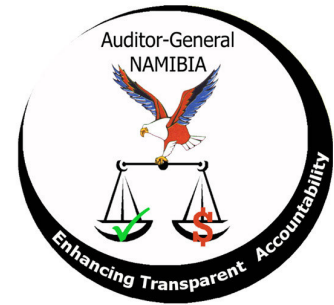


REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

MUNICIPALITY OF USAKOS

FOR THE FINANCIAL YEARS ENDED 30 JUNE 2005 AND 2006

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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 Usakos for the financial years ended 30 June 2005 and 2006, 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, January 2009

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF USAKOS
FOR THE FINANCIAL YEARS ENDED 30 JUNE 2005 AND 2006**

1. INTRODUCTION

The accounts of the Municipality of Usakos for the years ended 30 June 2005 and 2006 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 PKF 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, **except that they were only finalised and signed on 30 June 2008** instead of six months after the 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 signed by the Accounting Officer.

The financial statements also include:

Annexure B: Abridged income statement

Annexure C: Cash flow statement

Annexure D: Notes to the financial statements

3. SCOPE OF THE AUDIT

Management's Responsibility for the Financial Statements

The Accounting Officer of the Municipality is responsible for the preparation and fair presentation of these financial statements and for ensuring the regularity of the financial transactions. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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 said firm conducted the audit in accordance with International Standards on Auditing. Those standards require that the firm complies with ethical requirements and plans and performs the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

4. AUDIT OBSERVATIONS AND COMMENTS

*Paragraphs marked with * include both financial years*

4.1 General ledger*

It appears that the trial balance did not balance with the following amounts: 2006: N\$ 1 846.36 and 2005: N\$ 69 222.92.

The balancing figures were taken to previous year adjustments in the appropriation account.

It appears that the year-end functions are not performed on the general ledger and that for every year a new general ledger is started and that at the time of drafting the accounts after year-end, the consultant enters the opening balances. This particular procedure renders the general ledger worthless as a management tool and the monthly trial balance thus serves no purpose.

The purpose of processing transactions on a regular basis on computer software is mainly to provide management with a tool to manage and, from an internal control point of view, to test and control the various balances.

4.2 Appropriation account*

It appears that substantial adjustments were made on the appropriation account in respect of prior years periods, as follows:

	<u>2006</u>	<u>2005</u>
	N\$	N\$
Debit adjustments	27 652.20	886 956.34
Credit adjustments	(670 230.07)	(3 301 332.81)

These adjustments include the trial balance differences referred to in paragraph 4.1 above.

These adjustments were made by the consultant and comprise mainly adjustments on creditors, debtors, VAT claims and subsidies reversed.

This practice is unacceptable as the applicable expense accounts and income accounts are not transacted with these adjustments. As a consequence, the expense accounts and income accounts could probably not be accepted as fair and reasonable and the comparison with the budget is meaningless from a management point of view.

4.3 Loan and capital corresponding advances*

Amortization tables in respect of external loans and internal loans were not made available to the auditors to enable them to verify the amounts outstanding. These tables are of the utmost importance as Council is considerably overdue on certain payments to the Government of the Republic of Namibia on external loans which arrears are reflected under current liabilities.

The management could not provide the auditors with lists of amounts advanced as loans, either under the Housing Scheme or the Build Together Fund.

The outstanding amounts are substantial and amounted to 2006: N\$ 963 980.11 and 2005: N\$959 402.95.

The absence of these listings makes it impossible for the auditors to audit this substantial asset. It also makes it impossible for the auditors to audit the interest calculations on these loans and evaluate the security.

4.4 Budget overspending*

It appears that the budget has been overspent on a number of votes during the year under review. The auditors were not provided with the approval of the applicable Ministry in this regard as it appears that certain records of Council were destroyed in a fire and approvals obtained, according to management, were amongst these records.

Council exceeded the budget on the following votes:

	Budget	Actual
	N\$	N\$
30 June 2006		
General administration	1 459 280	2 103 601
Assessment rates	77 070	103 281
Cemetery	99 742	115 463
Council's general expenses	196 604	416 092
Streets	533 009	1 086 694
Workshop	218 901	282 409
Housing	136 107	187 627
Sewerage and sanitation	738 357	1 137 306
Electricity	768 246	1 104 560
Water	1 964 312	2 241 220
	Budget	Actual
	N\$	N\$
30 June 2005		
General administration	959 362	1 091 474
Community Hall	14 888	24 363
Parks and recreation	10 500	36 914
Sewerage and sanitation	581 807	1 368 026
Electricity	2 006 512	2 564 224
Water	1 187 868	1 413 715

It is impossible to express an opinion on whether approval has been acquired unless the original documentation can be produced.

4.5 Tariffs and approvals*

The auditors could not be provided with an approval by Council regarding the rates of house rentals to be charged for both financial years. The same aspect applies to various other income avenues.

At the time of the audit Government Gazettes for 2005 could not be provided to the auditors for purposes of establishing whether the correct tariffs are applied in the Municipality.

4.6 Other income avenues

Dog Tags (2005)

The auditors are of the opinion that controls over dog tags are not sufficient as they found that dog tag numbers 408 to 417 were apparently issued during the 2004/2005 financial year but not recorded in the register.

Register of business registrations*

It appears that the Municipality does not have a register of businesses in Usakos and consequently does not have a basis for issuing accounts for fitness certificates and licenses. Apparently it relies on the businesses to activate the invoice and income is recorded on the basis of receipts.

Cemetery*

The auditors found that the register kept by Council of graves and graves issued is incomplete and that not all burials are recorded in the register. It appears that the graves are not numbered and therefore the Municipality may fall short on knowledge regarding the details of the people buried.

4.7 Expenses*

The audit tests that the auditors performed indicated that a number of payments were not supported by cheque requisitions, have not been completed or were not properly filed. In other instances the auditors could not find supporting documentation in the files which were submitted to them and could not be provided with any supporting documents substantiating such payments.

The auditors endeavored to reconcile the salaries and wages per general ledger with the salary register which was provided to them but were not successful.

The auditors found that the salaries per annual financial statements exceeded the salaries per register by N\$ 415 892.58 for the 2005/06 financial year.

Furthermore, they could not complete this reconciliation for the 2004/05 financial year as the salaries were done by hand for July and August 2004 and consequently not entered in to the salary register.

4.8 Accounts receivable*

The control account in the general ledger did not agree with the listings.

The situation can be summarized as follows:

2006		2005	
Control account	Listing	Control account	Listing
N\$ 4 983 571	N\$ 5 624 395	N\$ 3 922 564	N\$ 4 104 341

These differences are unacceptable and clearly points to the Council having no control whatsoever over the accounting of its receivables. The listing at month-end should agree with the general ledger control account in and the instance of such not being the position, management must endeavor to reconcile and rectify the differences.

The auditors further found that a second run of the debtors listing differed from the first run and those differences from the control account could be much more.

This total situation is a clear indication that the software that Council uses for processing its accounts receivable is inefficient.

Furthermore the ageing on the listing is unacceptable and not a tool for management to control its receivables. It appears that payments are reflected in the current column and not offset in the particular month when the debt was incurred.

Account 30000133 reflected a credit of 2006: N\$ 30 942.62 and 2005: N\$ 35 252.24 in the current column and a debit of 2006: N\$ 31 232.74 and for 2005 exactly the same amount in the 120 days column.

This is the same for many accounts in the Municipality's records.

As a consequence of this weakness in the software or else in the processing of the data, management cannot rely on the ageing that appears in the debtors listing and consequently loses the advantage of this particular and important management tool.

The auditors are further of the opinion that the provision for bad debts is probably not sufficient. The provision amounts to N\$ 316 000 for both financial years.

The auditors general impression is that management of accounts receivable is very poor.

4.9 VAT*

The auditors could not audit the VAT account of the Council as the VAT returns are done by a consultant and the records were not on the premises of the Council at the date of the audit.

The auditors did however obtain a VAT status report from the Receiver of Revenue in Windhoek, which indicated that Council's VAT matters are being dealt with in an accurate manner and are up to date.

It further appears that the Municipality is registered under two different numbers with the Receiver of Revenue.

It is registered for income tax and PAYE under reference 0493051.

In a similar manner it is registered under reference 2685231 for income tax and VAT.

This is confusing and Council should take steps to streamline the situation.

4.10 General aspects *

It appears that a register of property sales is not kept by the Council.

The auditors recommend that Council negotiates the best rates of interest possible regarding its investments.

- It appears that the bank reconciliation is not done on a monthly basis but by the consultants on an annual basis. This is not acceptable and Council should probably re-visit its procedures of accounting to ensure that monthly bank reconciliations are done.
- The financial position of the Council is not strong and the Municipality is not a going concern at the moment and should Government call for the arrears on its loans, it will find it in an impossible position and it will not be able to pay its accounts.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

The results of the operations of, and transactions on the Revenue account for the years were as follows :

	Revenue	Expenditure	Surplus/ (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated deficit 01/07/2005				(442 775)
General accounts				
- Non-profitable	4 851 849	4 374 731	477 118	
- Self-supporting	1 313 624	1 368 932	(55 308)	
Trade accounts				
- Water	1 733 373	2 241 221	(507 848)	
- Electricity	920 446	1 104 561	(184 115)	
Deficit for the year	8 819 292	9 089 445	(270 153)	(270 153)
Adjustments and utilizations (note 10)				(712 928)
Accumulated deficit 30/06/2006				642 578
				(70 350)

	Revenue	Expenditure	Surplus/ (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated deficit 01/07/2004				(1 536 407)
General accounts				
- Non-profitable	2 687 305	2 431 084	256 221	
- Self-supporting	1 100 738	1 514 383	(413 645)	
Trade accounts				
- Water	1 271 165	1 413 715	(142 550)	
- Electricity	1 848 124	2 564 224	(716 100)	
Deficit for the year	6 907 332	7 923 406	(1 016 074)	(1 016 074)
Adjustments and utilizations (note 10)				(2 552 481)
Accumulated deficit 30/06/2005				2 109 706
				(442 775)

7. CURRENT BANK ACCOUNT

	2006	2005	2004
	N\$	N\$	N\$
Cash-book balance at 30 June - Balance sheet	(63 727)	8 765	37 855
Outstanding cheques	89 266	50 951	-
Balance as per bank statement	25 539	59 716	37 855

8. INVESTMENTS

On 30 June the investments were as follows:

	2006	2005	2004
	N\$	N\$	N\$
Bank institutions	998 027	1 019 400	796 958

The investments were allocated as follows between the Funds:

	2006	2005	2004
	N\$	N\$	N\$
Housing Fund	920 242	888 966	796 958
Revenue	77 785	130 434	-
	998 027	1 019 400	796 958

9. FUND ACCOUNTS

The position of the Funds and accounts at year-end was as shown in note 7 in Annexure D. All available cash in the Fixed Property Fund, Renewal Fund and Capital Reserve Fund has been utilized to finance operating expenses of the Municipality. These temporary advances amounted to N\$ 2 129 207 in the financial year 2004/05 and N\$ 2 292 813 in the financial year 2005/06.

10. TRADE ACCOUNTS

10.1 The results of operations were as follows:

	Electricity		Water	
	2006	2005	2006	2005
	N\$	N\$	N\$	N\$
Sales	16 919	1 837 549	1 729 640	1 271 165
Erongo Red levies	903 526	-	-	-
Cost of bulk purchases	-	(1 865 655)	(1 156 471)	(888 713)
Gross profit/(loss)	920 445	(28 106)	573 169	382 452
Net expenditure	(1 104 560)	(687 994)	(1 081 017)	(525 002)
Net deficit	(184 115)	(716 100)	(507 848)	(142 550)
Gross profit/(loss) percentages on bulk purchases	-	(1.5%)	49.6%	43.0%
Net profit/(loss) percentage on bulk purchases	-	(38.4%)	(43.9%)	(16.0%)

	Electricity		Water	
	2005	2004	2005	2004
	N\$	N\$	N\$	N\$
Sales	1 837 549	1 934 663	1 271 165	988 340
Cost of bulk purchases	(1 865 655)	(1 955 814)	(888 713)	(1 070 674)
Gross profit/(loss)	(28 106)	(21 151)	382 452	(82 334)
Net (expenditure)/income	(687 994)	(776 893)	(525 002)	(456 245)
Net deficit	(716 100)	(798 044)	(142 550)	(538 579)
Gross profit/(loss) percentages on bulk purchases	(1.5%)	(1.1%)	43.0%	(7.7%)
Net profit/(loss) percentage on bulk purchases	(38.4%)	(40.8%)	(16.0%)	(50.3%)

10.2 Water distribution results, in cubic meters

No statistics were kept by the Municipality to calculate the distribution losses. The Municipality, in future, must record the cubic meters sold and purchased to calculate distribution losses.

11. SELF-SUPPORTING SERVICES

11.1 The results for the year under review were as follows:

	2006	2005	2004
	N\$	N\$	N\$
Abattoir	(1 139)	(8 276)	(8 897)
Ambulance	(42 859)	80	(31 905)
Housing	(124 805)	(72 296)	58 958
Sanitation and sewerage	113 495	(333 153)	10 728
(Deficit)/surplus for the year	(55 308)	(413 645)	28 884

These services are supposed to be self-supporting concerns.

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

There was no fruitless, unauthorized or avoidable expenditure revealed during the audit, other than the budget overspendings referred to in paragraph 4.4 above.

13. SUSPENSE ACCOUNTS

There were no suspense accounts in the books of the Municipality which were not reconciled.

14. IRREGULARITIES AND LOSSES

It appears that the Anti-Corruption unit is busy with investigating irregularities and losses at the Municipality.

15. CAPITAL PROJECTS

Capital expenditure of 2006: N\$ 338 979 and 2005: N\$ 31 695 (2004: N\$ 277 716) was incurred during the year.

2006

Nature of projects/acquisitions	Financial by			Total expenditure
	Loan assets	Revenue account	General capital	
	N\$	N\$	N\$	N\$
General administration: Vehicles and a computer	324 979	14 000	-	338 979

2005

Nature of projects/acquisitions	Financial by			Total expenditure
	Loan assets	Revenue account	General capital	
General administration: Utilities	N\$ -	N\$ 31 695	N\$ -	N\$ 31 695

16. BURSARIES

No bursaries were allocated and disbursed during the years under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No contributions, grants or financial aid were provided outside the budget during the years under review.

18. COMPENSATION PAYMENTS

No compensation payments were made other than in the ordinary course of business during the years under review.

19. VISITS TO FOREIGN COUNTRIES

No visits to foreign countries were recorded during the years under review.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

To the best of the knowledge and belief of the auditors, there are no claims against the Local Authority during the years under review.

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

No gifts or donations were made by the Local Authority outside the budget during the years under review.

22. TRANSFER OF PROPERTY

22.1 The Municipality sold a number of properties during the years under review which were transferred after payment. No register of property sales or transfers has been kept.

23. TRADE AND OTHER RECEIVABLES/PAYABLES

23.1 Trade and other receivables at 30 June were:

	2006	2005	2004
	N\$	N\$	N\$
Service debtors	4 983 572	3 922 564	3 664 306
Less : Provision for bad debts	(316 000)	(316 000)	(250 000)
	4 667 572	3 606 564	3 414 306
Subsidies	-	-	886 956
Deposit	200	200	200
VAT	881 382	610 482	-
	5 549 154	4 217 246	4 301 462

The auditors are of opinion that the management of accounts receivable is not sufficient for the needs of the Municipality. The management system does not make provision for proper ageing of the debtors and consequently makes management difficult.

Accurate statistics regarding ageing are not available. The Municipality should attend to the arrears as a matter of urgency. The appropriation account of Municipality is in debit and unless collection of arrears is stepped up, the Municipality may experience cash flow pressure.

The auditors are of opinion that the provision for bad debts of N\$ 316 000 for both financial years respectively, is not nearly sufficient and should probably be at least N\$ 4 000 000.

23.2 Trade and other payables at 30 June were:

	2006	2005	2004
	N\$	N\$	N\$
Trade creditors	819 609	397 487	1 826 729
Provisions – Bonus leave	334 456	299 756	390 006
External loan repayments in arrears	1 817 842	1 614 705	624 796
Consumer deposits	246 541	253 807	250 867
Vat payable	-	-	536 300
Salaries	122 700	104 659	-
	3 341 148	2 670 414	3 628 698

It appears that the Municipality may not be a going concern and that extra care should be taken to ensure that creditors are serviced properly. The Municipality owed a considerable amount to Namwater, being N\$ 168 630 at 30 June 2005 and N\$ 669 602 at 30 June 2006.

24. ASSESSMENT RATES

Proceeds from assessment rates were N\$ 527 298: 2006 and N\$ 432 208: 2005 (2004: N\$ 322 113). An amount of N\$ 26 365: 2006 and N\$ 21 610: 2005 (2004: N\$ 16 106) was payable to the Erongo Regional Council in terms of Section 77(1) of the Act. No Government gazette could be provided to the auditors to verify the charges.

25. LOANS

25.1 External loans

	2006	2005	2004
	N\$	N\$	N\$
Government of Namibia (Including housing loans)	1 161 051	1 279 558	1 872 034
First National Bank – Installment sale agreements	267 793	-	-
	1 428 844	1 279 558	1 872 034

25.2 Internal loans

Internal loans balances were N\$ 67 274: 2006 and N\$ 87 896: 2005 (2004: N\$ 134 141) at year-end. Loan assets were correctly capitalised. The auditors were unable to determine if interest calculations were done correctly and the correct redemption journals were passed as the actuarial tables were misplaced.

25.3 Housing loans

	2006	2005	2004
	N\$	N\$	N\$
Balance due to the Government of the Republic of Namibia	110 694	110 694	110 694
Balance due to the Municipality of Usakos	963 980	959 403	818 972

No lists for housing loans and loans under the Build-together scheme could be provided to the auditors. They were thus unable to verify the correctness of these loans and/or to express an opinion on their recoverability. The auditors were thus unable to verify the correctness of this substantial asset.

26. SALE OF ERVEN

No register of property sales has been kept during the years under review and the auditors could consequently only verify those sales which were paid for.

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

No property was sold on an instalment basis for the respective financial years.

28. TARIFF ADJUSTMENTS

The Municipality could not provide the auditors with Government Gazettes.

29. APPROVALS

The approval for the overspending of the budget could not be provided to the auditors in the light of the fire that took place at the premises of the Municipality. Management informed the auditors that approval was obtained for exceeding the budget but that the documents have been destroyed in the fire.

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles and values thereof:

2006:

	Sedan		LDV's, 4x4's and Combi's		Other	
	Number	Value N\$	Number	Value N\$	Number	Value N\$
Balance 01/07/2005	-	-	1	15 000	1	100
Additions	-	-	2	324 979	-	-
	-	-	3	339 979	1	100
Written off	-	-	-	5 000	-	-
Balance 30/06/2006	-	-	3	334 979	1	100

2005:

	Sedan		LDV's, 4x4's and Combi's		Other	
	Number	Value	Number	Value	Number	Value
Balance - 01/07/2004	1	N\$ 5 000	4	N\$ 31 700	2	N\$ 200
Sub-total	1	5 000	4	31 700	2	200
Written off	(1)	(5 000)	(3)	(16 700)	(1)	(100)
Balance - 30/06/2005	-	-	1	15 000	1	100

30.2 Inventory

No inventory has been recorded in the annual general ledger for the years under review.

31. SPECIAL INVESTIGATIONS

It appears that the Anti-Corruption unit is busy with a special investigation into the affairs of the Municipality.

32. GENERAL

The financial administration of the Municipality is not sufficient to ensure that the general ledger is a fair and true reflection of the financial affairs and transactions of the Municipality. Opening entries in the general ledger are only recorded after the year-end of a particular year and bank accounts are not reconciled on a monthly basis. The trial balances did not balance for the years under review and no efforts were made to correct these.

The Municipality urgently needs capacity on its information technology systems as well as accounting systems.

33. FORMAL AND INFORMAL QUERIES

All the queries at the Municipality are embodied in this report.

34. DISCLAIMED AUDIT OPINION

The accounts of the Municipality of Usakos for the financial year ended 30 June 2005 and 2006, summarised in Annexures A to D, were audited by me in terms of Section 85 of the Local Authorities Act, 1992, read with Section 25 (1) (b) of the State Finance Act, 1991.

The statements have been prepared on the basis of accounting practices 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. Accordingly, these financial statements do not include any adjustments relating to the valuation of assets and the classification of liabilities that might be necessary if the Local Authority is unable to continue as a going concern.

I am unable to form an opinion as to whether the financial statements fairly present the financial position of the Municipality on 30 June 2005 and 2006, the results of its operations and cash flow for the year then ended in the manner required by the Local Authorities Act, 1992, and the State Finance Act, 1991, due to the following reasons:

- The trial balances did not balance
- The adjustments made in the appropriation accounts could not be verified.
- The correctness of loan balances could not be verified.
- Loan amounts owed to the Municipality could not be verified.
- Due to the absence of Official Gazettes, the correctness of tariffs charged for services could not be confirmed.
- Expenditure items were not supported with supporting documents.
- There was an unexplained difference of N\$ 415 893 between the salary register and the general ledger.
- Debtors listings do not agree with the balances in the general ledger.
- The provision for bad debts is understated by N\$ 3 684 000.
- The VAT account could not be audited due to the absence of relevant documentation.
- Bank reconciliations are not carried out on a monthly basis.

WINDHOEK, January 2009

JUNIAS ETUNA KANDJEKE
AUDITOR- GENERAL

MUNICIPALITY OF USAKOS

BALANCE SHEETS AT 30 JUNE

	Notes	2006 N\$	2005 N\$	2004 N\$
ASSETS				
Non-current assets				
Property, plant and equipment	2	6 337 391	6 040 378	5 717 173
Investments	3	4 375 384	4 061 575	4 101 243
Loans receivable	4	998 027	1 019 400	796 958
		963 980	959 403	818 972
Current assets				
Trade and other receivables	5	5 549 554	4 226 411	4 339 718
Cash and bank balances		5 549 154	4 217 246	4 301 462
		400	9 165	38 256
TOTAL ASSETS		11 886 945	10 266 789	10 056 891
FUNDS AND LIABILITIES				
Funds and reserves				
Capital outlay	6	7 053 225	6 316 817	4 556 159
Funds and accounts	7	2 989 960	2 804 814	2 205 762
		4 063 265	3 512 003	2 350 397
Long-term liabilities				
	8	1 428 844	1 279 558	1 872 034
Current liabilities				
Trade and other payables	9	3 404 876	2 670 414	3 628 698
Bank overdraft		3 341 148	2 670 414	3 628 698
		63 728	-	-
TOTAL FUNDS AND LIABILITIES		11 886 945	10 266 789	10 056 891

MUNICIPALITY OF USAKOS

INCOME STATEMENT FOR THE YEARS ENDED 30 JUNE

	Note	2006	2005	2004
		N\$	N\$	N\$
INCOME		8 819 292	6 907 332	5 844 642
EXPENDITURE		(9 089 445)	(7 923 406)	(7 103 949)
NET DEFICIT FOR THE YEAR		(270 153)	(1 016 074)	(1 259 307)
APPROPRIATION ACCOUNT	10	642 578	2 109 706	(31 737)
		372 425	1 093 632	(1 291 044)
ACCUMULATED LOSS - Beginning of year		(442 775)	(1 536 407)	(245 363)
ACCUMULATED LOSS - End of year		(70 350)	(442 775)	(1 536 407)

MUNICIPALITY OF USAKOS

CASH FLOW STATEMENT FOR THE YEARS ENDED 30 JUNE

	Note	2006 N\$	2005 N\$	2004 N\$
CASH FLOW FROM OPERATING ACTIVITIES				
Cash receipts from customers		8 819 292	6 907 332	5 844 642
Cash paid to suppliers		(9 108 041)	(6 687 768)	(5 893 081)
Cash generated/(utilised) by operations	11	(288 749)	219 564	(48 439)
Movement in funds and reserve accounts				
- Fund accounts - increase		178 837	67 974	596 035
- Capital outlay - increase		185 146	599 052	248 141
Net cash flow from operating activities		75 234	886 590	795 738
CASH FLOW FROM INVESTING ACTIVITIES				
Acquisition of property, plant and equipment		(396 165)	(354 621)	(312 405)
Disposals of property, plant and equipment		82 356	394 289	-
Property, plant and equipment written off		-	-	85 139
Change in investments – (increase)/decrease		21 373	(222 442)	(25 226)
Change in loans receivable - increase		(4 577)	(140 431)	(199 193)
		(297 013)	(323 205)	(451 685)
CASH FLOW FROM FINANCING ACTIVITIES				
Change in long-term loans – increase/(decrease)		149 286	(592 476)	-
NET MOVEMENT IN CASH AND CASH EQUIVALENTS				
		(72 493)	(29 091)	344 052
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR				
		9 165	38 256	(305 796)
CASH AND CASH EQUIVALENTS - END OF YEAR				
		(63 328)	9 165	38 256

MUNICIPALITY OF USAKOS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEARS ENDED 30 JUNE

1. ACCOUNTING POLICIES**1.1 Introduction**

The annual financial statements set out in Annexures A to C were prepared on the historical cost basis and incorporate the following principal accounting policies, which are consistent in all material aspects with those applied in the previous year.

1.2 Property, plant and equipment

Property, plant and equipment are stated at cost, or valuation where assets have been acquired by grant or by donation. No formal depreciation policy on plant and equipment exists.

1.3 Internal Funds

The following Funds were created by the Municipality:

1.3.1 Revenue account

All receipts, accruals and expenses, except those allocated to other Funds, are reflected in this account.

1.3.2 Housing Fund

This Fund applies only for the purpose of providing loans to house owners in respect of purchase price, building costs and improvements made.

1.3.3 Fixed Property Fund

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

1.3.4 Capital Reserve Fund

It is the purpose to build up a general capital reserve to ensure the Municipality's financial position remains stable. Income is obtained from interest on internal loans and investments as well as transfers from the revenue account.

1.3.5 Renewal Fund

The purpose of the Fund is to replace assets which have to be written off. Income is derived from contributions from revenue and interest on investments.

2. PROPERTY, PLANT AND EQUIPMENT

	2006	2005	2004
	N\$	N\$	N\$
Property development, vehicles, plant and equipment	4 375 384	4 061 575	4 101 243

MUNICIPALITY OF USAKOS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEARS ENDED 30 JUNE
(continued)

	2006	2005	2004
	N\$	N\$	N\$
3. INVESTMENTS			
Banking institutions	998 027	1 019 400	796 958
ALLOCATED TO FUNDS			
Revenue	77 785	130 434	-
Housing Fund	920 242	888 966	796 958
	998 027	1 019 400	796 958
4. LOANS RECEIVABLE			
Housing loans against mortgage bond	-	-	216 774
Build Together loans	963 980	959 403	602 198
	963 980	959 403	818 972
5. TRADE AND OTHER RECEIVABLES			
Service debtors	4 983 572	3 922 564	3 664 306
Less: Provision for bad debts	(316 000)	(316 000)	(250 000)
	4 667 572	3 606 564	3 414 306
Subsidies	-	-	886 956
Prepaid expenses	200	200	200
VAT	881 382	610 482	-
	5 549 154	4 217 246	4 301 462
6. CAPITAL OUTLAY			
Loans redeemed	1 467 604	1 328 474	874 200
Revenue contributions	1 143 184	1 096 538	949 192
General Capital contributions	379 172	379 802	382 370
	2 989 960	2 804 814	2 205 762

MUNICIPALITY OF USAKOS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEARS ENDED 30 JUNE
(continued)

	2006	2005	2004
	N\$	N\$	N\$
7. FUNDS AND ACCOUNTS			
Capital Reserve Fund	501 451	496 681	489 097
Fixed Property Fund	1 498 996	1 364 029	1 351 984
Renewal Fund	359 640	356 393	353 141
Housing Fund	1 773 528	1 737 675	1 692 582
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	(70 350)	(442 775)	(1 536 407)
	4 063 265	3 512 003	2 350 397
8. LONG-TERM LIABILITIES			
Loans from the Government of Namibia	1 161 051	1 279 558	1 872 034
First National Bank – Instalment sale agreements	267 793	-	-
	1 428 844	1 279 558	1 872 034
9. TRADE AND OTHER PAYABLES			
Trade creditors	819 609	397 487	1 826 729
Provisions – Bonus leave	334 456	299 756	390 006
External loan repayments in arrears	1 817 842	1 614 705	624 796
Consumer deposits	246 541	253 807	250 867
Vat payable	-	-	536 300
Salaries	122 700	104 659	-
	3 341 148	2 670 414	3 628 698
10. ADJUSTMENTS TO APPROPRIATION ACCOUNT			
Prior year adjustments	642 578	2 996 662	-
Loss on investment	-	-	(31 737)
Subsidy claims reversed	-	(886 956)	-
	642 578	2 109 706	(31 737)

MUNICIPALITY OF USAKOS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEARS ENDED 30 JUNE
(continued)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	N\$	N\$	N\$
11. CASH GENERATED/(UTILISED) BY OPERATIONS			
NET OPERATING DEFICIT BEFORE TRANSFERS	(270 153)	(1 016 074)	(1 259 307)
ADJUSTMENTS FOR:			
- Adjustments to appropriation account	642 578	2 109 706	(31 737)
OPERATING SURPLUS/(DEFICIT) BEFORE CHANGES IN WORKING CAPITAL	<u>372 425</u>	<u>1 093 632</u>	<u>(1 291 044)</u>
CHANGES IN WORKING CAPITAL			
Trade and other receivables – (increase)/decrease	(1 331 908)	84 216	39 198
Trade and other payables – increase/(decrease)	670 734	(958 284)	1 203 407
	<u>(661 174)</u>	<u>(874 068)</u>	<u>1 242 605</u>
CASH GENERATED/(UTILISED) BY OPERATIONS	<u>(228 749)</u>	<u>219 564</u>	<u>(48 439)</u>