



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF TSUMEB**

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

Published by authority

Price (Vat excluded) N\$ 30.55
Report no 972

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 Tsumeb for the financial year ended 30 June 2010, 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, July 2011

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF TSUMEB
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010**

1. INTRODUCTION

The accounts of the Municipality of Tsumeb for the year ended 30 June 2010 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 Mostert Landgrebe 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 Namibia 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. 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 the opinion of the Auditor-General 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 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 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

Items that were also reported in the previous financial year are indicated by way of an asterisk (*).

4.1 Collection of debts (*)

Uncollected services debts have continued to increase out of proportion during the past financial years. This adversely affects the cash flow of the Municipality. (See paragraph 23.1)

4.2 Bad and doubtful debts (*)

Council provided for bad debts of N\$ 45 192 036. However, the auditors' calculations revealed that the provision is understated by N\$ 16 660 446 (2009: N\$ 2 284 866). This has a negative impact on the Municipality's cash flow position. It appears that the Council's credit policy is ineffective and should urgently be revised to ensure debts are collected on a regular and timeous basis as individual debtors' accounts have reached unacceptably high levels.

4.3 Cash flow position (*)

The Municipality is facing an adverse cash flow problem as indicated by the temporary advances to revenue from other funds and accounts amounting to N\$ 38 696 738 (2009: N\$ 33 268 660) at year end. Furthermore, external loan redemptions and interest amounting to N\$ 14 092 326 (2009: N\$ 12 456 234) have not been paid and some have been outstanding for the past 9 years.

4.4 Rental contracts (*)

No rental contracts are kept by the Council for the property under lease. Therefore the auditors could not verify completeness of rental income amounting to N\$ 1 118 602 (2009: N\$ 960 336).

The Council should ensure that contracts are entered into for leasing arrangements and copies of such documents are filed.

4.5 VAT differences (*)

The VAT statement as per the Receiver of Revenue did not agree to the General ledger by an amount of N\$ 5 271 969 (2009: N\$ 2 903 445), meaning the VAT asset could be overstated by N\$ 5 271 969.

Furthermore the recoverability of the VAT asset of N\$ 3 053 625 (2009: N\$ 1 884 843) is in doubt because the statement from the Receiver of Revenue indicates a payable balance. Council should reconcile the receivable balance as per their records to the balance payable as per the Receiver of Revenue statement.

4.6 VAT, import VAT and P.A.Y.E. returns

Not all returns for VAT, import VAT and P.A.Y.E. were submitted timeously. No provision for any penalties and interest were made in the financial statements.

4.7 Contracts on sale of houses

No sales agreements are kept by the Council for the property sold under the housing scheme.

4.8 Uncleared suspense balances. (*)

The Municipality's records are characterized by long outstanding suspense accounts and the majority of which no explanation could be given. The balances have remained unchanged from prior year periods and it appears that no action is being taken by the Town Treasurer in clearing these accounts. The balance is so significant to the extent that it distorts the fair presentation of the financial statements. The following account balance should receive immediate attention:

| Description | Amount Dr/(Cr) |
|----------------|--------------------|
| Social housing | N\$ (1 500 000) |
| Omtuli savings | (288 791) |

The accounting department is once again urged to clear these balances in the following year.

4.9 Stock (*)

As the auditors were not involved in the stock count, and no alternative procedures could be performed, the completeness and existence of stock items could not be verified.

4.10 Water sales (*)

There were differences observed between the recalculated water charges using the approved tariffs and the actual charges levied to consumers as per their statements from a sample selected from water consumers. No satisfactory explanation could be provided for these differences.

5. ACKNOWLEDGEMENT

The assistance and co-operation by the staff of the Tsumeb Municipality 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 | Deficit | Balance |
|-----------------------------------|------------|-------------|------------|------------------------|
| | N\$ | N\$ | N\$ | N\$ |
| Accumulated surplus on 01/07/2009 | | | | (17 908 877) |
| General accounts | | | | |
| - Non profitable | 22 272 971 | 18 469 112 | 3 803 859 | |
| - Self supporting | 10 227 866 | 9 075 520 | 1 152 346 | |
| Trade accounts | | | | |
| - Electricity | 6 032 081 | 1 123 536 | 4 908 545 | |
| - Water | 12 525 415 | 11 108 532 | 1 416 883 | |
| Surplus for the year | 51 058 333 | 39 776 700 | 11 281 633 | 11 281 633 |
| Adjustments and utilisations | | | | (6 627 244) |
| Transfer to Funds | | | | 6 922 753 (820 323) |
| Accumulated surplus on 30/06/2010 | | | | (524 814) |

7. CURRENT BANK ACCOUNT

| | 2010 | 2009 |
|--|------------------|------------------|
| | N\$ | N\$ |
| Unfavorable cash-book balance at 30 June - Balance sheet | (1 353 978) | (4 231 928) |
| Outstanding cheques | 3 228 321 | 332 996 |
| Unexplained difference | (2 396) | 5 203 557 |
| Outstanding deposits | (410 593) | - |
| Favourable balance as per bank statement | 1 461 354 | 1 304 625 |

8. INVESTMENTS

The investments as at 30 June were as follows:

| Institution | 2010 | | 2009 | |
|--------------------|-------------------|----------------|-------------------|----------------|
| | Investment | Interest | Investment | Interest |
| | N\$ | N\$ | N\$ | N\$ |
| Commercial banks | 1 082 450 | 154 299 | 3 752 434 | 216 960 |
| Cenored investment | 35 236 648 | - | 35 236 648 | - |
| | 36 319 098 | 154 299 | 38 989 082 | 216 960 |

The investments were allocated as follows:

| Allocation | 2010 | 2009 |
|--------------------------|-------------------|-------------------|
| | N\$ | N\$ |
| Capital Development Fund | - | 770 075 |
| Build Together Fund | 1 082 450 | 2 982 359 |
| Cenored investment | 35 236 648 | 35 236 648 |
| | 36 319 098 | 38 989 082 |

9. FUND ACCOUNTS

The position of the Funds and accounts at year-end was as shown in note 8 in Annexure D. Temporary advances amounting to N\$ 38 696 738 for 2010 (2009: N\$ 33 268 660) were made from the Fund accounts to Revenue to finance operating expenditure. Funds are as such no longer fully cash backed and can thus not be fully utilized for the purposes for which they have been created. The increase of these advances indicates the speed with which the Municipality is depleting its funds.

10. TRADE ACCOUNT

10.1 The results of water operations were as follows:

| | Electricity | | Water | |
|------------------------------------|------------------|------------------|------------------|------------------|
| | 2010 | 2009 | 2010 | 2009 |
| | N\$ | N\$ | N\$ | N\$ |
| Sales | 6 032 081 | 28 197 | 12 515 837 | 12 467 084 |
| Cost of sales | - | - | - | - |
| Gross surplus | 6 032 081 | 28 197 | 12 515 837 | 12 467 084 |
| Other income/(expenses) | (1 123 536) | 1 553 714 | (11 098 954) | (8 833 268) |
| Net (deficit)/surplus | 4 908 545 | 1 581 911 | 1 416 883 | 3 633 816 |
| Gross surplus percentages on sales | - | - | 100.0% | 100.0% |
| Net surplus percentage on sales | - | - | 11.3% | 29.1% |

10.2 Water distribution results, in cubic meters

| | Water | |
|------------------------------------|---------------|---------------|
| | 2010 Units | 2009 Units |
| Sales | 1 876 535 | - |
| Purchases | 2 345 520 | - |
| Loss | (468 985) | - |
| Percentage loss in units purchased | (20.0%) | 0.0% |

Council should attend to the high percentage on the water loss as a matter of urgency. Council could not provide the auditors with statistics for the water losses for the 2009 year.

No electricity statistics for the year as Cenored is responsible for the electricity distribution in Tsumeb from the 2005 year onward.

11. SELF SUPPORTING SERVICES

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

| Service | Income 2010 | Expenses 2010 | Surplus/ (deficit) 2010 | Surplus/ (deficit) 2009 |
|-----------|-------------------|------------------|-------------------------------|-------------------------------|
| | N\$ | N\$ | N\$ | N\$ |
| Sewerage | 5 139 854 | 5 923 543 | (783 689) | 581 255 |
| Cleansing | 5 088 012 | 3 151 977 | 1 936 035 | 2 148 395 |
| | 10 227 866 | 9 075 520 | 1 152 346 | 2 729 650 |

12. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

No fruitless, unauthorized or avoidable expenditure was revealed during the year.

13. SUSPENSE ACCOUNTS

The balance sheet includes the following suspense accounts:

| | 2010 | 2009 | |
|----------------------------|-------------------|----------------|-------------------|
| | Cr | Dr | Cr |
| | N\$ | N\$ | N\$ |
| Dantago Hoadia | - | - | 360 000 |
| Cenored claims outstanding | - | - | 1 262 906 |
| Omutali savings | 288 791 | - | 288 791 |
| Social housing | 1 500 000 | - | 1 500 000 |
| Provisions for Natis | - | 221 084 | - |
| Endowment fees | 505 237 | - | - |
| External loans | 14 092 326 | - | 12 456 234 |
| | 16 386 354 | 221 084 | 15 867 931 |

Included under the suspense accounts is an amount of N\$ 14 092 326 (2009: N\$ 12 456 234) which is in respect of arrear payments as well as interest payable to Government of Namibia on external loans. All suspense accounts should be cleared on a regular basis

14. IRREGULARITIES AND LOSSES

No irregularities or losses due to theft, fire and accidents were revealed during the year.

15. CAPITAL PROJECTS

The following were spend on capital projects:

| Nature of projects/ acquisitions | Financed by | | Total expenditure 2010 | Total expenditure 2009 |
|-------------------------------------|--------------------|-------------------|------------------------------|------------------------------|
| | Revenue account | Internal loans | | |
| | N\$ | N\$ | N\$ | N\$ |
| Town clerk's department | - | 3 891 | 3 891 | 8 458 |
| Cemetery and Parks | - | 26 411 | 26 411 | 26 053 |
| Council's general expenses | - | 151 620 | 151 620 | 210 308 |
| Civic Buildings | - | 8 683 | 8 683 | 5 217 |
| Town Engineer's department | - | 226 991 | 226 991 | 371 576 |
| Town Treasurer's department | - | 45 269 | 45 269 | 240 747 |
| Water | 2 644 | 310 283 | 312 927 | 1 537 618 |
| Human resources | - | 4 348 | 4 348 | - |
| Mayors office | - | 7 322 | 7 322 | - |
| Housing | 536 692 | 44 525 | 581 217 | - |
| Streets | - | 111 476 | 111 476 | - |
| Sewerage | - | 127 986 | 127 986 | - |
| | 539 336 | 1 068 805 | 1 608 141 | 2 399 977 |

The income statements does not reflect the N\$ 536 692 under the housing vote. Council must investigate the situation and correct it in the new financial year.

16. BURSARIES

No bursaries were granted during the year.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID.

No contributions other than listed in paragraph 21 were made during the year.

18. COMPENSATION PAYMENTS

No compensation payments were made during the year.

19. VISITS TO FOREIGN COUNTRIES

There was a visit to Sweden.

20. CLAIMS

| | Claims against the Municipality | | | Claims by the Municipality | | |
|-----------------------------------|---------------------------------|----------------|----------------|----------------------------|----------------|----------------|
| | Number | Claimed N\$ | Settled N\$ | Number | Claimed N\$ | Settled N\$ |
| Outstanding 01/07/2009 | - | - | - | - | - | - |
| Received 2009/2010 | 1 | 4 230 | Settled | 1 | 10 950 | Settled |
| Finalised 2009/2010 | (1) | (4 230) | - | (1) | (10 950) | - |
| Outstanding 30/06/2010 | - | - | - | - | - | - |

21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

The Municipality made the following gifts/donations:

| Nature of gift/donation | Beneficiary | Value |
|--------------------------------|-----------------------------------|----------------|
| | | N\$ |
| Donation | 50% of Staff Uniform Subsidy | 29 617 |
| Donation | Anton Sedrich | 500 |
| Donation | Etosha Secondary School | 400 |
| Donation | First National Bank | 3 000 |
| Donation | Francis Galton Primary | 400 |
| Donation | Hearts & Voices | 2 000 |
| Donation | Huigub Primary School | 400 |
| Donation | Immergrun Florist | 183 |
| Donation | Johannes Gabriel | 600 |
| Donation | Lugano trip | 57 822 |
| Donation | N C C I | 10 000 |
| Donation | Neidel Rochell | 1 000 |
| Donation | Ngosi Reagan | 500 |
| Donation | Nomtsoub Primary School | 400 |
| Donation | Ombili Foundation | 400 |
| Donation | Ondundu Primary School | 400 |
| Donation | Opawa Primary School | 5 400 |
| Donation | Otjikoto Secondary School | 2 400 |
| Donation | Pensioner's Water Basic Exemption | 195 025 |
| Donation | Pick & Pay Model | 1 521 |
| Donation | Rubicon radios | 6 400 |
| Donation | SAIMSA | 10 000 |
| Donation | School of Law Foundation | 500 |
| Donation | Senior citizens Yea End function | 12 468 |
| Donation | Sponcor for Volleyball | 11 513 |
| Donation | St Francis Primary School | 400 |
| Donation | Swakopmund Primary School | 1 000 |
| Donation | The Town Treasurer | 11 900 |
| Donation | Trip Travel | 52 286 |
| Donation | Tripple Seven Studios | 1 100 |
| Donation | Tsintsabis Primary School | 900 |
| Donation | Tsumeb Women and Child Abuse | 10 000 |
| Donation | Tsumeb English Medium School | 400 |
| Donation | Tsumeb Junior Secpmdary School | 400 |
| | | 431 234 |

22. TRANSFER OF PROPERTY

There was no transfer of property to and from Government.

23. TRADE AND OTHER RECEIVABLES/TRADE AND OTHER PAYABLES

23.1 Trade and other receivables at 30 June were:

| | 2010 | 2009 |
|--|-------------------|------------------|
| | N\$ | N\$ |
| Services rendered and assessment rates | 68 942 431 | 51 670 263 |
| VAT Provision | 3 053 605 | 1 884 843 |
| Sundries | 716 043 | 500 522 |
| | 72 712 079 | 54 055 628 |
| Provision for bad debts | (45 192 036) | (45 192 036) |
| Consumer deposits | (1 170 585) | (1 170 153) |
| Total | 26 349 458 | 7 693 439 |

23.2 Trade and other payables at 30 June were:

| | 2010 | 2009 |
|---|-------------------|-------------------|
| | N\$ | N\$ |
| Accruals | 1 046 467 | 523 411 |
| Leave and audit fee provision | 4 179 796 | 3 760 605 |
| Arrears for loan interest and redemptions | 14 092 326 | 12 456 234 |
| Sundries | 1 158 414 | 792 425 |
| Suspense accounts | 2 294 028 | 5 995 050 |
| Totals | 22 771 031 | 23 527 725 |

24. ASSESSMENT RATES

Net proceeds from assessment rates were N\$ 7 873 332 (2009: N\$ 7 495 384). The tariffs for private and business property were N\$ 0.23557 (2009: N\$ 0.23557) per dollar per year of the site valuations plus N\$ 0.00571 (2009: N\$ 0.00571) per dollar per year of the valuations of improvements.

25. LOANS

25.1 External loans

Balance at 30 June 2010 was N\$ 10 694 247 (2009: N\$ 11 040 793). The balance corresponds with the balance as per actuarial table and the general ledger. Redemption payments are not up to date as stated in paragraph 13.

Loan assets were correctly capitalized and no loan assets have been disposed of before the loan was completely redeemed. Loan monies were used for the purposes they were obtained for. However, there were amounts totaling N\$ 4 556 853 (2009: N\$ 4 556 853) which were unspent on loans and appear to be long-term in nature.

25.2 Internal loans

Internal loans as at 30 June 2010, being N\$ 6 436 606 (2009: N\$ 6 728 135), 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 Due to the Municipality

| | 2010 | 2009 |
|---|-----------|-----------|
| | N\$ | N\$ |
| Balance due to the Municipality by house owners | 4 395 720 | 2 570 120 |

26. SALE OF ERVEN

26.1 Property transferred from the Municipality during the year

There were 23 properties to the value of N\$ 414 934 transferred from the Municipality to others.

26.2 Property transferred to the Municipality during the year

There were 14 properties to the value of N\$ 1 000 transferred to the Municipality.

27. LOCAL AUTHORITY PROPERTY SOLD ON AN INSTALMENT BASIS

No figures were provided for the year under review.

28. TARIFF ADJUSTMENTS

Tariff adjustments were duly approved and promulgated in the Government Gazette.

29. APPROVALS

29.1 Excess on approved budget

All budget excesses were approved.

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles and values thereof:

| | Sedan | | LDV's, 4x4's and Combi's | | Other | |
|----------------------|--------|---------|--------------------------|---------|--------|-----------|
| | Number | Value | Number | Value | Number | Value |
| | | N\$ | | N\$ | | N\$ |
| Balance - 01/07/2009 | 2 | 191 218 | 19 | 255 978 | 28 | 2 190 854 |
| Additions | - | - | - | - | 1 | 182 605 |
| Sub-total | 2 | 191 218 | 19 | 255 978 | 29 | 2 373 459 |
| Depreciation | - | - | - | (2 784) | - | (56 822) |
| Balance - 30/06/2010 | 2 | 191 218 | 19 | 253 194 | 29 | 2 316 637 |

30.2 Inventory

Adequate systems of control over and recording of inventory were maintained.

Inventory counts are performed twice per annum.

Slow moving inventory was identified and adequate provision has been made for obsolete items.

Housekeeping is up to standard.

31. SPECIAL INVESTIGATIONS

All special investigations were completed and reported upon.

32. GENERAL

The accounting and internal controls applied by the Council are not satisfactory.

33. FORMAL AND INFORMAL QUERIES

33.1 Formal queries are embodied in this report.

33.2 Informal queries were raised with the Town Clerk.

34. QUALIFIED AUDIT OPINION

The accounts of the Tsumeb Municipality for the financial year end 30 June 2010, 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 audit opinion has been qualified due to the following reasons:

Bad and doubtful debts

Council provided for bad debts of N\$ 45 192 036. However, the auditor's calculations reveal that the provision is understated by N\$ 13 915 276.

Cash flow position

The Municipality is facing an adverse cash flow problem as indicated by the temporary advances to revenue from other funds and accounts amounting to N\$ 38 696 738 (2009: N\$ 33 268 660) at year-end. Furthermore, external loan redemptions and interest amounting to N\$ 14 092 326 (2009: N\$ 12 456 234) have not been paid and some have been outstanding for the past 9 years.

Rental contracts

No rental contracts are kept by the Council for the property under lease. Therefore the auditors could not verify completeness of rental income amounting to N\$ 1 118 602 (2009: N\$ 960 336).

VAT differences

The VAT statement as per the Receiver of Revenue did not agree to the general ledger by an amount of N\$ 5 271 969 (2009: N\$ 2 903 445). Meaning the VAT asset could be overstated by N\$ 5 271 969.

Furthermore the recoverability of the VAT asset of N\$ 3 053 625 (2009: N\$ 1 884 843) is in doubt because the statement from the Receiver of Revenue indicates a payable balance.

VAT, import VAT and P.A.Y.E. returns

Not all returns for VAT, import VAT and P.A.Y.E. were submitted timeously. No provision for any penalties and interest were made in the financial statements.

Uncleared suspense balances.

The Municipality's records are characterized by long outstanding suspense accounts and the majority of which no explanation could be given. The balances have remained unchanged from prior year periods and it appears that no action is being taken by the Town Treasurer in clearing these accounts. The credit balance of N\$ 1 788 791 is so significant to the extent that it distorts the fair presentation of the financial statements.

Water sales

There were differences observed between the recalculated water charges using the approved tariffs and the actual charges levied to consumers as per their statements from a sample selected from water consumers. No satisfactory explanation could be provided for these differences.

Leave provision

The provision for leave is overstated by N\$ 2 653 856.

Except for the effect of any adjustments that might have been necessary as referred to in the preceding paragraphs, in my opinion, the financial statements fairly present the financial position of the Municipality at 30 June 2010 and the results of its operations and cash flows for the year then ended.

WINDHOEK, July 2011

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

MUNICIPALITY OF TSUMEB

BALANCE SHEET AT 30 JUNE

| | Notes | 2010 N\$ | 2009 N\$ |
|------------------------------------|-------|--------------------|-------------------|
| ASSETS | | | |
| Non-current assets | | | |
| | | 76 747 692 | 79 310 811 |
| Property, plant and equipment | 2 | 36 032 874 | 38 205 862 |
| Loans receivable | 3 | 4 395 720 | 2 570 120 |
| Investments | 4 | 36 319 098 | 38 989 082 |
| Suspense accounts | | - | (454 253) |
| Current assets | | | |
| | | 26 555 048 | 7 882 788 |
| Trade and other receivables | 5 | 26 349 458 | 7 693 439 |
| Inventories | 6 | 205 590 | 189 349 |
| TOTAL ASSETS | | 103 302 740 | 87 193 599 |
| FUNDS AND LIABILITIES | | | |
| Funds and reserves | | | |
| | | 68 483 484 | 48 393 153 |
| Capital outlay | 7 | 23 225 893 | 24 760 806 |
| Funds and accounts | 8 | 45 257 591 | 23 632 347 |
| Non-current liabilities | | | |
| Long-term loans | 9 | 10 694 247 | 11 040 793 |
| Current liabilities | | | |
| | | 24 125 009 | 27 759 653 |
| Trade and other payables | 10 | 22 771 031 | 23 527 725 |
| Bank overdraft | 11 | 1 353 978 | 4 231 928 |
| TOTAL FUNDS AND LIABILITIES | | 103 302 740 | 87 193 599 |

MUNICIPALITY OF TSUMEB

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

| | <u>Notes</u> | <u>2010</u> | <u>2009</u> |
|---|--------------|-------------------------|----------------------------|
| | | N\$ | N\$ |
| INCOME | | 51 058 333 | 38 831 234 |
| EXPENDITURE | | <u>39 776 700</u> | <u>37 152 301</u> |
| NET OPERATING SURPLUS | | 11 281 633 | 1 678 933 |
| TRANSFER TO INTERNAL FUNDS | 12 | <u>(820 323)</u> | <u>-</u> |
| NET SURPLUS AFTER TRANSFERS | | 10 461 310 | 1 678 933 |
| APPROPRIATION ACCOUNT | 13 | <u>6 922 753</u> | <u>(49 404 459)</u> |
| NET SURPLUS/(DEFICIT) AFTER APPROPRIATIONS | | 17 384 063 | (47 725 526) |
| REVENUE ACCOUNT - Beginning of the year | | <u>(17 908 877)</u> | <u>29 816 649</u> |
| REVENUE ACCOUNT - End of the year | | <u>(524 814)</u> | <u>(17 908 877)</u> |

MUNICIPALITY OF TSUMEB

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

| | Note | 2010 N\$ | 2009 N\$ |
|--|------|--------------------|--------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Cash receipts from customers | | 51 058 333 | 38 831 234 |
| Cash paid to suppliers | | (53 103 224) | (41 594 477) |
| Cash utilised by operations | 14 | (2 044 891) | (2 763 243) |
| Increase in Fund accounts | | 4 241 181 | 2 854 283 |
| Decrease in Capital outlay | | (1 534 913) | (11 499 456) |
| Net cash flow from operating activities | | 661 377 | (11 408 416) |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Net capital expenditure | | 2 172 988 | 11 872 524 |
| (Increase)/decrease in suspense accounts | | (454 253) | 1 944 203 |
| (Increase)/decrease in loans receivable | | (1 825 600) | 74 470 |
| Decrease/(increase) in investments | | 2 669 984 | (309 048) |
| | | 2 563 119 | 13 582 149 |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| (Decrease)/increase in long-term liabilities | | (346 546) | 196 898 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 2 877 950 | 2 370 632 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR | | (4 231 928) | (6 602 560) |
| CASH AND CASH EQUIVALENTS - END OF THE YEAR | | (1 353 978) | (4 231 928) |

MUNICIPALITY OF TSUMEB

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

Property, plant and equipment are stated at cost or at valuation where assets have been acquired by grant or by donation, less depreciation written off over the expected useful lives as determined by 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 Stock

Stock is valued at the lower of cost and net realizable value. Obsolete stock is written off against the income statement.

1.3 Funds**1.3.1 Revenue account**

All monies received and accrued and expenses paid and accrued, except for allocation to other funds, are reflected in this account, and are kept in compliance with Section 86(1)(b) of the Local Authorities Act of 1992 as amended.

1.3.2 Housing Fund

The purpose of this Fund is to provide funds to enable tenants of houses to buy such houses as required in terms of Section 58 of the Act.

1.4 Special Funds

The Municipality also maintains the following Funds in terms of the authorizations in Section 80(4) of the Local Authorities Act of 1992.

1.4.1 Parking Meter Fund

The purpose of this Fund is to provide for the installation and up keeping of parking meters.

1.4.2 Capital Development Fund

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

MUNICIPALITY OF TSUMEB

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE
2010 (continued)**1.4 Special Funds (continued)****1.4.3 Betterment Fund**

The purpose of this Fund is to provide for future improvement of Municipal assets. Part of the proceeds of the sale of properties developed by the Municipality accumulates in this Fund as well as interest derived from investments.

1.4.4 Fixed Property Fund

Proceeds on the sale of developed properties accumulate in this Fund and are used to develop properties.

1.4.5 Renewal Fund

The purpose of this Fund is to provide for replacement for assets and for additional depreciation on assets which decreased in value. Income is obtained from the Revenue Account and interest derived from investments.

1.4.6 Build Together Fund

The purpose of this Fund is to provide loans to applicants who want to build or buy houses with the help of the community. The installments received for the payment of these loans are reinvested in this Fund.

| | 2010 | 2009 |
|--|-------------------|-------------------|
| | N\$ | N\$ |
| 2. PROPERTY, PLANT AND EQUIPMENT | | |
| Income assets | 6 466 349 | 8 179 947 |
| Loan assets | 23 740 265 | 22 671 460 |
| General capital | 5 826 260 | 7 354 455 |
| Total | 36 032 874 | 38 205 862 |
| 3. LOANS RECEIVABLE | | |
| Housing Fund 1 | 23 150 | 78 825 |
| Housing Fund 2 | 805 779 | 805 779 |
| Sale of erven | 90 532 | 221 808 |
| Build Together Fund | 943 541 | 990 992 |
| Build Together Fund - Temporary advances | 466 984 | 466 984 |
| Twatameka Two Savings | 243 838 | 5 732 |
| Dantago Hoda | 293 563 | - |
| Peace Maker | 326 264 | - |
| Khaibasen Group | 220 463 | - |
| Peace Group | 290 292 | - |
| Omwene Tukwafa Group | 366 107 | - |
| Khomas Group | 325 207 | - |
| | 4 395 720 | 2 570 120 |

MUNICIPALITY OF TSUMEB

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

| | 2010 | 2009 |
|--|-------------------|-------------------|
| | N\$ | N\$ |
| 4. INVESTMENTS | | |
| INVESTMENTS | | |
| Commercial banks | 1 082 450 | 3 752 434 |
| Cenored Investment | 35 236 648 | 35 236 648 |
| | 36 319 098 | 38 989 082 |
| ALLOCATED AS FOLLOWS | | |
| Capital Development Fund | - | 770 075 |
| Building Together Fund | 1 082 450 | 2 982 359 |
| Cenored Investment | 35 236 648 | 35 236 648 |
| | 36 319 098 | 38 989 082 |
| 5. TRADE AND OTHER RECEIVABLES | | |
| Services rendered and assessment rates | 68 942 431 | 51 670 263 |
| VAT provision | 3 053 605 | 1 884 843 |
| Sundries | 716 043 | 500 522 |
| | 72 712 079 | 54 055 628 |
| Provision for bad debts | (45 192 036) | (45 192 036) |
| Consumer deposits | (1 170 585) | (1 170 153) |
| | 26 349 458 | 7 693 439 |
| 6. INVENTORIES | | |
| Stores | 205 590 | 189 349 |
| | 205 590 | 189 349 |
| 7. CAPITAL OUTLAY | | |
| Loans redeemed | 10 933 284 | 9 226 404 |
| Revenue contributions | 6 466 349 | 8 179 947 |
| General capital contributions | 5 826 260 | 7 354 455 |
| | 23 225 893 | 24 760 806 |

MUNICIPALITY OF TSUMEB

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

| | 2010 | 2009 |
|---|-------------------|-------------------|
| | N\$ | N\$ |
| 8. FUNDS, ACCOUNTS AND RESERVES | | |
| Fixed Property Fund | 15 994 800 | 15 016 732 |
| Twatameka two savings | 378 608 | 363 475 |
| Capital Development Fund | 2 661 783 | 2 580 150 |
| Betterment Fund | 1 955 185 | 1 955 186 |
| Renewal Fund | 16 031 467 | 15 000 106 |
| Housing Funds | 8 760 562 | 6 625 575 |
| Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992. | (524 814) | (17 908 877) |
| | 45 257 591 | 23 632 347 |
| 9. LONG-TERM LIABILITIES | | |
| Loans from the Government | 10 694 247 | 11 040 793 |
| | 10 694 247 | 11 040 793 |
| 10. TRADE AND OTHER PAYABLES | | |
| Accruals | 1 046 467 | 523 411 |
| Leave and audit fee provision | 4 179 796 | 3 760 605 |
| Arrears for loan interest and redemptions | 14 092 326 | 12 456 234 |
| Sundries | 1 158 414 | 792 425 |
| | 20 477 003 | 17 532 675 |
| Suspense accounts | | |
| Cenored claims outstanding | - | 1 262 906 |
| Omutuli savings | 288 791 | 288 791 |
| Soweto development | - | 2 372 253 |
| Dantago Hoada | - | 360 000 |
| Social housing | 1 500 000 | 1 500 000 |
| Endowment fees | 505 237 | - |
| Other | - | 211 100 |
| | 2 294 028 | 5 995 050 |
| Total | 22 771 031 | 23 527 725 |

MUNICIPALITY OF TSUMEB

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

| | 2010 | 2009 |
|---|------------------|---------------------|
| | N\$ | N\$ |
| 11. BANK OVERDRAFT | | |
| Current account | 1 353 978 | 4 231 928 |
| | 1 353 978 | 4 231 928 |
| 12. TRANSFER (TO)/FROM INTERNAL FUNDS | | |
| Capital Development Fund | (78 607) | - |
| Renewal Fund | (741 716) | - |
| | (820 323) | - |
| 13. ADJUSTMENTS TO APPROPRIATION ACCOUNT | | |
| Adjustments - Revenue relating to prior year | - | 19 346 |
| Auction sales | - | 84 891 |
| Bad debts | - | (1 363 736) |
| Bank reconciliation correction | 4 145 002 | - |
| Cenorad equity | - | (2 326 540) |
| Correction of debtors | 3 078 014 | 128 990 |
| Loans corrected | (68 182) | - |
| Miscellaneous adjustments | (232 081) | (216 356) |
| Order incorrectly cancelled | - | 4 335 |
| Provision for bad debts | - | (45 192 036) |
| Service accounts: Staff payments | - | 30 946 |
| Stock correction: Previous years | - | (574 252) |
| Transnamib Holdings | - | (47) |
| | 6 922 753 | (49 404 459) |

MUNICIPALITY OF TSUMEB

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

| | 2010 | 2009 |
|--|---------------------|---------------------|
| | N\$ | N\$ |
| 14. CASH UTILISED BY OPERATIONS | | |
| Net operating surplus before interest and transfers | 11 281 633 | 1 678 933 |
| Adjustments for: | | |
| Adjustments to appropriation account | 6 922 753 | (49 404 459) |
| Transfer to Funds | (820 323) | - |
| OPERATING SURPLUS/(DEFICIT) BEFORE CHANGES IN WORKING CAPITAL | 17 384 063 | (47 725 526) |
| CHANGES IN WORKING CAPITAL | | |
| (Increase)/decrease in trade and other receivables | (18 656 019) | 43 601 531 |
| (Increase)/decrease in inventories | (16 241) | 546 698 |
| (Decrease)/increase in trade and other payables | (756 694) | 814 054 |
| | (19 428 954) | 44 962 283 |
| CASH UTILISED BY OPERATIONS | (2 044 891) | (2 763 243) |