



**NAXXAR LOCAL COUNCIL  
REPORT AND FINANCIAL STATEMENTS  
For the year ended 31 December 2013**

*Prepared by Romina Perici Ferrante B. Com, B.A. Hons (Mgt), F.I.A., C.P.A.  
Certified Public Accountant  
16, Triq San Ġwann,  
Mosta MST 3603.*



**NAXXAR LOCAL COUNCIL  
REPORT AND FINANCIAL STATEMENTS  
For the year ended 31 December 2013**

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**NAXXAR LOCAL COUNCIL  
STATEMENT OF LOCAL COUNCIL MEMBERS' AND  
EXECUTIVE SECRETARY'S RESPONSIBILITIES**

The Local Council (Financial) Regulations, 1993, 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 Local Council's retained funds at the end of the 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 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, 1993, and the Local Council (Financial) Procedures, 1996 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, CAP 363, the Local Councils (Financial) Regulations, 1993, and the Local Councils (Financial) Procedures, 1996. 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 5/5/14 and signed on its behalf by:



Dr. Maria F. Deguara  
Mayor

Date: 5/5/14



Mr. Paul Gatt  
Executive Secretary

## **LOCAL COUNCIL NAXXAR**

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

We have audited the accompanying financial statements of LOCAL COUNCIL NAXXAR, which comprise the statement of financial position on page 7 as of 31<sup>st</sup> December 2013, and 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.

#### ***Council's Responsibility for the Financial Statements***

The Council Members and the Executive Secretary are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' 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 judgment, 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 entity's 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 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 Members and the Executive Secretary, 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 qualified audit opinion.

#### **Basis for Qualified Opinion**

In accordance with the Local Enforcement System (LES) issued by the Ministry by virtue of Article 72 of the Local Councils Act, 1993, the income relating to contraventions was delegated to the local Councils through Legal Notice 32 of 2000. The Council entered into a pooling agreement with a number of local councils within the Local Enforcement System and formed a Joint Committee to manage and administer this function up to September 2011, when this was delegated to Regional Committees. Due to the fact that no proper audited financial statements have been prepared by the Joint Committee, we could not obtain reasonable assurance on the completeness of the share of income, which amounted to € 2,050 for the year under review, that has been recorded in the financial statements as well as on any possible accrued income or liabilities present as at end of the current financial year.

The Council maintains a fixed asset register to record fixed assets acquired by it. However a number of assets have been incorrectly categorized with the consequence that an incorrect depreciation rate has been applied and recognised in the financial statements. Whilst we are of the opinion that there are material misstatements in the depreciation provision and charge for the year, there were no practicable procedures to arrive to the exact amount of misstatement in the depreciation provision and depreciation charge for the year.

International Financial Reporting Standards require that all applicable standards and their disclosure requirements are complied with in the preparation of financial statements. These financial statements lack appropriate disclosure in line with the requirements of IAS 24- Related Party Disclosure in relation to disclosure of related party transactions (apart from the annual financial allocation) with Department of Local Government/Central Government as well as related party transactions with the North Joint LES Committee and North Regional Committee. Furthermore the disclosure undertaken with respect to the capital commitments of the Council are understated by € 89,900. Additionally, the Council failed to properly disclose intangible assets of the Council as well as the Council's policy in relation to intangible assets in line with the requirements of IAS 38-Intangible Assets.

### **Qualified Opinion**

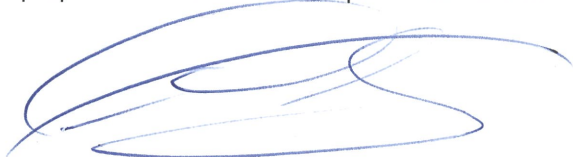
In our opinion, except for the effect on the financial statements of the matters referred to in the Basis for Qualified Opinion paragraphs, the financial statements give a true and fair view of the financial position of the Council as of 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### ***Opinion on Other Legal and Regulatory Requirements***

These financial statements do not comply fully with the Local Council (Financial) Procedures, 1996.

According to the Financial Procedures supplementing the Financial Regulations issued in terms with the Local Councils Act 1993, the financial statements should include the budget for the year. In line with Local Councils' generally accepted reporting procedures, the budget has been excluded from these financial statements.

The Local Council (Financial) Procedures, 1996, require that the financial statements should be prepared in accordance with the International Financial Reporting Standards. In view of the matters set out in paragraph three under the basis for qualified opinion above, these financial statements have not been prepared in line with the requirements of International Financial Reporting Standards.



This copy of the report has been signed by  
Neville Cutajar (Partner) on its behalf

**3a**

Certified Public Accountants  
The Penthouse, Level 3  
Palazzo Ca' Brugnara  
Valley Road  
Birkirkara BKR9024  
Malta

**Date 5<sup>th</sup> May 2014**

**NAXXAR LOCAL COUNCIL**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 31 December 2013**

		2013	2012
	Notes	Euro	Euro
<b>INCOME</b>			
Funds received from Central Government	3	881,195	872,207
Income raised under Law Enforcement system	4	2,050	0
Income raised under Local Council Bye-Laws	5	5,766	9,092
General income	6	<u>80,650</u>	<u>44,884</u>
		<u>969,661</u>	<u>926,183</u>
<b>EXPENDITURE</b>			
Personal emoluments	7	(143,961)	(134,049)
Operations and maintenance	8	(397,100)	(397,948)
Administration and other expenditure	9	<u>(363,101)</u>	<u>(348,510)</u>
		<u>(904,162)</u>	<u>(880,507)</u>
<b>OPERATING PROFIT FOR THE YEAR</b>		65,499	45,676
Finance income	10	<u>6,967</u>	<u>12,189</u>
<b>PROFIT FOR THE YEAR</b>		<u>€ 72,466</u>	<u>€ 57,865</u>

The notes on page 10 to 30 form an integral part of these financial statements

**NAXXAR LOCAL COUNCIL  
STATEMENT OF FINANCIAL POSITION  
As at 31 December 2013**

	Notes	31 December 2013	31 December 2012
		Euro	Euro
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	11	<u>1,375,988</u> <u>1,375,988</u>	<u>1,256,050</u> <u>1,256,050</u>
<b>Current Assets</b>			
Inventories	12	1,067	1,094
Trade and other receivables	13	78,212	148,403
Cash and cash equivalents	14	<u>384,778</u>	<u>291,205</u>
<b>Total Current Assets</b>		<u>464,057</u>	<u>440,702</u>
<b>TOTAL ASSETS</b>		<u>€ 1,840,045</u>	<u>€ 1,696,752</u>
<b>RESERVES AND LIABILITIES</b>			
<b>Reserves</b>			
Retained earnings		<u>1,259,170</u>	<u>1,186,704</u>
<b>Total equity</b>		<u>1,259,170</u>	<u>1,186,704</u>
<b>Non-Current Liabilities</b>			
Deferred Income	15	283,061	195,948
<b>Current Liabilities</b>			
Trade and other payables	16	<u>297,814</u>	<u>314,100</u>
<b>Total Liabilities</b>		<u>580,875</u>	<u>510,048</u>
<b>TOTAL RESERVES AND LIABILITIES</b>		<u>€ 1,840,045</u>	<u>€ 1,696,752</u>

The notes on pages 10 to 30 form an integral part of these financial statements

These financial Statements were approved by the Local Council on the 5/5/14  
and signed on its behalf by:

  
Dr. Maria F. Deguara  
Mayor

  
Mr. Paul Gatt  
Executive Secretary

**NAXXAR LOCAL COUNCIL**  
**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2013**

	Retained Funds Euro
At 1 January 2012	1,128,839
Profit for the year	<u>57,865</u>
At 31 December 2012	<u>1,186,704</u>
At 1 January 2013	1,186,704
Profit for the year	<u>72,466</u>
At 31 December 2013	<u>1,259,170</u>



**NAXXAR LOCAL COUNCIL**  
**STATEMENT OF CASH FLOWS**  
**For the year 1 January to 31 December 2013**

		2013		2012	
	Notes	€	€	€	€
<b>Profit for the year</b>		72,466		57,865	
<b>Adjustments for:</b>					
Depreciation		145,158		167,156	
Movement in Provision for Bad Debts		38,389		(27,293)	
Interest receivable		<u>(6,967)</u>		<u>(10,580)</u>	
<b>Operating Profit before working capital changes</b>		249,046		187,148	
Decrease in Inventories		27		33	
Decrease in Receivables		34,437		114,006	
(Decrease) in Payables		(1,590)		(18,714)	
Government Grant released		<u>(23,635)</u>		<u>(22,361)</u>	
<b>Cash generated from operating activities</b>			258,285		260,112
<b>Cash flows from investing activities</b>					
Interest received		4,332		4,162	
Purchase of property, plant and equipment		(249,902)		(279,590)	
Investments		0		150,000	
Grants received		<u>80,858</u>		<u>46,818</u>	
<b>Cash (used in) investing activities</b>			<u>(164,712)</u>		<u>(78,610)</u>
<b>Net Increase in cash in the year</b>			93,573		181,502
Cash and cash equivalents at the beginning of the year			291,205		109,703
<b>Cash and cash equivalents at end of year</b>	14		<u>384,778</u>		<u>291,205</u>

The notes on page 10 to 30 form an integral part of these financial statements.

**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the period 1 January to 31 December 2013**

**1. GENERAL INFORMATION**

Naxxar Local Council is the local authority of Naxxar, setup in accordance with the Local Councils Act 1993. The office of the Council is situated at Civic Centre, 21st September Avenue, Naxxar, NXR 1018. The Local Council's presentation as well as the functional currency are denominated in €. The financial statements were authorised for issue by the Council on the \_\_\_\_\_.

**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).

**During the year under review, the Council has applied the following International Financial Reporting Standards as adopted by the EU:**

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 entities to group together items within other comprehensive income that may be reclassified to the profit or loss section of the Statement of Comprehensive Income. 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.

**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

On 12 May 2011, the IASB issued IFRS 13 Fair Value Measurement. The 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 IFRSs. The Standard is applicable for annual periods beginning on or after 1 January 2013.

Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) was issued in December 2011. These amendments require entities to disclose information so that users of its financial statements are able to evaluate the effect or potential effect of netting arrangements and similar agreements on the entity's financial position. It is required to be applied for annual periods beginning on or after 1 January 2013.

In March 2012 the IASB issued IFRS 1 amendments for government loans with a below-market rate of interest when transitioning to IFRSs. The amendment is effective for Annual periods beginning on or after 1 January 2013.

In May 2012, the IASB issued Annual Improvements 2009-2011 Cycle, a collection of amendments to IFRSs, in response to six issues addressed during the 2009-2011 cycle, as its latest set of annual improvements. The amendments reflect issues discussed by the IASB during the project cycle that began in 2009, and that were subsequently included in the exposure draft of proposed amendments to IFRSs, Improvements to IFRSs (published in June 2011). The issues included in this cycle are: Repeated application of IFRS 1 (IFRS 1); Borrowing Costs (IFRS 1); Clarification of the requirements for comparative information (IAS 1); Classification of servicing equipment (IAS 16); Tax effect of distribution to holders of equity instruments (IAS 32); and interim financial reporting and segment information for total assets and liabilities (IAS 34). The amendments are effective for annual periods beginning on or after 1 January 2013.

**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.**

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) was issued in December 2011. The amendments clarify (a) the meaning of 'currently has a legally enforceable right of set-off'; and (b) that some gross settlement systems would be considered equivalent to net settlement if they eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process or cycle. The amendment is required to be applied for annual periods beginning on or after 1 January 2014.

On 29 May 2013 the IASB published Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36). These amendments to IAS 36 Impairment of Assets 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.

**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

On 27 June 2013 the IASB published narrow-scope amendments to IAS 39 Financial Instruments: Recognition and Measurement entitled Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39). These amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).

**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 adopted by the EU 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 2015. 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.

On 20 May 2013, IFRIC 21 Levies was issued. IFRIC 21 is applicable for annual periods beginning on or after 1 January 2014. IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

On 21 November 2013 the IASB published narrow scope amendments to IAS 19 Employee Benefits entitled Defined Benefit Plans: Employee Contributions (Amendments to IAS 19). These amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective from 1 July 2014 with earlier application permitted.

**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

In December 2013, the IASB issued Annual Improvements to IFRS 2010-2012 Cycle, a collection of amendments to IFRSs, in response to eight issues addressed during the 2010-2012 cycle. The amendments reflect issues discussed by the IASB during the project cycle that began in 2010, and that were subsequently included in the exposure draft of proposed amendments to IFRSs Annual Improvements to IFRSs 2010-2012 Cycle (published in May 2012). The issues included in this cycle are: Definition of 'vesting condition' (IFRS 2); Accounting for contingent consideration in a business combination (IFRS 3); Aggregation of operating segments (IFRS 8); Reconciliation of the total of the reportable segments' assets to the entity's assets (IFRS 8); Short term receivables and payables (IFRS 13); Interest paid that is capitalised (IAS 7); Revaluation method – proportionate restatement of accumulated depreciation (IAS 16 and IAS 38); and Key management personnel services (IAS 24). The amendments are effective for annual periods beginning on or after 1 July 2014.

The Council is 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 Council anticipates 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 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	0.0
Trees	0.0
Buildings	1.0
Office Furniture and Fittings	7.5
Construction works	10.0
Urban Improvements (street furniture)	10.0
Special Programs (Projects)	10.0
Office Equipment	20.0
Motor Vehicles	20.0
Plant and Machinery	20.0
Computer Equipment	25.0
Plants	100.0
Litter Bins	Replacement Basis
Playground Furniture	100.0
Traffic Signs	Replacement Basis
Road Signs	Replacement Basis
Street Mirrors	Replacement Basis
Street Lights	100.0

**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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.

***Related parties***

Related parties are those persons or bodies of persons having relationships with the Council as defined in IAS 24. The paragraphs adopted from IAS 24 are paragraphs 25 – 27, being amendments to government related entities' disclosures.

***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 Income and Expenditure.

***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 income statement on a straight-line basis over the period of the lease.

***Amounts Receivable***

Amounts receivable are recognized initially at fair value and subsequently measured at amortized 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 receivable. 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 recognized in the Statement of Income and Expenditure.

**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

***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 income statement as it accrues.

***Payables and Borrowings***

Payable and Borrowing Costs are recognised as an expense in the period in which they are incurred. Amounts payable comprise creditor payments, that is, the amounts payable for the procurement of supplies and services. When an invoice or request for payment is received from a supplier, this is checked to the purchase order previously issued or the services contract, before payment is release in favour of any vendor. All cheque payments are signed by the Mayor and Executive Secretary and then reconciled with the bank statements on a monthly basis.

***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.

***Inventories***

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

***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 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.

**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

***Local Enforcement System***

Naxxar Local Council formed part of the North Joint Committee from September 2002 until August 2011. The amount disclosed in the financial statements under Local Enforcement Income represents the share of profit derived from the Joint Committee after deducting the related expenses, together with penalties issued for Pre-Pooling Debtors. As from September 2011, the Naxxar Local Council now forms part of the North Region for Local Enforcement.

***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 Policies and Procedures***

The Council's capital consists of its net assets, including working capital, represented by its retained funds. The Council's management objective 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 this, the Council carries out a quarterly review of the working capital ratio (Financial Situation Indicator). This ratio was positive at the reporting date. 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.

***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 transaction 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:



**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS (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 a counter party 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.

The Naxxar Local Council had invested in La Valette Euro Malta Money Fund, having a holding of 52,237.506 shares and as at 27th January 2012, these were valued at €2.893 per share. These were subsequently disposed of in May 2012 and proceeds deposited into Fixed Accounts with a local bank.

***Financial Liabilities***

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

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

**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**3. FUNDS RECEIVED FROM CENTRAL GOVERNMENT**

	2013 Jan-Dec Euro	2012 Jan-Dec Euro
In terms of Section 55 of the Local Councils Act, 1993	826,235	842,704
Government Grant Income	23,635	22,361
Other Government Income	<u>31,325</u>	<u>7,142</u>
	<u>881,195</u>	<u>872,207</u>

**4. LOCAL ENFORCEMENT INCOME**

	2013 Jan-Dec Euro	2012 Jan-Dec Euro
Contraventions and Other fines	<u>2,050</u>	<u>0</u>
	<u>€ 2,050</u>	<u>€ 0</u>

**5. INCOME RAISED UNDER LOCAL COUNCIL BYE-LAWS**

	2013 Jan-Dec Euro	2012 Jan-Dec Euro
Bye-Laws – Signs	1,072	908
Community Services incl. organisation of Courses	<u>4,694</u>	<u>8,184</u>
	<u>€ 5,766</u>	<u>€ 9,092</u>

**6. GENERAL INCOME**

	2013 Jan-Dec	2012 Jan-Dec
Library Services	0	466
Cultural Events	3,493	846
Sponsorships	0	3,150
Football Ground Hire	28	140
Hire of Council Hall	473	674
General Income	6,162	302
Tables and chairs	1,785	1,692
Tender Documents/Info. Charges	1,714	2,249
Media Advertising	868	6,138
Contributions and Donations	1,478	7,405
Admin fee re Collection of Recyclable waste	2,080	2,080
Admin fee re Regional Committees	7,562	8,700
Income from Water Services	40,249	150
Income from Permits	<u>14,758</u>	<u>10,892</u>
	<u>€ 80,650</u>	<u>€ 44,884</u>

**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**7. PERSONAL EMOLUMENTS**

	2013 Jan-Dec	2012 Jan-Dec
Personal Emoluments include, <i>inter alia</i>		
Mayor's Honoraria	10,055	9,808
Councillors' Allowances	10,050	11,154
Executive Secretary Salary and Allowances	31,668	31,213
Employees' Salaries	82,937	73,322
Social Security Contributions	9,251	8,552
	<u>€ 143,961</u>	<u>€ 134,049</u>

**8. OPERATIONS AND MAINTENANCE EXPENSES**

Operations and maintenance includes, *inter alia*

	2013 Euro	2012 Euro
<b>REPAIRS AND UPKEEP</b>		
Repairs to Public Property	3,837	364
Road/Street pavements	46,862	24,649
Signs	3,357	1,704
Road Markings	2,193	1,556
Office furniture & equipment	206	208
Plant & Equipment	0	275
Bus shelters	260	0
Litter Bins	4,299	0
Other repairs & Upkeep	3,265	2,827
Council Property	37	375
	<u>64,316</u>	<u>31,958</u>
<b>CONTRACTUAL SERVICES</b>		
Waste Disposal	0	2,256
Refuse collection	81,527	81,436
Bulky refuse collection	11,578	10,757
Separated Waste Collection	83,019	83,108
Open Skips	210	325
Road & Street Cleaning	67,700	66,529
Cleaning and maintenance Non-Urban	15,438	21,612
Cleaning and maintenance Public Conveniences	11,239	12,161
Cleaning Council Premises	5,280	5,059
Cleaning & Mtce. Parks & Gardens	38,555	47,415
Cleaning & Mtce. Beaches	0	21,777
Street Lighting	16,894	9,865
Experts	0	200
Lease of Equipment	0	1,063
Support Service	354	0
LES related expenditure	990	2,427
	<u>332,784</u>	<u>365,990</u>
<b>TOTAL OPERATIONS AND MAINTENANCE EXPENSES</b>	<u>397,100</u>	<u>397,948</u>

**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

	2013 Jan-Dec Euro	2012 Jan-Dec Euro
<b>9. ADMINISTRATIVE AND OTHER EXPENSES</b>		
Utilities	22,838	21,116
Other repairs & Upkeep	5,227	3,874
Rent	1,485	2,393
National and International Memberships	473	396
Office Services	7,578	23,144
Transport	3,331	3,089
Information Services	16,308	9,118
Insurance Coverage	2,942	2,800
Bank Charges	73	467
Professional Services	67,288	70,426
Tuition for courses and expenses	11,859	13,108
Conference Expenses	1,215	554
Visits – Foreign Delegations	0	1,063
Other Hospitality Costs	249	2,082
Annual General Meeting	109	158
Social Events	3,426	26,731
Twinning Expenses	2,099	835
Cultural Events	14,309	0
Community Services	284	0
Staff Training	120	0
Sundry Minor Expenses	11	0
Provision for Doubtful Debtors	38,389	(27,293)
Bad Debts write off	18,330	27,293
Depreciation	<u>145,158</u>	<u>167,156</u>
	<b><u>363,101</u></b>	<b><u>348,510</u></b>
	2013 Jan-Dec Euro	2012 Jan-Dec Euro
<b>10. FINANCE INCOME</b>		
Bank Interest Receivable	<u>6,967</u>	<u>12,189</u>

**NAXXAR LOCAL COUNCIL  
NOTES TO THE FINANCIAL STATEMENTS (continued)**

**11. PROPERTY, PLANT AND EQUIPMENT**

	Property €	Assets under Construction €	Street Signs & Lights €	Trees €	Urban Improvements & Construction €	Plant, machinery & equipment €	Office Furniture & fittings €	Special Programmes €	Total €
<b>Cost</b>									
At 1 January 2013	23,296	21,422	50,960	47,806	702,511	109,082	44,670	2,571,190	3,570,937
Additions/Capitalisations	0	9,132	10,016	0	103,155	4,070	7,617	131,106	265,096
Reclassification	0	0	0	0	(136,811)	0	0	136,811	0
Disposals/Capitalisations	0	0	(49,838)	0	0	0	0	0	(49,838)
At 31st December 2013	23,296	30,554	11,138	47,806	668,855	113,152	52,287	2,839,107	3,786,195
<b>Depreciation</b>									
At 1 January 2013	1,247	0	49,838	0	666,614	84,582	26,826	588,953	1,418,060
Reclassification					(323,873)	(420)	(518)	324,811	0
Charge for the period	220		1,215	0	11,652	6,521	1,861	123,689	145,158
Released on disposal			(49,838)						(49,838)
At 31st December 2013	1,467	0	1,215	0	354,393	90,683	28,169	1,037,453	1,513,380
<b>Grants</b>									
At 1 January 2013	-	-	-	-	-	-	-	896,827	896,827
Transferred									0
At 31st December 2013	0	0	0	0	0	0	0	896,827	896,827
<b>Net Book Value</b>									
At 31st December 2013	21,829	30,554	9,923	47,806	314,462	22,469	24,118	904,827	1,375,988

NAXXAR LOCAL COUNCIL  
NOTES TO THE FINANCIAL STATEMENTS (continued)

11. PROPERTY, PLANT AND EQUIPMENT (cont.)

	Property €	Assets under Construction €	New Street Signs €	Urban Improvements & Construction €	Plant, machinery & equipment €	Office Furniture & fittings €	Special Programmes €	Total €
<b>Cost</b>								
At 1 January 2012	23,296	6,711	48,183	712,697	98,526	44,670	2,315,739	3,249,822
Additions/Capitalisations	0	14,711	2,777	37,620	10,556	0	255,451	321,115
Reclassification	0	0	0	0	0	0	0	0
Disposals/Capitalisations	0	0	0	0	0	0	0	0
At 31st December 2012	23,296	21,422	50,960	750,317	109,082	44,670	2,571,190	3,570,937
<b>Depreciation</b>								
At 1 January 2012	1,024	0	48,183	517,207	78,610	25,293	580,587	1,250,904
Charge for the period	223		1,655	149,407	5,972	1533	8,366	167,156
Released on disposal								0
At 31st December 2012	1,247	0	49,838	666,614	84,582	26,826	588,953	1,418,060
<b>Grants</b>								
At 1 January 2012	-	-	-	-	-	-	896,827	896,827
Transferred							0	0
At 31st December 2012	0	0	0	0	0	0	896,827	896,827
<b>Net Book Value</b>								
At 31st December 2012	22,049	21,422	1,122	83,703	24,500	17,844	1,085,410	1,256,050

**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**12. INVENTORIES**

	2013 Jan-Dec	2012 Jan-Dec
Inventories – Books	€ 1,067	€ 1,094

**13. TRADE AND OTHER RECEIVABLES**

	2013 Jan-Dec Euro	2012 Jan-Dec Euro
Receivables	29,585	113,286
Prepayments and accrued income	<u>48,627</u>	<u>35,117</u>
	<u>78,212</u>	<u>148,403</u>

**Receivables**

General receivables are analysed as follows:

	2013 Jan-Dec Euro	2012 Jan-Dec Euro
Within credit period	6,274	8,866
Exceeded credit period	80,030	104,420
Provision for doubtful debts	<u>(56,719)</u>	<u>0</u>
	<u>29,585</u>	<u>113,286</u>

Prepayments include prepayments of Local Council property rental and insurance premium.

**14. CASH AND CASH EQUIVALENT**

Cash and cash equivalents consist of cash in hand and balance with banks. Cash and cash equivalents included in the cash flow statement comprise the following amounts in the Local Council's Statement of Affairs:

	2013 Jan-Dec Euro	2012 Jan-Dec Euro
Cash in hand	355	200
Bank Balances	<u>384,423</u>	<u>291,005</u>
	<u>384,778</u>	<u>291,205</u>

**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**15. DEFERRED INCOME**

	<b>2013</b>	<b>2012</b>
	<b>Jan-Dec</b>	<b>Jan-Dec</b>
	<b>€</b>	<b>€</b>
<b>Government Grants</b>		
At beginning of year	217,666	193,209
(Decrease)/Increase in period	<u>115,842</u>	<u>46,818</u>
	333,508	240,027
Released in period	<u>(23,635)</u>	<u>(22,361)</u>
At end of year	<u>309,873</u>	<u>217,666</u>
 <b>Current Deferred Income</b>	 <u>26,812</u>	 <u>21,718</u>
 <b>Non-Current Deferred Income</b>	 <u>283,061</u>	 <u>195,948</u>
 <b>Deferred Government Grants</b>		
Deferred between one and two years	24,099	19,483
Deferred between two and five years	58,760	47,216
Deferred in five years or more	<u>200,202</u>	<u>129,249</u>
	<u>283,061</u>	<u>195,948</u>
 <b>Deferred after five years or more</b>		
Government Grants	<u>200,202</u>	<u>129,249</u>



**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**16. TRADE AND OTHER PAYABLES**

	<b>2013</b>	<b>2012</b>
	<b>Jan-Dec</b>	<b>Jan-Dec</b>
	<b>Euro</b>	<b>Euro</b>
Payables	194,065	222,255
Other payables	26,527	28,932
Accruals and deferred income	77,222	62,913
	<u>297,814</u>	<u>314,100</u>

Provisions include estimates for goods and services received prior to 31 December 2013 and for which invoices have not yet been received by the Local Council.

**17. CONTINGENT LIABILITIES**

The Council has the following pending court cases against it:

- a) Case with Tessa Anastasi whereby the plaintiff is claiming that a portion of land was expropriated from her without compensation.
- b) A liability exists with Wasteserv amounting to € 25,213 which is being disputed. This amount is being kept on hold from payment following a directive from the Local Council's Association.
- c) The Council also has an arbitration case with Gasan Mamo Insurance Limited, which claim is for €5,200.
- d) Case with Untours Limited whereby the plaintiff is claiming damages caused to their insured's vehicle as a result of an accident, which claim is for €6,500.
- e) Case with Fogg Insurance Limited whereby the plaintiff is claiming damages caused to their insured's vehicle as a result of an accident, which claim is for less than €800.

**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**18. CAPITAL COMMITMENTS**

	2013 Jan-Dec Euro	2012 Jan-Dec Euro
i-Capital expenditure that has been contracted for but Not provided for in the financial statements	50,000	86,106
ii- Capital expenditure that has been approved but not yet contracted for.	3,500	7,531

- i. The Capital expenditure that has been contracted for, but not included in these financial statements includes the resurfacing works in Sqaq Zenqa, Sqaq 1 & 2 in Triq is-Salib, Sqas 6 in Pjazza Vitorja and Sqaq 1 in Triq l-Imdina
- ii. The Capital expenditure that has been approved but not yet contracted for represents the project for better accessibility.

**19. RELATED PARTY TRANSACTIONS**

The Naxxar Local Council has the following related parties, exercising:

- i. Significant Control – The Department of Local Government
- ii. Joint Control – North Joint Committee for Local Enforcement, North Regional Committee for Local Enforcement, Street Lighting Joint Committee
- iii. No Control – Arms Ltd., Cleansing Services Department, Water Services Corporation, Enemalta Corporation, Inland Revenue Department, Malta Information Technology Agency, Director General-Works Division, Transport Malta, Gozo Regional Committee, South Regional Committee, South Eastern Regional Committee, Central Regional Committee, Police General Head Quarters, Malta Environment and Planning Authority, Bank of Valletta plc and WasteServ Malta Ltd.

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

	2013 Euro	2012 Euro
Annual Financial Allocation	826,235	842,704

**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

<u>Key Management Emoluments</u>		
Executive Secretary	31,733	31,015
Mayor's Honoraria	9,168	7,248
Mayor & Councillors' Allowances	10,050	11,154

**20. 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.

**21. 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 program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Council's financial performance.

*Market Risk*

The Council's interest rate risk arises from its deposits with financial institutions. The Council does not have any long term borrowings. 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.

*Credit Risk*

Financial assets which potentially subject the Council to concentrations of credit risk which are principally made up of cash at bank and debtors. The Council's cash is placed with a quality 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. Furthermore, credit risk is limited due to the fact that government-owned customers comprise a high percentage of the council's debtor base. LES Debtor balance has been provided for fully with an allowance for bad debts.

**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

The Council's exposure to credit risk is limited to the carrying amount of financial assets recognised at the end of the reporting period and is summarized as follows:

	<b>2013</b>	<b>2012</b>
	<b>€</b>	<b>€</b>
<b>Classes of financial assets - carrying amounts</b>		
Trade and other receivables	76,092	145,283
Cash and cash equivalents	<u>384,778</u>	<u>291,205</u>
	<u><b>460,870</b></u>	<u><b>436,488</b></u>

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

	<b>2013</b>	<b>2012</b>
	<b>Euro</b>	<b>Euro</b>
Amount invoiced not yet settled by class:		
Government Owned entities	28,349	103,197
Private entities	<u>6,096</u>	<u>10,089</u>
	<u><b>34,445</b></u>	<u><b>113,286</b></u>

The Council assesses the credit quality of its customers by taking into account their financial standing and past experience. The Council considers the credit quality of its financial assets as being acceptable.

**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

Included in the council's trade receivable there are no balances which are past due and which have not been provided for.

	2013 Euro	2012 Euro
31-60 days	3,810	5,733
61-90 days	1,347	1,946
91-180 days	1,117	1,188
181-365 days	5,440	14,271
Over 365 days	<u>22,731</u>	<u>90,148</u>
	<u>34,445</u>	<u>113,286</u>

*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*

Interest rate risk mainly arises through interest bearing liabilities and assets. The objective of interest rate risk management is to optimize the balance between minimizing uncertainty caused by fluctuations in interest rates and maximizing the net interest income and expense.

*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 € 384,778. This should ensure an ongoing working capital of the Council for the next 12 months. The Council also maintains a positive net asset position ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

**NAXXAR LOCAL COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013, the Council's financial liabilities have contractual maturities which are summarised below:

	Current within 1 year €	Non-Current 1 to 5 years €	Non-Current later than 5 years €
Payables	220,592	-	-
Accruals	<u>37,664</u>	<u>-</u>	<u>-</u>

This compares to the maturity of the Council's financial liabilities in the previous reporting period as follows:

	Current within 1 year €	Non-Current 1 to 5 years €	Non-Current later than 5 years €
Payables	251,187	-	-
Accruals	<u>29,896</u>	<u>-</u>	<u>-</u>

**22. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES**

The carrying amounts of the council's financial assets and liabilities as recognized at the reporting dates under review are categorized as follows:

	2013 €	2012 €
<b>Current assets</b>		
Loans and receivables:		
Trade and other receivables	76,092	145,283
Cash and cash equivalents	<u>384,778</u>	<u>291,205</u>
	<u>460,870</u>	<u>436,488</u>
<b>Current liabilities</b>		
Financial liabilities measured at amortised cost:		
Payables	220,592	251,187
Accruals	<u>37,664</u>	<u>29,896</u>
	<u>258,256</u>	<u>281,083</u>