



**REPUBLIC OF NAMIBIA**



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

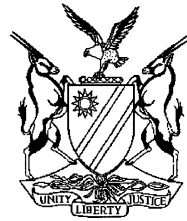
# **MUNICIPALITY OF USAKOS**

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007**

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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 year ended 30 June 2007, 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 YEAR ENDED 30 JUNE 2007**

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**1. INTRODUCTION**

The accounts of the Municipality of Usakos for the year ended 30 June 2007 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 not 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**

##### **4.1 General ledger**

It appears that the trial balance did not balance by an amount of N\$ 147 505.53.

The balancing figure was taken to previous year adjustments in the appropriation account.

It appears that the year-end function is 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:

	N\$
Debit adjustments	1 087.00
Credit adjustments	(245 217.10)

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

The adjustments were made by the consultant and comprise mainly of adjustments on creditors, debtors and VAT claims.

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 N\$ 957 118.44.

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:

	<b>Budget</b>	<b>Actual</b>
	N\$	N\$
Community hall	-	1 550
Councils general expenses	395 100	442 449
Machinery	191 668	438 330
Staff residences	10 000	12 948
Sewerage and sanitation	365 268	490 045
Water	1 711 489	2 105 586
Abattoir	1 500	1 942

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 were not provided with an approval by Council regarding the rates of house rentals to be charged. The same aspect applies to various other income avenues.

#### **4.6 Other income avenues**

##### 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 and they were 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. They were not successful.

#### 4.8 Accounts receivable

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

The situation can be summarized as follows:

	<b>Control account</b>	<b>Listing</b>
	N\$	N\$
2007	5 870 259	6 796 226

These differences are unacceptable and clearly point 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 and in 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.

In this regard specific reference is made to account 30000133 which at 30 June 2007 reflected a credit of N\$ 30 487.14 in the current column and a debit of N\$ 30 243.74 in the 120 days column.

This is the same for many accounts in Councils 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 and has been the same for the last three years.

Income from services for the year ended 30 June 2007 amounted to approximately N\$ 4 800 000, which indicates that the accounts receivable are on average 446 days outstanding. The amount outstanding is N\$ 5 870 259 and even if 90 days is taken as the norm, the total debtors outstanding should not have been more than N\$ 1 200 000, thus indicating that the bad debt content of the accounts receivable book of the Council could be N\$ 4 670 259.

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 Councils 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 is recommended 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 balance sheet at 30 June 2007 reflects an investment of N\$ 84 267.50 as an investment of the Housing Fund, which is probably not correct as the bank's records indicate that it is an investment of the Council.

This should probably be re-visited, the truth established and the consultant who drafts the financial statements be advised accordingly.

- It appears that Council owes an amount of N\$ 1 150 003.44 to Namwater. The account appears to be in arrears as the total purchases of water for the year is N\$ 1 719 977, indicating that some part of the account is more than 8 months old.
- The financial position of the Council is not strong and the balance sheet reflects the accumulated deficit as N\$ 777 623.
- Council is not a going concern at the moment and should Government call for the arrears on its loans, will find it in an impossible position and 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 year were as follows :

	<b>Revenue</b>	<b>Expenditure</b>	<b>Surplus/ (Deficit)</b>	<b>Balance</b>
	N\$	N\$	N\$	N\$
Accumulated deficit 01/07/2006				(70 350)
<b>General accounts</b>				
- Non-profitable	2 443 228	4 964 584	(2 521 356)	
- Self-supporting	1 452 683	525 196	927 487	
<b>Trade accounts</b>				
- Water	1 797 318	2 105 586	(308 268)	
- Electricity	989 004	38 270	950 734	
Deficit for the year	6 682 233	7 633 636	(951 403)	(951 403)
Adjustments and utilizations (note 10)				(1 021 753)
Accumulated deficit 30/06/2007				244 130
				<b>(777 623)</b>

## 7. CURRENT BANK ACCOUNT

	<b>2007</b>	<b>2006</b>
	N\$	N\$
Cash-book balance at 30 June - Balance sheet	(84 100)	(63 727)
Outstanding cheques	133 936	89 266
Balance as per bank statement	<b>49 836</b>	<b>25 539</b>

## 8. INVESTMENTS

On 30 June the investments were as follows:

	<b>2007</b>	<b>2006</b>
	N\$	N\$
Bank institutions	<b>779 114</b>	<b>998 027</b>

The investments were allocated as follows between the Funds:

	<b>2007</b>	<b>2006</b>
	N\$	N\$
Housing Fund	779 114	920 242
Revenue	-	77 785
	<b>779 114</b>	<b>998 027</b>



## 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. The temporary advances made from fund accounts amounted to N\$ 2 529 149. This situation underlines the serious cash flow problem of the Municipality.

## 10. TRADE ACCOUNTS

### 10.1 The results of operations were as follows:

	Electricity		Water	
	2007	2006	2007	2006
	N\$	N\$	N\$	N\$
Sales	4 239	16 919	1 797 318	1 729 640
Erongo Red levies	984 765	903 526	-	-
Cost of bulk purchases	-	-	(1 719 988)	(1 156 471)
Gross profit on bulk purchases	989 004	920 445	77 330	573 169
Net expenditure	(38 270)	(1 104 560)	(385 598)	(1 081 017)
<b>Net deficit</b>	<b>950 734</b>	<b>(184 115)</b>	<b>(308 268)</b>	<b>(507 848)</b>
Gross profit percentages on bulk purchases			4.5%	49.6%
Net loss percentage on bulk purchases			(17.9%)	(43.9%)

### 10.2 Water distribution results, in cubic meters

As also reported in previous reports, no statistics were kept by the Municipality to calculate the distribution losses. It is once again recommended that the Municipality, in future, must record the cubic meters sold and purchased to calculate distribution losses.

## 11. SELF-SUPPORTING SERVICES

### 11.1 The result for the year under review were as follows:

	2007	2006
	N\$	N\$
Abattoir	(1 942)	(1 139)
Ambulance	(2 585)	(42 859)
Housing	36 069	(124 805)
Sanitation and sewerage	895 945	113 495
Deficit for the year	<b>927 487</b>	<b>(55 308)</b>

## 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 an investigation into irregularities and losses at the Municipality.

## 15. CAPITAL PROJECTS

Capital expenditure of N\$ 255 216 (2006: N\$ 338 979) was incurred during the year.

Nature of projects/acquisitions	Financed by			Total expenditure
	Loan assets	Revenue account	General capital	
	N\$	N\$	N\$	N\$
General administration - vehicle	-	255 216	-	255 216

## 16. BURSARIES

No bursaries were allocated and disbursed during the year.

## 17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

No contributions, grants or financial aid were provided outside the budget.

## 18. COMPENSATION PAYMENTS

No compensation payments were made other than in the ordinary course of business.

## 19. VISITS TO FOREIGN COUNTRIES

No visits to foreign countries were recorded.

## 20. CLAIMS AGAINST THE LOCAL AUTHORITY

To the best of the knowledge and belief of the auditors, there were no claims against the local authority.

## 21. GIFTS/DONATIONS BY THE LOCAL AUTHORITY

No gifts or donations were made by the local authority outside the budget.

## 22. TRANSFER OF PROPERTY

22.1 The Municipality sold a number of properties during the year 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:

	2007	2006
	N\$	N\$
Service debtors	5 870 260	4 983 572
Less : Provision for bad debts	(316 000)	(316 000)
	5 554 260	4 667 572
Deposit	200	200
VAT	282 445	881 382
Staff loan	11 522	-
	<b>5 848 427</b>	<b>5 549 154</b>

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.

The average ageing of trade receivables, before taking the provision for bad debts into consideration is approximately 446 days. Accurate statistics regarding ageing are not available and the above calculation is done on the basis of the average income of the Municipality for the past year. The appropriation account of the Municipality is in debit and unless collection of arrears is stepped up, the Municipality may experience cash flow pressure and a situation where it can be seen that it is not a going concern anymore.

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

The Municipality should attend to the arrears as a matter of urgency.

### 23.2 Trade and other payables at 30 June were:

	2007	2006
	N\$	N\$
Trade creditors	1 336 888	819 609
Provisions – Bonus leave	399 856	334 456
External loan repayments in arrears	2 020 979	1 817 842
Consumer deposits	238 069	246 541
Salaries	17 409	122 700
	<b>4 013 201</b>	<b>3 341 148</b>

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 owes a considerable amount to Namwater being N\$ 1 150 033 at year-end.

### 24. ASSESSMENT RATES

Proceeds from assessment rates were N\$ 558 452 (2006: N\$ 527 298). An amount of N\$ 36 365 (2006: N\$ 26 365) 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

	2007	2006
	N\$	N\$
Government of Namibia (Including housing loans)	1 033 873	1 161 051
First National Bank - Instalment sale agreements	206 472	267 793
	<b>1 240 345</b>	<b>1 428 844</b>

#### 25.2 Internal loans

Internal loan balances were N\$ 45 187 (2006: N\$ 67 274) at year-end. Loan assets were correctly capitalised. As also reported in the previous report, the auditors were unable to determine if interest calculations were made correctly and the correct redemption journals were passed as the actuarial tables were misplaced.

### 25.3 Housing loans

	2007	2006
	N\$	N\$
Balance due to the Government of the Republic of Namibia	110 694	110 694
Balance due to the Municipality of Usakos	957 118	963 980

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.

### 26. SALE OF ERVEN

No register of property sales has been kept 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.

### 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 the documents have been destroyed in the fire.

### 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 01/07/2006	-	-	3	334 979	1	100
Additions/adjustments	-	-	-	4 479	1	255 216
	-	-	3	339 458	2	255 316
Depreciation	-	-	-	-	-	55 316
Balance 30/06/2007	-	-	3	339 458	2	200 000

#### 30.2 INVENTORY

No inventory has been recorded in the annual general ledger.

### 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 balance did not balance for the year under review and no efforts were made to correct the difference.

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

Formal queries are embodied in this report.

### **34. DISCLAIMED AUDIT OPINION**

The accounts of the Municipality of Usakos for the financial year ended 30 June 2007, 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 express an opinion on the financial statements, results of operations and the cash flow of the Municipality for the year ended 30 June 2007 due to the following reasons:

- The trial balance did not balance by N\$ 147 505.53.
- The adjustments made in the appropriation account could not be verified.
- The correctness of loan balances could not be confirmed.
- Due to the absence of Government Gazettes, the correctness of tariffs charged for services could not be confirmed.
- Expenditure transactions were not supported with supporting documents.
- Debtors listings do not agree with 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 SHEET AT 30 JUNE

	Note	2007 N\$	2006 N\$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2	4 548 693	4 375 384
Investments	3	779 114	998 027
Loans receivable	4	957 118	963 980
<hr/>			
<b>Current assets</b>			
Trade and other receivables	5	5 848 427	5 549 554
Cash and bank balances		400	400
<b>TOTAL ASSETS</b>		<b>12 133 752</b>	<b>11 886 945</b>
<hr/>			
<b>FUNDS AND LIABILITIES</b>			
<b>Funds and reserves</b>			
Capital outlay	6	3 373 855	2 989 960
Funds and accounts	7	3 422 251	4 063 265
<b>Long-term liabilities</b>			
	8	1 240 345	1 428 844
<b>Current liabilities</b>			
Trade and other payables	9	4 013 201	3 341 148
Bank overdraft		84 100	63 728
<b>TOTAL FUNDS AND LIABILITIES</b>		<b>12 133 752</b>	<b>11 886 945</b>

## ANNEXURE B

## MUNICIPALITY OF USAKOS

## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE

	<u>Note</u>	<u>2007</u>	<u>2006</u>
		N\$	N\$
INCOME		6 682 233	8 819 292
EXPENDITURE		<u>(7 633 636)</u>	<u>(9 089 445)</u>
NET DEFICIT FOR THE YEAR		(951 403)	(270 153)
APPROPRIATION ACCOUNT	10	<u>244 130</u>	<u>642 578</u>
		(707 273)	372 425
ACCUMULATED LOSS - Beginning of the year		<u>(70 350)</u>	<u>(442 775)</u>
ACCUMULATED LOSS - End of the year		<u><b>(777 623)</b></u>	<u><b>(70 350)</b></u>

## MUNICIPALITY OF USAKOS

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE

	Note	2007 N\$	2006 N\$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers		6 682 233	8 819 292
Cash paid to suppliers		(7 016 726)	(9 108 041)
Cash utilised by operations	11	(334 493)	(288 749)
Movement in funds and reserve accounts			
- Fund accounts - increase		66 259	178 837
- Capital outlay - increase		383 895	185 146
Net cash flow from operating activities		115 661	75 234
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment		(390 611)	(396 165)
Disposals of property, plant and equipment		217 302	82 356
Change in investments - decrease		218 913	21 373
Change in loans receivable – increase/(decrease)		6 862	(4 577)
		52 466	(297 013)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Change in long-term loans – increase/(decrease)		(188 499)	149 286
<b>NET MOVEMENT IN CASH AND CASH EQUIVALENTS</b>		(20 372)	(72 493)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR</b>		(63 328)	9 165
<b>CASH AND CASH EQUIVALENTS - END OF THE YEAR</b>		<b>(83 700)</b>	<b>(63 328)</b>



## MUNICIPALITY OF USAKOS

## 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 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**

Property development, vehicles, plant and equipment

<b>2007</b>	<b>2006</b>
N\$	N\$
<b>4 548 693</b>	<b>4 375 384</b>

## MUNICIPALITY OF USAKOS

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

	<b>2007</b>	<b>2006</b>
	N\$	N\$
<b>3. INVESTMENTS</b>		
Banking institutions	<b>779 114</b>	<b>998 027</b>
ALLOCATED TO FUNDS		
Revenue	-	77 785
Housing Fund	779 114	920 242
	<b>779 114</b>	<b>998 027</b>
<b>4. LOANS RECEIVABLE</b>		
Build Together loans	957 118	963 980
	<b>957 118</b>	<b>963 980</b>
<b>5. TRADE AND OTHER RECEIVABLES</b>		
Service debtors	5 870 260	4 983 572
Less: Provision for bad debts	(316 000)	(316 000)
	5 554 260	4 667 572
Deposit	200	200
VAT	282 445	881 382
Staff loan	11 522	-
	<b>5 848 427</b>	<b>5 549 154</b>
<b>6. CAPITAL OUTLAY</b>		
Loans redeemed	1 490 952	1 467 604
Revenue contributions	1 504 361	1 143 184
General Capital contributions	378 542	379 172
	<b>3 373 855</b>	<b>2 989 960</b>

## MUNICIPALITY OF USAKOS

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

	<b>2007</b>	<b>2006</b>
	N\$	N\$
<b>7. FUNDS AND ACCOUNTS</b>		
Capital Reserve Fund	506 264	501 451
Fixed Property Fund	1 512 600	1 498 996
Renewal Fund	363 112	359 640
Housing Fund	1 817 898	1 773 528
Revenue account kept in compliance with Section 86(1) of the Local Authorities Act, 1992.	(777 623)	(70 350)
	<b>3 422 251</b>	<b>4 063 265</b>
<b>8. LONG-TERM LIABILITIES</b>		
Loans from the Government of Namibia	1 033 873	1 161 051
First National Bank - Instalment sale agreements	206 472	267 793
	<b>1 240 345</b>	<b>1 428 844</b>
<b>9. TRADE AND OTHER PAYABLES</b>		
Trade creditors	1 336 888	819 609
Provisions – Bonus leave	399 856	334 456
External loan repayments in arrears	2 020 979	1 817 842
Consumer deposits	238 069	246 541
Salaries	17 409	122 700
	<b>4 013 201</b>	<b>3 341 148</b>
<b>10. ADJUSTMENTS TO APPROPRIATION ACCOUNT</b>		
Prior year adjustments	244 130	642 578
	<b>244 130</b>	<b>642 578</b>

## MUNICIPALITY OF USAKOS

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

	<u>2007</u>	<u>2006</u>
	N\$	N\$
<b>11. CASH UTILISED BY OPERATIONS</b>		
NET OPERATING DEFICIT BEFORE TRANSFERS	(951 403)	(270 153)
ADJUSTMENTS FOR:		
- Adjustments to appropriation account	<u>244 130</u>	<u>642 578</u>
OPERATING (DEFICIT)/SURPLUS BEFORE CHANGES IN WORKING CAPITAL	<u>(707 273)</u>	<u>372 425</u>
CHANGES IN WORKING CAPITAL		
Trade and other receivables – (increase)	(299 273)	(1 331 908)
Trade and other payables - increase	<u>672 053</u>	<u>670 734</u>
	<u>372 780</u>	<u>(661 174)</u>
CASH UTILISED BY OPERATIONS	<u><b>(334 493)</b></u>	<u><b>(288 749)</b></u>