



MQABBA LOCAL COUNCIL
REPORT AND FINANCIAL STATEMENTS
For the year ended 31st December 2012

Prepared by: J. Richard Falzon FIA AMIT CPA MBA (Henley)

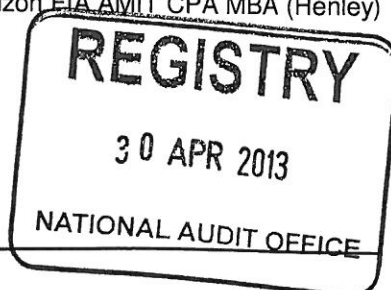


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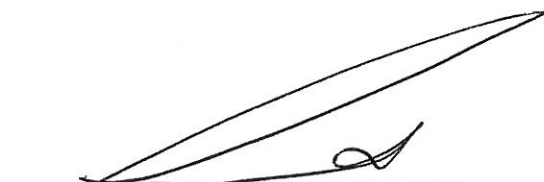
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Financial Statements for the year ended 31st December 2012**Statement of Local Council Members' and Executive Secretary's Responsibilities**

The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes the Local Council's 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 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.

Thursday, 28th March, 2013


Mr. Noel Galea
(Mayor)
Mr. Anthony Bonello
(Executive Secretary)

Financial Statements for the year ended 31 December 2012**Report of the Local Government auditor to the Auditor General**

We have audited the accompanying financial statements of Mqabba Local Council which comprise the statement of financial position as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of the Local Council and Local Government auditor

As described in page 1, these financial statements are the responsibility of the Executive Secretary and the Local Council members.

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 of 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 our 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, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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.

Basis for qualified opinion

1. The Council operated the Local Enforcement System (LES) up to 31 August 2011. The Council did not prepare a reconciliation between the LES reports generated from the IT system and actual cash received, debtors outstanding at the end of the period, cash received on behalf of other councils and amounts owed to other councils. We could not perform any audit procedures to satisfy ourselves as to the existence and completeness of LES debtors and creditors, and the valuation of LES debtors at 31 December 2012.
2. The council's financial statements do not include certain quantitative disclosures required by IFRS 7, *Financial Instruments: Disclosures*. These include information on the contractual maturities of the council's financial liabilities and categories of financial assets and liabilities at the end of the reporting period.
3. The council did not disclose the list of the relevant new and amended IFRSs that have been adopted by the council in the preparation of the financial statements in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.
4. Excluded from these financial statements are the budgeted figures for the year. This is not in accordance with the Local Councils (Financial) Procedures, 1996.

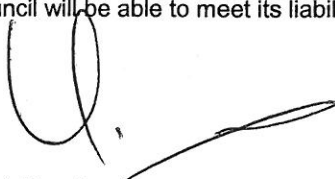
Financial Statements for the year ended 31 December 2012**Report of the Local Government auditor to the Auditor General*****Qualified opinion***

In our opinion, except for the effect of the matters described in paragraphs 1, 2 and 3 under the Basis for qualified opinion paragraph, the financial statements give a true and fair view of the financial position of Mqabba Local Council as at 31 December 2012, and of the results of its operations, changes in equity and its cash flows for the year then ended in accordance with the accounting policies set out on pages 8 to 11.

Because of the matter set out in paragraph 4 above, these financial statements do not comply fully with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 and because of the matters set out in paragraphs 2 and 3 these financial statements have not been prepared in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to the council's statement of financial position on page 5 which shows that at 31 December 2012 the council's current liabilities (excluding deferred income) exceeded current assets (excluding prepayments) by € 78,936. The significance of this deficiency casts doubt as to whether the council will be able to meet its liabilities as they fall due.



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Swatar BKR 4013

28 March 2013

Statement of Comprehensive Income for the year ended 31st December 2012

	<i>Note</i>	2012 €	2011 €
Income			
Funds received from Central Government	4	310,871	255,503
Income raised under Local Council Bye-Laws	5	3,525	4,600
Income raised under Local Enforcement System	6	1,961	15,025
General Income	7	5,881	12,717
		<u>322,238</u>	<u>287,845</u>
Expenditure			
Personal emoluments	8	72,840	66,749
Operations and maintenance	9	109,774	101,481
Administration and other expenditure	10	145,761	115,636
		<u>(328,375)</u>	<u>(283,866)</u>
Operating (deficit)/surplus for the year		(6,137)	3,979
Investment income	11	562	446
(Deficit)/Surplus for the year		<u><u>(5,575)</u></u>	<u><u>4,425</u></u>

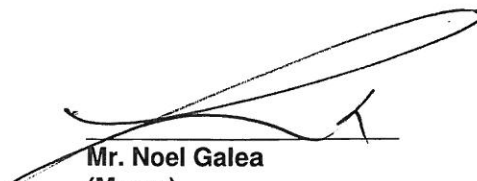
The notes on pages 8 to 23 form an integral part of these financial statements.

Statement of Financial Position as at 31st December 2012

	<i>Note</i>	2012 €	2011 €
ASSETS			
Non-current Assets			
Property, plant and equipment	12 a-b	1,366,129	658,325
Current assets			
Receivables	13	70,269	55,332
Cash and cash equivalents	14	118,697	192,325
		<u>188,966</u>	<u>247,657</u>
Total Assets		<u>1,555,095</u>	<u>905,982</u>
Reserves and Liabilities			
Reserves			
Retained funds		432,179	437,754
Non-current Liabilities			
Non-current deferred income	15	767,666	353,269
		<u>767,666</u>	<u>353,269</u>
Current Liabilities			
Trade and other payables	16	355,250	114,959
		<u>355,250</u>	<u>114,959</u>
Total equity and liabilities		<u>1,555,095</u>	<u>905,982</u>

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

These financial statements were approved by the Local Council on the 28th March, 2013 and are signed on its behalf by:



Mr. Noel Galea
(Mayor)



Mr. Anthony Bonello
(Executive Secretary)

Statement of Changes in Equity for the year ended 31st December 2012

	Retained Funds €
Balance at 1st January 2011	433,329
Total comprehensive income for the year ended 31st December 2011	4,425
Balance at 31st December 2011	<u>437,754</u>
Balance at 1st January 2012	437,754
Total comprehensive income for the year ended 31st December 2012	(5,575)
Balance at 31st December 2012	<u>432,179</u>

Statement of Cash Flows for the year ended 31st December 2012

	<i>Note</i>	2012 €	2011 €
Cash flows from operating activities			
(Deficit)/ Surplus for the year		(5,575)	4,425
Adjustment for:			
Depreciation		88,638	46,247
Increase in provision for doubtful LES debtors		3,561	12,220
Grants released to income		(53,957)	(12,783)
Interest received		(537)	(602)
		<u>32,130</u>	<u>49,507</u>
Increase/(decrease) in payables		13,162	(25,280)
Decrease in receivables		7,752	55,654
<i>Net cash from operating activities</i>		<u>53,044</u>	<u>79,881</u>
Cash flow from investing activities			
Payment to acquire property, plant and equipment		(633,583)	(209,951)
Interest received		537	602
<i>Net cash from investing activities</i>		<u>(633,046)</u>	<u>(209,349)</u>
Cash flow from financing activities			
Grants received during the year		506,374	173,151
<i>Net cash flows from financing activities</i>		<u>506,374</u>	<u>173,151</u>
Net increase in cash and cash equivalents		(73,628)	43,683
Cash and cash equivalents at beginning of the year		192,325	148,642
Cash and cash equivalents at the end of the year	14	<u>118,697</u>	<u>192,325</u>

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

Notes to the Financial Statements for the year ended 31st December 2012

1. General Information

Mqabba Local Council is the local authority of Mqabba setup in accordance with the Local Councils Act. The office of the Local Council is situated at 29, Triq il-Parrocca, Mqabba, Malta.

2. Accounting Policies and Reporting Procedures

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). The financial statements are prepared under the historical cost convention as modified to include fair values stated in the accounting policies below. These Financial Statements are prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the European Union and comply with the Local Councils Act Cap363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires the council to exercise its judgment in the process of applying its accounting policies (see Note 3 – Critical accounting estimates and judgments).

The principal accounting policies and reporting procedures used by the Local Council are as follows:

a. Revenue recognition

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

b. Local Enforcement System

Local Enforcement Income represents the income as it accrues from contraventions as controlled by the Local Enforcement System (L.E.S). The amount receivable from the Local Enforcement System is disclosed in the statement of financial position. A full provision for bad debts is accounted for receivables aged over two years. As from the 1st September 2011, the Council forms part of the Southern Regional Committee, which is responsible for the L.E.S income of the locality. The contract provides for a 10% administration fee payable to the Council for contraventions collected by the Council and remitted to the respective Regional Committees.

c. Financial instruments

The Council recognises a financial instrument in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Receivables are initially recognised at fair value plus transaction costs. Receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Council has transferred substantially all risks and rewards of ownership or has not retained control of the financial asset.

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

c. Financial instruments - continued

The Council assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. If there is objective evidence that an impairment loss on receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

At 31st December 2012, the carrying amounts of cash at bank, receivables, payables, and accrued expenses reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

d. Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment loss to date. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The present values of property, plant and equipment do not differ materially from those that would be determined by using fair values at the end of each reporting period.

Subsequent costs are included in the asset's carrying amount 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 Local Council and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

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:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

e. Government Grants

Government grants are accounted for on a systematic basis in the profit or loss over the periods necessary to match them with the related costs which they are intended to compensate. If such costs have already been incurred when the grant is made, or if there are no related cost, then the grant is accounted for when it becomes receivable.

f. 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 cost to sell and the value in use. Impairment losses are immediately recognised as an expense in the profit or loss.

g. 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 in the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit or loss.

h. Payables

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of the council's activities from suppliers. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

i. 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 currency. Transactions denominated in foreign currencies are translated into € using the rates of exchange prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

j. Profits and Losses

Only profits that were realized at the reporting date 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.

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

k. Cash and 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.

3. Critical accounting estimates and judgments

In the process of applying the council's accounting policies, the council has made no judgments which can significantly affect the amounts recognised in the financial statements.

At the reporting date, there were no key assumptions concerning the future, or any other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. Funds received from Central Government

	2012 €	2011 €
In terms of section 55 of the Local Councils Act (Cap 363)	248,246	237,569
Government Grants	966	466
Other Government Income	7,702	4,685
Grants released for the year (note 15)	<u>53,957</u>	<u>12,783</u>
	<u>310,871</u>	<u>255,503</u>

5. Income raised from Bye-Laws

	2012 €	2011 €
Income raised under Local Council Bye-Laws	<u>3,525</u>	<u>4,600</u>

6. Local Enforcement Income

	2012 €	2011 €
Fines, Penalties and fees	<u>1,961</u>	<u>15,025</u>

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

7. General Income

	2012 €	2011 €
Income from tender documents	797	793
Income from permits	128	135
Income from trenching works	-	5,936
Income from recharge of salaries	1,941	-
Contributions and donations	<u>3,015</u>	<u>5,853</u>
	<u>5,881</u>	<u>12,717</u>

8. Personal Emoluments

	2012 €	2011 €
Mayor's allowance	6,508	6,360
Councillors' allowances	6,400	6,280
Executive Secretary's salary and allowances	25,304	25,006
Employees' salaries	30,096	25,029
Social Security Contributions	<u>4,532</u>	<u>4,074</u>
	<u>72,840</u>	<u>66,749</u>

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

9. Operations and Maintenance

	2012 €	2011 €
Repairs and upkeep:		
Road and street pavements	10,834	8,104
Street signs	4,478	1,480
Road markings	478	525
	<u>15,790</u>	<u>10,109</u>
Contractual Services:		
Refuse collection	32,374	23,516
Bulky refuse collection	1,894	1,642
Road and Street Cleaning	19,537	21,387
Waste disposal	20,627	20,627
Cleaning and Maintenance of Public Conveniences	4,010	3,682
Cleaning and Maintenance of Parks and Gardens	3,320	3,649
Street lighting expenses	7,914	5,163
Local Enforcement System (L.E.S) Expenses	4,308	11,706
	<u>93,984</u>	<u>91,372</u>
	<u>109,774</u>	<u>101,481</u>

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

10. Administration and other expenditure

	2012 €	2011 €
Utilities	5,153	5,934
Other repairs and upkeep	546	1,410
Rent	2,096	1,398
National and International Memberships	233	123
Office Services	5,641	4,130
Travel	-	51
Transport	1,738	1,223
Information Services	4,466	6,694
Insurance	1,213	1,234
Professional services	13,290	12,471
Community and hospitality	14,872	16,314
Penalties	1,938	4,033
Sundry expenses	2,376	2,154
Depreciation	88,638	46,247
Increase in provision for doubtful L.E.S debtors	3,561	12,220
	<u>145,761</u>	<u>115,636</u>

11. Investment Income

	2012 €	2011 €
Bank interest	<u>562</u>	<u>446</u>

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

12a. Property, Plant and Equipment

Asset	Buildings	Office Furniture & Fittings	Plant & Machinery	Computer Equipment	Office Equipment	Urban Improvements	Traffic Signs/Lights	Construction Works	Special Projects	Total
	€	€	€	€	€	€	€	€	€	€
Cost										
As at 31st December 2010	106,324	19,327	6,986	7,740	8,218	311,517	3,962	602,600	360,680	1,427,354
Additions	-	890	-	1,119	6,790	39,111	-	154,390	-	202,300
As at 31 December 2011	106,324	20,217	6,986	8,859	15,008	350,628	3,962	756,990	360,680	1,629,654
Grants and other reimbursements										
As at 31 December 2010	-	-	-	2,637	-	255,231	-	32,956	360,680	651,504
Additions	-	-	-	-	-	-	-	-	-	-
As at 31 December 2011	-	-	-	2,637	-	255,231	-	32,956	360,680	651,504
Accumulated Depreciation										
As at 31 December 2010	8,186	7,697	1,103	3,328	5,363	41,286	3,962	202,633	-	273,578
Charge for the year	981	678	1,177	525	701	1,916	-	40,069	-	46,247
As at 31 December 2011	9,167	8,375	2,280	3,853	6,064	43,202	3,962	242,702	-	319,825
Net Book Value										
As at 31 December 2011	97,157	11,842	4,706	2,369	8,924	52,195	-	481,332	-	658,325

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

12h. Property, Plant and Equipment

Asset	Buildings €	Office Furniture & Fittings €	Plant & Machinery €	Computer Equipment €	Computer software €	Office Equipment €	Urban Improvements €	Traffic Signs/Lights €	Construction Works €	Special Projects €	Total €
Cost											
As at 31st December 2011	106,324	20,217	6,986	8,859	-	15,008	350,628	3,962	756,990	360,680	1,629,654
Additions	-	613	-	4,215	985	2,645	-	-	787,983	-	796,441
As at 31 December 2012	106,324	20,830	6,986	13,074	985	17,653	350,628	3,962	1,544,973	360,680	2,426,095
Grants and other reimbursements											
As at 31 December 2011	-	-	-	2,637	-	-	255,231	-	32,956	360,680	651,504
Additions	-	-	-	-	-	-	-	-	-	-	-
As at 31 December 2012	-	-	-	2,637	-	-	255,231	-	32,956	360,680	651,504
Accumulated Depreciation											
As at 31 December 2011	9,167	8,575	2,280	3,853	-	6,084	43,202	3,962	242,702	-	319,825
Charge for the year	972	877	941	4,744	21	2,093	5,220	-	73,770	-	88,638
As at 31 December 2012	10,139	9,452	3,221	8,597	21	8,177	48,422	3,962	316,472	-	408,463
Net Book Value											
As at 31 December 2012	96,185	11,378	3,765	1,840	964	9,476	46,975	-	1,195,545	-	1,366,129

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

13. Receivables

	2012 €	2011 €
Receivables (Note 13.1)	7,092	10,412
L.E.S receivables (Note 13.2)	3,329	11,421
Prepayments and accrued income	59,848	33,499
	<u>70,269</u>	<u>55,332</u>

Note 13.1

Receivables within credit period	1,164	-
Receivables not within credit period*	5,928	10,412
	<u>7,092</u>	<u>10,412</u>

* None of the receivables are at impaired status

The credit period on receivables (Note 13.1) is of 90 days. No interest is charged on receivables for the first 90 days from the date of request of payment. Thereafter, the Council may consider to impose an interest charge of 2% per annum on the outstanding balance. Allowances for doubtful debts are recognised against receivables after 730 days (two years). Receivables disclosed in (Note 13.1) include amounts (see below for aged analysis) that are past due at the end of the reporting date for which the Council has not recognised an allowance for doubtful debts, as these are still considered recoverable. The aging of receivables that are past due but not impaired are as follows;

	2012 €	2011 €
1 - 89 days	-	62
90 - 730 days	7,092	10,350
	<u>7,092</u>	<u>10,412</u>

Note 13.2

L.E.S receivables	96,941	101,472
Provision for L.E.S doubtful debts (reconciled in the next page)	(93,612)	(90,051)
	<u>3,329</u>	<u>11,421</u>

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

13. Receivables - cont.

	2012	2011
	€	€

Note 13.2 - cont.*Movement in the allowance for doubtful debts:*

Balance at beginning of the year	(90,051)	(77,831)
Movement in provision	<u>(3,561)</u>	<u>(12,220)</u>
Balance at the end of the year	<u>(93,612)</u>	<u>(90,051)</u>

The credit period on L.E.S receivables (Note 13.2) is of 60 days. As the system is controlled by the Central Government, the Council has no control on the charging of interest or the imposition of penalties. Allowances for doubtful debts are recognised against receivables after 730 days (two years). L.E.S receivables disclosed above (Note 13.2) include amounts (see below for aged analysis) that are past due at the end of the reporting date for which the Council has not recognised an allowance for doubtful debts, as these are still considered recoverable. The aging of L.E.S receivables that are past due but not impaired are as follows;

	2012	2011
	€	€
1 - 59 days	-	290
60 - 730 days	<u>3,329</u>	<u>11,131</u>
	<u>3,329</u>	<u>11,421</u>

14. Cash and Cash Equivalents

	2012	2011
	€	€
Bank balances	118,588	192,105
Cash in Hand	<u>109</u>	<u>220</u>
	<u>118,697</u>	<u>192,325</u>

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

15. Deferred income

Deferred income relates to grants received from Central Government by the Council. It is composed of an amount which is apportioned between short-term and long-term components. The short term component represents the amounts expected to be released in the next financial year.

	2012 €	2011 €
Deferred income as at 1st January	377,150	185,042
Amount increased during the year	532,624	204,891
Less amount released during the year ¹	(53,957)	(12,783)
Deferred income as at 31st December	<u>855,817</u>	<u>377,150</u>

	2012 €	2011 €
Non-current deferred income	767,666	353,269
Current deferred income ²	<u>88,151</u>	<u>23,881</u>
	<u>855,817</u>	<u>377,150</u>

1: Released amount during the year to the Statement of Comprehensive Income

2: Disclosed under Note 16

16. Trade and other payables

	2012 €	2011 €
Payables	196,226	67,871
Current deferred income	88,151	23,881
Accruals	<u>70,873</u>	<u>23,207</u>
	<u>355,250</u>	<u>114,959</u>

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

17. Capital commitments

At the end of the reporting period, the Council had future capital expenditure plans relating to road resurfacing. Some of these capital commitments will be financed by grants receivable in the next financial year. The capital commitments contracted by the Council as at accounting date are as follows;

	2012 €	2011 €
<u>Contracted for:</u>		
Property, plant and equipment	27,000	757,073

18. Related party transactions

Mqabba Local Council is ultimately controlled by the Central Government Local Councils Department.

Other related parties through ultimate control of the Central Government, but which have no control on the Mqabba Local Council include Water Services Corporation, Enemalta Corporation and Malta Environmental Planning Authority.

In the ordinary course of its operations, the Council received funds and income from the related parties. The Council's income reflected in the statement of comprehensive income comprises funds received from the Central Government amounting to € 310,871 (2011: € 255,503). The Council also received income derived from the Local Enforcement System amounting to € 1,961 (2011: € 15,025).

In the opinion of the Local Council's members, disclosure of related party transactions, which are generally carried out, is only necessary when the transactions effected have a material impact on the operating results and financial position of the Council.

19. Capital management policies and procedures**Capital Management**

The Council manages its capital to ensure that it will be able to continue as a going concern, while implementing the planned commitments and optimising government funding in the locality. The Council's overall strategy remains unchanged from 2011.

The capital structure of the Council consists of the working capital made of the net assets as disclosed in the statement of financial position. On an annual basis, the Council reviews the net working capital ratio ensuring that it is positive and the liquidity ratio ensuring that it is more than 1:1.20. The ratios as at the end of the reporting period were as follows:

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

19. Capital management policies and procedures - cont.

	2012 €	2011 €
Net working capital ratio and liquidity ratio		
Current Assets (a)	188,966	247,657
Current Liabilities (b) ¹	73,055	60,183
Net Working Capital (c = a - b)	<u>115,911</u>	<u>187,474</u>
Total assets (d)	1,555,095	905,982
Net Working Capital Ratio (c ÷ d)	0.07	0.21
Liquidity ratio (a ÷ b)	1.00 : 2.58	1.00 : 4.12
Categories of financial instruments		
<u>Financial assets</u>		
Cash and bank balances	118,697	192,325
Receivables	10,421	21,833
<u>Financial liabilities</u>		
Payables and accruals	267,099	91,078

¹ Amount is net of capital liabilities**20. Risk management objectives**

The Council is exposed to credit risk, liquidity risk and contractual maturity risk through its use of financial instruments which result from its operating and investing activities. The most significant financial risks to which the Council is exposed to are described below.

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

20. Risk management objectives - cont.**Credit risk**

The Council's exposure to credit risk is limited to the carrying amount of financial assets recognized at the date of the Statement of Financial Position (as disclosed in Notes 13 and 14, and as referred to hereunder), which arises from cash and cash equivalents and credit exposures from receivables as follows:

Receivables (Note 13.1)	€
L.E.S receivables (Note 13.2)	7,092
Prepayments and Accrued Income (Note 13)	3,329
Cash at bank (Note 14)	59,848
	118,588

L.E.S receivables relate to sentenced cases arising from contraventions which are legally due to the Council. The credit risk exposure is high on L.E.S receivables as the Council has no control on such collectables. The amount disclosed of €3,329 represents 3.00% of the total L.E.S receivables of €96,941 (100%), after deducting the provision for bad debts of €93,612 (96.00%).

Receivables arise from legal obligations due to the Council by third parties. The credit risk exposure is considered low as the Council is in direct contact with such debtors. Accrued income represents income receivable from Government and related agencies. Their relative credit exposure is considered low. The maximum exposure to credit risk at the end of the reporting period in respect of the financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective note to the financial statements and there is no collateral to secure such assets.

Cash at bank relates to balances held as savings accounts placed with a local reliable financial institution. The credit risk exposure in this respect is considered low.

Liquidity risk

The Council's exposure to liquidity risk arises from its obligations to meet financial liabilities, which comprise of trade and other payables. The Council monitors and manages its liquidity risk to a shortage of funds by maintaining sufficient cash and cash at bank, and by monitoring the availability of raising funds to ensure adequate amounts of funding to meet the obligations when they become due.

Foreign currency risk

Most of the Council's transactions are carried out in Euro. Exposure to foreign currency exchange rates arise from the Council's transactions in foreign currency. There were no figures translates from foreign currency to Euro as at the date of the Statement of the Financial Position, thus putting the foreign currency risk at nil.

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

20. Risk management objectives - cont.**Contractual maturity risk**

The Council's remaining contractual maturities for its non-derivative financial liabilities with agreed payment periods are disclosed below. The contractual maturities are based on the earliest date on which the Council can be required to pay.

	Within 1 year	1 year - 3	Total
	€	years	€
<u>Contracted for:</u>			
Property, plant and equipment	27,000	-	27,000

The maturity dates as at 31st December, 2012 of the contracts consented by the Council are within one year. Contracts' terms do not impose any interest or penalties if such contracts are terminated.

Fair value of financial assets and financial liabilities

At 31st December 2012, the fair value of non-current financial assets and non-current financial liabilities are not materially different from the carrying amounts.