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# **LOCAL COUNCIL of L-IMĠARR**

**Annual Report  
and  
Financial Statements  
for the year ended 31 December 2012**

**Prepared by  
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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 Council's 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 Council (Financial) Regulations, and the Local Council (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 Council (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 13 February 2013 and signed on its behalf by

  
Paul Vella  
Mayor

  
Cyprian Dalli  
Executive Secretary

MGARR LOCAL COUNCIL

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Report of the Local government Auditors to the Auditor General

*[Handwritten signature]*

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

		2012 €	2011 €
	<i>Notes</i>		
<b>INCOME</b>			
Funds received from Central Government	3	418,560	369,891
Supplementary Government Income		-	20,000
Income raised under Local Enforcement System	4	803	1,279
General Income	5	19,496	59,234
		<u>438,859</u>	<u>450,404</u>
<b>EXPENDITURE</b>			
Personal emoluments	6	(68,203)	(69,909)
Operations and maintenance	7	(167,111)	(143,403)
Administration and other expenditure	8	(151,487)	(134,473)
		<u>(386,801)</u>	<u>(347,785)</u>
<b>Operating surplus for the year</b>		52,058	102,619
Finance income	9	324	317
<b>SURPLUS FOR THE YEAR</b>		<u>52,382</u>	<u>102,936</u>

The notes on pages 10 to 24 form an integral part of these financial statements

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

		2012 €	2011 €
	Notes		
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	10	798,674	820,515
		<u>798,674</u>	<u>820,515</u>
<b>Current Assets</b>			
Receivables	11	116,592	74,756
Cash and Cash Equivalents	12	60,241	39,054
		<u>176,833</u>	<u>113,809</u>
<b>Total Assets</b>		<u><b>975,507</b></u>	<u><b>934,324</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Reserves</b>			
Retained Fund		942,849	890,467
		<u>942,849</u>	<u>890,467</u>
<b>Current Liabilities</b>			
Payables	13	32,658	43,857
		<u>32,658</u>	<u>43,857</u>
<b>Total Equity and Liabilities</b>		<u><b>975,507</b></u>	<u><b>934,324</b></u>

These financial statements were approved by the Local Council on 13th February 2013 and signed on its behalf by:

  
Paul Vella  
Mayor

  
Cyprian Dalli  
Executive Secretary

The notes on pages 10 to 24 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	787,531
Surplus for the year	102,936
<b>At 31 December 2011</b>	<b>890,467</b>
At 1 January 2012	890,467
Surplus for the year	52,382
<b>At 31 December 2012</b>	<b>942,849</b>



## STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	2012 €	2011 €
<b>Cash flows from Operating Activities</b>			
<b>Surplus for the year</b>		52,382	102,936
Reconciliation to cash generated from operations:			
Depreciation		43,410	48,597
Interest receivable		(324)	(317)
Operating Profit before Working Capital Changes		95,468	151,216
Movement in receivables		(41,836)	(11,235)
Movement in payables		(11,197)	(129,951)
<b>Cash generated from operating activities</b>		<u>42,435</u>	<u>10,030</u>
<b>Cash flows from Investing Activities</b>			
Interest received		324	317
Purchase of property, plant & equipment		(21,572)	(25,310)
<b>Cash generated from investing activities</b>		<u>(21,248)</u>	<u>(24,993)</u>
<b>Cash flows from Financing Activities</b>			
Movement in grants		-	4,672
Net change in Cash and Cash Equivalents		21,187	(10,291)
Cash and Cash Equivalents at the Beginning of the year		39,054	49,345
<b>Cash and Cash Equivalents at the End of the year</b>		<u>60,241</u>	<u>39,054</u>

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

**1. General Information**

The Mgarr 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 22, Sir Harry Luke Street, Mgarr. These financial statements were approved for issue by the Council Members on 13 February 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 and amendments not yet adopted by EU*

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.

**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. These Standards have not yet been endorsed by the European Union at the date of authorisation of these financial statements.

- 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. IFRS 13 has not yet been endorsed by the European Union at the date of authorisation of these financial statements.

- 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. The Amendments have not yet been endorsed by the European Union at the date of authorisation of these financial statements.

- 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 Amendment has not yet been endorsed by the European Union at the date of authorisation of these financial statements.

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.

*Intangible Fixed Assets*

**Computer Software**

Computer software is valued at cost less accumulated depreciation and impairment losses to date. Depreciation to write off the cost is calculated on a monthly basis using the reducing balance method at 20% per annum.

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

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

*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

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.

*Leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

*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.

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

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

*Inventories*

Inventories are valued at the lower of cost and net realisable value. Cost includes freight, handling and other direct costs. Costs of inventories include the transfer from retained funds of any gains/losses on qualifying cash flow hedges relating to purchases of stock items. However, borrowing costs and foreign exchange differences are excluded. Net realisable value is the price at which stocks can be sold in the course of Council activities less anticipated costs of selling. Provision is made where necessary for obsolete, slow moving and defective stocks.

*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 income and expenditure 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.

*Trade and other payables*

Trade and 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 measured at amortised cost using the effective interest method.

*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

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

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

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.

Income from central government is not recognised until there is reasonable assurance that the Council will comply with any conditions attached to it, and that the income will be received. The received income is to be recorded gross and any deductions made for non-compliance are to be disclosed separately with expenses.

*Local Enforcement System*

The Mgarra Local Council formed part of the North Joint Committee until August. The amount disclosed in the financial statements under Local Enforcement Income represents the share of gain derived until August from the Joint Committee after deducting the related expenses from the income. As from September the income recognised was derived from the five Regional Committees.

*Government grants*

Government grants relating to costs are deferred and recognised in the income statement 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

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

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

deferred government grants and are credited to the income statement 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 surpluses 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 Cash Flow Statement, 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'.

*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.

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

**3. Funds received from central government**

	2012	2011
	€	€
In terms of section 55 of the Local Councils Act	395,348	369,891
Supplementary Government Income	23,212	-
	<u>418,560</u>	<u>369,891</u>

**4. Local Enforcement system**

	2012	2011
	€	€
Contraventions and other fines	803	1,279
	<u>803</u>	<u>1,279</u>

**5. General Income**

	2012	2011
	€	€
General Income	14,616	57,087
Tender Documents/Info Charges	1,075	-
Contributions	621	-
Income from Permits	3,184	2,147
	<u>19,496</u>	<u>59,234</u>

**6. Personal Emoluments**

	2012	2011
	€	€
Mayor's Remuneration	6,600	7,964
Councillors' Allowances	4,800	4,800
Executive Secretary Salary and Allowances	26,450	24,686
Employees' Salaries	25,780	28,130
Social Security Contributions	4,573	4,329
	<u>68,203</u>	<u>69,909</u>



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

## 7. Operations and Maintenance

	2012	2011
	€	€
<i>Repairs and Upkeep:</i>		
Road/Street Pavements	32,700	25,005
Handyman service	19,922	27,960
Signs	5,784	3,487
Road Markings	5,652	1,925
Other repairs and Upkeep	3,123	147
	<u>67,181</u>	<u>58,524</u>
<i>Contractual Services:</i>		
Waste Disposal	16,271	-
Refuse Collection	32,697	43,365
Bulky Refuse Collection	3,034	1,125
Open Skips & Bring-In Sites	738	-
Road & Street Cleaning	16,558	14,889
Cleaning - Public Conveniences	13,931	10,233
Cleaning & Maintaining Parks & Gardens	3,633	2,236
Other contractual services	3,566	9,030
Street Lighting	8,748	2,735
Local enforcement system expense	754	1,266
	<u>99,930</u>	<u>84,879</u>
Total Operations and Maintenance Costs	<u>167,111</u>	<u>143,403</u>

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

**8. Administration and other expenditure**

	2012	2011
	€	€
Utilities	13,962	14,639
Other repairs and upkeep	1,960	-
Rent	2,430	2,503
National and International Memberships	2,038	2,712
Office Services	9,634	12,344
Transport	3,787	3,300
Travel	5,412	348
Information Services	897	-
Lease of Equipment	931	839
Insurance Coverage	2,459	5,433
Bank Charges	397	168
Professional Services	28,121	28,052
Public relations	13,066	-
Tuition for courses and expenses	1,730	-
Entertainment	669	-
Conference Expenses	100	-
Cultural Events	6,186	-
Community Services	9,709	13,809
Sundry Minor Expenses	383	-
General and administrative expenses	2,818	-
Incidental expenses	-	1,729
Misappropriated cash	1,387	-
Depreciation	43,410	48,597
	<u>151,487</u>	<u>134,473</u>

**9. Finance Income**

	2012	2011
	€	€
Bank Interest Receivable	324	317
	<u>324</u>	<u>317</u>

MÓARR LOCAL COUNCIL

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

10. Property, plant and equipment

	Office Furniture & fittings €	Computer Equipment €	Plant & Machinery €	Office Equipment €	New Street Signs €	Construction €	Special Programmes €	Office Extension €	Motor Vehicle €	Total €
<b>Cost</b>										
At 1 January 2011	39,097	20,999	6,535	22,757	63,717	640,724	708,023	393,500	12,346	1,907,698
Additions	350	290	212	696	-	18,805	-	4,957	-	25,310
At 31 December 2011	39,447	21,289	6,747	23,453	63,717	659,529	708,023	398,457	12,346	1,933,008
<b>Depreciation</b>										
At 1 January 2011	20,280	17,373	5,105	19,567	63,717	334,715	282,509	-	8,300	751,566
Charge for the year	1,437	979	328	777	-	19,186	25,081	-	809	48,597
At 31 December 2011	21,717	18,352	5,433	20,344	63,717	353,901	307,590	-	9,109	800,163
<b>Grants</b>										
At 1 January 2011	-	-	-	-	-	-	-	-	-	-
At 31 December 2011	-	-	-	-	-	132,955	179,375	-	-	312,330
<b>Net Book values</b>										
At 31 December 2011	17,730	2,937	1,314	3,109	-	172,673	221,058	398,457	3,237	820,515

M'GARR LOCAL COUNCIL

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

10. Property, plant and equipment (cont.)

	Office Furniture & fittings €	Computer Equipment €	Plant & Machinery €	Office Equipment €	New Street Signs €	Construction €	Special Programmes €	Office Extension €	Motor Vehicle €	Total €
<b>Cost</b>										
At 1 January 2012	39,447	21,289	6,747	23,453	63,717	659,529	708,023	398,457	12,346	1,933,008
Additions	3,584	132	405	-	58	16,177	-	1,216	-	21,572
Disposals	-	-	-	-	-	-	-	-	-	-
At 31 December 2012	43,031	21,421	7,152	23,453	63,775	675,706	708,023	399,673	12,346	1,954,580
<b>Depreciation</b>										
At 1 January 2012	21,717	18,352	5,433	20,344	63,717	353,901	307,590	-	9,109	800,163
Charge for the year	1,599	768	344	622	58	17,268	22,106	-	648	43,413
On disposal	-	-	-	-	-	-	-	-	-	-
At 31 December 2012	23,316	19,120	5,777	20,966	63,775	371,169	329,696	-	9,757	843,576
<b>Grants</b>										
At 1 January 2012	-	-	-	-	-	132,955	179,375	-	-	312,330
At 31 December 2012	-	-	-	-	-	-	-	-	-	-
<b>Net Book values</b>										
At 31 December 2012	19,715	2,301	1,375	2,487	-	171,582	198,952	399,673	2,589	798,674

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

**11. Receivables**

	2012	2011
	€	€
Receivables	107,063	55,001
Other receivables	6,112	6,113
Prepayments and accrued income	3,417	13,642
	<u>116,592</u>	<u>74,756</u>

*Receivables*

General receivables are analysed as follows:

	2012	2011
	€	€
Within credit period	116,592	74,756
Exceeded credit period but not impaired	-	-
Impaired and provided for	-	-
Provision for doubtful debts	-	-
	<u>116,592</u>	<u>74,756</u>

*Local Enforcement System (LES) Debtors*

LES Debtors are stated after a specific provision for doubtful debts amounting to €20,215 (2011 - €20,215).

**12. 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	60,125	39,053
Cash in Hand	116	1
	<u>60,241</u>	<u>39,054</u>

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

**13. Payables**

	2012	2011
	€	€
Payables	20,262	26,489
Accruals and deferred income	12,396	17,368
	<u>32,658</u>	<u>43,857</u>

**14. 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.

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: € 25,825

*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 1,178,069. 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 1,063,251 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.

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

**Financial Risk Management (cont.)**

*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.

*Market risks*

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks.

The Council's current discount rate in respect of the third party loan is 8.38%, with cash flows amounting to €220,707.62 over the next 8 years.

*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.

**15. 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
North Joint Committee (Local Enforcement)	Joint Control
Street Lightening Joint Committee	Joint Control
North Regional Committee	Joint Control
Central Regional Committee	No control
Gozo 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

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

**Related party transactions (cont.)**

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

	2012	2011
	€	€
Annual Financial Allocation	<u>395,348</u>	<u>369,891</u>

**Key management compensation**

Transactions with key management personnel are disclosed in note 6.

**16. 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.