# Annexure A - Cash Flow Reconciliation

The following movement accounts should only be used for cash inflow and outflow transactions:

**Item Assets:**

* *Collections:*Collections received pertaining to a respective account (example is collection on receivables from exchange (property rates) and non-exchange (service charges electricity) transactions.
* *Acquisitions:*Purchases of assets and other expenditure.
* *Disposal:*Sale of non-current assets (example land).
* *Earned:*Interest earned on a bank account.

**Item Liabilities:**

* *Receipts:*Current year receipts on transfer and subsidies.
* *Advances:*Advances taken for the year, example for borrowing.
* *Repayments:*Repayments for the year, example for borrowing.
* *Payments:*Payments made; example defined benefits.
* *Withdrawals:*Payments made, examples are for bulk purchases for electricity and bulk purchases water.

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### *Funding segment*

Most municipalities are transacting incorrectly on the funding segment and accordingly overstate the cash balances available per function (example energy sources (electricity), water management (water treatment) etc. for the payment of electricity.

The “Funding” segment in the financial system identifies the various sources of funding available to municipalities for financing expenditure relating to the operation of the municipality for both capital and operational expenditure.

The intent with the Funding segment is to assist municipalities in the management of available funds to use in running the municipality (working capital), capital expanding, maintenance programmes and operational projects intended for the benefit of the community. **The underlying principle in recording of transactions in this segment is therefore cash based or funds available to utilise.**

The key question in finding the appropriate classification code for this segment is: “against which source of funding is the payment allocated and against which source is revenue received?”

The primary sources of funding for a municipality are property rates, service charges, equitable share and own revenue. Further to these sources of revenue a municipality also spend funds transferred from other sectors within government, namely transfers and subsidies such as appropriated by national and provincial government in terms of the Division of Revenue Act (DORA). A further source of funds available for utilisation is “cash backed reserves” as directed by the municipality’s financial policy on the utilisation of the reserves.

The projects as defined within the Project segment together with the “funding” and “Item” segments provide information on how funds have been spent and on what.

The Funding segment’s structure distinguishes between “Operational, Capital and Non-Funding Transactions”.

***Operational:*** Operational revenue provides for funds from all other sources of income such as taxes, service charges, commercial services, transfer and subsidies, etc.

***Capital:*** Funds to finance capital projects.

***Non-funding Transactions:*** This is items that does not relate to a cash transaction.

Examples of non-funding transactions are:

* Billing for services on consumer accounts issued;
* Recording of invoices;
* Depreciation; and
* Debt provision.

Example 1: A municipality has issued a consumer account (billing) to a client for electricity consumption amounting to R100 in Ward X. The transaction will be recorded as follows:



The monthly billing of a consumer does not relate to any cash inflow, the funding segment therefore a non-funding transaction.

Example 2: The client pays the municipality R100 on the consumer account received. The transaction will be recorded as follows:



The payment received will be recorded as a cash inflow against revenue service charges electricity for the function electricity. The electricity function will now have R100 funding (cash inflow) available for the payment of expenditure.

Example 3: The municipality receives an invoice from Eskom for the usage of electricity amounting to R50. The transaction will be recorded as follows:



The recording of an invoice in the financial system does not relate to any cash outflow, no payment has been made, the funding segment therefore is a non-funding transaction.

Example 4: The municipality pay Eskom R50 on the invoice received. The transaction will be recorded as follows:



The payment made will be recorded as a cash outflow against revenue service charges electricity for the function electricity. The electricity function will now have a balance of R50 cash available (funding) which is the difference between the cash received of R100 form a consumer on electricity consumption (example 2) and the payment of R50 to Eskom for the usage of electricity (example 4).

The electricity function will have a net balance of R50 positive cash (funding) which reconcile to the net cash in the bank account of R50.