

QALA LOCAL COUNCIL

Report and financial statements For the year ended 31 December 2012

Prepared by:

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QALA LOCAL COUNCIL

Annual Audit Report for the year ended 31 December 2012

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Annual Audit Report for the year ended 31 December 2012

Statement of Local Council Member's 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 Local Council's retained funds at the end of the year. By virtue of the same regulations it is duty of the 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 Councils (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, Local Councils (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Council and signed on its behalf on

2013 by:

Clint Camilleri
Mayor

Marcia Borg
Executive Secretary

QALA LOCAL COUNCIL

Statement of Comprehensive Income for the year ended 31 December 2012

	Note	2012 €	2011 €
Income			
Funds received from central government	3	294,267	273,110
General income	5	6,834	5,588
		<u>301,101</u>	<u>278,698</u>
Expenditure			
Personal emoluments	6	52,738	46,198
Operations and maintenance	7	68,286	71,572
Administration and other expenditure	8	129,052	133,469
		<u>250,076</u>	<u>251,239</u>
Operating income for the year		51,025	27,459
Finance income	4	267	266
Finance cost	9	(927)	(1,410)
Total comprehensive income for the year		<u>€ 50,365</u>	<u>€ 26,315</u>

QALA LOCAL COUNCIL

Statement of Financial Position at 31 December 2012

		31 Dec 2012	31 Dec 2011
Assets	Note	€	€
Non-current assets			
Property, plant and equipment	10	542,275	480,112
Current Assets			
Receivables	11	31,443	28,272
Cash and cash equivalents	12	255,512	283,940
		286,955	312,212
Total assets		€ 829,230	€ 792,324
Reserves and liabilities			
Reserves			
Retained funds		488,088	437,723
Non Current liabilities			
Deferred Income	13	184,656	153,935
Long term borrowings	14	2,348	15,374
		187,004	169,309
Current liabilities			
Payables and accruals	15	154,138	185,292
		154,138	185,292
Total Reserves and Liabilities		€ 829,230	€ 792,324

*These Financial Statements were approved by the Local Council on
on its behalf by:*

2013 and signed

Clint Camilleri
Mayor

Ms. Marcia Borg
Executive Secretary

QALA LOCAL COUNCIL

Statement of changes in equity for the year ended 31 December 2012

	Retained funds	Total
	€	€
Balance at 01 January 2011	411,408	411,408
Total comprehensive Income for the year	<u>26,315</u>	<u>26,315</u>
Balance at 31 December 2011	€ <u>437,723</u>	€ <u>437,723</u>
Balance at 01 January 2012	437,723	437,723
Total comprehensive Income for the year	<u>50,365</u>	<u>50,365</u>
Balance at 31 December 2012	€ <u>488,088</u>	€ <u>488,088</u>

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Statement of Cash Flows for the year ended 31 December 2012

	2012	2011
Note	€	€
<i>Net cash from operating activities</i>		
Total comprehensive income for the year	50,365	26,315
<i>Adjustment for:</i>		
Depreciation	61,924	43,483
Amortisation of funds	(28,626)	(3,858)
Interest receivable	(267)	(266)
Interest payable	116	1,686
<i>Operating surplus before working capital movements</i>	83,512	67,360
(Increase) in receivables	(3,171)	(5,158)
(Decrease)/increase in payables	(34,846)	87,187
<i>Net cash flows from operating activities</i>	45,495	149,389
<i>Cash flows from investing activities</i>		
Purchase of property, plant and equipment	(124,087)	(101,119)
Grants received	63,039	113,966
Interest received	267	266
<i>Net cash flows from investing activities</i>	(60,781)	13,113
<i>Cash flows from financing activities</i>		
Repayment of bank loan	(13,026)	(12,581)
Interest paid	(116)	(1,686)
<i>Net cash used for financing activities</i>	(13,142)	(14,267)
Net (decrease)/ increase in cash and cash equivalents	(28,428)	148,235
Cash and cash equivalents at the beginning of the year	283,940	135,705
Cash and cash equivalents at the end of the year	12 € 255,512 €	283,940

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Notes to the financial statement for the year ended 31 December 2012

1. General Information

Qala Local Council is the local authority of Qala setup in accordance with the Local Councils Act. The office of the Local Council is situated at :

'Civil Centre' Bishop Buttigieg Street, Qala.

The Qala Local Council forms part of the Gozo Regional Committee.

2. Accounting policies and reporting procedures

The 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 the 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.

Standards, amendments and interpretations to existing standards

Annual Improvements: 2012 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.

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.

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.

Information on new standards, amendments and interpretations that are expected to be 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 a material impact on the council's financial statements.

IFRS 9 Financial Instruments (effective from 1 January 2013)

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Council members have yet to assess the impact that this amendment is likely to have to the financial statements of the Council. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and they can comprehensively assess the impact of all changes.

QALA LOCAL COUNCIL

Notes to the financial statement for the year ended 31 December 2012

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 statement of comprehensive income as it accrues.

b. Local Enforcement Systems

The Local Council forms part of the Gozo Regional Committee. During the year, the amount disclosed in the financial statements under Local Enforcement System income represents the administrative fee of 10% that is now chargeable to the Regional Committees for contraventions paid at the Council.

c. 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
Construction works	10
Urban Improvements	10
Special programmes	10
Office equipment	20
Motor vehicles	20
Plant and machinery	20
Computer equipment	25
Plants	100
Litter bins	replacement basis
Playground equipment	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 benefit associated with the item will flow to the company 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.

d. 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

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Notes to the financial statement for the year ended 31 December 2012

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.

e. 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.

f. 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 Statement of Comprehensive Income.

g. Payables

Accounts 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.

Liabilities for trade and other amounts 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.

h. Foreign Currencies

Items include 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 present currency.

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

i. Profit 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.

j. Cash and Equivalents

Cash and Cash Equivalents are carried in the Statement of Financial Position at face value. For the purpose

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Notes to the financial statement for the year ended 31 December 2012

of the Statement of Cash Flows, cash and cash equivalents comprise cash in hand and balances held with banks.

k. Related parties

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

Related parties to the Local Council comprise the Department for Local Government, the Regional Committee and other Government entities.

The related party that exercises a significant control is the Department for Local Government. Those that exercise no control are the Regional Committee and other Government entities such as Water Service Corp. and Wasteserve.

l. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS 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. Revision 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, 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).

m. Capital Management

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

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

To achieve the above, the Council carries out a quarterly review of the working capital ratio(Financial Situation indicator). 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.

n. Borrowings

Borrowings are initially recognised at cost, being the fair value of the consideration received and including acquisition charges associated with the borrowing.

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Notes to the financial statement for the year ended 31 December 2012

n. Borrowings (cont.)

Subsequent to initial recognition, all interest-bearing borrowings, other than liabilities held for trading, are subsequently measured at amortised cost, using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on settlement. Liabilities which are held for trading are subsequently measured at fair value.

o. 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.

All income and expenses relating to loans and receivables are presented with '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'.

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Notes to the financial statement for the year ended 31 December 2012

3. a. Funds received from Central Government

	2012	2011
	€	€
In terms of Section 55 of the Local Councils Act (CAP 363)	255,968	246,986

b. Other Government Funds received

Other Government Funds	38,299	26,124
Total funds received from central government	€ 294,267	€ 273,110

4. Investment income

	2012	2011
	€	€
Bank interest received	267	266

5. General Income

	2012	2011
	€	€
Income from tender documents	320	945
Income from Permits	3,945	1,717
Contributions and donations	2,569	2,926
	€ 6,834	€ 5,588

6. Personal emoluments

	2012	2011
	€	€
Mayor's allowance	5,318	4,901
Executive Secretary Salary and allowance	25,255	25,011
Employee's Salaries	12,508	7,329
Social Security Contributions	3,257	2,557
Allowances for Councilors and Mayor	6,400	6,400
	€ 52,738	€ 46,198

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Notes to the financial statement for the year ended 31 December 2012

7. Operations and maintenance

	2012	2011
	€	€
Signs	1,416	1,337
Walkways	1,039	2,196
Road and street pavements (patching work)	2,302	3,788
Refuse collection	18,029	20,101
Bulky refuse collection	17,196	9,969
Road and street cleaning	11,352	13,049
Cleaning and maintenance of Public Conveniences	3,131	3,372
Cleaning and maintenance of parks and gardens	2,697	3,386
Waste Disposal fees	11,124	14,374
	<u>€ 68,286</u>	<u>€ 71,572</u>

8. Administration and other expenses

	2012	2011
	€	€
Utilities	5,382	4,457
Sundry material & supplies	15,494	21,863
Rent	3,887	3,940
National /International memberships	367	357
Office services	2,525	876
Transport	1,147	349
Travel	-	2,184
Advertising	37	416
Information services	2,065	2,638
Other contractual services	7,727	8,523
Professional services	6,392	8,701
Sundry expenses	30	18
Community services and events	22,075	34,306
Penalty	-	1,358
Depreciation	61,924	43,483
	<u>€ 129,052</u>	<u>€ 133,469</u>

9. Finance cost

	2012	2011
	€	€
Bank charges	116	155
Loan interest	811	1,255
	<u>€ 927</u>	<u>€ 1,410</u>

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Notes to the financial statements for the year ended 31 December 2012

10 a. Property, Plant and Equipment

	Trees & Plants	Office Furn. & fittings	Plant & Machinery	Computer Equipment	Office Equipment	New Street Signs	Urban Improvements	Construction programmes	Special	Assets under Construction	Total
Cost	€	€	€	€	€	€	€	€	€	€	€
At 01 January 2012	2,264	19,695	5,040	12,014	6,715	11,537	40,760	622,123	434,134	-	1,154,282
Additions	-	1,050	-	-	930	-	-	-	78,696	43,411	124,087
At 31 December 2012	2,264	20,745	5,040	12,014	7,645	11,537	40,760	622,123	512,830	43,411	1,278,369
<u>Grants and other reimbursements</u>											
At 01 January 2012	-	-	-	-	-	-	-	117,841	81,862	-	199,703
Additions	-	-	-	-	-	-	-	-	-	-	-
At 31 December 2012	-	-	-	-	-	-	-	117,841	81,862	-	199,703
<u>Depreciation</u>											
At 01 January 2012	-	10,494	1,709	10,966	6,027	11,537	25,968	248,414	159,352	-	474,467
Charge for the year	-	706	608	234	143	-	1,413	24,446	34,374	-	61,924
At 31 December 2012	-	11,200	2,317	11,200	6,170	11,537	27,381	272,860	193,726	-	536,391
<u>Net book value</u>											
At 31 December 2012	€ 2,264	9,545	2,723	814	1,475	-	13,379	231,422	237,242	43,411	542,275
At 31 December 2011	€ 2,264	9,201	3,331	1,048	688	-	14,792	373,709	192,920	-	480,112

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Notes to the financial statements
for the year ended 31 December 2012

10 b. Property, Plant and Equipment (continued)

	Trees & Plants	Office Furn. & fittings	Plant & Machinery	Computer Equipment	Office Equipment	New Street Signs	Urban Improvements	Construction programmes	Special	Total
Cost	€	€	€	€	€	€	€	€	€	€
At 01 January 2011	2,264	19,421	5,040	12,014	6,715	11,537	40,760	616,838	338,574	1,053,163
Additions	-	274	-	-	-	-	-	5,285	95,560	101,119
At 31 December 2011	2,264	19,695	5,040	12,014	6,715	11,537	40,760	622,123	434,134	1,154,282
<u>Grants and other reimbursements</u>										
At 01 January 2011	-	-	-	-	-	-	-	117,841	81,862	199,703
Additions	-	-	-	-	-	-	-	-	-	-
At 31 December 2011	-	-	-	-	-	-	-	117,841	81,862	199,703
<u>Depreciation</u>										
At 01 January 2011	-	9,736	965	10,665	5,873	11,537	24,406	221,667	146,135	430,984
Charge for the year	-	758	744	301	154	-	1,562	26,747	13,217	43,483
At 31 December 2011	-	10,494	1,709	10,966	6,027	11,537	25,968	248,414	159,352	474,467
<u>Net book value</u>										
At 31 December 2011	€ 2,264	9,201	3,331	1,048	688	-	14,792	255,868	192,920	480,112
At 31 December 2010	€ 2,264	9,685	4,075	1,349	842	-	16,354	395,171	110,577	422,476

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Notes to the financial statement for the year ended 31 December 2012

11. Receivables

	2012	2011
	€	€
Accounts receivables	390	2,310
Prepayments and accrued income	31,053	25,962
	<u>€ 31,443</u>	<u>€ 28,272</u>

Receivables are analysed as follows:

Within credit limit	25,293	28,272
Exceeded credit period but not impaired	6,150	-
	<u>€ 31,443</u>	<u>€ 28,272</u>

12. Cash and Equivalents

Cash and cash equivalents included in the statement of cashflows comprise the following amounts in the Local Council Statement of Financial Position:

	2012	2011
	€	€
Ordinary funds	215,516	234,000
Special needs funds	36,147	48,936
Cash in hand	3,849	1,004
	<u>€ 255,512</u>	<u>€ 283,940</u>

13. Deferred income

	2012	2011
	€	€
Balance brought forward	164,867	54,759
Increase during the year	63,039	113,966
	<u>227,906</u>	<u>168,725</u>
Released during the year	28,626	3,858
	<u>€ 199,280</u>	<u>€ 164,867</u>

(i) Current deferred income

€ 14,624	€ 10,932
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(ii) Non current deferred income:

Deferred between 1 and 2 years	15,825	14,252
Deferred between 2 and 5 years	38,967	36,333
Deferred in 5 years or more	129,864	103,350
	<u>€ 184,656</u>	<u>€ 153,935</u>

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Notes to the financial statement for the year ended 31 December 2012

14. Long Term Borrowings

	2012 €	2011 €
Bank loan	2,348	15,374

Long Term Borrowings consist of a loan of €93,175 borrowed by the Council with the approval of the Minister responsible for Local Government on the 21 July 2006. The amount is to be repaid by monthly instalments of €1,153 by the end of March 2014. Interest is currently being charged at 3.47% per annum being 1.125% over the base rate.

The bank holds a first general hypothec for the loan amount over all the Council's assets present and future, a first special hypothec and special privilege over the new Civic Centre being constructed in Bishop M. Buttigieg Street, Qala, Gozo, and a pledge on a suitable fire insurance policy covering the premises of the Civic Centre for its replacement value. The loan is to be fully repaid to the bank by March 2014.

	2012 €	2011 €
Borrowings due to 1 to 2 years	2,348	13,836
Borrowings due to 2 to 5 years	-	1,538
	<u>€ 2,348</u>	<u>€ 15,374</u>

15. Payables and accruals

	2012 €	2011 €
Accounts payable	71,822	133,839
Accruals	53,856	25,202
Other payables	-	1,483
Deferred income (current portion)	14,624	10,932
Loan repayable within one year	13,836	13,836
	<u>€ 154,138</u>	<u>€ 185,292</u>

16. Capital Commitments

	2012 €	2011 €
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(i) Details of capital commitments are as follows:

Approved but not yet contracted for (ii)	170,585	84,000
Contracted for but not provided in Financial Statements (iii)	10,000	15,000

(ii) Approved but not yet contracted for:

Folklore Museum	31,980	20,000
Belveder (funded by Rural Developments Fund - EU)	84,215	-
Heritage trail	33,800	
Resurfacing various roads	20,590	64,000
	<u>€ 170,585</u>	<u>€ 84,000</u>

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Notes to the financial statement for the year ended 31 December 2012

16. Capital Commitments (continued)

(iii) Contracted for but not provided in Financial Statements:

	2012 €	2011 €
Fortizza	10,000	15,000
	<u>€ 10,000</u>	<u>€ 15,000</u>

17. Contingent liabilities

- The Local Enforcement system is now being run by the Regional Committees, whereby Councils bill the respective regional committee for the agreed administrative fee. The income from this system cannot be quantified at year end and has been excluded from these financial statements.
- The Council has a bank guarantee of €4,659 in favour of MEPA. This will be released once the capital project is completed.

18. Financial instruments

The council's activities expose it to credit risk and liquidity risk through its use of financial instruments which result from its operating activities. The council is not exposed to any market risk. The Council's risk management is coordinated by the council members and focuses on actively securing the council's short to medium term cash flow by minimising exposure to financial risks.

The most significant financial risks to which the council is exposed are described below.

Credit risk

The council's exposure to credit risk is limited to the carrying amount of financial assets recognised at the end of the reporting period, as summarised below:

<i>Class of financial assets - carrying amounts</i>	2012 €	2011 €
Trade and other receivables	31,443	28,272
Cash and Cash Equivalents	255,512	283,940
	<u>€ 286,955</u>	<u>€ 312,212</u>

The council continuously monitors defaults of counterparties, identified either individually or by group and incorporates this information into its credit risk controls. The council's policy is to deal with only creditworthy counterparties.

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Notes to the financial statement for the year ended 31 December 2012

18. Financial instruments (cont.)

The council considers that the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. See note 12 for further information on impairments or financial assets that are past due.

None of the council's financial assets is secured by collateral or other credit enhancements

The credit risk for liquid funds is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Liquidity risk

The council's exposure to liquidity risk arises from its obligations to meet its financial liabilities which comprise payables. Prudent liquidity risk management includes maintaining sufficient cash and committed credit facilities to ensure the availability of an adequate amount of funds to meet the council's obligations when they become due.

The council manages its liquidity needs through yearly budgets and business plans by carefully monitoring expected cash inflows and outflows on a daily basis.

	2012	2011
	€	€
Payables	125,678	159,041

Other risks

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

QALA LOCAL COUNCIL

Notes to the financial statement for the year ended 31 December 2012

19. Related party transactions

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

<i>Name of Entity</i>	<i>Nature of relationship</i>
Department of Local Councils	Significant control
Regional Committees	No Control
Water Services Corporation	No Control
Enemalta Corporation	No Control
Wasteserv Malta Limited	No Control
Malta Environment and Planning Authority	No Control
Department of Lands	No Control
Director General - Works Division	No Control

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

	2012	2011
Income		
Annual financial allocation	€ 255,968	€ 246,986

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

The Council also receives revenue from other Government entities such as Water Services Corporation for trenching works carried out in the locality, and for the reinstatement of roads as a result of the trenching works.

Key management compensation

Transactions with key management personnel are disclosed in note 6.

20. Fair value 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.