TOPIC 1.5: CASH FLOW STATEMENT

This section of the manual sets out the FSOP's that need to be executed by the municipality regarding the Cash Flow Statement. The FSOP's are drafted in the following categories:

1.5.1 Overview of the accounting for the cash flow statement
1.5.2 Introduction / background
1.5.3 Components of cash and cash equivalents
1.5.4 Classification of cash flows into activities
1.5.5 Guidelines on accounting for cash flows from operating activities
1.5.6 Non-cash transactions
1.5.7 Guidelines on accounting for cash flows from investing activities
1.5.8 Guidelines on accounting for cash flows from financing activities
1.5.9 Sundry matters
1.5.10 An example of the preparation of a Cash Flow Statement
1.5.11 Additional disclosures
1.5.12 Exemptions related to the implementation of GRAP 2

1.5.1 OVERVIEW OF THE ACCOUNTING FOR THE CASH FLOW STATEMENT (GRAP 2)

When accounting for the cash flow statement the municipality must ensure that the necessary finance standard operating procedures are executed to address the following issues, which are summarised here, but for which the detailed FSOP's are set out in the rest of this section.

Category	Section FSOP
Introduction. The cash flow statement identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date. Information about the cash flows of a municipality is useful in providing users of financial statements with information for both accountability and decision making purposes.	**Section 1.5.2**
Components of cash and cash equivalents. The municipality presents a reconciliation between the opening and closing balance of cash and cash equivalents (as reflected in the Statement of Financial Position) in its Cash Flow Statement. This difference is referred to as a net increase/(decrease) in cash and cash equivalents and is further explained or classified as cash flows from operating, investing and financing activities.	**Section 1.5.3**
Classification of cash flows into activities. The cash flow statement should report cash flows during the period and distinguish clearly between operating activities, investing activities, and financing activities.	**Section 1.5.4**
Guidelines on accounting for cash flows from operating activities. The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the municipality have generated sufficient cash flows to repay loans, sustain operating activities of the municipality and make new investments without recourse to external sources of financing.	**Section 1.5.5**
Non-cash transactions. Non-cash transactions may not be included in the cash flow statement. This exclusion of non-cash transactions is consistent with the objective of a cash flow statement as these items do not involve cash flows in the current period.	**Section 1.5.6**
Guidelines on accounting for cash flows from investing activities. These cash flows provide the user with an indication of the amount of cash resources spent during the year on assets that the entity intends to use in its operations to assist it in achieving its objectives.	**Section 1.5.7**
Guidelines on accounting for cash flow from financing activities. Separate disclosure of information relating to an entity's financing activities gives the user an indication of the extent of possible claims on future cash flows. These claims may be in the form of creditors such as banks and other entities from which funds have been borrowed**.**	**Section 1.5.8**
Sundry matters. Guidance is given on matters affecting the cash flow statement such as foreign currency cash flows, Interest and dividends, and Acquisitions and disposals of subsidiaries and other local government bodies or services.	**Section 1.5.9**
An example of the preparation of a Cash Flow Statement. A comprehensive example is given of the preparation of a cash flow statement using the direct method.	**Section 1.5.10**

<table>
<tr><th>Category</th><th>Section FSOP</th></tr>
<tr><td>Additional disclosures. Additional information may be relevant to users in understanding the financial position and liquidity of a municipality. Disclosure of this information, together with a commentary by management, is encouraged.</td><td>Section 1.5.11</td></tr>
<tr><td>Exemptions related to the implementation of GRAP 2. No exemptions from the requirements of GRAP 2 have been offered by NT to high capacity municipalities (HCM), medium capacity municipalities (MCM) and low capacity municipalities (LCM), preparing GRAP AFS.

EXEMPTIONS – 30 JUNE 2008
➢ MCM and LCM can prepare IMFO AFS for 2008, and therefore ignore GRAP 2 in totality, but if they prepare GRAP AFS the entire standard should be complied with.

EXEMPTIONS – 30 JUNE 2009
➢ LCM can prepare IMFO AFS for 2009 and therefore ignore GRAP 2 in totality. If however the LCM opts to prepare GRAP AFS for 30 June 2009, it must comply with all the requirements of GRAP 2.</td><td>Section 1.5.12</td></tr>
</table>

1.5.2 INTRODUCTION

The objective of a cash flow statement is to provide information about the historical changes in cash and cash equivalents of an entity and provide detail of the cash inflows and outflows of the entity during the period from operating, investing and financing activities. Information about an entity's cash flows is useful in assisting users to predict the entity's future cash flow requirements (amount, timing and certainty), the entity's ability to generate cash flows in the future at to finance changes in the scope and nature of its activities.

Many Treasurers have difficulty in preparing the Cash Flow Statement because of its complexity. However, with the cash flow problems being experienced by municipalities this statement is a very important part of the financial statements. Auditors in particular will use the Cash Flow Statement to consider the ability of the Municipality to continue as a Going Concern.

Users of a municipality's financial statements are interested in how the municipality generates and uses cash and cash equivalents. Municipalities need cash for essentially the same reasons however diverse their principal service delivery programmes are. They need cash to conduct their operations and to pay their obligations. Accordingly GRAP 2 requires all municipalities to present a cash flow statement so that users can assess whether the municipality:

- has the ability to generate enough cash for the provision of services.
- has the ability to meet its current and future obligations and repay loans on maturity.
- requires additional external financing.
- has specific reasons for the existence of significant differences between the net surplus/deficit and cash receipts and payments.

The cash flow statement also provides information on specific factors and trends that may influence decision making, for example:

- abnormal increases in working capital, e.g. debtors or stock.
- an increasing use of cash from operating activities for capital expenditure.
- the use of loans to pay for operating expenditure.

Cash comprises cash on hand and demand deposits.

Cash equivalents are cash short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. An example is a money market instrument such as a call account or a demand deposit.

Cash flows are inflows and outflows of cash and cash equivalents.

A municipality maintains cash reserves to enable it to conduct its day to day operations as well as to protect itself against unplanned events and other emergencies. Generally speaking these cash reserves are maintained in the form of deposits held with a bank or else in the form of cash held by the entity such as petty cash.

Operating activities are the principal revenue-producing activities of the municipality and other activities that are not investing or financing activities.

All activities that do not constitute investing or financing activities are classified as operating activities. These activities normally form the basis of the entity's everyday activities and are centred on the goods or services consumed/ provided by the entity.

Investing activities are the acquisition and disposal of long term assets and other investments not included in cash equivalents.

Investing activities typically involve the purchasing of assets with surplus cash resources or other sources of financing. These assets are typically purchased for the purposes of generating revenue streams, meeting service delivery objectives or achieving capital growth or a combination of the three. Assets that are normally purchased as part of an entity's investing activities may include:

- property, plant and equipment
- investments in controlled entities, associates and joint ventures.

	**Financing activities** are activities that result in changes in the size and composition of the borrowings and other funding sources of the municipality.

Financing activities typically include the following:

- the sourcing of new funds in the form of loans; and
- repayment of existing loans.

1.5.3 COMPONENTS OF CASH AND CASH EQUIVALENTS

The municipality presents a reconciliation between the opening and closing balance of cash and cash equivalents (as reflected in the Statement of Financial Position) in its Cash Flow Statement. This difference is referred to as a net increase/(decrease) in cash and cash equivalents and is further explained as amounts generated either generated from or utilised in operating, investing and financing activities.

The opening and closing balances of cash and cash equivalents are disclosed as single line items on the cash flow Statement, but are possibly made up of a number of line items on the Statement of Financial Position including :

- cash on hand
- demand deposits
- other short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Bank borrowings (Long term loans) are generally considered to be financing activities. However, bank overdrafts that are repayable on demand may form an integral part of a municipality's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

The municipality discloses, as part of its accounting policy notes, the policy it adopts in determining the composition of the line item cash and cash equivalents.

1.5.4 THE CLASSIFICATION OF CASH FLOWS INTO ACTIVITIES

The cash flow statement should report cash flows during the period and distinguish clearly between:-

- operating activities;
- investing activities; and
- financing activities

Classification by activity has the following advantages:

- It provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents.
- The information may also be used to evaluate the relationships between the cash flows from the various activities.

A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element may be classified as a financing activity.

1.5.5 GUIDELINES ON ACCOUNTING FOR CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows from operating activities are primarily derived from the principal cash-generating activities of the municipality, in other words the manner in which the municipality is funded. The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the municipality have generated sufficient cash flows to repay loans, sustain operating activities of the municipality and make new investments without recourse to external sources of financing. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

The cash flows from operating activities consist of cash inflows and cash outflows.

Operating cash inflows include:-

- revenue from the provision of services on credit, such as the sale of electricity, even though the revenue may not be represented by cash receipts. This is recognised by effectively adjusting this revenue by the changes in debtors to determine the amount of cash that has been received from purchasers of these services for cash flow purposes;
- direct cash receipts, for example licence receipts and fines and investment income
- cash contributions from the government in the form of grants and subsidies as well as cash contributions from the public.
- cash receipts from royalties, fees, commissions and other revenue.

Operating cash outflows include:-

- purchases of materials and services as well as labour costs such as salaries and wages. Although certain materials or services may have been purchased on credit, these expenses are considered to be cash outflows. The extent of supplier credit utilised is taken into account in determining the cash outflows from these activities by making an adjustment for changes in creditors.
- cash payments to other entities to finance their operations (not including loans). An example is a grant made by a District municipality to a local municipality to enable it to purchase items of PPE.
- cash receipts or payments in relation to litigation settlements.

In determining the cash flows from operating activities, all **non-cash flow items need to be adjusted against the net surplus or deficit for the period** (as per the bottom line in the Statement of financial performance) in order to determine the cash flows from operating activities. The reason for this is that there are many revenue and expenditure items included in the surplus or deficit for the period which are not represented by a corresponding cash inflow or outflow. The following are **examples** of these types of revenue and expenditure:

- gain or loss on the sale of property, plant and equipment.
- increase / decreases in the provision for bad debts.
- depreciation.
- amortisation.
- increase / decrease in the provision for accrued staff leave pay.
- unrealised foreign exchange gains or losses.
- interest received and interest paid. Unlike depreciation which is added back because it is a non – cash flow item these items are deducted from and added back to the surplus for the year because they are part of cash from operations but need to be disclosed separately on the face of the cash flow statement because of their importance to the users of the financial statements.
- changes in working capital, such as changes in inventories, debtors, conditional grants and receipts creditor, creditors.

The cash flows from operating activities must be presented using the direct method. Under this method the major classes gross cash receipts and gross cash payments are disclosed on the face of the cash flow statement.

1.5.6 NON – CASH TRANSACTIONS

Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transactions should be disclosed in the notes to the financial statements in a way that provides all the relevant information about these investing and financing activities.

Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of a municipality. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement as these items do not involve cash flows in the current period.

Examples of non-cash transactions include:

- the acquisition of assets either by assuming directly related liabilities such as purchasing a property by incurring a mortgage to the seller, or by means of a finance lease;
- depreciation;
- revaluations on assets such as land and buildings, investment property and financial instruments

1.5.7 GUIDELINES ON ACCOUNTING FOR CASH FLOWS FROM INVESTING ACTIVITIES

The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources (assets) intended to render services or generate future revenue and cash flows. These assets may either be used in its operations or service delivery or the assets may represent investments that are expected to generate additional revenue streams or enhance its service delivery capabilities to fund the municipality's operations or for capital growth reasons.

GRAP 2 paragraph 13 includes the following examples of cash flows arising from investing activities:

- cash payments to acquire property, plant and equipment, intangibles and other long term assets. These payments include those relating to capitalised feasibility study costs and self-constructed property, plant and equipment,
- cash receipts from the sale of property, plant and equipment, intangibles and other long term assets,
- cash payments to acquire debt instruments of other municipalities or organisations and interests in joint ventures,
- cash receipts from the sale of debt instruments of other municipalities or organisations and interests in joint ventures,
- cash advances and loans made to other parties,
- cash receipts from the repayment of advances and loans made to other parties.

Calculation of line items included under investing activities

The following are examples of how some of the line items included under cash flows from investing activities can be calculated:

- **Purchase of PPE.** The amount of PPE purchased during the year is shown as a cash outflow under investing activities for the year. This amount is determined by reference to the total column for additions for the year found in Appendix B of the financial statements (excluding assets acquired through directly related liabilities). This appendix reconciles the movement in PPE for the year and includes information on; inter alia, the purchase and sale of PPE.
- **Cash proceeds on the disposal of PPE.** The proceeds on disposal of PPE are determined by adding the gain on the sale of PPE to the carrying amount of the assets sold, when they are sold for a gain. If sold at a loss the loss is deducted from the carrying amount of PPE sold to determine the proceeds. The gain / loss on sale is disclosed in the statement of financial performance. The carrying amount of PPE

sold is calculated as the difference between the cost price of the assets sold and the accumulated depreciation. (Refer to the example in section 1.5.10).

- **Increases / decreases in investments.** These cash flows are determined by reconciling the movement between the non-current portion of investments on the statement of financial position at the start and at the end of the financial year.

1.5.8 GUIDELINES ON ACCOUNTING FOR CASH FLOWS FROM FINANCING ACTIVITIES

The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the municipality. These claims may be in the form of creditors such as banks and other entities from which funds have been borrowed. GRAP 2 paragraph 14 includes the following **examples** of cash flows arising from financing activities:

- cash proceeds from issuing loan stock, notes, bonds, mortgages and other short or long term borrowings,
- cash repayments of amounts borrowed,
- cash payments by a lessee for the reduction of the capital element of the outstanding liability relating to a finance lease.

1.5.9 SUNDRY MATTERS

Foreign currency cash flows

Cash flows arising from transactions in a foreign currency should be recorded in a municipality's functional currency by applying to the foreign currency amount the exchange rate between the currency and the foreign currency at the date of the cash flow. An example is:

SA Municipality obtains a loan from USA Bank of $1,000 on 1 January 1997 when the spot rate was R5 = $1. On settlement date on the 1 January 1998 the spot rate is R5.1 = $1. In the cash flow statement for the year ended 30 June 1997, SA Municipality will disclose a cash inflow from financing activities of R5 * $1,000 = R5,000 whilst in the 30 June 1998 cash flow statement, SA Municipality will disclose a cash outflow from financing activities of R5,100 being R5.1 * $1,000.

Exchange rate differences arising during a period (i.e unrealised gains/losses) are non-cash flow items and should be removed in the reconciliation of the surplus/deficit to the cash generated from operating activities. If in the above example, at balance sheet date on 30 June 1997 the closing rate was R5.05 = $1, GRAP requires that the liability be restated at $1,000 * $5.05 = R5,050 and an exchange rate difference of R50 will be charged as an expense to the statement of financial performance. For cash flow purposes, the R50 would be a non-cash flow item to be added back to the surplus/deficit to arrive at the cash generated from operating activities whilst the restatement of the liability to the closing rate will not affect the cash flow statement. The cash flow statement will still show a cash inflow of R 5000.

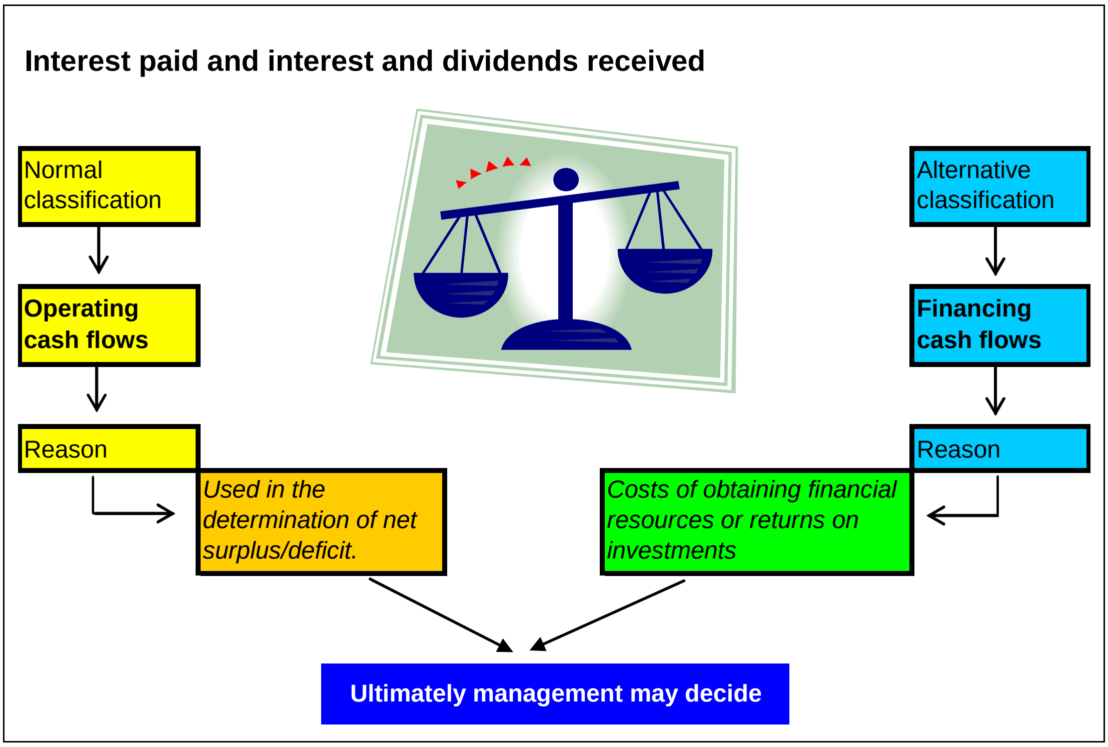
Interest and dividends

According to GRAP 2.27, cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as either operating, investing or financing activities.

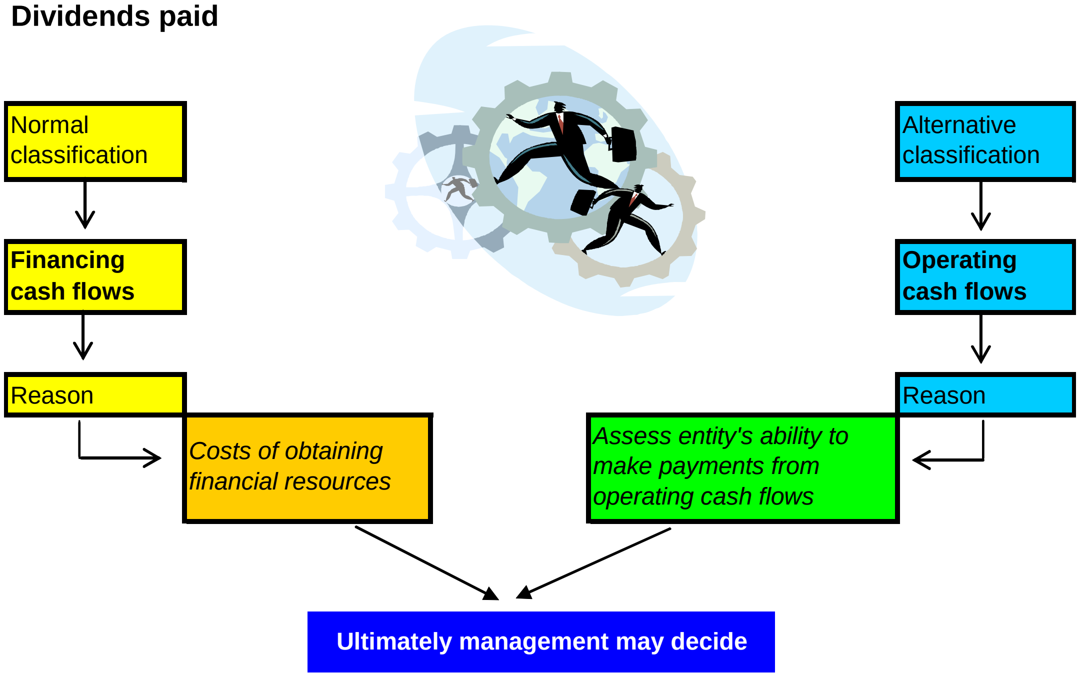
GRAP 2 does not prescribe which classifications should be used for these amounts in the cash flow statement. This is primarily due to the fact that the classification will depend on the nature of the entities operations and the decisions made by its management in this regard.

Interest paid, dividends paid and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments. Regardless of which classification is elected management should apply the classification consistently from year to year.

The following diagram illustrates the classification alternatives facing a municipality when deciding on how to classify the above cash flows in the cash flow statement.



Dividends paid



Acquisitions and disposals of controlled entities and other local government bodies

The aggregate cash flows arising from acquisitions and from disposals of controlled entities or other local government body should be presented separately and classified as investing activities. Unlike interest and dividends only one classification is acceptable for these types of cash flows i.e. investing activities.

A municipality should disclose, in aggregate, in respect of both acquisitions and disposals of subsidiaries or other local government body during the period, each of the following:

- the total purchase or disposal consideration.
- the portion of the purchase or disposal consideration discharged by means of cash and cash equivalents.
- the amount of cash and cash equivalents in the subsidiary or local government body or service acquired or disposed of.
- the amount of the assets and liabilities, other than cash or cash equivalents in the subsidiary or local government body or service acquired or disposed of, summarised by each major category.

1.5.10 AN EXAMPLE OF THE PREPARATION OF A CASH FLOW STATEMENT

Example

The following example is based on a simplified version of a National Treasury set of financial statements example. Amounts are rounded to the nearest R'000. Some totals may therefore differ with R1 000.

The statement of financial position at 30 June 2008 and statement of financial performance for the year ended 30 June 2008 are set out below.

Notes on additional information

Note i – Property, plant and equipment

Property, plant and equipment with a carrying value of R249 000 have been disposed of during the year ended 30 June 2008.

Note ii – Consumer debtors and provision for bad debts (R'000)

Consumer debtors is the net amount after taking provision for bad debts into account as follows:

Gross consumer debtors balance at 30 June 2008	5 997
Provision for bad debts	(1 249)
Net consumer debtors balance at 30 June 2008	4 748
Gross consumer debtors balance at 30 June 2007	4 286
Provision for bad debts	(1 228)
Net consumer debtors balance at 30 June 2007	3 058

PROTEA LOCAL MUNICIPALITY

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2008

	Note	2008 R'000	2007 R'000
NET ASSETS AND LIABILITIES			
Net assets		**64 652**	**57 012**
Housing Development Fund		6 190	4 894
Capital replacement reserve		9 134	10 406
Capitalisation reserve		27 033	27 467
Government grant reserve		13 180	9 832
Donations and public contribution reserves		171	86
Self-insurance reserve		2 623	1 796
COID reserve		1 558	1 712
Revaluation reserve		4 069	4 932
Accumulated Surplus/(Deficit)		694	(4 113)
Non-current liabilities		**7 593**	**7 071**
Long-term liabilities		7 142	6 696
Non-current provisions		451	375
Current liabilities		**28 368**	**24 526**
Consumer deposits		2 838	2 819
Provisions		193	169
Creditors		17 096	13 939
Unspent conditional grants and receipts		449	565
VAT		70	62
Short-term loans		1 600	1 650
Bank overdraft		4 927	4 737
Current portion of long-term liabilities		1 195	585
Total Net Assets and Liabilities		***100 613***	***88 609***

ASSETS	Note	R'000	R'000
Non-current assets		**74 639**	**62 799**
Property, plant and equipment	i	57 855	52 894
Investment property		1 000	850
Investments		11 441	6 677
Investment in associate		54	45
Long-term receivables		4 289	2 333
Current assets		**25 974**	**25 810**
Inventory		960	1 013
Consumer debtors	ii	4 748	3 058
Other debtors		5 299	3 260
Current portion of long-term receivables		198	245
Call investment deposits		14 766	18 231
Bank balances and cash		3	3
Total Assets		***100 613***	***88 609***

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STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

	2008 R'000	2007 R'000
REVENUE		
Property rates	11 264	9 339
Property rates - penalties imposed and collection charges	391	290
Service charges	44 521	33 701
Regional Services Levies – turnover	462	409
Regional Services Levies – remuneration	594	489
Rental of facilities and equipment	1 087	998
Interest earned - external investments	3 875	1 988
Interest earned - outstanding debtors	1 087	998
Dividends received	187	123
Fines	1 504	1 100
Licences and permits	-	2
Income for agency services	2 285	760
Government grants and subsidies	6 424	2 385
Other income	227	154
Public contributions and donations	130	111
Gains on disposal of property, plant and equipment	125	101
Total Revenue	**74 163**	**366**
EXPENDITURE		
Employee related costs	18 101	16 847
Remuneration of Councillors	7 133	6 420
Bad debts	1 093	1 190
Collection costs	453	319
Depreciation	4 377	5 101
Repairs and maintenance	1 720	1 064
Interest paid	2 274	2 373
Bulk purchases	28 330	25 511
Contracted services	1 875	1 439
Grants and subsidies paid	652	630
General expenses	524	2 768
Total Expenditure	**66 532**	**63 662**

SURPLUS/(DEFICIT)	**7 631**	**(10 714)**
Share of surplus/(deficit) of associate accounted for under the equity method	9	2
SURPLUS/(DEFICIT) FOR THE YEAR	**7 640**	**(10 712)**

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CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	R'000
CASH FLOW FROM OPERATING ACTIVITIES		
Cash receipts from ratepayers, government and other	1	65 043
Cash paid to suppliers and employees	2	(56 561)
Cash generated from operations	3	8 482
Dividends received		187
Interest received (3 875 + 1 087)		4 963
Interest paid		(2 274)
NET CASH FROM OPERATING ACTIVITIES		**11 358**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	4	(9 588)
Proceeds on disposal of property, plant and equipment	5	374
Increase in investment properties (1 000 – 850)		(150)
Increase in non-current receivables	6	(1 909)
Increase in non-current investments (11 441 – 6 677)		(4 765)
NET CASH FROM INVESTING ACTIVITIES		**(16 038)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in long-term liabilities	7	1 056
Increase in consumer deposits (2 838 – 2 819)		18
Decrease in short-term loans (1 650 – 1 600)		(50)
NET CASH FROM FINANCING ACTIVITIES		**1 024**

NET DECREASE IN CASH AND CASH EQUIVALENTS		**(3 656)**
Cash and cash equivalents at the beginning of the year	8	13 497
Cash and cash equivalents at the end of the year	9	9 841

Notes on cash flow statement calculations

Note 1 - Cash receipts from ratepayers, government and other (R'000)

Total Revenue	74 163
Adjustment for:	
Interest earned – external investments	(3 875)
Interest earned – outstanding debtors	(1 087)
Dividends received	(187)
Gain on disposal of PPE	(125)
Bad debts	1 093
Working capital changes:	
Increase in consumer debtors*	(2 783)
Increase in other debtors (5 299 – 3 260)	(2 039)
Decrease in unspent conditional grants and receipts (565 – 449)	(117)
Cash receipts	**65 043**

*The increase in consumer debtors is calculated as follows:

Net balance at 30 June 2008	4 748
Bad debts	1 093
Net balance at 30 June 2007	(3 058)
Increase in consumer debtors	2 783

Note 2 - Cash paid to suppliers and employees (R'000)

Total Expenditure	(66 532)
Adjustment for:	
Depreciation	4 377
Interest paid	2 274
Contribution to provisions - non-current (451 – 375)	76
Contribution to provisions – current (193 – 169)	25
Working capital changes:	
Decrease in inventories (1 013 – 960)	54
Increase in creditors (17 096 – 13 939)	3 157
Increase in VAT (70 – 62)	8
Cash paid	**(56 561)**

Note 3 - Cash generated from operations (R'000)

Surplus for the year	7 640
Adjustment for:	
Investment income (3 875 + 1 087)	(4 962)
Dividends received	(187)
Gain on disposal of PPE	(125)
Bad debts	1 093
Depreciation	4 377
Interest paid	2 274
Equity accounted share of associate's surplus	(9)
Contribution to provisions - non-current (451 – 375)	76
Contribution to provisions – current (193 – 169)	25
Operating surplus before working capital changes:	**10 202**
Increase in consumer debtors (See calculation in Note 1 above)	(2 783)
Increase in other debtors (5 299 – 3 260)	(2 039)
Decrease in unspent conditional grants and receipts (565 – 449)	(117)
Decrease in inventories (1 013 – 960)	54
Increase in creditors (17 096 – 13 939)	3 157
Increase in VAT (70 – 62)	8
Cash generated from operations	**8 482**

Note 4 - Purchase of property, plant and equipment (R'000)

Property, plant and equipment purchased is calculated as follows:

PPE balance at 30 June 2008	57 855
Carrrying value of PPE disposed of	249
Depreciation for the year ended 30 June 2008	4 377
PPE balance at 30 June 2007	(52 894)
Property, plant and equipment purchased	**9 588**

Note 5 - Proceeds on disposal of property, plant and equipment (R'000)

Carrying value of PPE disposed of	249
Gain on disposal of PPE	125
Proceeds on disposal of property, plant and equipment	**374**

Note 6 - Increase in non-current receivables (R'000)

Long-term receivables balance at 30 June 2008	4 289
Current portion of long-term receivables balance at 30 June 2008	198
	4 487
	(2 578)
Long-term receivables balance at 30 June 2007	(2 333)
Current portion of long-term receivables balance at 30 June 2007	(245)
Increase in non-current receivables	**1 909**

Note 7 – Increase in long-term liabilities (R'000)

Long-term liabilities at 30 June 2008	7 142
Current portion of long-term liabilities at 30 June 2008	1 195
	8 337
	7 281
Long-term liabilities at 30 June 2007	6 696
Current portion of long-term liabilities at 30 June 2007	585
Increase in long-term liabilities	**1 056**

Note 8 - Cash and cash equivalents at the beginning of the year (R'000)

Cash and cash equivalents included in the cash flow statement comprise the following comparative amounts in the statement of financial position:

Bank balances and cash	3
Call investment deposits	18 231
Bank overdraft	(4 737)
Total cash and cash equivalents	**13 497**

Note 9 - Cash and cash equivalents at the end of the year (R'000)

Cash and cash equivalents included in the cash flow statement comprise the following amounts in the statement of financial position:

Bank balances and cash	3
Call investment deposits	14 766
Bank overdraft	(4 927)
Total cash and cash equivalents	**9 841**

1.5.11 ADDITIONAL DISCLOSURES

Additional information may be relevant to users in understanding the financial position and liquidity of a municipality**. Disclosure of this information, together with a commentary by management, is encouraged** and should include the following over and above that which has been discussed under the sections above:

- The amount of unutilised borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities,
- The aggregate amounts of the cash flows from each of operating, investing and financing activities, related to interests in joint ventures reported using proportionate consolidation, and
- The aggregate amount of cash flows that represent increases in extending service delivery separately from those cash flows that are required to maintain service delivery capacity.
- The amount and nature of restricted cash balances.

1.5.12 EXEMPTIONS RELATED TO THE IMPLEMENTATION OF GRAP 2

Refer to section 1.5.1 Overview of the accounting for the cash flow statement, for a discussion on the exemptions related to the implementation of GRAP 2.

ANNEXURE 1: CONSOLIDATED CASH FLOW STATEMENT

The diagram below summarises the relevant cash flows that should be included in an entity's consolidated cash flow statement.