



REPUBLIC OF NAMIBIA



REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

TOWN COUNCIL OF KARIBIB

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

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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 Town Council of Karibib for the financial year ended 30 June 2013, 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, May 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
TOWN COUNCIL OF KARIBIB
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013**

1. INTRODUCTION

The accounts of the Town Council of Karibib for the year ended 30 June 2013 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 Town Council on behalf of the Auditor-General and under his supervision.

Figures in the report are rounded off to the nearest Namibia Dollar. Deficits are indicated in brackets.

2. FINANCIAL STATEMENTS

The Town Council'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. 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 30 June 2013, Annexure A, is a true reflection of the original.

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 Town Council 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

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 judgment, 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 OBSERVATION AND COMMENTS

4.1 Accounting records and information

Not all accounting records for the year under review could be obtained.

4.2 Financial position

The Town Council has a net accumulated deficit of N\$ 6 865 720 (2012: N\$ 4 592 037) which clearly indicate that the Town Council is not able to continue as a going concern under the present situation.

Due to cash flow problems related to the revenue account, cash amounting to N\$ 2 743 725 (2012: N\$ 2 737 965) from investments of the Fund accounts had to be used to fund the shortfall on the revenue account.

The Town Council will have to take drastic action to become financially viable. It would need to arrange funding to make its operations profitable and ensure that its debt collection is effective.

4.3 Loans in arrears

External Government loans are, as in previous years, not repaid but the repayments are provided for as arrear loan instalments.

Interest on overdue amounts due to Government has been provided for, but no supportive documentation could be obtained.

4.4 Property, plant and equipment

The fire truck donated to the Town Council by the Ministry of Regional and Local Government of Namibia, was wrongly disclosed in the fixed asset register to the amount of N\$ 1 800 199. The amount as per the invoice is N\$ 1 978 541.

The amount recorded in the general ledger should be N\$ 1 758 896 which exclude the maintenance fee amounting to N\$ 219 645. The assets in the financial statements are thus overstated by N\$ 41 303.

Depreciation amounting to N\$ 175 889 was also not provided for in the annual financial statements.

Asset values appear not to be correct in the fixed asset register: The Toyota Stallion with a net book value of N\$ 19 847 appears twice, the Mazda 2002 model, with a net book value of N\$ 176 849 was offered for purchase for N\$ 25 000 to staff, and the auditors could not obtain a value from a car dealer as the vehicle is older than ten years. This vehicle was also in an accident and the net book value was not assessed after the accident.

The Caterpillar with a net book value of N\$ 309 459 is a 1980 model and was sold subsequent to year-end in December 2013 for N\$ 40 000. Thus the auditors can conclude that the assets are misstated in the annual financial statement.

The fixed asset register descriptions are not in detail which makes the physical verification difficult.

The accuracy, existence and valuation of the property, plant and equipment could thus not be ascertained.

4.5 Long-term loans receivable

No proper recording and a listing of long-term loans receivable to the amount of N\$ 1 210 015 (2012: N\$ 1 213 495) for housing loans and Built Together loans were available for audit purposes. The auditors thus could not perform any tests to verify these loans. Plans to control the loans receivables are not implemented as yet by the Council.

The accuracy, completeness, existence and valuation of long term loans receivable could thus not be ascertained.

4.6 Inventories

No provision for consumable inventories was made in the financial statements of the Town Council. The Council explained to the auditors that they do not carry significant consumable inventories.

4.7 Trade and other receivables

The average collection period for normal trade receivables, before taking the provision for bad debts into account, is 116 days (2012: 153 days). Furthermore, the average collection period for Namwater trade debtors is 89 days (2012 - 110 days). Although there was a slight improvement on both trade debtors, the recoverability of these outstanding debts remains a serious concern and is still a major threat to the cash flow of the Town Council.

Sundry debtors to the amount of N\$ 300 294 (2012: N\$ 247 887) could not be ascertained.

4.8 Consumer deposits

Consumer deposits are not enough to cover one month's basic charges and the auditors are of the opinion that the deposits are not adequate to cover one month's consumer services. Consumer deposits amounting to N\$ 144 026 seems low comparing to the amount of debtors outstanding as at year end.

4.9 Trade and other payables

No list of sundry creditors relating to unallocated deposits to the amount of N\$ 1 457 860 (2012: N\$ 1 457 860) was availed to the auditors. A Namwater provision of N\$ 1 255 408 included in accounts payable should be zero as per the Namwater statement. Furthermore, the arrear government loan instalments amounts to N\$ 4 765 667 whereas the statement reflects a balance of N\$ 3 505 171 which gives an unexplained difference of N\$ 1 260 496.

The accuracy, existence and completeness of trade and other payables could thus not be ascertained.

4.10 Expenses

Bulk water purchases is overstated in the annual financial statements by N\$ 1 054 189 due to the fact that the provision was made on the water intervention payments and bulk water payments were not taken into consideration.

The accuracy and existence of the expenses could thus not be ascertained.

4.11 Value added tax (VAT)

Not all VAT returns for the year under review were submitted timeously to the Receiver of Revenue.

The June 2013 return's receivable balance of N\$ 339 670 was not included in the VAT receivable balance outstanding as at year end.

It seems as if Council under claimed input VAT during the year. The completeness of VAT receivable could thus not be ascertained.

Exempt sales (output VAT) are not disclosed on the VAT returns which were submitted to the Receiver of Revenue.

4.12 P.A.Y.E.

Not all P.A.Y.E. returns for the year under review were submitted timeously to the Directorate: Inland Revenue, most forms were only submitted on 13/06/2013 and 19/06/2013.

VAT claims are also set off against PAYE payments as some PAYE amounts are not paid over to the Receiver of Revenue.

Amounts per the payroll salary deductions made from employees salaries do not agree to monthly PAYE submission forms.

The Council should comply with the Tax laws of the Country in order to avoid unnecessary penalties and interest.

4.13 Cash and bank

The cash-book balance at year-end was N\$ 3 042 379, but the liability disclosed in the annual financial statements was N\$ 1 460 154. The differences is due to unrecognised items, but this could not be accurately tested as selections done confirm that some of the cheques that are part of the outstanding payments listing, appear on the bank statements before year-end and should not appear on the outstanding list.

The accuracy, existence and completeness of cash and bank could thus not be ascertained.

4.14 Income

A wrong tariff was used for bin rental income due to the town tariff of N\$ 29.40 not being set up on the system. Usab tariff of N\$ 26.25 was used for all accounts. Bin rental income for the current financial year was thus understated. Tariffs for prepaid water sales are also not recorded in the Government Gazette and the Town Council is currently using a tariff of N\$ 8.50.

Natis income is only recorded when money is received and not when billing is done.

Sale of erven: An income amount of N\$ 212 867 described as direct levy could not be explained by the Council and no documentation could be availed.

The accuracy, existence and completeness of income could thus not be ascertained.

5. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the Karibib Town Council during the audit is appreciated.

6. FINANCIAL RESULTS

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

	Revenue	Expenditure	Surplus/ (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated deficit 01/07/2012				(4 592 037)
General accounts				
- Non-profitable	7 863 789	9 022 113	(1 158 324)	
- Self-supporting	2 424 671	1 256 234	1 168 437	
Trade accounts				
- Electricity	555 702	202 579	353 123	
- Water	6 140 811	5 559 354	581 457	
Surplus for the year	16 984 973	16 040 280	944 693	944 693
Adjustments and utilisations (See note 11, Annexure D)				(3 647 344)
				(3 218 376)
Accumulated deficit 30/06/2013				(6 865 720)

7. CURRENT BANK ACCOUNT

7.1 Operational account

	2013	2012
	N\$	N\$
Unfavourable cash-book balance on 30 June	(1 460 154)	(354 121)
Outstanding cheques	-	252 582
Bank balance at 30 June	(1 460 154)	(101 539)

* The bank reconciliation was not reconciling. The bank statement balance was N\$ 23 403 favourable.

8. INVESTMENTS AND INTEREST PROCEEDS

On 30 June the investments were as follows:

	2013	2012
	N\$	N\$
Commercial banks	2 106 357	1 742 227
Erongo Red	3 129 079	3 129 079
	5 235 436	4 871 306

The investments were allocated as follows between the Funds:

	2013	2012
	Investment	Investment
	N\$	N\$
Build Together Fund	294 366	236 827
Capital Reserve Fund	243 472	243 472
Fixed Property Fund	808 043	808 043
Housing Fund	185 637	185 637
Renewal Fund	268 248	268 248
Cash	306 591	-
Revenue account	3 129 079	3 129 079
	5 235 436	4 871 306

9. FUND ACCOUNTS

The position of the Funds and accounts at year-end was as shown in note 8 in Annexure D.

It is once again reported that, the Fund Accounts are still not utilized for the purposes created for. Due to cash flow problems on the Revenue Account, cash from other Funds totalling N\$ 2 743 725 (2012: N\$ 2 737 965) had once again to be used to finance the shortfall of the Revenue Account.

10. TRADE ACCOUNTS

10.1 The results of operations were as follows:

	Water	
	2013	2012
	N\$	N\$
Royalty/Sales	6 110 775	4 345 180
Cost of sales	(5 059 961)	(3 361 524)
Gross profit	1 050 814	983 656
Net expenditure	(469 357)	(161 970)
Net surplus/(deficit)	581 457	821 686
Gross profit percentages on cost of sales	20.77%	29.3%
Net profit/(loss) percentage on cost of sales	11.49%	24.4%

The distribution of electricity has been taken over by Erongo Red, while a separate bank account has been opened for all water sales and purchases. This account is under the control of Namwater.

10.2 Distribution results

Accurate statistics regarding the purchase and distribution of water units are not available. Furthermore, the Town Council did not perform a monthly reconciliation of distribution losses/surpluses, and as a result also did not follow up variances.

11. SELF-SUPPORTING SERVICES

11.1 The result for the year under review is as follows:

	2013	2012
	N\$	N\$
Health and sanitation	1 132 243	1 430 448
Commonage	36 194	319 576
Surplus for the year	1 168 437	1 750 024

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

There were no such expenses.

13. SUSPENSE ACCOUNTS

Control accounts were cleared on a regular basis.

14. IRREGULARITIES AND LOSSES

There were no such losses.

15. CAPITAL PROJECTS

The following expenditure was incurred during the year for capital projects or acquisitions:

Nature of projects/acquisitions	Financed by	Total expenditure 2013	Total Expenditure 2012
	Revenue account		
	N\$	N\$	N\$
Fire Brigade	1 800 000	1 800 000	-
Roads and Parks	771 682	771 682	383 759
CEO	-	-	62 997
Town engineer	-	-	657 405
General administration	164 486	164 486	-
Housing	2 228 772	2 228 772	-
Electricity	-	-	78 540
	4 964 940	4 964 940	1 182 701

The Fire Brigade should have been allocated to General Capital assets.

16. BURSARIES

There were no bursaries granted for the year under review.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID RECEIVED FROM GOVERNMENT

	2013	2012
	N\$	N\$
Contributions	2 300 000	1 400 000

18. COMPENSATION PAYMENTS

There were no compensation payments.

19. VISITS TO FOREIGN COUNTRIES

There were no visits to foreign countries.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

There were no claims against the Local Authority.

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

21.1 GIFTS BY THE LOCAL AUTHORITY

There were no such expenses.

21.2 DONATIONS BY THE LOCAL AUTHORITY

A fire truck was donated amounting to N\$ 1 978 541 in the current year.

22. TRANSFER OF PROPERTY

22.1 There were no transfers of property to the Local Authority.

22.2 There were no transfers of property by the Local Authority to others.

23. TRADE AND OTHER RECEIVABLES/PAYABLES

23.1 Trade and other receivables at 30 June were:

	2013	2012
	N\$	N\$
Services	5 376 539	5 755 270
Namwater	4 142 790	2 912 464
Value added tax	1 268 592	819 833
Sundry debtors	300 294	247 887
Provision for bad debts	(8 626 471)	(600 000)
Total	2 461 744	9 135 454

The average collection period for normal trade receivables, before taking the provision for bad debts into account, is 116 days (2012: 153 days). Furthermore, the average collection period for Namwater trade debtors is 89 days (2012: 110 days). Although there was a slight improvement on both trade debtors, the recoverability of these outstanding debts remains a serious concern and is still a major threat to the cash flow of the Town Council.

Deposits for services do not cover one month's service fees.

The VAT receivable balance was understated as explained in paragraph 4. The recoverability of sundry debtors balance could not be ascertained.

23.2 Trade and other payables at 30 June were:

	2013	2012
	N\$	N\$
Trade creditors	1 457 860	1 457 860
Provisions	6 957 770	12 174 000
Totals	8 415 630	13 631 860

No list of trade and other payables to the amount of N\$ 1 457 860 was available for audit purposes.

Provisions did not agree to supporting documents as explained in paragraph 4 above.

24. ASSESSMENT RATES

	2013	2012
	N\$	N\$
The net proceeds from assessment rates were	2 981 254	986 967
Tariffs per N\$1 valuation per annum - Business		
- Land	0.0616	0.0561
- Improvements	0.00803	0.0128

25. LOANS

25.1 External loans

The balances due to the Government of Namibia were as follows:

	2013	2012
	N\$	N\$
Capital section	1 727 793	1 807 774
Housing Fund	9 324	9 324
	1 737 117	1 817 098

25.2 Internal loan balances

The amounts outstanding in respect of loans made from the following Fund on 30 June were as follows:

	2013	2012
	N\$	N\$
Fixed Property Fund	12 972	15 792
Totals	12 972	15 792

25.3 Loans written off

No loans were written off during the year.

25.4 Housing loans

On 30 June, the amounts outstanding in respect of loans made from the following Funds were as follows:

	2013	2012
	N\$	N\$
Due to the Town Council of Karibib	1 210 014	1 213 495
Due to the Government of Namibia	9 324	9 324

26. SALE OF ERVEN

Sale of erven during the year amounted to N\$ 442 748 as per the Councils' listing. The Council could however not provide any supporting documentation for an amount of N\$ 212 867.

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

No property was sold on an instalment basis during the year.

28. TARIFF ADJUSTMENTS

Since 2004 no tariff adjustments were done until the current financial year in accordance with the relevant Official Government notice.

29. APPROVALS

All necessary approvals were obtained.

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicle and values thereof:

The Town Council could not provide the auditors with this information.

30.2 Inventory

No inventories are carried on the balance sheet of the Town Council.

31. SPECIAL INVESTIGATIONS

There were no special investigations carried out during the year.

32. GENERAL

There is not a sufficient system of internal control at the Town Council. Proper segregation of duties is not possible due to the small number of staff employed. While increased management involvement does not reduce risks, it causes the risk that management and Council override existing controls, a potentially dangerous practice, which the Council should vigilantly guard against.

33. FORMAL AND INFORMAL QUERIES

33.1 Formal queries are embodied in this report.

33.2 Informal queries discussed with the Town Council consist of;

- * Accounting records and information
- * Financial position
- * Loans in arrears
- * Property, plant and equipment
- * Long-term loans receivable
- * Inventories
- * Trade and other receivables
- * Consumer deposits
- * Trade and other payables and PAYE
- * Value Added Tax
- * Expenses
- * Cash and bank
- * Income

34. DISCLAIMED AUDIT OPINION

The accounts of the Town Council of Karibib for the financial year end 30 June 2013, summarised in Annexures A to D, were audited by me in terms of Section 85 of the Local Authority Act, 1992, read with Section 25 (1) (b) of the State Finance Act, 1991.

I am unable to express an audit opinion due to the following reasons:

- The overall control and quality of accounting records for the year under review were not up to standard. Reconciliations were not done or up to date and various reports that were requested could not be presented to the auditors.
- 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 Town Council is unable to continue as a going concern.

- External Government loans are, as in previous years, not repaid but the repayments are provided for as arrear loan instalments.
- The fire truck donated to the Town Council by the Ministry of Regional and Local Government of Namibia, was wrongly disclosed in the fixed asset register to the amount of N\$ 1 800 199. The amount as per the invoice is N\$ 1 978 541.
The amount recorded in the general ledger should be N\$ 1 758 896 which exclude the maintenance fee amounting to N\$ 219 645. The assets in the financial statements are thus overstated by N\$ 41 303.
- Depreciation amounting to N\$ 175 889 was also not provided for in the annual financial statements. Asset values appear not to be correct in the fixed asset register.
- No proper recording and a listing of long-term loans receivable to the amount of N\$ 1 210 015 (2012: N\$ 1 213 495) for housing loans and Built Together loans were available for audit purposes. The auditors thus could not perform any tests to verify these loans. Plans to control the loans receivables are not implemented as yet by the Council.
- The average collection period for normal trade receivables, before taking the provision for bad debts into account, is 116 days (2012: 153 days).
- No provision for consumable inventories was made in the financial statements of the Town Council.
- Consumer deposits are not enough to cover one month's basic charges and the auditors are of the opinion that the deposits are not adequate to cover one month's consumer services. Consumer deposits amounting to N\$ 144 026 seems low comparing to the amount of debtors outstanding as at year end.
- No list of sundry creditors relating to unallocated deposits to the amount of N\$ 1 457 860 (2012: N\$ 1 457 860) was availed to the auditors.
- Bulk water purchases is overstated in the annual financial statements by N\$ 1 054 189 due to the fact that the provision was made on the water intervention payments and bulk water payments were not taken into consideration.
- Not all VAT returns for the year under review were submitted timeously to the Receiver of Revenue.
- Not all P.A.Y.E. returns for the year under review were submitted timeously to the Directorate: Inland Revenue, most forms were only submitted on 13/06/2013 and 19/06/2013.
- The cash-book balance at year-end was N\$ 3 042 379, but the liability disclosed in the annual financial statements was N\$ 1 460 154.
- A wrong tariff was used for bin rental income due to the town tariff of N\$ 29.40 not being set up on the system. Usab tariff of N\$ 26.25 was used for all accounts. Bin rental income for the current financial year was thus understated.

WINDHOEK, May 2014

**JUNIAS ETUNA KANDJEKE
AUDITOR- GENERAL**

TOWN COUNCIL OF KARIBIB

BALANCE SHEET AT 30 JUNE

	Notes	2013	2012
		N\$	N\$
ASSETS			
Non-current assets		18 140 448	13 644 175
Property, plant and equipment	2	11 694 997	7 559 374
Investments	3	5 235 436	4 871 306
Secured loans	4	1 210 015	1 213 495
Current assets		2 462 144	9 135 454
Trade and other receivables	5	2 461 744	9 135 454
Cash and bank balances	6	400	-
TOTAL ASSETS		20 602 592	22 779 629
FUNDS AND LIABILITIES			
Funds and reserves		8 845 665	6 843 927
Capital outlay	7	9 951 411	5 735 808
Funds and accounts	8	(1 105 746)	1 108 119
Long-term liabilities	9	1 881 144	1 949 481
Current liabilities		9 875 783	13 986 221
Trade and other payables	10	8 415 629	13 631 860
Bank overdraft	6	1 460 154	354 361
TOTAL FUNDS AND LIABILITIES		20 602 592	22 779 629

TOWN COUNCIL OF KARIBIB

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2013</u>	<u>2012</u>
		N\$	N\$
INCOME		16 938 129	13 698 493
EXPENDITURE		<u>(16 040 281)</u>	<u>(12 741 960)</u>
NET OPERATING SURPLUS/(DEFICIT)		897 848	956 533
INVESTMENT INCOME EARNED FOR REVENUE ACCOUNTS		<u>46 845</u>	<u>16 036</u>
NET SURPLUS/(DEFICIT) FOR THE YEAR		944 693	972 569
APPROPRIATION ACCOUNT	11	<u>(3 218 376)</u>	<u>13 560</u>
		(2 273 683)	986 129
ACCUMULATED FUNDS - Beginning of year		<u>(4 592 037)</u>	<u>(5 578 166)</u>
ACCUMULATED FUNDS - End of year		<u>(6 865 720)</u>	<u>(4 592 037)</u>

TOWN COUNCIL OF KARIBIB

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2013 N\$	2012 N\$
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customers		16 938 129	13 698 493
Cash paid to suppliers		(17 801 178)	(10 384 747)
Cash generated/(utilised) by operations	12	(863 049)	3 313 746
Investment income		46 845	16 036
Movement in Fund accounts			
- Increase in Fund accounts		59 818	56 254
- Increase in capital outlay		4 215 603	495 379
Net cash flow from operating activities		3 459 217	3 881 415
CASH FLOW FROM INVESTING ACTIVITIES			
Net capital expenditure		(4 135 623)	(419 370)
(Increase)/decrease in investments		(364 130)	(3 990 633)
Decrease in loans receivable		3 480	3 312
		(4 496 273)	(4 406 691)
CASH FLOW FROM FINANCING ACTIVITIES			
Decrease in long-term liabilities		(68 337)	(73 410)
		(68 337)	(73 410)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(1 105 393)	(598 686)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		(354 361)	244 325
CASH AND CASH EQUIVALENTS - END OF YEAR		(1 459 754)	(354 361)

TOWN COUNCIL OF KARIBIB

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

1. ACCOUNTING POLICIES**1.1 Introduction**

The annual financial statements set out in Annexures A to D 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

Fixed assets are stated at cost or at valuation where assets have been acquired by grant or donation, less depreciation written off over the expected useful lives as determined by the Council from time to time. Fixed assets acquired with loan funds are not depreciated until the loan is repaid, unless the expected lifetime of the asset is less than the repayment period of the loan in which case depreciation is calculated on the shortfall.

1.3 Internal Funds

The following Funds were created by the Municipality:

1.3.1 Housing Fund

The purpose of this Fund is to provide for housing loans. Income for this Fund is derived from interest earned on secured housing loans and investments as well as profits made on the resale of housing scheme houses. Interest paid on external housing loans is charged to the Fund.

1.3.2 Capital Reserve Fund

The purpose of this Fund is to build up a general capital reserve to ensure a stable financial position. Income for this Fund is derived from general revenue contributions and interest earned on internal loans and investments.

1.3.3 Fixed Property Fund

Proceeds from the sale of land developed by the Municipality, interest earned on loans for the sale of land as well as interest earned on internal loans and investments accumulate in this fund, which is used to develop properties.

1.3.4 Renewal Fund

Its purpose is to provide for replacement of assets and for additional depreciation on assets which abnormally decreased in value. Income for this account is derived from general revenue contributions as well as interest earned on investments.

1.3.5 Build Together Fund

The purpose of this Fund is to lend money to the low income group of inhabitants to enable them to erect their own residences. Income is derived from Government grants and interest on loans and investments.

TOWN COUNCIL OF KARIBIB

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

ACCOUNTING POLICIES (continued)

1.4 Capital redemption on loans

Capital redemptions on external and internal loans are charged against income. A similar amount is credited to the Loan Redemption Fund for the duration of the loan. As and when the loan is fully redeemed the Loan Redemption Fund is transferred to the Revenue Contribution.

	<u>2013</u>	<u>2012</u>
	N\$	N\$
2. PROPERTY, PLANT AND EQUIPMENT		
Loans assets	2 810 066	2 810 066
Income Assets	7 672 355	3 367 033
General Capital assets	1 212 576	1 382 275
	<u>11 694 997</u>	<u>7 559 374</u>
3. INVESTMENTS		
INVESTMENTS		
Commercial banks	2 106 357	1 742 227
Erongo Red	3 129 079	3 129 079
	<u>5 235 436</u>	<u>4 871 306</u>
ALLOCATED TO FUNDS		
Build Together Fund	294 365	236 827
Capital Reserve Fund	243 472	243 472
Fixed Property Fund	808 043	808 043
Housing Fund	185 637	185 637
Renewal Fund	268 248	268 248
Investment: Bank	306 592	-
Revenue account	3 129 079	3 129 079
	<u>5 235 436</u>	<u>4 871 306</u>
4. SECURED LOANS		
Housing loans - Housing Fund	15 849	15 849
Build Together loans	1 194 166	1 197 646
	<u>1 210 015</u>	<u>1 213 495</u>
Loans granted against first mortgage bonds against fixed property	<u>1 210 015</u>	<u>1 213 495</u>

TOWN COUNCIL OF KARIBIB

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

	2013	2012
	N\$	N\$
5. TRADE AND OTHER RECEIVABLES		
Services	5 376 539	5 755 270
Namwater	4 142 790	2 912 464
Value Added Tax	1 268 592	819 833
Sundry debtors	300 294	247 887
	11 088 215	9 735 454
Less:		
Provision for doubtful debts	(8 626 471)	(600 000)
	2 461 744	9 135 454
6. CASH AND BANK BALANCES		
Current account	(1 460 154)	(354 361)
Petty cash	400	-
	(1 459 754)	(354 361)
7. CAPITAL OUTLAY		
Loans redeemed	1 069 301	986 500
Revenue contributions	7 672 355	3 367 033
General Capital contributions	1 212 576	1 382 275
Internal loans to Capital	(2 821)	-
	9 951 411	5 735 808
8. FUNDS AND ACCOUNTS		
Fixed Property Fund	2 208 868	2 208 868
Capital Reserve Fund	243 473	243 473
Renewal Fund	268 248	268 248
Housing Fund	192 162	192 162
Build Together Fund	2 847 223	2 787 405
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	(6 865 720)	(4 592 037)
	(1 105 746)	1 108 119
9. LONG-TERM LIABILITIES		
The Government of Namibia		
Capital section	1 727 793	1 807 774
Housing Fund	9 324	9 324
Deposits held	144 027	132 383
	1 881 144	1 949 481

TOWN COUNCIL OF KARIBIB

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

	2013	2012
	N\$	N\$
10. TRADE AND OTHER PAYABLES		
Trade creditors	1 457 860	1 457 860
Provisions	6 957 769	12 174 000
	8 415 629	13 631 860
11. ADJUSTMENTS TO APPROPRIATION ACCOUNT		
Prior year adjustments	(1 041 309)	2 733 885
Provision for bad debts	(2 177 068)	(5 849 404)
Erongo Red Equity	-	3 129 079
	(3 218 377)	13 560
12. CASH GENERATED/(UTILISED) BY OPERATIONS		
NET OPERATING SURPLUS/(DEFICIT) BEFORE TRANSFERS	944 693	972 569
ADJUSTMENTS FOR:		
- Adjustments to appropriation account	(3 218 376)	13 560
- Investment income	(46 845)	(16 036)
OPERATING (DEFICIT)/SURPLUS BEFORE CHANGES IN WORKING CAPITAL	(2 320 528)	970 093
CHANGES IN WORKING CAPITAL		
Increase in trade and other receivables	(1 352 761)	(4 934 251)
Increase in trade and other payables	2 810 240	7 277 904
	1 457 479	2 343 653
CASH (UTILISED)/GENERATED BY OPERATIONS	(863 049)	3 313 746