

Notes to the Financial Statements for the year ended 31 December 2014

1. General Information

Munxar Local Council is the local authority of Munxar setup in accordance with the Local Councils Act. The office of the Local Council is situated at Triq Prof. Guze Aquilina, Munxar.

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.

a. Accounting convention

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 to the requirements of International Financial Reporting Standards as adopted by the EU and comply with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996.

b. Standards, amendments and interpretations to existing standards

Annual Improvements: 2014 made several minor amendments to a number of IFRSs. None of the changes to IFRSs and interpretations has had, or is expected to have, a material impact on the council's financial statements.

New and amended standards adopted by the council

Information on new standards, amendments and interpretations that are relevant to the Council's financial statements is provided below. Certain other new standards and interpretations have been issued but are not relevant and therefore are not expected to have any impact on the council's financial statements.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities specifically clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The amendments require retrospective application. The amendments are effective for annual periods beginning on or after 1 January 2014.

IFRS 11 Joint Arrangements

IFRS 11 classifies joint arrangements on the basis of their substance by focusing on the rights and obligations of the arrangement, rather than its legal form. Under IFRS 11, joint arrangements are classified as joint ventures or as joint operations. Joint ventures are accounted for using the equity method of consolidation since the use of proportionate consolidation for such arrangements has been eliminated. Joint operations are accounted for in a manner that is similar to the current accounting treatment applicable for jointly controlled assets and jointly controlled operations. The standard is effective for annual periods beginning on or after 1 January 2014.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

These amendments to IAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014.

Notes to the Financial Statements for the year ended 31 December 2014 – continued

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the council.

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the council. These include the following:

The IASB issued 'Annual Improvements 2010-2012 cycle', a collection of amendments to IFRSs, in response to issues addressed during the 2010–2012 cycle. Five standards are primarily affected by the amendments, with consequential amendments to numerous others. The amendments are effective for annual periods beginning on or after 1 July 2014.

IFRS 9 Financial Instruments – This standard represents the completion of the classification and measurement part of the IASB's project to replace IAS 39. This Standard addresses the classification and measurement of certain financial assets and financial liabilities. IFRS 9 requires financial assets that fall due within its scope to be classified on the basis of the entity's business model for managing the financial assets and 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 the 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 the profit or loss. This standard is applicable for annual periods beginning on or after 1 January 2018.

The IASB issued 'Annual Improvements 2011-2013 cycle', a collection of amendments to IFRSs, in response to issues addressed during the 2011–2013 cycle. The issues included in this cycle are Meaning of effective IFRSs (IFRS 1); Scope exceptions for joint ventures (IFRS 3); Scope of paragraph 52 (IFRS 13); and Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner occupied property. The amendments are effective for annual periods beginning on or after 1 July 2014.

Council members anticipate that all of the relevant pronouncements will be adopted in the council's accounting policies for the first period beginning after the effective date of the pronouncement and that they will have no material impact on the financial statements in the period of initial application.

c. 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 statement of comprehensive income as it accrues.

d. Local Enforcement System

Munxar Local Council forms part of the Gozo Regional committee. During 2014 the amount disclosed in the financial statements under Local Enforcement Income represents the administrative fee of 10% that is chargeable to the Regional Committees for contraventions paid at the Council

e. Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment loss 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

Notes to the Financial Statements for the year ended 31 December 2014 – continued

e. Property, Plant and Equipment – continued

	%
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
Road and traffic 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 financial reporting 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 Local 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.

f. Government Grants

Government grants are accounted for on the Income Approach according to IAS 20. They are accounted for on a systematic basis in the Statement of Comprehensive Income 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.

g. 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 Statement of Comprehensive Income.

h. 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 amounts 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 Statement of Comprehensive Income.

Notes to the Financial Statements for the year ended 31 December 2014 – continued

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 Euro, which is the Council's functional and presentation currency.

j. Surplus and deficits

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 deficits 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.

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.

l. Related parties

Related parties are those persons or bodies of persons having relationships with the Council as defined in IAS 24.

During the year under review, the Local Council's related party that exercises a significant control was the Department for Local Government. The parties that exercise no control were Water Services Corporation and Malta Environment and Planning Authority whereas there was joint control with the Gozo Joint Committee.

m. Payables

Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not they are presented as non-current liabilities.

Amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the council.

n. Financial Instruments

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

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.

Notes to the Financial Statements for the year ended 31 December 2014 – continued

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 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'.

o. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS as adopted by the EU requires council members to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Use of available information and application of judgement are inherent in making estimates. Actual results in future could differ from such estimates and the differences may be material to the financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

In the opinion of the council members, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (revised).

Notes to the Financial Statements for the year ended 31 December 2014 – continued

Cost	Buildings & Improvements	Office Furniture /fittings	Computer & Office Equipment	Plant & Machinery	New Street Signs	Urban Improvements	Construction	Assets under construction	Special Programmes	Total
€	€	€	€	€	€	€	€	€	€	€
At 1 January 2014	3,736	15,223	41,794	1,210	3,785	91,581	142,060	52,170	821,503	1,173,062
Additions	-	360	2,662	-	-	-	22,682	-	473,935	499,639
Movements during the year	-	-	-	-	-	-	-	(52,170)	52,170	-
At 31 December 2014	3,736	15,583	44,456	1,210	3,785	91,581	164,742	-	1,347,608	1,672,701
Grants and other reimbursements										
At 1 January 2014	-	-	-	-	-	-	-	-	(202,470)	(202,470)
Received during the year	-	-	-	-	-	-	-	-	-	-
At 31 December 2014	-	-	-	-	-	-	-	-	(202,470)	(202,470)
Accumulated Depreciation										
At 1 January 2014	(533)	(9,173)	(33,535)	(788)	(3,785)	(23,989)	(65,774)	-	(244,125)	(381,702)
Charge for the year	(32)	(462)	(2,208)	(84)	-	(7,280)	(8,085)	-	(80,229)	(98,380)
At 31 December 2014	(565)	(9,635)	(35,743)	(872)	(3,785)	(31,269)	(73,859)	-	(324,354)	(480,082)
At 31 December 2014	3,171	5,948	8,713	338	-	60,312	90,883	-	820,784	990,149

Notes to the Financial Statements for the year ended 31 December 2014 - continued

3b Property, Plant and Equipment

Cost	Buildings & Improvements	Office Furniture /fittings	Computer & Office Equipment	Plant & Machinery	New Street Signs	Urban Improvements	Construction	Assets under construction	Special Programmes	Total
€	€	€	€	€	€	€	€	€	€	€
At 1 January 2013	3,736	15,115	38,310	1,210	3,785	91,581	142,060	109,199	611,234	1,016,230
Additions	-	108	3,484	-	-	-	-	32,100	121,140	156,832
Reclassifications	-	-	-	-	-	-	-	(89,129)	89,129	-
At 31 December 2013	3,736	15,223	41,794	1,210	3,785	91,581	142,060	52,170	821,503	1,173,062
Grants and other reimbursements										
At 1 January 2013	-	-	-	-	-	-	-	-	(202,470)	(202,470)
Received during the year	-	-	-	-	-	-	-	-	-	-
At 31 December 2013	-	-	-	-	-	-	-	-	(202,470)	(202,470)
Accumulated Depreciation										
At 1 January 2013	(501)	(8,684)	(31,580)	(683)	(3,785)	(23,679)	(59,017)	-	(206,639)	(334,568)
Charge for the year	(32)	(489)	(1,955)	(105)	-	(310)	(6,757)	-	(37,486)	(47,134)
At 31 December 2013	(533)	(9,173)	(33,535)	(788)	(3,785)	(23,989)	(65,774)	-	(244,125)	(381,702)
At 31 December 2013	3,203	6,050	8,259	422	-	67,592	76,286	52,170	374,908	588,890