



REPUBLIC OF NAMIBIA



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

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REPUBLIC OF NAMIBIA



TO THE HONOURABLE SPEAKER OF THE NATIONAL ASSEMBLY

I have the honour to submit herewith my report on the accounts of the Municipality of Swakopmund for the financial year ended 30 June 2009, in terms of Article 127(2) of the Namibian Constitution. The report is transmitted to the Honourable Minister of Finance in terms of Section 27(1) of the State Finance Act, 1991, (Act 31 of 1991) to be laid upon the Table of the National Assembly in terms of Section 27(4) of the Act.

WINDHOEK, February 2009

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

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

1. INTRODUCTION

The above accounts of the Municipality of Swakopmund for the year ended 30 June 2008 are being reported on in accordance with the provisions set out in the State Finance Act, 1991 (Act 31 of 1991) and the Local Authorities Act, 1992 (Act 23 of 1992).

The firm BDO Spencer Steward (Namibia) of Windhoek has been appointed in terms of Section 26(2) of the State Finance Act, 1991, to audit the accounts of the Municipality on behalf of the Auditor-General and under his supervision.

Figures in the report are rounded off to the nearest Namibian Dollar.

2. FINANCIAL STATEMENTS

The Municipality's financial statements were submitted to the Auditor-General by the Accounting Officer in compliance with Section 87(1) of the Local Authorities Act, 1992. The audited financial statements are in agreement with the general ledger and are filed in his Office. The abridged balance sheet at Annexure A, is a true reflection of the original. The following annexures are also attached to this report:

Annexure B:	Abridged income statement
Annexure C:	Cash flow statement
Annexure D:	Notes to the financial statements

3. SCOPE OF THE AUDIT

The Accounting Officer of the Municipality is responsible for the preparation of the financial statements and for ensuring the regularity of the financial transactions. It is the responsibility of the Auditor-General to form an independent opinion, based on the audit, on those statements and on the regularity of the financial transactions included in them and to report his opinion to the National Assembly.

The audit as carried out by the said firm, included:

- (a) examination on a test basis of the evidence relevant to the amounts, disclosure and regularity of the financial transactions included in the financial statements;
- (b) assessment of the significant estimates and judgements made by the Accounting Officer of the Municipality in the preparation of the financial statements and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed; and
- (c) evaluation of the overall adequacy of the presentation of information in the financial statements.

The audit was planned and performed so as to obtain all the information and explanations considered necessary to provide sufficient evidence to give reasonable assurance that:

- the financial statements are free from material misstatement, whether caused by error, fraud or other irregularity;
- in all material respects, the expenditure and income have been applied to the purposes intended; and

- the financial transactions conform to the authorities which govern them.

4. AUDIT OBSERVATIONS AND COMMENTS

4.1 Financial results

The Municipality made a profit of N\$ 29 502 682 (2007: N\$ 27 570 659), before any transfers to Funds during the financial year. The net profit after transfers to Funds and Reserves amounted to N\$ 3 464 646 (2007: N\$ 2 832 000). The accumulated surplus as at year-end amounted to N\$ 74 720 793 (2007: N\$ 69 898 753), thus indicating that the Municipality is in a sound financial position. The current year accumulated surplus includes N\$ 65 340 205 in respect of the investment in Erongo Red (Proprietary) Limited. This amount represents the capital portion of the revenue and funds and grant assets transferred to Erongo Red Company (Pty) Ltd.

4.2 Investments

Investments as reflected in the balance sheet include current account balances of N\$ 13 795 304 and are such overstated by the said amount. Cash and cash equivalents are understated by the same amount in the balance sheet.

5. ACKNOWLEDGEMENT

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

6. FINANCIAL RESULTS

The results of the various operations and transactions on the Revenue Account for the year are as follows:

	Revenue	Expenditure	Surplus/ (Deficit)	Balance
	N\$	N\$	N\$	N\$
Accumulated surplus 01/07/2007				6 072 781
General accounts				
Community services	35 254 975	26 878 015	8 376 960	
Subsidized services	6 046 703	23 127 546	(17 080 843)	
Economic services	25 045 755	20 030 505	5 015 250	
Housing	548 857	3 583 980	(3 035 123)	
Trade accounts				
Electricity	14 132 892	8 691 676	5 441 216	
Water	29 051 169	24 747 348	4 303 821	
Tourism, bungalows	8 339 064	7 895 700	443 364	
	118 419 415	114 954 770	3 464 645	
Surplus for the year				3 464 645
Adjustments and appropriations (Note 12, Annexure D)				(156 838)
Accumulated surplus 30/06/2008				9 380 588

7. CURRENT BANK ACCOUNT

The favourable balance of the current bank account amounted to N\$ 16 617 261 (2007: N\$ 4 253 640) and the favourable cash-book balance was N\$ 13 708 526 (2007: N\$ 2 717 699). Outstanding cheques at 30 June 2008 amounted to N\$ 2 908 735 (2007: N\$ 1 535 941).

8. INVESTMENTS AND INTEREST PROCEEDS

The investments as at 30 June 2008 and the interest thereon were as follows:

Institution	2008		2007	
	Investment	Interest	Investment	Interest
Invested at:	N\$	N\$	N\$	N\$
Commercial banks	175 295 304	16 079 920	138 000 000	9 829 765
Erongo RED	107 320 173	-	107 037 208	-
	282 615 477	16 079 920	245 037 208	9 829 765
Distribution				
Capital Development Fund	22 349 557	2 046 773	19 546 958	1 668 141
Property Development Fund	86 509 174	7 276 273	62 432 789	3 763 797
Renewal Fund	5 626 900	517 004	4 955 927	390 714
Insurance Fund	405 507	37 760	367 424	27 748
Meduletu Housing Project	15 047 637	1 305 322	11 671 700	943 673
Bond Protection	384 241	32 855	288 289	19 280
Housing Fund	4 052 374	391 235	3 956 031	306 967
Reserves	30 366 162	2 807 992	28 498 553	1 731 115
Revenue	10 553 752	1 664 706	6 282 329	978 330
Erongo RED Shares	107 320 173	-	107 037 208	-
	282 615 477	16 079 920	245 037 208	9 829 765

Investments include the current bank account balances of N\$ 13 795 304. Investments are as such overstated by the said amount and cash and cash equivalents understated by the said amount.

9. FUND ACCOUNTS

The position of internal Funds and Reserves is shown in note 2 at annexure D.

10. TRADE ACCOUNTS

10.1 Operating results

The results for the financial year under review and the previous year were as follows:

	Electricity		Water	
	2008	2007	2008	2007
	N\$	N\$	N\$	N\$
Sales	-	-	23 263 626	18 800 318
Cost of bulk purchases	-	-	(16 906 454)	(14 937 429)
Gross profit	-	-	6 357 172	3 862 889
Other income/ (expenses)	5 441 215	5 884 438	(2 053 351)	(1 881 678)
NET PROFIT	5 441 215	5 884 438	4 303 821	1 981 211
Gross profit on bulk purchases	-	-	37,6%	25,8%
Net profit percentage on bulk purchases	-	-	25,4%	13,3%
Net profit percentage on total expenditure	-	-	17,4%	9,5%

	Tourism, Bungalows	
	2008	2007
	N\$	N\$
Bungalows	8 116 617	7 671 821
Tourism Fund	50 000	50 000
Cancellation fees	726	1 512
Sundry income	48 922	350 441
Interest on invested money	122 799	107 189
	8 339 064	8 180 963
Expenditure	(7 895 700)	(7 815 084)
Profit for the year	443 364	365 879
Profit percentage on expenditure	5,6%	4,7%

The Tourism vote is continuing to be profitable as evidenced by the figures above.

10.2 Distribution losses were as follows:

Water distribution losses cubic metres (m³), were as follows:

	Water	
	2008	2007
	m ³	m ³
Sold	2 770 933	2 626 006
Bought	3 573 242	3 167 244
Distribution loss	802 309	541 238
Loss as percentage of units bought	22,4%	17,1%

The distribution loss on water is abnormally high. As reported previously, Council should investigate these losses and implement procedures to reduce such losses.

11. SELF-SUPPORTING SERVICES

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

	Revenue	Expenditure	Surplus/ (Deficit)	Surplus/ (Deficit)
	2008	2008	2008	2007
	N\$	N\$	N\$	N\$
Sewerage	11 430 339	8 277 577	3 152 762	2 345 387
Cleansing	7 141 696	5 666 477	1 475 219	1 604 729
Nursery	660 446	1 021 997	(361 551)	(354 348)
	19 232 481	14 966 051	4 266 430	3 595 768
Notes for provision of services to other votes:				
Labour pool*	3 524 863	5 953 522	(2 428 659)	(1 953 453)
Equipment	2 919 516	2 150 455	769 061	338 000
Staff housing	92 999	92 999	-	-
Workshop	283 091	610 536	(327 445)	(339 365)
Stores	827 485	564 003	263 482	187 083
Motor vehicle licensing department	1 355 234	1 030 702	324 532	214 345
Millwright services	177 425	519 476	(342 051)	(266 948)
Shopping complex: Mondesa	157 524	96 282	61 242	129 226
	28 570 618	25 984 026	2 586 592	1 904 656

* This service is recorded under community services.

12. FRUITLESS, UNAUTHORISED OR AVOIDABLE EXPENDITURE

No such expenditure was revealed.

13. SUSPENSE ACCOUNTS

The suspense accounts contain no long outstanding transactions. These accounts are properly maintained, controlled and reconciled on a regular basis.

14. IRREGULARITIES AND LOSSES

14.1 No irregularities by employees were reported.

14.2 No losses were reported.

15. CAPITAL PROJECTS

Capital expenditure for the 2008 financial year amounted to N\$ 22 082 393 (2007: N\$ 37 967 804) and comprises the following:

	Financed by				Total 2007 N\$
	Total 2008	External/ Internal loans	Revenue	Funds/ Grants	
	N\$	N\$	N\$	N\$	
Cemetery	128 560	36 642	-	91 918	78 034
Fire Brigade	508 380	461 080	-	47 300	164 610
Parks and Gardens	181 801	-	-	181 801	384 036
Streets	13 801 087	-	-	13 801 087	20 771 737
Traffic Control	125 656	40 886	26 063	58 707	212 186
Health Department	16 711	-	16 711	-	245 213
Town Engineer	232 648	45 892	12 594	174 162	374 842
Council's General Expenses	4 000	-	4 000	-	-
Town Secretary	7 818	-	7 818	-	53 362
Town Treasurer	9 543	-	9 543	-	929
Human Resources	1 233 878	-	6 908	1 226 970	-
Public Buildings	3 224 463	3 128 446	-	96 017	5 024 881
Labour Pool Account	166 701	166 701	-	-	311 829
Sundry Implements	-	-	-	-	44 532
Sewerage Works	1 017 950	405 668	-	612 282	5 326 633
Cleansing Services	1 092 628	414 980	-	677 648	920 207
Nursery	89 411	66 850	8 154	14 407	-
Community Services	-	-	-	-	79 584
Water Tankers	-	-	-	-	694 031
Water	113 430	45 192	-	68 238	1 819 338
Tourism	88 413	-	-	88 413	-
Front End Loaders	-	-	-	-	1 094 317
Trucks	-	-	-	-	367 503
Workshop	39 315	39 315	-	-	-
	22 082 393	4 851 653	91 791	17 138 950	37 967 804

Meduletu Project

Since the inception of the project, capital expenditure incurred on the improvement of land and buildings on the Meduletu Project, a joint effort between the Council and the Kreditanstalt für Wiederaufbau, amounts to N\$ 21 065 488 (2007: N\$ 20 298 333) of which unsold houses and erven amount to N\$ 6 017 810 (2007 : N\$ 8 626 633).

16. BURSARIES

Five bursaries were approved by Council during the year which amounted to N\$ 114 153.

17. CONTRIBUTIONS, GRANTS AND FINANCIAL AID

The following financial assistance was rendered during the year:

Nature of gift	Value	Beneficiary
	N\$	
Student subsidies	62 526	Children of eleven staff members
Grants	195 789	Various clubs and associations

18. COMPENSATION PAYMENTS

No compensation payments were made during the year.

19. VISITS TO FOREIGN COUNTRIES

Two staff members visited South Africa during the year. Council authorised the visits and the total cost amounted to N\$ 10 877.

20. CLAIMS AGAINST THE LOCAL AUTHORITY

No claims for losses were received during the year.

21. GIFTS AND DONATIONS BY THE LOCAL AUTHORITY

The Municipality made the following gifts/donations:

Nature of gifts/donation	Value	Beneficiary
	N\$	
Donation	1 000	Youth Choir
Donation	750	Blood Transfusion Centre
Donation	18 000	Erongo: PRO Child : House of Safety
Donation	750	National Sea Rescue Institute
Donation	750	Music Week
Donation	750	Johanniter Unfallhilfe
Donation	750	Cancer Association
Donation	750	Employees Club
Donation	750	Association for the Handicapped
Donation	5 000	S.P.C.A.
Donation	750	Atlantic Primary School
Donation	750	Herman Gemeiner Secondary School
Donation	750	Festus Gonteb Primary School
Donation	750	Hanganeni Primary School
Donation	750	Namib High School
Donation	750	Namib Primary School
Donation	750	Pro-Ed Academy
Donation	750	Swakopmund Primary School
Donation	750	Swakopmund Christian Academy
Donation	750	Swakopmund Private School
Donation	750	Swakopmund Secondary School
Donation	750	Tamariskia Primary School
Donation	750	Vrede Rede Primary School
Donation	750	Westside High School
	39 750	

22. TRANSFER OF PROPERTY TO/FROM THE GOVERNMENT

No property was transferred to/or from the Government.

23. DEBTORS/CREDITORS

23.1 Debtors on 30 June 2008 comprise the following:

	2008	2007
	N\$	N\$
Services rendered and assessment rates	7 236 651	8 132 354
Interest accrued on investments	549 300	561 560
Subsidies receivable from the Government	3 183 050	1 080 679
Erongo Red	2 355 439	2 387 493
VAT Provision	956 250	2 836 766
Tourism debtors	345 197	522 476
NHE-Meduletu loans	2 067 637	-
Build Together debtors	703 063	781 309
Sundries	918 934	598 549
	18 315 521	598 549
Less: Provision for bad debts	(789 257)	(709 774)
Less: Consumer deposits	(2 366 683)	(2 234 149)
	15 159 581	13 957 263
Analysis of services and general debtors:		
Average monthly levy	7 519 369	6 624 848
Debtors	7 236 651	8 132 354
Average credit terms in days	29 days	37 days
Consumer deposits	2 366 683	2 234 149
Percentage of deposits in relation to debtors	32.71%	27.47%

The Municipality is complimented with the exceptional effective debt collection strategies.

23.2 Creditors on 30 June 2008 comprise the following:

	2008	2007
	N\$	N\$
Commitments by purchase and other obligations	4 869 390	5 491 131
Audit fees, provision	201 891	323 659
Retention monies	914 360	1 972 815
Leave provision	2 528 098	2 288 580
Sundries	6 240 943	5 339 182
	14 754 682	15 415 367

24. ASSESSMENT RATES

Proceeds from assessment rates amounted to N\$ 27 821 119 (2007: N\$ 23 425 753), of which an amount of N\$ 1 384 186 (2007: N\$ 1 166 642) was paid to the Regional Council.

25. LOANS

25.1 External loan balances, excluding the Housing Fund, due by the Municipality totalled N\$ 31 396 517 at 30 June 2008 (2007: N\$ 36 212 630). (See Note 3 Annexure D). The balances agree with actuarial tables. Loan assets have been capitalised and no loan assets were disposed of before the loan was redeemed. Loan monies were used for the purpose they were obtained for. Arrear loan instalments provided for under current liabilities amounts to N\$ 4 516 052 (2007: N\$ 3 696 545) as at year end. No interest was provided for on these arrear instalments as at year end.

25.2 Internal loans as at 30 June 2008, being N\$ 64 768 629 (2007: N\$ 67 104 482), are not disclosed in the abridged balance sheet. All new internal loans advanced during the year were authorised and all assets financed by internal loans were capitalised.

25.3 Housing Fund loans were as follows:

	2008	2007
	N\$	N\$
Balance due to the Government on 55 (2007: 55) loans at interest rates from 1% to 16%.	2 719 410	2 935 284
Balance due to the Municipality, secured by mortgage bonds, 54 (2007: 54) house owners	(774 078)	(851 990)
Difference invested for the benefit of the Fund, together with monies in the Fund.	1 945 332	2 083 294

25.4 Other loans due to the Municipality

	2008	2007
	N\$	N\$
Advances: Build Together	789 618	847 660
Amount owing on 36 erven sold (2007: 91)	160 950	2 601 143
Build Together debtors	4 797 196	4 988 668
Huidare Project	536 533	565 033
	6 284 297	9 002 504

26. SALE OF ERVEN

The proceeds of erven and plots sold, which were accounted to the Property Development Fund were:

	2008	2007
	N\$	N\$
174 Erven sold (2007 : 251)	23 975 612	41 911 696

27. PROPERTY SOLD ON AN INSTALMENT BASIS

	Build together	Erven loans	Housing scheme loans	Huidare	Total
	N\$	N\$	N\$	N\$	N\$
Balance 01 July 2007	5 836 328	2 601 143	851 990	565 033	9 854 494
Sales in 2008	55 140	-	-	17 000	72 140
Interest charged	314 854	106 987	80 065	26 434	528 340
Redemption received	(619 509)	(2 547 180)	(157 976)	(71 934)	(3 396 599)
Balance 30 June 2008	5 586 813	160 950	774 079	536 533	7 058 375

28. TARIFF ADJUSTMENTS

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

29. APPROVALS

Approvals for all over expenditure were obtained.

30. INVENTORY AND EQUIPMENT

30.1 Motor vehicles

	Sedan vehicles		LDV and kombi's		Heavy vehicles (Lorries and busses)	
	Number	Value	Number	Value	Number	Value
On hand 01/07/2007	16	N\$ 1 259 968	43	N\$ 4 446 766	35	N\$ 7 455 545
Acquisitions	2	186 530	1	121 002	6	3 068 885
	18	1 446 498	44	4 567 768	41	10 524 430
Less: Withdrawals from service	-	-	-	-	-	-
Depreciation and adjustments	(1)	(35 800)	(3)	(61 500)	(1)	(46 800)
On hand 30/06/2008	17	1 410 698	41	4 506 268	40	10 477 630

The above values are based on the values as reflected in the fixed asset register. The total insured value of the vehicles amounts to N\$ 16 637 417.

30.2 Motor vehicle accidents

	Authorised use			Unauthorised use
	Number	Damage to vehicles	Amounts written off	
Pending from 2007	-	N\$ -	N\$ -	N\$ -
Accidents reported	9	60 923	-	-
Vehicles repaired	(7)	(55 023)	-	-
Pending at 30 June 2008	2	5 900	-	-

30.3 Claims arising from accidents

	Claims against the Municipality			Claims by the Municipality		
	Number	Claimed		Number	Claimed	Settled
		N\$			N\$	N\$
Outstanding 01/07/2007	-	-	Outstanding 01/07/2007	-	-	-
Received 2007/2008	-	-	Claimed 2007/2008	31	166 890	66 444
Finalised	-	-	Finalised	(28)	(156 809)	(66 444)
Outstanding 30/06/2008	-	-	Outstanding 30/06/2008	3	10 081	-

30.4 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

No special investigations were carried out during the year.

32. GENERAL

The accounting and internal controls applied by the Council are effective and deserve a compliment.

33. FORMAL AND INFORMAL QUERIES

33.1 No formal queries arose during the audit.

33.2 An informal query raised with the Accounting Officer and Town Clerk is as follows:

- Non-accrual of interest on arrear loan instalments

34. AUDIT OPINION

The accounts of the Municipality of Swakopmund for the financial year ended 30 June 2008, summarized in Annexures A to D, were audited by me in terms of the provisions of Section 85 of the Local Authorities Act, 1992, read with Section 25(1)(b) of the State Finance Act, 1991.

I certify that, in my opinion, the financial statements fairly present the financial position of the Municipality at 30 June 2008 and the results of its operations and cash flow for the year then ended.

WINDHOEK, February 2009

JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL

ANNEXURE A

MUNICIPALITY OF SWAKOPMUND

BALANCE SHEET AS AT 30 JUNE 2008

	Notes	2008	2007
		N\$	N\$
ASSETS			
Non-current assets		604 784 076	552 858 834
Property, plant and equipment	4	309 092 414	289 340 499
Capital in progress		6 017 810	8 626 633
Loan assets	5	7 058 375	9 854 494
Investments (See paragraph 4.2)	6	282 615 477	245 037 208
Current assets		16 176 887	17 741 314
Inventory	7	773 244	504 230
Accounts receivable	8	15 159 581	13 957 314
Cash and cash equivalents		244 062	3 279 770
TOTAL ASSETS		620 960 963	570 600 148
EQUITY AND LIABILITIES			
Equity		570 211 145	513 678 106
Capital outlay	2.1	254 902 334	229 229 370
Fund accounts and reserves	2.2	315 308 811	284 448 736
Non-current liabilities			
Long-term liabilities	3	34 120 828	39 153 166
Current liabilities		16 628 990	17 768 876
Accounts payable	9	14 754 682	15 415 367
Deposits	10	1 874 308	2 353 509
TOTAL EQUITY AND LIABILITIES		620 960 963	570 600 148

MUNICIPALITY OF SWAKOPMUND

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
		N\$	N\$
INCOME		218 926 930	234 748 565
EXPENDITURE		<u>205 504 168</u>	<u>217 007 671</u>
NET OPERATING INCOME/(LOSS)		13 422 762	17 740 894
INTEREST EARNED		<u>16 079 920</u>	<u>9 829 765</u>
		29 502 682	27 570 659
Less : Transfer to Funds and Reserves	11	<u>(26 038 036)</u>	<u>(24 738 659)</u>
NET INCOME/(LOSS) FOR THE YEAR		3 464 646	2 832 000
Less : Appropriation and adjustments	12	<u>(156 839)</u>	<u>(11 058 303)</u>
RETAINED (LOSS)/INCOME FOR THE YEAR		3 307 807	(8 226 303)
30 June 2007		<u>6 072 781</u>	<u>14 299 084</u>
30 June 2008		<u>9 380 588</u>	<u>6 072 781</u>

MUNICIPALITY OF SWAKOPMUND

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
		N\$	N\$
Cash flow from operating activities			
Cash generated by operations	13	39 889 467	55 427 737
Interest on investments		16 079 920	9 829 765
Net cash flow from operating activities		55 969 387	65 257 502
Cash flow from investing activities			
Purchases of property, plant and equipment		(22 082 393)	(37 967 804)
Capital work-in-progress proceeds		2 608 823	1 869 220
Increase in investments and ex Erongo RED		(37 295 304)	(46 615 359)
Decrease in secured loans		2 796 119	11 145 224
Net cash flow from investing activities		(53 972 755)	(71 568 719)
Cash flow from financing activities			
Change in net debt		(5 032 338)	(4 201 795)
Net cash flow from financing activities		(5 032 338)	(4 201 795)
Net increase/(decrease) in cash and cash equivalents		(3 035 707)	(10 513 012)
Cash and cash equivalents at the beginning of the year		3 279 769	13 792 782
Cash and cash equivalents at the end of the year		*244 062	3 279 770

* See paragraph 4.2

MUNICIPALITY OF SWAKOPMUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

1. ACCOUNTING POLICIES

The principal accounting policies of the Municipality are as follows:

1.1 Basis of preparation of financial statements

These statements have been prepared to conform to the stipulations of the Local Authorities Act, Act 23 of 1992 and other standard Municipal Accounting Policies.

1.2 Operating income and expenditure

The financial statements have been based on a full accrual system of income and expenditure accounting.

1.3 Provisions and Reserves

Provisions have been established where considered necessary and are reflected in the financial statements of which the more important ones are listed below:

1.3.1 Vacation Leave Reserve

This Reserve Fund is appropriated for payment of leave credits as needed and the policy is that the balances available on the Fund should meet the total leave credits as at 30 June each year. The leave reserve is disclosed as a creditor.

1.3.2 Maintenance Reserve

This Reserve Fund includes contributions from various sections as reflected in the financial statements, which are appropriated for major maintenance expenditure.

The Maintenance Reserve was also created for vehicles and machinery. The annual savings or over-expenditure on maintenance for vehicles and machinery on votes 10 to 52 are transferred to this Reserve Fund.

1.3.3 Tourism Fund

A special levy on bookings for rest houses is deposited in this Reserve Fund which is appropriated for tourism related projects or advertisements to promote Swakopmund as a tourist park.

MUNICIPALITY OF SWAKOPMUND**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (continued)**

1.3.4 Mayoral Anti-crime Fund

The objective of the Fund is to keep Swakopmund free of crime for its inhabitants and visitors/tourists through support, financially or otherwise, to institutions which subscribe to Council's objectives of eradicating crime in the Municipal area of Swakopmund.

The relevant committee shall have the authority to approve applications for funds up to an amount of N\$ 1 000.00. Any amount in excess of N\$ 1 000.00 to a maximum of N\$ 2 500.00, must be approved by Council.

1.3.5 Water Supply Fund

The purpose of this Fund is to finance future water supply projects without unnecessarily increasing the water tariffs.

Contributions to the Fund will be provided for in the annual budget, while expenditure will be included in the annual capital budget.

1.3.6 Pavement Reserve Fund

With the selling of erven in Extention 9, a certain amount of the revenue was deposited into this Fund, which is earmarked for the surfacing of pavements once tarred roads in this area have been completed.

1.3.7 Bursary Fund

The purpose of this Fund is to enable selected candidates from Namibia to qualify for a bursary with the aim to be appointed within the Municipality of Swakopmund. Revenue will be generated from contributions from the operational budget and interest on investments, while study-related costs etc. will be financed from this Fund.

1.3.8 Study Aid Fund

The purpose of this Fund is to render financial support to employees who wish to improve their educational qualification.

Interest-free loans are granted from the Fund to employees, to be paid back on a monthly basis, and once the relevant course is successfully completed, the employee will be refunded from the Fund for all costs involved.

1.3.9 Relocation of Rubbish Dump Fund

Due to the expansion of the town, the existing rubbish dump will probably have to be shifted to another area. Contributions are made on an annual basis from the operational budget to this Fund, to assist with the costs once the "relocation" is necessary.

MUNICIPALITY OF SWAKOPMUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (continued)

1.3.10 Save the Jetty Fund

Council has revived the "Save the Jetty" Fund after renovations to the jetty, one of the country's most important historic sites, became necessary. Contributions to the Fund from the public are made on a regular basis, which will be utilised to assist with the total renovation of the Jetty, once it is deemed necessary or affordable.

1.3.11 Redundant Stock Reserve

This Reserve was established to accommodate the losses due to obsolete or redundant stock items in the municipal store.

1.3.12 Sewerage Reserve

The purpose of the Fund is to generate funds for the upgrading of the existing sewerage works. Income is generated from an annual contribution from the operational budget as well as interest earned on money invested.

1.3.13 Chairs Replacement Reserve

Council has 300 chairs, which are available for rental to the public. The purpose of the Fund is to assist with replacement when necessary.

1.3.14 Indoor Sport Complex Reserve

This Reserve was created to cover the costs for the construction of the Indoor Sport Complex.

1.4 Internal loans

The interest rate for internal loans for the Capital Development Fund and Renewal Fund is determined by Council as deemed necessary.

1.5 Capital outlay

Fixed assets are stated at cost or valuation where assets have been acquired by grant or by 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.

1.6 Stores – Inventory

The value of inventory items is reflected at cost plus transport charges. Store levies of 17% for inventory items and 7% for all other direct purchases with a maximum of N\$ 2 000.00 per capital item, have been charged to cover overheads.

MUNICIPALITY OF SWAKOPMUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (continued)

1.7 Investments

Investments are made after quotations have been invited. Investments per individual financial institution are limited to one third of the total amount invested.

Interest earned from investments is allocated to the different Funds and surpluses. The basis used for this allocation is the average of the opening balances and movements during the financial year of relevant Funds and surpluses.

1.8 Administration charges

A differential percentage levy approach based on the actual income and expenditure of the previous financial year, as well as the involvement of the different departments have been adopted to spread the overhead charges.

On capital projects the levies or supervision fees are calculated as follows:

- | | | |
|-----|-------------------------------------|-------|
| i) | General or normal capital projects: | 6% |
| ii) | Exceptionally big projects: | 3-4 % |

1.9 Funds**1.9.1 Capital Development Fund**

Revenue generated from the sale of erven was originally deposited into this Fund. The purpose of this Fund is to finance capital projects by means of internal loans or appropriation.

Due to the fact that the income generated from sale of erven is now deposited into the Property Development Fund, the Capital Development Fund is dependant on interest earned on internal loans granted and money invested.

1.9.2 Property Development Fund

Revenue generated from the sale of erven is deposited into this Fund. The purpose of this Fund is to finance capital on property development by means of internal loans or appropriation.

1.9.3 Renewal Fund

The purpose of this Fund is mainly to replace assets i. e. vehicles, machines and equipment by means of internal loans and appropriation. This Fund can also be used for financing of other capital projects by means of internal loans.

MUNICIPALITY OF SWAKOPMUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (continued)

1.9.4 Housing Fund

The main purpose of this Fund is to provide housing loans, especially low cost housing.

Income is derived from interest earned on investments, interest earned on secured loans and profits made on resale of housing scheme houses.

Interest paid on external loans for low cost housing is financed from this Fund.

1.9.5 Insurance Fund

All monies received in respect of insurance claims and not utilised by the relevant departments for replacements are transferred to the Insurance Fund for future use, as approved by Council.

1.9.6 Revolving Fund

This Fund was established in co-operation with Messrs. KfW from Germany in order to upgrade the Single Quarters and Compound into separate housing units, to be sold to the existing tenants.

Bank Windhoek will finance loans for the beneficiaries on condition that Council will be the guarantor.

1.9.7 Betterment Fund

When applications for the rezoning of erven are received where upgrading of services will be required, a "Betterment" fee is levied which is deposited into the Betterment Fund and will be utilised to finance the upgrading of such services.

1.9.8 Bond Protection Fund

The purpose of this Fund is to cover excess payments in respect of insurance claims as well as insurance premiums for low cost houses covered by the Annual Insurance Portfolio. Monthly contributions, as determined by Council, payable by home owners of these low cost houses are deposited into this Fund.

	2008	2007
	N\$	N\$
2. FUNDS AND ACCOUNTS		
2.1 Capital outlay		
Loans redeemed	55 705 627	47 064 050
Revenue contributions	16 497 445	15 298 156
General capital contributions	182 699 262	166 867 164
	254 902 334	229 229 370

MUNICIPALITY OF SWAKOPMUND

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

	2008	2007
	N\$	N\$
2.2 Funds, accounts and reserves		
Water Supply Fund	163 730	4 520
Anti Crime	22 430	29 549
Betterment Fund	2 772 401	2 339 279
Bursary Fund	480 386	496 801
Build Together Programme	22 796 390	21 130 782
Capital Development Fund	55 581 636	53 152 051
Chairs Replacement Reserve	80 423	72 931
Housing Fund	2 107 042	1 872 738
Insurance Fund	405 507	367 424
Maintenance Reserve	3 590 376	4 053 826
Meduletu Housing Project	21 065 448	20 298 333
Pavement Reserve	283 357	256 961
Property Development Fund	111 975 695	92 201 544
Relocation Rubbish Dump	487 916	417 675
Renewal Fund	11 807 728	11 131 785
Save the Jetty	551 371	500 008
Sewerage Reserve	1 774 132	1 942 963
Tourism Reserve	1 437 796	1 387 159
Indoor Sports Complex Reserve	1 726 624	1 586 092
Bond Protection Fund	384 241	288 289
Study Aid Fund	398 673	324 470
Mayoral Development Fund	6 814	44 878
Parking Fund	-	-
Huidare Fund	687 902	649 926
Revenue Account kept in compliance with Section 86(1) of the Local Authorities Act, 1992	74 720 793	69 898 753
	315 308 811	284 448 736

3. LONG-TERM LIABILITIES

Loans from the Government :

Capital outlay	31 396 517	36 212 630
Deferred loss on demolished house	4 901	5 253
Housing Fund	2 719 410	2 935 284
	34 120 828	39 153 166

MUNICIPALITY OF SWAKOPMUND

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

	2008	2007
	N\$	N\$
4. PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	309 092 414	289 340 499
5. LOANS/(ASSETS)		
Property Development Fund :		
Erven sold	160 950	2 601 143
Capital Development Fund :		
Build Together Programme	5 586 813	5 836 328
Huidare Project	536 533	565 033
Housing Fund :		
Mortgage loans - Capital	774 079	851 990
	7 058 375	9 854 494
6. INVESTMENTS*		
Capital Development Fund	22 349 557	19 546 958
Property Development	86 509 174	62 432 789
Renewal Fund	5 626 900	4 955 927
Insurance Fund	405 507	367 424
Housing Fund	4 052 374	3 956 031
Meduletu	15 047 637	11 671 700
Bond Protection Fund	384 241	288 289
Sundry Funds and Reserves	30 366 162	28 498 553
Erongo-RED Investment	107 320 173	107 037 208
	272 061 725	238 754 879
Revenue	10 553 752	6 282 329
	282 615 477	245 037 208

* See paragraph 4.2

The Council holds a 28,49% shareholding in Erongo Regional Distributor Company (Private) Limited. The Council contributed fixed assets worth N\$ 282 965 during the year under review.

MUNICIPALITY OF SWAKOPMUND

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

	2008	2007
	N\$	N\$
7. INVENTORY		
Stores	799 437	529 104
Oil: Workshop	7 275	6 310
Less: Redundant stock	(33 468)	(31 184)
	773 244	504 230
8. ACCOUNTS RECEIVABLE		
Combined billing for services rendered	7 236 651	8 132 354
Subsidies	3 183 050	1 080 679
Interest on investments	549 300	561 560
VAT Claim	956 250	2 836 766
Erongo Red	2 355 439	2 387 493
Sundry debtors	4 034 831	1 902 385
	18 315 521	16 901 237
<i>Less :</i>		
Consumer deposits for services	(2 366 683)	(2 234 149)
Provision for doubtful debts	(789 257)	(709 774)
	15 159 581	13 957 314
9. ACCOUNTS PAYABLE		
Trade creditors	4 869 390	5 491 131
Leave, audit provision and other	9 885 292	9 924 236
	14 754 682	15 415 367
10. DEPOSITS		
Tourism - Reservations	874 072	1 247 162
Sundries (excluding consumers)	1 000 236	1 106 346
	1 874 308	2 353 509

MUNICIPALITY OF SWAKOPMUND

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

	2008	2007
	N\$	N\$
11. TRANSFER (TO)/FROM INTERNAL FUNDS		
Capital Development Fund	2 429 585	(3 649 546)
Property Development Fund	19 774 151	16 569 990
Renewal Fund	675 943	(505 359)
Insurance Fund	38 083	26 083
Staff Housing Fund	234 304	142 567
Revolving Fund	767 115	1 427 964
Betterment Fund	433 121	546 101
Bond Protection Fund	95 953	84 122
Build Together	1 665 608	10 844 765
Re-location Refuse Fund	70 241	56 492
Anti-Crime Fund	(7 118)	(4 073)
Tourism Fund	50 637	109 763
Sewerage Fund	(168 831)	(160 485)
Water Supply Fund	159 210	(106 423)
Pavement Fund	26 396	19 362
Maintenance Fund	(463 449)	70 778
Chairs Replacement Fund	7 492	6 345
Save The Jetty Fund	51 363	37 676
Bursary Fund	(16 415)	(12 329)
Huidare Fund	37 976	30 610
Mayoral Development Fund	(38 064)	(32 153)
Study Aid	74 203	52 575
Indoor Sport Complex	140 532	(796 153)
Parking Fund	-	(20 014)
	26 038 036	24 738 659

MUNICIPALITY OF SWAKOPMUND

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

	2008	2007
	N\$	N\$
12. ADJUSTMENTS AND APPROPRIATIONS		
Contribution to Capital	(13 059)	(2 613 279)
Medical expenses: E Lukas	-	(7 339)
Instalments : Demolished house	(403)	(403)
Refund for services Erf 1550	(596)	-
Security costs	(12 690)	-
Conference facilities	(16 323)	-
Bloomin Nice	(643)	-
Contribution to leave reserve	-	(251 082)
Court case: Erf 109	(183 393)	-
Garage rental	(20 654)	-
Contribution: Computer costs	-	(57 000)
Contribution: Salaries	-	(3 802 170)
Vat claim rejected	(26 600)	-
Unclaimed money written back	162 506	-
Early retirements	-	(4 354 300)
Courtcase: Mr Piepmeier	(109 685)	(151 136)
Auction income	41 416	-
Sundry adjustments	-	(2 840)
Natis refund	1 664	-
NIB Costs: 2005/2006	-	(31 005)
Pre-paid electricity meter	862	-
Unclaimed monies-tourism	19 871	-
Additional VAT claim	888	46 844
Ex Parking Fund	-	20 014
Refunds: Licences fees 2005/2006	-	42 016
Additional refund : Road Fund	-	63 377
Insurance claim: Council allowance	-	40 000
	(156 839)	(11 058 303)

MUNICIPALITY OF SWAKOPMUND

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

	2008	2007
	N\$	N\$
13. CASH GENERATED BY OPERATIONS		
Net operating income	13 422 762	17 740 894
Adjustments (appropriations)	(156 839)	(11 058 303)
Depreciation	-	1 554 197
External loans redeemed	4 816 113	4 249 524
Internal loans redeemed	7 187 507	6 619 997
Fixed assets financed ex revenue	91 791	24 483
Fixed assets financed ex statutory funds	-	4 751 802
Loans redeemed: Demolished house	351	-
Fixed assets financed ex general capital	17 138 948	33 191 520
	<u>42 500 633</u>	<u>57 074 113</u>
GENERATION OF WORKING CAPITAL		
(Increase)/Decrease in inventory	(269 014)	63 055
Increase in accounts receivable	(1 202 267)	(165 036)
(Decrease)/Increase in deposits	(479 201)	202 378
Decrease in accounts payable	(660 685)	(1 746 773)
	<u>39 889 467</u>	<u>55 427 737</u>