

**TA' KERCEM LOCAL COUNCIL**  
**Annual Report and Financial Statements**  
**for the year ended 31 December 2012**

Prepared by

Daniel Galea B.Accty. (Hons.) CPA



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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2012**

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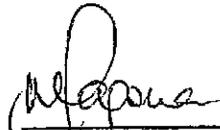
**Statement of Local Council Members' and Executive Secretary's Responsibilities**  
**for the year ended 31 December 2012**

The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Councils' statement of comprehensive income for the year and of the Council's retained funds at the end of year. By virtue of the same regulations it is the duty of the Local Council and the Executive Secretary to ensure that the financial statements forming part of the report present fairly, in accordance with the accounting policies applicable to Local Councils, the income and expenditure of the Local Council for the year and its retained funds as at the year end, and that they comply with the Act, the Local Councils (Financial) Regulations, and the Local Councils (Financial) Procedures Issued in terms of the said Act.

The Executive Secretary is responsible to maintain a continuous internal control to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, Local Councils (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the Local Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the Local Council on the 29 April 2013 and signed on its behalf by

  
\_\_\_\_\_  
Mario Azzopardi  
Mayor

  
\_\_\_\_\_  
Marianne Sagona  
Executive Secretary

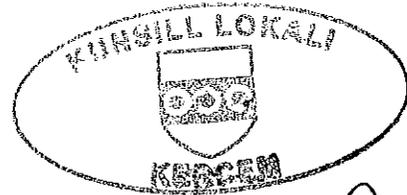




**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2012

		2012 €	2011 €
<b>INCOME</b>	<i>Notes</i>		
Funds received from Central Government	3	261,759	267,847
Income raised under Local Enforcement System	4	189	38
General Income	5	<u>8,396</u>	<u>41,265</u>
		<u>270,344</u>	<u>309,150</u>
 <b>EXPENDITURE</b>			
Personal emoluments	6	(63,381)	(64,567)
Operations and maintenance	7	(153,246)	(113,559)
Administration and other expenditure	8	<u>(111,531)</u>	<u>(93,639)</u>
		<u>(328,138)</u>	<u>(271,765)</u>
 <b>Operating (loss)/profit for the year</b>		 (57,794)	 37,385
 Finance costs	9	 (104)	 (220)
Finance income	10	180	404
 <b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR</b>		 <u>(57,718)</u>	 <u>37,569</u>



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The notes on pages 8 to 23 form an integral part of these financial statements

TA' KERCEM LOCAL COUNCIL

**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2012

	Notes	2012 €	2011 €
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	11	847,441	829,972
		<u>847,441</u>	<u>829,972</u>
<b>Current Assets</b>			
Inventories	12	2,707	1,611
Receivables	13	55,499	113,621
Cash and Cash Equivalents	14	110,072	61,150
		<u>168,278</u>	<u>176,382</u>
<b>Total Assets</b>		<u><b>1,015,719</b></u>	<u><b>1,006,354</b></u>
<b>RESERVES AND LIABILITIES</b>			
<b>Reserves</b>			
Retained Funds		437,767	495,485
		<u>437,767</u>	<u>495,485</u>
<b>Non-Current Liabilities</b>			
Accruals	15	40,968	-
Long-term borrowings	16	148,277	151,125
Deferred income	17	245,806	190,107
		<u>435,051</u>	<u>341,232</u>
<b>Current Liabilities</b>			
Payables	15	121,614	148,350
Short-term borrowings	16	21,287	21,287
		<u>142,901</u>	<u>169,637</u>
<b>Total Reserves and Liabilities</b>		<u><b>1,015,719</b></u>	<u><b>1,006,354</b></u>

These financial statements were approved by the Local Council on 29 April 2013 and signed on its behalf by:

  
 \_\_\_\_\_  
 Mario Azzopardi  
 Mayor

  
 \_\_\_\_\_  
 Marianne Sagona  
 Executive Secretary


The notes on pages 8 to 23 form an integral part of these financial statements

**STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2012

	Retained Funds €
At 1 January 2011	457,916
Total comprehensive income for the year	37,569
At 31 December 2011	495,485
At 1 January 2012	495,485
Total comprehensive loss for the year	(57,718)
At 31 December 2012	437,767



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**STATEMENT OF CASH FLOWS**

For the year ended 31 December 2012

	2012 €	2011 €
	<i>Note</i>	
<b>Cash flows from Operating Activities</b>		
Total comprehensive (loss)/income for the year	(57,718)	37,669
Reconciliation to cash generated from operations:		
Depreciation	49,211	41,336
Impairment	14,900	-
Interest receivable	(180)	(404)
Operating profit before Working Capital Changes	6,213	78,501
Movement in Inventories	(1,096)	366
Movement in receivables	-	(38)
Movement in other receivables	43,222	(93,379)
Movement in payables	26,536	1,850
Movement in other payables	5,352	55,926
Grant released	(14,254)	(22,610)
<b>Cash generated from operating activities</b>	<b>65,973</b>	<b>20,616</b>
<b>Cash flows from Investing Activities</b>		
Interest received	180	404
Purchase of property, plant & equipment	(66,680)	(261,847)
Receipt of grants	79,500	123,993
<b>Cash generated from/(used in) investing activities</b>	<b>13,000</b>	<b>(137,450)</b>
<b>Cash flows from Financing Activities</b>		
New long term bank borrowings	18,439	21,950
Repayment of short term bank borrowings	(21,287)	(21,287)
<b>Cash (used in)/generated from financing activities</b>	<b>(2,848)</b>	<b>663</b>
Net Increase/(decrease) in Cash and Cash Equivalents	76,125	(116,171)
Cash and Cash Equivalents at the Beginning of the year	24,781	140,952
<b>Cash and Cash Equivalents at the End of the year</b>	<b>100,906</b>	<b>24,781</b>

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Notes to the Financial Statements for the period ended 31 December 2012

**1. General Information**

The Ta' Kerċem Local Council is the local Authority of Malta set up in accordance with the Local Councils Act, 1993. The office of the Local Council is situated at Orvieto Square, Ta' Kerċem, Gozo. These financial statements were approved for issue by the Council Members on 29 April 2013. The Local Council's presentation as well as functional currency is denominated in €.

**2. Accounting Policies and Reporting Procedures**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

*Accounting convention*

These financial statements are prepared under the historical cost convention, as modified to include fair values where it is stated in the accounting policies below. These financial statements are prepared in accordance with the provisions of the Local Councils Act Cap. 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 enacted in Malta and with the requirements of the International Financial Reporting Standards.

These financial statements have been drawn up in accordance with the accounting policies and reporting procedures prescribed for Local Councils in the Financial Regulations issued by the Minister of Finance in conjunction with the Minister responsible for Local Government in terms of section 67 of the Local Councils Act (Cap. 363).

*New and amended standards adopted by the Local Council*

The Council has adopted the following new and amended standards as of 1 January 2012:

On 7 October 2010, the IASB issued amendments to IFRS 7, which amendments are entitled Disclosures-Transfers of Financial Assets. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets. The amendments also require certain additional disclosures. The Amendments are applicable for annual periods beginning on or after 1 July 2011.

*New important standards not yet adopted*

A number of new International Financial Reporting Standards and amendments and revisions thereto were in issue but not yet effective during the financial year under review. These include the following:

- IFRS 9 Financial Instruments is applicable for annual periods beginning on or after 1 January 2013, with earlier application being permitted. This Standard represents the completion of the classification and measurement part of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This Standard addresses the classification and measurement of certain financial assets and financial liabilities. IFRS 9 requires financial assets that fall within its scope to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Standard requires financial assets to be subsequently measured at amortised cost or at fair value. The new requirements in relation to financial liabilities address the problem of volatility in profit or loss arising from an issuer to measure its own debt at fair value. With the new requirements, any entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income rather than within profit or loss. This Standard had not yet been adopted by the EU at the date of authorisation of these financial statements.



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Notes to the Financial Statements for the period ended 31 December 2012 (cont.)

**Accounting Policies and Reporting Procedures (cont.)**

- On 12 May 2011, the International Accounting Standards Board (IASB) issued IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. At the same time, the IASB issued a revised version of IAS 27 Separate Financial Statements and a revised version of IAS 28 Investments in Associates and Joint Ventures. The new and revised Standards are applicable for annual periods beginning on or after 1 January 2013, with earlier application being permitted.

- On 12 May 2011, the IASB also issued IFRS 13 Fair Value Measurement. This Standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not require fair value measurements in addition to those already required or permitted by other IFRS. The Standard is applicable for annual periods beginning on or after 1 January 2013, with earlier application being permitted.

- On 16 June 2011, the IASB issued amendments to IAS 1, which amendments are entitled Presentation of Items of Other Comprehensive Income. These Amendments will require Local Councils to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement. These amendments are effective for financial years beginning on or after 1 July 2012.

- On 16 June 2011, the IASB issued an amended version of IAS 19 Employee Benefits. This represents the completion of the IASB's project to improve the accounting for pensions and other post-employment benefits. The amended version of IAS 19 comes into effect for financial years beginning on or after 1 January 2013. Earlier application is permitted.

The Councillors and Executive Secretary are assessing the impact that the adoption of these International Financial Reporting Standards will have on the financial statements in the period of initial application. The Councillors and Executive Secretary anticipate that the adoption of other International Financial Reporting Standards that were in issue at the date of authorisation of these financial statements, but not yet effective will have no material impact on the financial statements in the period of initial application.

*Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses to date. Depreciation is calculated on a monthly basis using the reducing balance method at rates calculated to write off the cost less residual value of each asset over its expected useful life as follows:

	%
Land	0
Trees	0
Buildings	1
Office Furniture and Fittings	7.5
Construction Works	10
Urban Improvements (Street Furniture)	10
Special Projects	10
Office Equipment	20
Motor Vehicles	20
Plant and Machinery	20
Computer Equipment	25
Plants	100
Litter Bins	Replacement basis
Playground Furniture	100
Traffic Signs	Replacement basis
Road Signs	Replacement basis
Street Mirrors	Replacement basis
Street Lights	100

Notes to the Financial Statements for the period ended 31 December 2012 (cont.)

**Accounting Policies and Reporting Procedures (cont.)**

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. The residual values and useful lives of the assets are reviewed and adjusted as appropriate, at each statement of financial position date. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

*Impairment of Assets*

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and the value in use. Impairment losses are immediately recognised as an expense in the Statement of Comprehensive Income.

*Inventories*

Inventories are valued at the lower of cost and net realisable value.

*Amounts receivable*

Amounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of amounts receivable is established when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Comprehensive Income.

*Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds and the redemption value is recognised in the statement of comprehensive income account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Local Council has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

*Other payables*

Other payables are classified with current liabilities and are stated at their nominal value unless the effect of discounting is material in which case trade and other payables are measure at amortised cost using the effective interest method.



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Notes to the Financial Statements for the period ended 31 December 2012 (cont.)

**Accounting Policies and Reporting Procedures (cont.).**

*Financial Instruments*

Financial assets and financial liabilities are recognised when the Council becomes a party to the contractual provisions of a financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs. They are measured subsequently as described below.

*Financial assets*

For the purpose of subsequent measurement, financial assets of the Council are classified into loans and receivables upon initial recognition.

Receivables are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to loans and receivables are presented within 'finance income' or 'finance costs', except for impairment of receivables which is presented within 'administration and other expenditure'.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Council's other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

*Financial liabilities*

The Council's financial liabilities include other payables. These are stated at their nominal amount which is a reasonable approximation of fair value.

All interest-related charges are included within 'finance costs'.

*Related parties*

Related parties are those persons or bodies of persons having relationships with the Council as defined in International Accounting Standard No. 24.

*Revenue*

Revenue is recognised when there are no significant uncertainties concerning the derivation of consideration or associated costs. Interest income is recognised in the statement of comprehensive income as it accrues.

Notes to the Financial Statements for the period ended 31 December 2012 (cont.)

**Accounting Policies and Reporting Procedures (cont.)**

*Local Enforcement System*

The income recognised under the Local Enforcement System was derived from the 10% administrative fees charged to the five Regional Committees.

*Government grants*

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of comprehensive income over the expected lives of the related assets.

*Foreign currencies*

Items included in the financial statements are measured using the currency of the primary economic environment in which the Local Council operates. These financial statements are presented in €, which is the Council's functional and presentation currency.

Transactions denominated in foreign currencies are translated into € at the rates of exchange in operation on the dates of the transactions. Monetary assets and liabilities expressed in foreign currencies are translated into € at the rates of exchange prevailing at the date of the Statement of Financial Position.

*Borrowing costs*

Borrowing costs are recognised as an expense in the period in which they are incurred.

*Profits and losses*

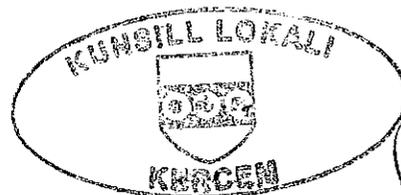
Only profits that were realised at the date of the Statement of Financial Position are recognised in these financial statements. All foreseeable liabilities and potential losses arising up to the said date are accounted for even if they become apparent between the said date and the date on which the financial statements are approved.

*Cash and cash equivalents*

Cash and Cash Equivalents are carried in the Statement of Financial Position at face value. For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash in hand and balances held with banks.

*Critical Accounting Estimates and Judgements*

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. In the opinion of the Executive Secretary, the accounting estimates and judgements made in the preparation of the Financial Statements are not difficult, subjective or complex, to a degree that would warrant their description as critical in terms of the requirements of IAS1 (revised) - 'Presentation of Financial Statements'.



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TA' KERĈEM LOCAL COUNCIL

Notes to the Financial Statements for the period ended 31 December 2012 (cont.)

Accounting Policies and Reporting Procedures (cont.)

*Capital Management*

The Council's capital consists of its net assets, including working capital, represented by its retained funds. The Council's management objectives are to ensure:

- that the Council's ability to continue as a going concern is still valid and
- that the Council maintains a positive working capital ratio.

To achieve the above, the Council carries out a quarterly review of the working capital ratio ("Financial Situation Indicator"). This ratio was positive at the reporting date and has not changed significantly from the previous year. The Council also uses budgets and business plans to set its strategy to optimise its use of available funds and implement its commitments to the locality.

3. Funds received from central government

	2012	2011
	€	€
In terms of section 55 of the Local Councils Act	240,443	231,857
Other Government Income	7,062	13,380
Grants Released	14,254	22,610
	<u>261,759</u>	<u>267,847</u>

4. Local Enforcement system

	2012	2011
	€	€
Administrative fees charged to regional committees	189	38
	<u>189</u>	<u>38</u>

5. General income

	2012	2011
	€	€
Cultural Events	800	6,338
Sponsorships	400	850
General Income	5,842	7,617
Other Income	461	9,280
Income from Permits	893	-
Contributions and Donations	-	2,280
Contributions from WSC Reinstatement works	-	14,900
	<u>8,396</u>	<u>41,265</u>



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TA' KERĈEM LOCAL COUNCIL

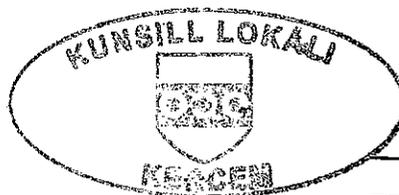
Notes to the Financial Statements for the period ended 31 December 2012 (cont.)

6. (Loss)/Profit for the year

	2012	2011
	€	€
(Loss)/Profit for the year is stated after charging		
Staff salaries	63,361	64,567
Depreciation of property, plant and equipment	49,216	41,336
<b>Staff salaries</b>	<b>63,361</b>	<b>64,567</b>
	2012	2011
	€	€
Mayor's Remuneration	6,495	6,364
Mayor's and Councillors' Allowances	6,400	6,400
Executive Secretary Salary and Allowances	25,474	24,717
Employees' Salaries	21,404	20,365
Social Security Contributions	3,588	3,537
Previous years Social Security Contributions/PAYE	-	3,184
	<b>63,361</b>	<b>64,567</b>

7. Operations and Maintenance

	2012	2011
	€	€
<i>Repairs and Upkeep:</i>		
Road/Street Pavements	15,269	15,299
Walkways	3,815	7,677
Signs	2,444	570
Road Markings	-	516
Other repairs and Upkeep	10,593	10,815
	<b>32,121</b>	<b>34,877</b>
<i>Contractual Services:</i>		
Waste Disposal	12,607	9,980
Refuse Collection	34,113	16,026
Bulky Refuse Collection	350	279
Open Skips	12,221	14,318
Road & Street Cleaning	7,780	3,418
Cleaning & Maintaining Non-Urban	27,249	28,109
Cleaning - Council Premises	784	800
Cleaning & Maintaining Parks & Gardens	3,746	3,270
Street Lighting	21,982	2,249
Studies & Consultations	261	-
Local enforcement expenses	32	233
	<b>121,125</b>	<b>78,682</b>
<b>Total Operations and Maintenance Costs</b>	<b>153,246</b>	<b>113,559</b>



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TA' KERÇEM LOCAL COUNCIL

Notes to the Financial Statements for the period ended 31 December 2012 (cont.)

**8. Administration and other expenditure**

	2012	2011
	€	€
Utilities	4,102	2,394
Other repairs and upkeep	1,295	1,579
Rent	2,566	1,600
National and International Memberships	445	328
Office Services	6,240	5,121
Transport	368	273
Travel	-	2,549
Information Services	354	1,112
Lease of Equipment	67	-
Insurance Coverage	1,381	1,492
Penalties - Department of Local Council	-	1,067
Penalties - MEPA	2,050	-
Professional Services	6,522	13,324
Other Hospitality Costs	98	1,837
Social Events	3,124	6,377
Cultural Events	17,857	12,705
Community Services	951	545
Impairment on the receivables	14,900	-
Depreciation	49,211	41,336
	<u>111,531</u>	<u>93,639</u>

**9. Finance Costs**

	2012	2011
	€	€
Bank charges	104	220
	<u>104</u>	<u>220</u>

**10. Finance Income**

	2012	2011
	€	€
Bank Interest Receivable	180	404
	<u>180</u>	<u>404</u>



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TA' KERĈEM LOCAL COUNCIL

Notes to the Financial Statements for the period ended 31 December 2012 (cont.)

11. Property, plant and equipment

	Assets under Construction €	New Street Signs €	Urban Improvements €	Computer & Office Equipment €	Office Furniture & fittings €	Special Programmes & Construction €	Total €
<b>Cost</b>							
At 1 January 2011	262,744	4,554	471,419	13,585	10,290	312,170	1,074,762
Additions	77,851	-	76,887	728	-	106,381	261,847
Reclassifications	8,479	-	-	-	-	(8,479)	-
At 31 December 2011	349,074	4,554	548,306	14,313	10,290	410,072	1,336,609
<b>Depreciation</b>							
At 1 January 2011	-	4,554	227,419	11,937	6,428	123,698	374,036
Charge for the year	-	-	23,005	429	280	17,622	41,336
At 31 December 2011	-	4,554	250,424	12,366	6,708	141,320	415,372
<b>Grants</b>							
At 1 January 2011	-	-	-	-	-	-	-
At 31 December 2011	-	-	22,832	-	-	68,433	91,265
<b>Net Book values</b>							
At 31 December 2011	349,074	-	275,050	1,947	3,582	200,319	829,972



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TA' KERCEM LOCAL COUNCIL

Notes to the Financial Statements for the period ended 31 December 2012 (cont.)

11. Property, plant and equipment (cont.)

	Assets under Construction €	New Street Signs €	Urban Improvements €	Computer & Office Equipment €	Office Furniture & fittings €	Special Programmes & Construction €	Total €
<b>Cost</b>							
At 1 January 2012	349,074	4,554	548,306	14,313	10,290	410,072	1,336,609
Additions	29,251	-	6,913	4,299	-	26,217	66,680
At 31 December 2012	378,325	4,554	555,219	18,612	10,290	436,289	1,403,289
<b>Depreciation</b>							
At 1 January 2012	-	4,554	250,424	12,366	6,708	141,320	415,372
Charge for the year	-	-	26,930	868	260	21,153	49,211
At 31 December 2012	-	4,554	277,354	13,234	6,968	162,473	464,583
<b>Grants</b>							
At 1 January 2012	-	-	22,832	-	-	68,433	91,265
At 31 December 2012	-	-	-	-	-	-	-
<b>Net Book values</b>							
At 31 December 2012	378,325	-	255,033	5,378	3,322	205,383	847,441



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TA' KERĊEM LOCAL COUNCIL

Notes to the Financial Statements for the period ended 31 December 2012 (cont.)

12. Inventories

	2012	2011
	€	€
Stock of stamps	<u>2,707</u>	<u>1,611</u>

13. Receivables

	2012	2011
	€	€
Accounts receivable	38	38
Other receivables	898	6,311
Prepayments and accrued income	<u>54,563</u>	<u>107,272</u>
	<u>55,499</u>	<u>113,621</u>

*Receivables*

General receivables are analysed as follows:

	2012	2011
	€	€
Within credit period	<u>38</u>	<u>38</u>
	<u>38</u>	<u>38</u>

14. Cash & cash equivalents

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

	2012	2011
	€	€
Cash at Bank	109,040	60,895
Cash in Hand	1,032	255
Overdrafts	<u>(9,166)</u>	<u>(36,369)</u>
	100,906	24,781
Transfer to payables	<u>9,166</u>	<u>36,369</u>
	<u>110,072</u>	<u>61,150</u>



*Handwritten signature and initials.*

TA' KERCEM LOCAL COUNCIL

Notes to the Financial Statements for the period ended 31 December 2012 (cont.)

**15. Payables**

	2012	2011
	€	€
Accounts payable	49,849	23,313
Other payables	2,601	3,538
Accruals and deferred Income	100,966	85,130
Bank overdrawn balances	9,166	36,369
	<u>162,582</u>	<u>148,350</u>
Less non-current accruals	40,968	-
<b>Current Accruals</b>	<u>121,614</u>	<u>148,350</u>
<b>Non-current accruals - PPP</b>		
Deferred between one and two years	13,656	-
Deferred between two and five years	13,656	-
Deferred in five years or more	13,656	-
	<u>40,968</u>	<u>-</u>

**16. Borrowings**

	2012	2011
	€	€
<b>Non-current</b>		
Bank borrowings	<u>148,277</u>	<u>151,125</u>
<b>Current</b>		
Bank borrowings	<u>21,287</u>	<u>21,287</u>
<b>Borrowings</b>		
Repayable between one and two years	21,287	21,287
Repayable between two and five years	63,860	63,860
Repayable in five years or more	63,130	65,978
	<u>148,277</u>	<u>151,125</u>
<b>Repayable after five years or more:</b>		
Bank Loan	<u>63,130</u>	<u>65,978</u>



Notes to the Financial Statements for the period ended 31 December 2012 (cont.)

*Bank Loan*

Long term borrowings consists of two bank loans borrowed by the Council with the approval of the Minister responsible for the Local Government to be repaid over a period of twenty years.

The bank loan's repayments for the current year amounts to Eur21,287. The loan is paid through Eur 5,322 quarterly installments inclusive of interest.

**17. Deferred income**

	2012	2011
	€	€
<b>Government grants</b>		
At 1 January	198,115	96,733
Increase in year	79,500	123,992
	<u>277,615</u>	<u>220,725</u>
Released in year	(14,254)	(22,610)
At 31 December	<u>263,361</u>	<u>198,115</u>
<b>Current Deferred Income</b>	<u>17,555</u>	<u>8,008</u>
<b>Non-Current Deferred Income</b>	<u>245,806</u>	<u>190,107</u>
<b>Deferred Government Grants</b>		
Deferred between one and two years	18,790	14,312
Deferred between two and five years	56,537	45,322
Deferred in five years or more	170,479	130,474
	<u>245,806</u>	<u>190,108</u>
<b>Deferred after five years or more:</b>		
Government Grants	<u>170,479</u>	<u>130,474</u>

The image shows an official circular stamp of the TA' KERÇEM LOCAL COUNCIL. Below the stamp is a handwritten signature in black ink, which appears to be 'M. ...'. The signature is written over the stamp and extends to the right.

Notes to the Financial Statements for the period ended 31 December 2012 (cont.)

**18. Capital commitments**

	2012	2011
	€	€
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	578,001	328,000
- Contracted for but not provided in the financial statements	<u>185,940</u>	<u>226,000</u>
 (i) Approved but not yet contracted for:		
Clinic	18,010	-
Library	23,905	-
Local Council Premises	57,969	-
Training Centre	23,700	-
Gnien il-Familja	319,980	-
Urban Improvements	<u>134,437</u>	<u>328,000</u>
	<u>578,001</u>	<u>328,000</u>
 (i) Contracted for but not provided in the Financial Statements:		
PPP Scheme	121,500	142,000
Civic Centre	<u>64,440</u>	<u>84,000</u>
	<u>185,940</u>	<u>226,000</u>

The Council is seeking EU funding to finance the projects which have been approved but not yet contracted for. Projects will only be undertaken if these funds are obtained.

The Council will be financing 40% of the road resurfacing due to the PPP scheme as approved by the Department for Local Councils as per Memo 45 of 2010.

**19. Financial Risk Management**

The Council's activities expose it to a variety of financial risks such as market risk, credit risk, liquidity risk and interest rate risk. The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Council's financial performance.

*Credit risk*

Financial assets which potentially subject the Council to concentrations of credit risk consist principally of cash at bank debtors. The Council's cash is placed with quality financial institutions as well as it limits the amount of credit exposure with any one financial institution. The Council has appropriate policies to ensure that income is received from sources with appropriate credit history. In this respect, credit risk with respect to debtors is monitored continuously and the Council places a provision on any debt on which there is doubt of recoverability. Bad debts are therefore negligible and in this respect the Council has no significant concentration of credit risk.

Notes to the Financial Statements for the period ended 31 December 2012 (cont.)

19. Financial Risk Management (cont.)

The maximum exposure to credit risk for amounts receivable at the reporting date, net of impairment losses, by type of customer is as follows:

- Receivables from Related Parties: € 38

*Liquidity Risk*

Liquidity risk is defined as financial distress, an extraordinary measure which needs to be taken to manage the council's present commitments arising due to shortage of funds. The objective of liquidity risk management is to maintain sufficient liquidity, and to ensure that it is available within the necessary time frame in order not to create financial distress and curtail current obligations as well as future short term commitments. The Council monitors and manages its risk to a shortage of funds by maintaining sufficient cash and by monitoring the availability of raising funds to meet commitments due. In fact at year end, the Council has as cash and cash equivalents the amount of Euro 100,077. This should ensure an ongoing working capital of the Council for the next 12 months. The Council also maintains a positive current net asset position of Euro 499,396 ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

*Foreign Currency Risk*

Foreign currency transactions arise when the Council buys or sells goods whose price is denominated in a foreign currency, or incurs or settles liabilities, denominated in a foreign currency. The Council does not trade in any foreign currency transactions.

*Interest Rate Risk*

The Council operates bank accounts without any financing facilities. As a result, the Council is not exposed to cash flow interest rate risk on bank balances.

*Other risks*

The Council's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Council to cash flow interest rate risk. In general, the Council's exposure to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financing position and cash flows are not deemed to be substantial by the Councillors and Executive Secretary in view of the nature of the assets and liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions.



**Notes to the Financial Statements for the period ended 31 December 2012 (cont.)**

**20. Related party transactions**

During the year under review, the Council carried out transactions with the following related parties:

<i>Name of Entity</i>	<i>Nature of relationship</i>
Department of Local Councils	Significant control
Gozo Regional Committee	Joint Control
North Regional Committee	No control
Central Regional Committee	No control
South Eastern Regional Committee	No control
South Regional Committee	No control
Malta Environment and Planning Authority	No control
Water Services Corporation	No control
Enemalta Corporation	No control
Cleansing Services Department	No control
Director General - Works Division	No control
Wasteserv Malta Limited	No control
Police General Headquarters	No control
Department of Lands	No control
Airmalta plc	No control
Bank of Valletta plc	No control
MCAST	No control
National Library of Malta	No control
Malta Tourism Authority	No control
Office of the Prime Minister	No control
Office of the Commissioner for Data Protection	No control

The following were the significant transactions carried out by the Council with related parties having significant control:

	2012	2011
	€	€
Annual Financial Allocation	<u>240,736</u>	<u>231,857</u>

**Key management compensation**

Transactions with key management personnel are disclosed in note 6.

**Ultimate Controlling party**

The ultimate controlling party of the Local Council is Central Government since the Council's main revenue is from the Government allocation received every quarter. Apart from the normal funds received from the Government, Councils also receive funds relating to specific projects as well as other funds for the improvement and betterment of the locality.

**21. Fair values estimation**

The nominal values less estimated credit adjustments of receivables and payables are assumed to approximate their fair values; otherwise, these have been adjusted to approximate their fair values.

**22. Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

The stamp is circular and contains the text 'TA' KERĊEM LOCAL COUNCIL' and '31 DECEMBER 2012'. Below the stamp is a handwritten signature in black ink.



## Spiteri Bailey & Co.

Accountancy Audit Advisory

### LOCAL COUNCIL TA' KERCEM

#### Report of the Local Government Auditor to the Auditor General

We have audited the accompanying financial statements of Local Council Ta' Kerzem set out on pages 4 to 23, which comprise the statement of financial position as at 31<sup>st</sup> December 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows of the Local Council for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Spiteri Bailey & Co.  
Triq Dun Karm, Birkirkara Bypass  
Birkirkara BKR 9038, Malta

Tel: +356 21499250  
Mob: +356 79499248  
Fax: +356 21444815

advice@spiteribailey.com  
www.spiteribailey.com

#### Council Responsibilities for the Financial Statements

As described on page 3, the Executive Secretary and the Council are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the EU and for such internal control as the Council determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Local Government Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 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 internal control of the Local Council. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of the accounting estimates made by the Executive Secretary and the Council, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Council as of 31 December 2012 and of the Council's financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

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**Spiteri Bailey & Co.**

Accountancy Audit Advisory

**Report on Other Legal and Regulatory Requirements**

In our opinion, the financial statements have been properly prepared in accordance with the Local Councils Act, (CAP 363); the Financial Regulations issued in terms of the said Act; and the Local Councils (Financial) Procedures.

This copy of the audit report has been signed by  
**Conrad Borg FCCA FIA DipIFR CPA (Partner)** for and on behalf of  
**Spiteri Bailey & Co.**  
Certified Public Accountants  
Members of PrimeGlobal  
Dun Karm Street,  
Birkirkara By-pass,  
Birkirkara BKR 9038,  
Malta.

29/04/13



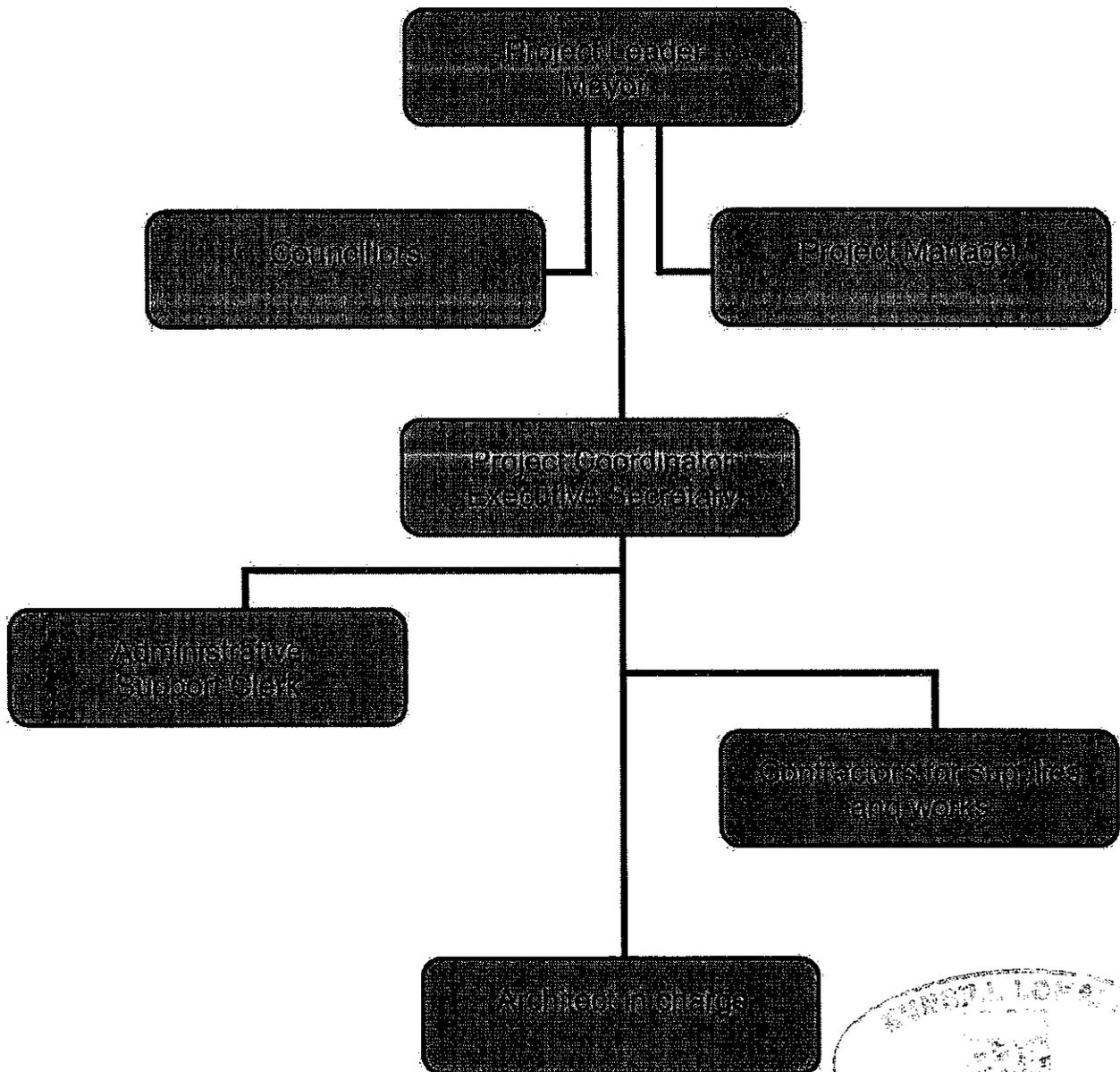


## Kunsill Lokali Ta' Kercem

Pjazza Orvieto, Ta' Kercem KCM 1360, Gozo

Tel: 21563666 Fax: 21563888

e-mail: [kercem.lc@gov.mt](mailto:kercem.lc@gov.mt) website: [www.kercem.gozo.com](http://www.kercem.gozo.com)



*Handwritten signature*  
Attest.