

Local Council Sliema
Annual Audit Report
for the year ended 31 December 2012

Contents

| | Page |
|--|-------------|
| Statement of Local Council Members' and Executive Secretary's Responsibilities | 1 |
| Report of the Local Government Auditor to the Auditor General | 2 |
| Statement of Comprehensive Income | 4 |
| Statement of Financial Position | 5 |
| Statement of Changes in Equity | 6 |
| Statement of Cash Flows | 7 |
| Notes to the Financial Statements | 8 - 26 |

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

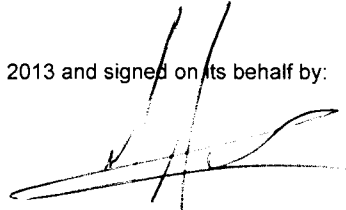
The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Council's comprehensive income for the year, and of the Council's retained funds at the end of year. By virtue of the same regulations it is the duty of the Local Council and the Executive Secretary to ensure that the financial statements forming part of the report present fairly, in accordance with the accounting policies applicable to Local Councils, the income and expenditure of the Local Council for the year and its retained funds as at the year end, and that they comply with the Act, the Local Council (Financial) Regulations, and the Local Council (Financial) Procedures issued in terms of the said Act.

The Executive Secretary is responsible to maintain a continuous internal control to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, Local Council (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the Local Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the Council on 21 February 2013 and signed on its behalf by:



Anthony Chircop
Mayor



Matthew Dimech
Executive Secretary

Statement of Comprehensive Income
for the year ended 31 December 2012


| | Notes | 2012 € | 2011 € |
|--|-------|-----------------------|----------------------|
| Revenue | | | |
| Funds received from Central Government | 3 | 971,417 | 924,609 |
| Income raised under Local Council Bye-Laws | 4 | 19,124 | 7,660 |
| Income raised under Local Enforcement System | 5 | 159,920 | 153,723 |
| General Income | 6 | 155,741 | 98,472 |
| | | <u>1,306,202</u> | <u>1,184,464</u> |
| Expenditure | | | |
| Personal Emoluments | 7 | (150,214) | (152,587) |
| Operations and maintenance | 8 | (543,832) | (623,683) |
| Administration and other expenditure | 9 | (297,621) | (286,769) |
| | | <u>(991,667)</u> | <u>(1,063,039)</u> |
| Operating profit for the year | | 314,535 | 121,425 |
| Finance income | 10 | 4,487 | 3,121 |
| | | <u>319,022</u> | <u>124,546</u> |
| Loss on sale of assets | 7 | (1) | - |
| Asset impairment losses | 7 | (4,233) | (34,015) |
| Profit for the year | 7 | <u><u>314,788</u></u> | <u><u>90,531</u></u> |

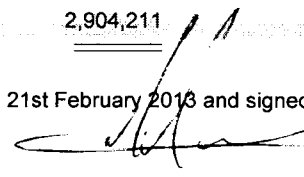
The notes on pages 8 to 26 form an integral part of these financial statements.

Statement of Financial Position
as at 31 December 2012

| | | 2012 31 December € | 2011 31 December € |
|-------------------------------------|-------|--------------------------|--------------------------|
| | Notes | | |
| ASSETS | | | |
| Non-Current Assets | | | |
| Property, plant and equipment | 11 | 1,721,664 | 1,800,505 |
| | | <u>1,721,664</u> | <u>1,800,505</u> |
| Current Assets | | | |
| Inventories | 12 | 1,811 | 1,882 |
| Receivables | 13 | 235,800 | 102,733 |
| Cash and cash equivalents | 14 | 944,936 | 552,088 |
| | | <u>1,182,547</u> | <u>656,703</u> |
| Total Assets | | <u>2,904,211</u> | <u>2,457,208</u> |
| EQUITY | | | |
| Reserves | | | |
| Retained earnings | | 2,008,515 | 1,693,730 |
| Total equity | | <u>2,008,515</u> | <u>1,693,730</u> |
| Non-Current Liabilities | | | |
| Deferred income | 16 | 339,082 | 343,377 |
| | | <u>339,082</u> | <u>343,377</u> |
| Current Liabilities | | | |
| Payables | 15 | 556,614 | 420,101 |
| | | <u>556,614</u> | <u>420,101</u> |
| Total Liabilities | | <u>895,696</u> | <u>763,478</u> |
| Total equity and liabilities | | <u>2,904,211</u> | <u>2,457,208</u> |

These financial statements were approved by the Local Council on 21st February 2013 and signed on its behalf by:


Anthony Chircop
Mayor


Matthew Dimech
Executive Secretary

The notes on pages 8 to 26 form an integral part of these financial statements.

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

| | Retained Funds | Total |
|----------------------------|---------------------------|------------------|
| | € | € |
| At 1 January 2011 | 1,603,199 | 1,603,199 |
| Profit for the year | 90,531 | 90,531 |
| At 31 December 2011 | <u>1,693,730</u> | <u>1,693,730</u> |
| At 1 January 2012 | 1,693,727 | 1,693,727 |
| Profit for the year | 314,788 | 314,788 |
| At 31 December 2012 | <u>2,008,515</u> | <u>2,008,515</u> |

Statement of Cash Flows
for the year ended 31 December 2012

| | 2012 | | 2011 | |
|--|-------------|-----------------|-------------|-----------------|
| | € | € | € | € |
| Net profit for the year | 314,788 | | 90,531 | |
| Reconciliation to cash generated from operations: | | | | |
| Depreciation | 116,207 | | 96,359 | |
| Movement in provision for doubtful debtors | 82 | | 3,040 | |
| Impairment and asset disposal losses | 4,234 | | 34,015 | |
| Reclassification of assets | 31,470 | | (1) | |
| Interest receivable | (4,487) | | (3,121) | |
| Operating profit before working capital changes | 462,294 | | 220,823 | |
| Decrease in inventories | 71 | | 103 | |
| Decrease in receivables | (91,532) | | (35,671) | |
| (Increase) / (Increase) in other receivables | (41,617) | | 53,886 | |
| Increase / (Increase) in payables | 50,862 | | (129,117) | |
| Increase in other payables | 47,841 | | 12,692 | |
| Government grant released | (5,794) | | (833) | |
| Cash generated from operating activities | | 422,125 | | 121,883 |
| Cash flow from investing activities | | | | |
| Interest received | 4,487 | | 3,121 | |
| Purchase of property, plant & equipment | (73,268) | | (362,670) | |
| Proceeds from sales of property, plant & equipment | 197 | | - | |
| Receipt of grants | 39,309 | | 326,659 | |
| Cash generated from investing activities | | (29,275) | | (32,890) |
| Net Increase in cash in the year | | 392,850 | | 88,993 |
| Cash and equivalents at beginning of year | | 552,088 | | 463,095 |
| Cash and equivalents at end of year | | 944,938 | | 552,088 |

1. General Information

The Sliema Local Council is the local authority of Malta set up in accordance with the Local Councils Act(1993). The office of the Local Council is situated at Government School, Depiro Street, Sliema. These financial statements were approved for issue by the Council Members on 21 February 2013. The Local Council's presentation as well as functional currency are denominated in €.

2. Accounting Policies and Reporting Procedures

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Accounting convention

These financial statements are prepared under the historical cost convention, as modified to include fair values where it is stated in the accounting policies below. These financial statements are prepared in accordance with the provisions of the Local Councils Act Cap. 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 enacted in Malta and with the requirements of the International Financial Reporting Standards.

These financial statements have been drawn up in accordance with the accounting policies and reporting procedures prescribed for Local Councils in the Financial Regulations issued by the Minister of Finance in conjunction with the Minister responsible for Local Government in terms of section 67 of the Local Councils Act (Cap. 363).

New and amended standards adopted by the Local Council

The Council has adopted the following new and amended standards as of 1 January 2012:

On 7 October 2010, the IASB issued amendments to IFRS 7, which amendments are entitled Disclosures - Transfers of Financial Assets. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets. The amendments also require certain additional disclosures. The amendments are applicable for annual periods beginning on or after 1 July 2011.

New important standards and amendments not yet adopted

The following standards and amendments to existing standards have been published and are mandatory (as applicable) for the Local Council's accounting periods beginning on or after 1 January 2013 or later periods, but the Local Council has not early adopted them:

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 income statement. 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.

- On 12 May 2011, the IASB also issued IFRS 13 Fair Value Measurement. This Standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not require fair value measurements in addition to those already required or permitted by other IFRS. The Standard is applicable for annual periods beginning on or after 1 January 2013, with earlier application being permitted.

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.

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.

New Important standards and amendments not yet adopted by EU

A number of new International Financial Reporting Standards and amendments and revisions thereto were in issue but not yet effective during the financial year under review. These include the following:

IFRS 9 Financial Instruments is applicable for annual periods beginning on or after 1 January 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.

Government Loans (Amendments to IFRS 1) was issued in 13 March 2012. The amendments are required to be applied for annual periods beginning on or after 1 January 2014.

Improvements to IFRS 2009-2011 was issued on 17 May 2012 and covers a number of limited improvements to existing IFRS, such as IFRS 1 in relation to repeat application and borrowing costs; IAS 1 in relation to clarification on comparative information; IAS 16 in relation to classification of servicing equipment; IAS 32 in relation to the tax effect on distribution to holders of equity instruments and IAS 34 in relation to interim financial reporting and segment information for total assets and liabilities.

The Councillors and the Executive Secretary will be assessing the impact that the adoption of these International Financial Reporting Standards will have on the financial statements in the period of initial application. The Councillors and Executive Secretary anticipate that the adoption of other International Financial Reporting Standards that were in issue at the date of authorisation of these financial statements, but not yet effective will have no material impact on the financial statements in the period of initial application.

Intangible Fixed Assets

Computer Software

Computer software is valued at cost less accumulated depreciation and impairment losses to date. Depreciation to write off the cost is calculated on a monthly basis using the reducing balance method at 25% per annum.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses to date. Depreciation is calculated on a monthly basis using the reducing balance method at rates calculated to write off the cost less residual value of each asset over its expected useful life as follows:

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

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. The residual values and useful lives of the assets are reviewed and adjusted as appropriate, at each Statement of Financial Position date. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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.

Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and the value in use. Impairment losses are immediately recognised as an expense in the Statement of Comprehensive Income.

Leases

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

Inventories

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

Amounts receivable

Amounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of amounts receivable is established when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Comprehensive Income.

Related parties

Related parties are those persons or bodies of persons having relationships with the Council as defined in International Accounting Standard No. 24.

During the year under review the Local Council has opted to early adopt the partial exemptions as provided by IAS 24, effective from periods starting 1 January 2011. The paragraphs adopted from IAS 24 are paragraphs 25 - 27, being amendments to government related entities' disclosures.

Revenue

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

Local Enforcement System

The Sliema Local Council used to form part of the Lvant Joint Committee up to 31 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.

As from 1 September 2011, the Central Regional Committee has taken over the Local Enforcement System function and the Council receives 10% administrative reimbursements on fines collected.

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.

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.

Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. In the opinion of the Executive Secretary, the accounting estimates and judgements made in the preparation of the Financial Statements are not difficult, subjective or complex, to a degree that would warrant their description as critical in terms of the requirements of IAS1 (revised) - 'Presentation of Financial Statements'.

Capital Management

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

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

To achieve the above, the Council carries out a quarterly review of the working capital ratio ("Financial Situation Indicator"). This ratio was positive at the reporting date and has not changed significantly from the previous year. The Council also uses budgets and business plans to set its strategy to optimise its use of available funds and implement its commitments to the locality.

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. 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 within 'finance income' or 'finance costs', except for impairment of receivables which is presented within 'administration and other expenditure'.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Council's other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

Financial liabilities

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

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

3. Funds received from central government

| | 2012 | 2011 |
|--|----------------|----------------|
| | € | € |
| In terms of section 55 of the Local Councils Act | 960,741 | 917,471 |
| Other Government Income | 10,676 | 7,138 |
| | <u>971,417</u> | <u>924,609</u> |

4. Income raised from Bye-Laws

| | 2012 | 2011 |
|--|---------------|--------------|
| | € | € |
| Bye-Laws - Advertising on Street Furniture | 15,566 | 7,186 |
| Bye-Laws - Organisation of courses | 3,558 | 474 |
| | <u>19,124</u> | <u>7,660</u> |

5. Local Enforcement System

| | 2012 | 2011 |
|---|----------------|----------------|
| | € | € |
| Administrative reimbursement on fines collected | 12,213 | 1,907 |
| Share of Profits from Joint Committee | 147,707 | 151,816 |
| | <u>159,920</u> | <u>153,723</u> |

6. General Income

| | 2012 | 2011 |
|---|----------------|---------------|
| | € | € |
| Community Services | 2,080 | 3 |
| Cultural Events | 1,616 | 2,360 |
| Sale of books and other merchandise | - | 5 |
| Tender Documents/Info. Charges | 2,077 | 1,316 |
| Media Advertising | 6,224 | 6,758 |
| Contractors' Guarantees Withdrawn | 3,950 | - |
| Donations | - | 600 |
| Contributions | 3,137 | 18,340 |
| Refund of expenses | 1,731 | 1,191 |
| Discounts and Waiver of amounts payable | 649 | 44,586 |
| Income from Permits | 134,277 | 23,313 |
| | <u>155,741</u> | <u>98,472</u> |

7. Profit/(loss) for the year

| | 2012 | 2011 |
|--|----------------|----------------|
| | € | € |
| Profit/(loss) for the year is stated after charging: | | |
| Staff salaries | 150,214 | 152,587 |
| Depreciation of tangible assets | 116,207 | 96,359 |
| Losses on impairment of property, plant & equipment | 4,234 | 34,015 |
| | <u>150,214</u> | <u>152,587</u> |

Staff salaries

| | 2012 | 2011 |
|---|----------------|----------------|
| | € | € |
| Mayor's Remuneration | 11,275 | 11,683 |
| Councillors' Allowances | 12,262 | 13,378 |
| Executive Secretary Salary and Allowances | 17,263 | 27,834 |
| Employees' Salaries | 100,534 | 90,960 |
| Social Security Contributions | 8,880 | 8,732 |
| | <u>150,214</u> | <u>152,587</u> |

Loss on impairment of property, plant and equipment

The Council has updated a physical reconciliation of its items of property, plant and equipment with the Plant Register. The impairment loss represents the net book value of assets which were identified as no longer usable or which their economic useful life has expired. This amount includes also assets not yet capitalised which, were written off to the Statement of Comprehensive Income since the respective project could not materialise.

8. Operations and Maintenance

| | 2012 € | 2011 € |
|---|-----------------------|-----------------------|
| <i>Repairs and Upkeep:</i> | | |
| Road/Street Pavements | 51,185 | 33,688 |
| Signs | 5,524 | 5,187 |
| Road Markings | 8,529 | 24,655 |
| Office Furniture and Equipment | 1,063 | 1,439 |
| Plant & Equipment | 629 | 30 |
| Other repairs and Upkeep | 7,544 | 5,578 |
| | <u>74,474</u> | <u>70,577</u> |
| <i>Contractual Services:</i> | | |
| Waste Disposal | 93,131 | 93,131 |
| Refuse Collection | 117,875 | 200,637 |
| Bulky Refuse Collection | 21,201 | 18,422 |
| Cleaning Services | 12,275 | 11,547 |
| Road & Street Cleaning | 88,210 | 86,643 |
| Cleaning - Public Conveniences | 49,615 | 51,045 |
| Cleaning - Council Premises | 1,385 | 1,115 |
| Clean. & Maint. Parks & Gardens | 57,170 | 55,323 |
| Street Lighting | 28,972 | 34,259 |
| Studies & Consultations | (709) | 709 |
| Updating of data | 233 | 275 |
| | <u>469,358</u> | <u>553,106</u> |
| Total Operations and Maintenance Costs | <u><u>543,832</u></u> | <u><u>623,683</u></u> |

9. Administration and other expenditure

| | 2012 | 2011 |
|--|----------------|----------------|
| | € | € |
| Utilities | 18,650 | 16,974 |
| Other repairs and upkeep | 18,980 | 18,710 |
| Rent | 3,518 | 3,888 |
| National and International Memberships | 418 | 150 |
| Office Services | 12,372 | 10,823 |
| Transport | 3,225 | 16,457 |
| Information Services | 24,941 | 25,763 |
| Lease of Equipment | 176 | 2,233 |
| Insurance Coverage | 3,215 | 3,678 |
| Bank Charges | 52 | 73 |
| Professional Services | 38,186 | 29,870 |
| Training | 17,482 | 6,300 |
| Other Hospitality Costs | 1,071 | 784 |
| Social Events | 813 | 315 |
| Cultural Events | 12,318 | 30,780 |
| Community Services | 23,757 | 20,566 |
| Sundry Minor Expenses | 49 | 6 |
| Provision for Doubtful Debtors | 82 | 3,040 |
| Bad Debts Written Off | 2,109 | - |
| Deficit on disposal of assets | 1 | - |
| Depreciation | 116,207 | 96,359 |
| | <u>297,622</u> | <u>286,769</u> |

10. Finance Income

| | 2012 | 2011 |
|--------------------------|--------------|--------------|
| | € | € |
| Bank interest receivable | 4,487 | 3,121 |
| | <u>4,487</u> | <u>3,121</u> |

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

11. Property, plant and equipment

| | Property | Assets under construction | New Street Signs | Urban Improvements & Construction | Plant, machinery & equipment | Office Furniture & fittings | Motor vehicles | Special Programmes | Total |
|------------------------|----------|---------------------------------|------------------------|---|------------------------------------|-----------------------------------|-------------------|-----------------------|-----------|
| | € | € | € | € | € | € | € | € | € |
| Cost | | | | | | | | | |
| At 1 January 2011 | 186,515 | 490,210 | 98,345 | 809,723 | 65,076 | 43,774 | 17,026 | 1,151,977 | 2,862,646 |
| Additions | - | 352,007 | - | 9,794 | 129 | 740 | - | - | 362,670 |
| Impairment | - | (31,042) | - | - | (19,242) | (4,372) | - | (9,882) | (64,538) |
| Reclassification | - | - | - | (11,726) | (350) | 350 | - | 11,727 | 1 |
| At 31 December 2011 | 186,515 | 811,175 | 98,345 | 807,791 | 45,613 | 40,492 | 17,026 | 1,153,822 | 3,160,779 |
| Depreciation | | | | | | | | | |
| At 1 January 2011 | 23,743 | - | 98,345 | 467,396 | 46,969 | 21,702 | 9,180 | 462,088 | 1,129,423 |
| Reclassifications | - | - | - | 273 | - | (273) | - | - | - |
| On impairment | - | - | - | - | (18,311) | (2,330) | - | - | (20,641) |
| Charge for the year | 1,628 | - | - | 34,331 | 5,941 | 1,600 | 1,569 | 51,290 | 96,359 |
| At 31 December 2011 | 25,371 | - | 98,345 | 502,000 | 34,599 | 20,699 | 10,749 | 513,378 | 1,205,141 |
| Grants | | | | | | | | | |
| At 1 January 2011 | - | - | - | - | - | - | - | 165,015 | 165,015 |
| On disposals | - | - | - | - | - | - | - | (9,882) | (9,882) |
| At 31 December 2011 | - | - | - | - | - | - | - | 155,133 | 155,133 |
| Net book values | | | | | | | | | |
| At 31 December 2011 | 161,144 | 811,175 | - | 305,791 | 11,014 | 19,793 | 6,277 | 485,311 | 1,800,505 |

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

11. Property, plant and equipment

| | Property | Assets under construction | New Street Signs | Urban Improvements & Construction | Plant, machinery & equipment | Office Furniture & fittings | Motor vehicles | Special Programmes | Total |
|------------------------|----------|---------------------------------|------------------------|---|------------------------------------|-----------------------------------|-------------------|-----------------------|-----------|
| | € | € | € | € | € | € | € | € | € |
| Cost | | | | | | | | | |
| At 1 January 2012 | 186,515 | 811,175 | 98,345 | 807,791 | 45,613 | 40,492 | 17,026 | 1,153,822 | 3,160,779 |
| Additions | - | 5,753 | - | 11,122 | 6,065 | 1,642 | - | 48,686 | 73,268 |
| Assets Capitalised | - | (483,566) | - | 76,253 | 9,975 | 4,124 | - | 393,214 | - |
| Disposals/Impairment | - | (35,004) | - | - | (6,280) | - | - | - | (41,284) |
| At 31 December 2012 | 186,515 | 298,358 | 98,345 | 895,166 | 55,373 | 46,258 | 17,026 | 1,595,722 | 3,192,763 |
| Depreciation | | | | | | | | | |
| At 1 January 2012 | 25,371 | - | 98,345 | 502,000 | 34,599 | 20,699 | 10,749 | 513,378 | 1,205,141 |
| On impairment | - | - | - | - | (5,383) | - | - | - | (5,383) |
| Charge for the year | 1,611 | - | - | 48,203 | 5,015 | 1,807 | 1,255 | 58,317 | 116,208 |
| At 31 December 2012 | 26,982 | - | 98,345 | 550,203 | 34,231 | 22,506 | 12,004 | 571,695 | 1,315,966 |
| Grants | | | | | | | | | |
| At 1 January 2012 | - | - | - | - | - | - | - | 155,133 | 155,133 |
| At 31 December 2012 | - | - | - | - | - | - | - | 155,133 | 155,133 |
| Net book values | | | | | | | | | |
| At 31 December 2012 | 159,533 | 298,358 | - | 344,963 | 21,142 | 23,752 | 5,022 | 868,894 | 1,721,664 |

12. Inventories

| | 2012 | 2011 |
|------------------------------|--------------|--------------|
| | € | € |
| Books and other publications | 1,811 | 1,882 |
| | <u>1,811</u> | <u>1,882</u> |

13. Receivables

| | 2012 | 2011 |
|-------------------------|----------------|----------------|
| | € | € |
| Receivables | 135,813 | 44,363 |
| Other receivables | 2,429 | 4,137 |
| Accrued income | 88,491 | 15,081 |
| Financial assets | <u>226,733</u> | <u>63,581</u> |
| Prepayments | 9,067 | 39,152 |
| | <u>235,800</u> | <u>102,733</u> |

Receivables

General receivables are analysed as follows:

| | 2012 | 2011 |
|---|----------------|---------------|
| | € | € |
| Within credit period | 29,855 | 7,789 |
| Exceeded credit period but not impaired | 105,958 | 36,574 |
| Impaired and provided for | 5,231 | 5,149 |
| Provision for doubtful debts | (5,231) | (5,149) |
| | <u>135,813</u> | <u>44,363</u> |

14. Notes to the Statement of Cash Flows

Cash and cash equivalents included in the Statement of Cash Flows comprise the following amounts in the Statement of Financial Position:

| | 2012 | 2011 |
|---------------|----------------|----------------|
| | € | € |
| Bank Balances | 944,579 | 551,895 |
| Cash in Hand | 357 | 193 |
| | <u>944,936</u> | <u>552,088</u> |

15. Payables

| | 2012 | 2011 |
|---------------------------------------|----------------|----------------|
| | € | € |
| Payables | 385,795 | 334,933 |
| Other taxes and social security costs | 4,844 | - |
| Other creditors | 1,089 | 690 |
| Accruals | 126,326 | 83,729 |
| Financial liabilities | <u>518,054</u> | <u>419,352</u> |
| Deferred Income | 38,560 | 749 |
| | <u>556,614</u> | <u>420,101</u> |

| 16. Deferred Income | 2012 € | 2011 € |
|---|----------------|----------------|
| Government grants | | |
| At 1 January 2012 | 344,127 | 18,300 |
| Increase in year | 39,309 | 326,659 |
| | <u>383,436</u> | <u>344,959</u> |
| Released in year | (5,794) | (833) |
| At 31 December 2012 | <u>377,642</u> | <u>344,126</u> |
| Current Deferred Income | <u>38,560</u> | <u>749</u> |
| Non-Current Deferred Income | <u>339,082</u> | <u>343,377</u> |
| Deferred Government Grants | | |
| Deferred between one and two years | 73,104 | 1,424 |
| Deferred between two and five years | 83,631 | 1,645 |
| Deferred in five years or more | 220,907 | 341,057 |
| | <u>377,642</u> | <u>344,126</u> |
| Deferred after five years or more: | | |
| Government Grants | <u>220,907</u> | <u>341,057</u> |

17. Capital commitments

| | 2012 € | 2011 € |
|---|----------------|----------------|
| Details of capital commitments at the accounting date are as follows: | | |
| Approved but not yet contracted for | 10,000 | 10,000 |
| Contracted for but not provided in the financial statements | <u>600,000</u> | <u>293,358</u> |
| (i) Approved but not yet contracted for: | | |
| Urban Improvements | 6,000 | 6,000 |
| Office Furniture & Fittings | 2,000 | 2,000 |
| Office Equipment | <u>2,000</u> | <u>2,000</u> |
| | <u>10,000</u> | <u>10,000</u> |
| (ii) Contracted for but not provided in the Financial Statements: | | |
| Road paving and construction | 200,000 | 100,000 |
| Road resurfacing | <u>400,000</u> | <u>193,358</u> |
| | <u>600,000</u> | <u>293,358</u> |

18. Contingent liabilities

The Council signed a Joint Cooperation Agreement with Pembroke, San Giljan, San Gwann and Swieqi Councils on the 3rd November 1999. This was further amended by an agreement signed on 14th August 2002 where the Council entered into a Pooling agreement. Clause 18.1 of the said agreement entails that the Council deposits €2,329 as a bank guarantee. This is to indemnify the Joint Committee against any breach of the agreement by Local Council Sliema.

The Council is contesting claims made by Wasteserv Malta Limited with respect to tipping fees. This dispute is arising following a directive issued to all Local Councils in Malta by the Association of Local Councils (Malta) not to pay for any tipping fee claims in excess of what has been allocated to them by Central Government.

The Council is also contesting a court case, instituted against it by a previous contractor who claims that his contract has been terminated without a justifiable cause. The cost of the claim is € 32,000 and the case is expected to be adjudicated by the end of September 2013.

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 |
| Lvant Joint Committee (Local Enforcement) | Joint Control |
| Northern Harbour District Joint Committee | Joint Control |
| Central Regional Committee | Joint Control |
| Gozo Regional Committee | No control |
| South Regional Committee | No control |
| North Regional Committee | No control |
| South Eastern Regional Committee | No control |
| Malta Environment and Planning Authority | No control |
| Department of Information | No control |
| Director General - DEF | No control |
| Manufacturing and Servicing Department | No control |
| Office of the Prime Minister - Permanent Secretary | No control |
| Ministry of Education - Permanent Secretary | No control |
| Public Broadcasting Services | No control |
| Sliema Primary School | No control |
| Local Councils Association Malta | No control |
| Department of Lands | No control |
| Malta Sports Council | No control |
| Water Services Corporation | No control |
| Enemalta Corporation | No control |
| Cleansing Services Department | No control |
| Director General - Works Division | No control |
| Wasteserv Malta Limited | No control |

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

| | 2012 | 2011 |
|-----------------------------|-------------|-------------|
| | € | € |
| Annual Financial Allocation | 960,741 | 917,471 |

Key management compensation

Transactions with key management personnel are disclosed in note 7.

20. Financial Risk Management

The Council's activities expose it to a variety of financial risks such as market risk, credit risk, liquidity risk and interest rate risk. The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Council's financial performance.

Credit risk

Financial assets which potentially subject the Council to concentrations of credit risk consist principally of cash at bank and debtors. The Council's cash is placed with quality financial institutions as well as it limits the amount of credit exposure with any one financial institution. The Council has appropriate policies to ensure that income is received from sources with appropriate credit history. In this respect, credit risk with respect to debtors is monitored continuously and the Council places a provision on any debt on which there is doubt of recoverability. Bad debts are therefore negligible and in this respect the Council has no significant concentration of credit risk.

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

| | € |
|------------------------------------|--------|
| - Receivables from Related Parties | 12,641 |

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 € 944,936. This should ensure an ongoing working capital of the Council for the next 12 months. The Council also maintains a positive net asset position of € 2,008,515 ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

Foreign currency risk

Foreign currency transactions arise when the Council buys or sells goods whose price is denominated in a foreign currency, or incurs or settles liabilities, denominated in a foreign currency. The Council does not trade in any foreign currencies.

Interest rate risk

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

21. 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.