounts (continued)**1.3.11 Housing Fund (Government)

The purpose of this Fund used to be to provide housing loans to inhabitants as an agent of the Government. Funds are obtained by way of loans granted and interest on investments.

1.3.12 Single Quarter Housing Scheme

The purpose of this Fund is to administer money received from the Government of Namibia to finance the building of houses to replace the single quarters.

1.3.13 Municipal Vehicle Fund

The purpose of this Fund is to provide motor vehicle finances to the Council's management.

1.3.14 Municipal Study Loan Fund

The purpose of this Fund is to provide capacity building and training of staff.

1.3.15 Disaster Fund

The purpose of this Fund is to build up reserves to assist with costs of disasters which may occur at the town.

1.3.16 Social Upliftment Fund

The purpose of this Fund is to build up enough reserves for social activities which will involve the town's community.

1.3.17 Build Together Fund

The purpose of this Fund is to provide housing loans to the low income group. Income to this Fund is derived from Government contributions, repayments, interest on investments and loans.

1.3.18 Capacity Building Fund and Marketing Promotion Fund

No purpose and sources of revenue for these Funds were submitted.

**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.

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

	<b>2008</b>	<b>2007</b>
	N\$	N\$
<b>2. PROPERTY, PLANT AND EQUIPMENT</b>		
<b>Consists of :</b>		
Property, plant and equipment	<b>47 593 286</b>	<b>55 592 563</b>
<b>Financed by :</b>		
Revenue account	4 848 960	6 401 486
General capital	5 070 000	7 508 733
Loan assets	37 674 326	41 682 344
	<b>47 593 286</b>	<b>55 592 563</b>
<b>3. SECURED LOANS</b>		
First mortgage bonds over fixed property:		
- Erven Trust Fund	481 119	241 050
- Single Quarter Housing Scheme	4 339 285	4 347 156
- Build Together	6 078 674	3 916 664
- Personnel Housing Scheme	1 274 029	1 336 345
- Other	665 747	415 693
	<b>12 838 854</b>	<b>10 256 908</b>
<b>4. INVESTMENTS</b>		
Allocated to:		
Investment in CENORED (Pty) Ltd	43 066 969	1 400 000
Commercial banks	28 406 725	33 122 468
	<b>71 473 694</b>	<b>34 522 468</b>
<b>5. ACCOUNTS RECEIVABLE</b>		
Trade debtors	17 559 192	17 334 721
Value added taxation	962 547	146 180
Sundry debtors	254 525	449 625
	<b>18 776 264</b>	<b>17 930 526</b>
<b>Less :</b>		
Provision for doubtful debts	(5 000 000)	(5 000 000)
	<b>13 776 264</b>	<b>12 930 526</b>

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

	<b>2008</b>	<b>2007</b>
	N\$	N\$
<b>6. FUNDS AND ACCOUNTS</b>		
<b>6.1 Capital Outlay</b>	<b>7 186 444</b>	<b>22 270 596</b>
Contribution ex Revenue	4 848 961	6 401 487
Contribution ex General Capital	5 070 000	7 508 733
Loan term loans redeemed	(2 732 517)	8 360 376
<b>Funds, Accounts and Reserves</b>	<b>126 190 276</b>	<b>78 262 670</b>
Fixed Property Fund	5 967 167	5 434 809
Betterment Fund	6 149 318	1 315 234
Capital Reserve Fund	7 595 293	4 491 837
Capital Development Fund	23 529 695	20 611 953
Renewal Fund	10 368 432	9 473 855
Personnel Housing Fund	1 274 030	5 540 105
Tariff Stabilisation Fund	-	1 225 742
Erven Trust Fund	12 487 800	11 013 856
Municipal Vehicle Fund	-	128 278
Municipal Study Loan Fund	112 518	110 605
Housing Levy Fund	-	1 111 386
Housing Fund (GRN)	1 759 513	1 740 636
Built Together Fund	5 560 452	4 456 105
BT - Social Housing Fund	1 364 953	1 234 476
Single Quarters Housing Scheme	4 640 889	5 622 395
Social Upliftment Fund	461 219	293 301
Disaster Fund	221 764	222 790
Capacity Building Fund	224 683	81 556
Marketing and Promotion Fund	188 427	(4 036)
Revenue Account kept in compliance with Section 86 (1) of the Local Authorities Act, 1992	44 284 123	4 157 787
<b>7. EXTERNAL LOANS</b>		
The Government of Namibia: Capital	3 108 026	3 643 074
Housing Fund	7 717	162 277
Less: Short-term portion	(139 744)	(139 744)
	<b>2 975 999</b>	<b>3 665 607</b>

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

	<b>2008</b>	<b>2007</b>
	N\$	N\$
<b>8. ACCOUNTS PAYABLE</b>		
Trade payables	1 355 638	1 344 472
Provision for bonus and leave pay	2 868 539	1 724 326
Work In Progress	-	3 991 351
Provision for audit fees	50 000	50 000
Other payables	535 631	777 360
	<b>4 809 808</b>	<b>7 887 509</b>
<b>9. ADJUSTMENTS AND APPROPRIATIONS</b>		
Adjustments- Income relating to prior year	-	625 503
Work In Progress adjustments	-	155 114
Other adjustments	-	(1 349 934)
Debtors adjustments	-	(108 541)
Correction of Cenored equity	37 972 076	-
Prior year audit adjustments	(662 619)	-
Year end close balances	4 909 444	-
Correction on internal loans	-	22 489
Untraceable transactions	-	(5 471)
	<b>42 218 901</b>	<b>(660 840)</b>
<b>10. CASH UTILISED IN OPERATIONS</b>		
Net operating deficit	(2 092 565)	(1 292 601)
Adjustments (appropriations)	42 218 901	(660 840)
Redemption of internal loans	1 254 535	-
Redemption of external loans	535 047	-
Revaluation surplus on assets to Cenored	(26 149 616)	-
Transfer of assets to Cenored	(15 517 353)	-
Assets ex revenue	40 257	-
Depreciation	-	1 891 668
<b>OPERATIONAL INCOME BEFORE CHANGE IN WORKING CAPITAL</b>	<b>289 206</b>	<b>(61 773)</b>
<b>GENERATION OF WORKING CAPITAL</b>		
(Increase)/decrease in accounts receivable	(845 738)	691 736
Increase/(decrease) in accounts payable	(3 077 701)	1 279 149
	<b>(3 634 233)</b>	<b>1 909 112</b>