

**Tarxien Local Council
Audited Financial Statements
for the year ended 31 December 2012**

Compiled by: Mazars Consulting Ltd



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Financial Statements for the year ended 31 December 2012

Statement of Local Council Members' and Executive Secretary's Responsibilities

The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Council's income and expenditure 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, 1993 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 1993, and the Local Councils (Financial) Procedures 1996. The Executive Secretary is also responsible for safeguarding the assets of the Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Paul Pace
Executive Secretary
29 April 2013


**Statement of Profit or Loss and Other Comprehensive Income for the year ended
31 December 2012**

	Notes	2012 EUR	2011 EUR
Income			
Funds received from central government	5	459,061	437,611
Income raised under LES	6	10,798	30,591
General income	8	52,373	8,553
Other income	9	8,709	5,397
		<u>530,941</u>	<u>482,152</u>
Expenditure			
Personal emoluments	10	(110,318)	(72,465)
Operations and maintenance	11	(253,864)	(266,776)
Administration and other expenditure	12	(154,214)	(133,653)
Impairment loss on assets written off	13c	(1,560)	(924)
		<u>(519,956)</u>	<u>(473,818)</u>
Operating profit for the year		10,985	8,334
Investment income	7	649	585
Net profit for the year		<u>11,634</u>	<u>8,919</u>

Statement of Financial Position as at 31 December 2012

	Notes	2012 EUR	2011 EUR
Assets			
Non-Current Assets			
Property, plant and equipment	13a,b	1,021,871	610,078
Other intangible assets	14	890	-
		<u>1,022,761</u>	<u>610,078</u>
Current Assets			
Inventory	15	2,868	2,383
Receivables	16	156,691	52,454
Cash and cash equivalents	17	31,284	244,401
		<u>190,843</u>	<u>299,238</u>
Total assets		<u><u>1,213,604</u></u>	<u><u>909,316</u></u>
Reserves and Liabilities			
Reserves			
Retained funds		<u>717,024</u>	<u>705,390</u>
Non-Current Liabilities			
Long- term borrowings	21	72,741	-
Deferred Income	20	276,921	83,581
		<u>349,662</u>	<u>83,581</u>
Current Liabilities			
Bank current account	18	8,958	10,173
Payables	19	120,768	106,156
Deferred income	20	17,192	4,016
		<u>146,918</u>	<u>120,345</u>
Total Reserves and liabilities		<u><u>1,213,604</u></u>	<u><u>909,316</u></u>

These financial statements were approved by the Local Council on 29th April 2013, and signed on its behalf by:


Mr. Joseph Abela
Mayor


Mr. Paul J Pace
Executive Secretary

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

	Retained Funds
	EUR
Balance at 31 December 2010	696,471
Profit for the year	<u>8,919</u>
Balance at 31 December 2011	705,390
Profit for the year	11,634
Balance at 31 December 2012	<u><u>717,024</u></u>

Statement of Cash flows for the year ended 31 December 2012

	Notes	EUR	EUR
Cash flow from operating activities			
Profit for the year		11,634	8,919
Adjustments for:			
Depreciation		55,716	55,738
Amortization on intangibles		271	-
Impairment loss on assets write off		1,560	924
Grant Income released during the year		(8,709)	(4,463)
Interest receivable		(649)	(585)
		<u>59,823</u>	<u>60,533</u>
(Increase) / Decrease in inventory		(485)	262
(Increase) / Decrease in receivables		(104,240)	48,946
Increase in payables		87,353	36,935
<i>Net cash generated from operating activities</i>		<u>(17,372)</u>	<u>86,143</u>
Cash flows from investing activities		<u>42,451</u>	<u>146,676</u>
Purchase of property, plant and equipment		(468,935)	(54,405)
Purchase of Intangible assets		(1,372)	-
Proceeds from disposal of assets		79	-
Grants proceeds for capital expenditure		215,226	45,111
Interest received		649	585
<i>Net cash used in investing activities</i>		<u>(254,353)</u>	<u>(8,709)</u>
Net increase in cash and cash equivalents		<u>(211,902)</u>	<u>137,967</u>
Cash and cash equivalents at beginning of year		234,228	96,261
Cash and cash equivalents at end of year	17,18	<u>22,326</u>	<u>234,228</u>

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

1. General Information

Tarxien Local Council is the local authority of Tarxien setup in accordance with the Local Councils Act. The office of the Local Council is situated at 73, Saint Mary Street, Tarxien. The Local Council is in charge to maintain cleanliness in the locality, the maintenance and up-keep of public property and enjoys further responsibilities to provide a wide spectrum of services to residents, commercial entities and visitors alike. The Council's role also necessitates that development and up-keep is undertaken in a way that it preserves the natural environment and supports sustainable development. The Council's presentation as well as functional currency is denominated in Euro.

2. Summary of significant accounting policies

The principal accounting policies adopted 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.

2.1 Basis of preparation

These financial statements are drawn up in accordance with the accounting policies and reporting procedures prescribed for Local Councils in the Financial Regulations issued by the Minister of Finance in conjunction with the Minister responsible for Local Government in terms of Section 67 of the Local Councils Act (Cap 363). The financial statements are prepared under the historical cost convention as modified to include fair values stated in the accounting policies below.

These financial statements are prepared in accordance with the requirements of International Financial Reporting Standards 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.

Assessment of going concern

The Statement of Financial Position on page 4 and the notes thereto with special reference to capital commitments, suggest that the going concern assumption used in the preparation of these financial statements is dependent on further sources of funds other than the annual financial allocation by Central Government, on the collection of debts due to the Council and on the continued support of the Council's creditors. Any adverse change in either of these assumptions above would not let the Council able to meet its financial obligations as they fall due without curtailing its future commitments.

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

2.1 Basis of preparation cont...

Standards, interpretations and amendments to published standards as endorsed by the European Union effective in the current year:

The Council has adopted the amendments to IFRS 7 Disclosures – Transfer of Financial Assets in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred. This amendment affects presentation only and has no impact on the Council's financial position or performance.

The Council has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income in advance of the effective date (annual periods beginning on or after 1 July 2012). The amendments introduce new terminology for the Statement of Comprehensive Income and Income Statement. Under the amendments to IAS 1, the 'Statement of Comprehensive Income' is renamed the 'Statement of Profit or Loss and Other Comprehensive Income' and the Income Statement is renamed the 'Statement of Profit or Loss'. The amendments to IAS 1 retain the option to present Profit or Loss and Other Comprehensive Income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of Other comprehensive Income to be grouped into two categories in the other comprehensive income section; (a) items that not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequent to profit or loss when specific conditions are met. Income tax on items on items of Other Comprehensive Income is required to be allocated on the same basis – the amendments do not change the option to present items of Other Comprehensive Income either before tax or net of tax. The amendments have been applied retrospectively and except for the change in the heading of the Statement of Comprehensive Income, the application of the amendments to IAS 1 does not result in any impact on Profit or Loss, Other Comprehensive Income and Total Comprehensive Income.

The Council also adopted the other amendments to IAS 1 as part of the Annual Improvements to IFRSs 2009 -2011 cycle which clarifies that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position. This amendment did not have any effect on the presentation of the financial statements, nor any impact on the Council's financial position or performance.

During the current year, the Council did not apply the amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets, due to the fact that the Council is exempt from paying corporation tax, thus deferred tax does not arise.

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

2.1 Basis of preparation cont...

Standards, interpretations and amendments to published standards as adopted by the European Union that are not yet effective;

Up to the date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the current reporting period and which the Council has not early adopted. None of the below mentioned standards will have an effect on the Council's financial position and performance. These are as follows;

IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures
Amendments to IFRS 10, IFRS 11	Consolidated Financial Statements,
Joint Arrangements and IFRS 12	Disclosure of Interests in Other Entities: Transition Guidance
IAS 19 (as revised in 2011)	Employee Benefits
IAS 27 (as revised in 2011)	Separate Financial Statements
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS 11
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011). Key requirements of these five Standards are described below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of IFRS 10.

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

2.1 Basis of preparation cont...

Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportional consolidation.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards. In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

These five Standards together with the amendments regarding the transition guidance are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted provided all of these standards are applied at the same time.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope. IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

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

2.1 Basis of preparation cont...

Amendments to IFRS 7 and IAS 32 Offsetting Financial Assets and Financial Liabilities and the related disclosures

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

IAS 19 Employee Benefits

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through Other Comprehensive Income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. The amendments to IAS 19 require retrospective application.

Annual Improvements to IFRSs 2009 – 2011 Cycle issued in May 2012

The Annual Improvements to IFRSs 2009 – 2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include:

- amendments to IAS 16 Property, Plant and Equipment; and
- amendments to IAS 32 Financial Instruments: Presentation.

Amendments to IAS 16

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

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

2.1 Basis of preparation cont...

Amendments to IAS 32

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes.

Standards, interpretations and amendments that are not yet adopted by the European Union

The following standard, interpretation and amendment, that have been issued by the IASB but not yet endorsed by the EU, may have an impact on the Council's financial statements in the period of initial application. The Council is still assessing the impact, however this depends on the circumstances of the Council at the date of adoption, therefore it is not practical to quantify the effect at this stage.

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in Other Comprehensive Income, with only dividend income generally recognised in Profit or Loss.

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

2.1 Basis of preparation cont...

With regard to the measurement of financial liabilities designated as at fair value through Profit or Loss, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in Other Comprehensive Income, unless the recognition of the effects of changes in the liability's credit risk in Other Comprehensive Income would create or enlarge an accounting mismatch in Profit or Loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to Profit or Loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through Profit or Loss was presented in Profit or Loss. The Council anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Council's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

2.2 Significant accounting policies

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

a. Revenue recognition

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

b. Local Enforcement System

The Tarxien Local Council-forms part of the Regjun Xlokk. On 01 September 2011, all LES funds were diverted to five regions. With effect from 01 September 2011, the only income attributable to the Council is commission income based on the value of contraventions paid at Tarxien Local Council.

Prior to 01 September 2011, the Tarxien Local Council formed part of the Southern Joint Committee. 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. The share of profit derived from the Joint Committee is accounted for on a cash basis.

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

2.1 Basis of preparation cont...

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:

	%
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 recognized 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 Profit or Loss and Other Comprehensive Income during the financial year in which they are incurred.

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

2.2 Significant accounting policies cont...

d. Government Grants

Government grants are accounted for on a systematic basis in the Statement of Profit or Loss and Other Comprehensive Income over the periods necessary to match them with the related costs which they are intended to compensate. If such costs have already been incurred when the grant is made, or if there are no related costs, then the grant is accounted for when it becomes available.

Government grants related to assets are presented in the Statement of Financial Position as Deferred Income, which is recognised as income on a systematic basis over the useful life of the asset.

In order to comply with the guidance received from the Department of Local Councils (ref Memo 150/2010) dated 23rd December 2010, the Council adopted the Income Approach as the method of presentation adopted in the financial statements with effect from 1 January 2010, as opposed to the Capital Approach adopted in prior years.

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 Profit or Loss and Other 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 Profit or Loss and Other Comprehensive Income.

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

g. Foreign Currencies

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the Council operates. These Financial Statements are presented in EUR, which is the Council's functional and presentation currency.

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

h. 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.

i. Cash and Cash Equivalents

Cash and Cash Equivalents are carried in the Statement of Financial Position at face value. For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash in hand and balances held with banks.

j. Trade and other payables

Trade and other payables are classified with current liabilities and are stated at their nominal value unless the effect of discounting is material in which case trade and other payables are measure at amortised cost using the effective interest method.

k. Intangible fixed assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a reducing balance basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounting for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Computer Software

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

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

2.2 Significant accounting policies cont...

l. 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 Profit or Loss and Other Comprehensive Income on a straight-line basis over the period of the lease.

m. Financial instruments

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

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

2.2 Significant accounting policies cont...

m. Financial instruments cont...

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'.

n. Related parties

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

o. 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.

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.

p. 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. Except for the issues highlighted in note 3 below, the Council is of the opinion that 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'.

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

2.2 Significant accounting policies cont...

3. Judgments in applying accounting policies and key sources of estimation uncertainty

The judgements (apart from those involving estimations) made by the Council in the process of applying the Council's accounting policies, and that can significantly affect the amounts recognised in the financial statements, are discussed below:

i) Reclassification of Assets

In 2012, the Council reclassified computer software purchased in 2011 from computer equipment to intangible assets, in accordance with IAS 38 – Intangible assets. The cost of this asset and the related accumulated amortization amounting to EUR634 were reclassified accordingly. The two classes of assets are amortized over the same number of years, thus the effect of the reclassification does not result in any impact on the Profit or Loss and Other Comprehensive Income and Total Comprehensive Income other than from the proper disclosure in accordance with the Standard. The Council has taken the above in consideration in applying the requirements of IAS 8 - Accounting Policies, Changes in Accounting Estimate and Errors and is applying the change prospectively.

ii) De-recognition of assets

The Council's regularly reviews its fixed assets register for those assets where no future economic benefits are expected to arise from continued use. Any gain or loss arising on the de-recognition of an item of property, plant and equipment is determined as the difference between the sales proceeds (if any) and the carrying amount of the asset and is recognized in profit or loss. All assets that are derecognized are duly approved in Council's meeting.

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

5. Funds received from central government

	2012 EUR	2011 EUR
In terms of section 55 of the Local Councils Act (Cap 363)	<u>459,061</u>	<u>437,611</u>

6. Local enforcement income

	2012 EUR	2011 EUR
Income raised from LES – Southern Joint Committee	4,731	29,126
Commission Income for contraventions paid at Council's premises.	<u>6,067</u>	<u>1,465</u>
	<u>10,798</u>	<u>30,591</u>

7. Investment Income

	2012 EUR	2011 EUR
Bank interest	<u>649</u>	<u>585</u>

8. General Income

	2012 EUR	2011 EUR
Reinstatement of roads contributions	14,347	-
Income from permits	6,917	2,882
Refund of honoraria	3,840	-
Other funds from Government	25,812	-
Other income	<u>1,457</u>	<u>5,671</u>
	<u>52,373</u>	<u>8,553</u>

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

9. Other Income	2012 EUR	2011 EUR
Government grant income released	8,709	4,463
Share of Income from Joint Venture	-	934
	<u>8,709</u>	<u>5,397</u>
 10. Personal Emoluments	 2012 EUR	 2011 EUR
<i>Key Management Personnel</i>		
Mayor's Honoraria	9,808	11,661
Councilors' Allowance	8,800	7,200
Executive Secretary salary and allowances	<u>32,156</u>	<u>16,332</u>
	50,764	35,193
<i>Operations Personnel</i>		
Employees' salaries	53,245	34,112
Social Security Contributions	<u>6,309</u>	<u>3,160</u>
	59,554	37,272
	<u>110,318</u>	<u>72,465</u>

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

11. Operations and Maintenance

	2012	2011
	EUR	EUR
Repairs and upkeep:		
Road and street pavements (patching works)	39,989	45,227
Street signs	-	1,967
Road markings	3,977	8,142
	<u>43,966</u>	<u>55,336</u>
Contractual Services:		
Refuse collection	78,202	78,796
Landfill tipping fees	51,894	51,895
Bulky refuse collection (including open skips)	6,076	6,008
Road and street cleaning (mechanical and manual)	54,181	50,010
Cleaning and maintenance of public conveniences	8,654	6,974
Cleaning and maintenance of parks and gardens	10,891	17,757
	<u>209,898</u>	<u>211,440</u>
	<u>253,864</u>	<u>266,776</u>

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

12. Administration and other expenditure

	2012	2011
	EUR	EUR
Utilities	10,234	10,806
Other repairs and upkeep	571	1,037
Maintenance of Housing Authority blocks	17,758	-
Rent and other leases	9,719	5,129
National and international memberships	500	352
Office services	10,737	6,345
Transport	4,087	3,909
Information services	6,616	8,134
Other contractual services	5,051	4,826
Professional services	15,797	14,978
Community and hospitality	14,394	18,401
Depreciation and amortization	55,986	55,738
Bank charges	189	121
Share of operational expenditure from joint venture	2,490	3,616
Cost of books	85	261
	<u>154,214</u>	<u>133,653</u>

13a. Property, plant and equipment

Assets	Property	Office furniture and fittings	New Street Signs	Urban Improvements	Office Equipment	Motor Vehicles	Computer Equipment	Special Programs	Assets not yet Capitalized	Joint Venture Sports Equipment	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Cost											
As at 01 Jan 2012	156,118	20,979	16,865	51,808	27,367	15,257	9,061	1,155,384	38,413	68,125	1,559,377
Additions	-	370	-	15,370	3,014	-	4,651	46,333	400,182	-	469,920
Reclassification	-	-	-	-	-	-	(847)	-	-	-	(847)
Assets capitalized during 2012	-	-	-	-	-	-	-	18,096	(18,096)	-	-
Derecognized & Disposed Assets	-	(958)	-	-	(2,015)	(15,257)	(3,672)	-	(139)	-	(22,041)
As at 31 Dec 2012	<u>156,118</u>	<u>20,391</u>	<u>16,865</u>	<u>67,178</u>	<u>28,366</u>	<u>-</u>	<u>9,193</u>	<u>1,219,813</u>	<u>420,360</u>	<u>68,125</u>	<u>2,006,409</u>
Grants and other reimbursements											
As at 1 Jan 2012	-	-	-	-	-	-	-	419,844	-	-	419,844
Additions	-	-	-	-	-	-	-	-	-	-	-
As at 31 Dec 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>419,844</u>	<u>-</u>	<u>-</u>	<u>419,844</u>
Accumulated Depreciation											
As at 1 Jan 2012	15,744	11,276	16,865	41,416	20,680	14,186	6,789	349,707	-	52,793	529,456
Charge for the year	1,404	743	-	1,793	1,417	106	1,733	41,709	-	6,811	55,716
Rev Acc Dep on Derecog/disposed Assets	-	(653)	-	-	(1,859)	(14,292)	(3,462)	-	-	-	(20,266)
Reclassification	-	-	-	-	-	-	(212)	-	-	-	(212)
As at 31 Dec 2012	<u>17,148</u>	<u>11,366</u>	<u>16,865</u>	<u>43,209</u>	<u>20,238</u>	<u>-</u>	<u>4,848</u>	<u>391,416</u>	<u>-</u>	<u>59,601</u>	<u>564,694</u>
Net Book Value											
As at 31 Dec 2012	<u>138,970</u>	<u>9,025</u>	<u>-</u>	<u>23,969</u>	<u>8,128</u>	<u>-</u>	<u>4,345</u>	<u>408,553</u>	<u>420,360</u>	<u>8,524</u>	<u>1,021,871</u>

13b. Property, plant and equipment

Assets	Property	Office furniture and fittings	New Street Signs	Urban Improvements	Office Equipment	Motor Vehicles	Computer Equipment	Special Programs	Assets not yet Capitalized	Joint Venture Sports Equipment	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Cost											
As at 01 Jan 2011	156,118	20,202	16,865	51,808	27,303	15,257	18,791	1,126,797	17,126	-	1,450,267
Effect of Change in Accounting Policy	-	-	-	-	-	-	-	-	-	68,125	68,125
Additions	-	2,314	-	-	-	-	2,217	28,246	21,628	-	54,405
Reclassification	-	-	-	-	5,260	-	(5,260)	-	-	-	-
Assets Capitalized during 2011	-	-	-	-	-	-	-	341	(341)	-	-
Derecognized Assets		(1,537)			(5,196)		(6,687)				(13,420)
As at 31 Dec 2011	<u>156,118</u>	<u>20,979</u>	<u>16,865</u>	<u>51,808</u>	<u>27,367</u>	<u>15,257</u>	<u>9,061</u>	<u>1,155,384</u>	<u>38,413</u>	<u>68,125</u>	<u>1,559,377</u>
Grants and other reimbursements											
As at 1 Jan 2011	-	-	-	-	-	-	-	419,844	-	-	419,844
Additions	-	-	-	-	-	-	-	-	-	-	-
As at 31 Dec 2011	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>419,844</u>	<u>-</u>	<u>-</u>	<u>419,844</u>
Accumulated Depreciation											
As at 1 Jan 2011	14,326	11,537	16,865	40,262	19,750	13,918	16,738	306,837	-	-	440,233
Effect of Change in Accounting Policy	-	-	-	-	-	-	-	-	-	45,981	45,981
Rev Acc Dep on Derecog. Assets		(1,048)			(4,901)		(6,547)				(12,496)
Charge for year	1,418	787	-	1,154	1,883	268	546	42,870	-	6,812	55,738
Reclassification					3,948		(3,948)				-
As at 31 Dec 2011	<u>15,744</u>	<u>11,276</u>	<u>16,865</u>	<u>41,416</u>	<u>20,680</u>	<u>14,186</u>	<u>6,789</u>	<u>349,707</u>	<u>-</u>	<u>52,793</u>	<u>529,455</u>
Net Book Value											
As at 31 Dec 2011	<u>140,374</u>	<u>9,703</u>	<u>-</u>	<u>10,392</u>	<u>6,687</u>	<u>1,071</u>	<u>2,272</u>	<u>385,833</u>	<u>38,413</u>	<u>15,332</u>	<u>610,078</u>

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

13c. Property, plant and equipment

Assets de-recognized during the year

In 2012, the Council noted that there were assets that no longer qualify as property, plant and equipment, since such assets were disposed in prior years. As a result, the Council has derecognized these assets. The net book value of the derecognized assets in 2012 is EUR 674 (2011 - EUR 924). The Council's records cannot produce all the information relating to the disposal dates of each individual asset, and the Council cannot recreate such information, thus rendering the process impracticable to adjust comparative information for one or more prior periods.

In view of the above, the Council has affected the change in accounting policy prospectively with effect from 1st January 2012 in accordance with the guidance provided by IAS8 - Accounting Policies, Changes in Accounting Estimate and Errors.

Assets disposed during the year

The Council disposed of its motor vehicle on the 18th June 2012 with a net book value as at the date of disposal of EUR 966. The proceeds on disposal were EUR 79, giving rise to a loss on disposal of asset of EUR 886.

All derecognized and disposed assets were approved in a Council's meeting.

14. Other intangible assets

	2012	2011
	EUR	EUR
<i>Carrying amounts of;</i>		
Computer software	890	-

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

14. Other intangible assets cont....

	Computer Software EUR	Total EUR
Cost		
As at 1 January 2012	-	-
Reclassification from computer equipment	846	846
Additions	526	526
As at 31 December 2012	<u>1,372</u>	<u>1,372</u>
Accumulated Depreciation		
As at 1 January 2012	-	-
Reclassification from computer equipment	212	212
Amortization expense	270	270
As at 31 December 2012	<u>482</u>	<u>482</u>
Net Book Value		
As at 31 Dec 2012	<u>890</u>	<u>890</u>

Amortization expenses have been recognized as administration and other expenditure in the Statement of Profit or Loss and Other Comprehensive Income.

15. Inventories

	2012 EUR	2011 EUR
Books and other publications	<u>2,868</u>	<u>2,383</u>

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

16. Receivables	2012 EUR	2011 EUR
Receivables	133,280	119,286
Impairment recognized on receivables	(92,619)	(75,402)
Prepayment with trade receivables	69,200	-
Prepayments and accrued income	46,707	8,484
Share of Prepayments from Joint Venture	123	86
	<u>156,691</u>	<u>52,454</u>

Receivables are analyzed as follows:

Within credit period (0 - 30 days)	5,911	4,230
Exceeded credit period but not impaired (31 days +)	127,369	115,056
Impaired and provided for	(92,619)	(75,402)
Provision for doubtful debts	-	-
	<u>40,661</u>	<u>43,884</u>

Movement in impairment provisions

Balance at beginning of the year	75,402	75,402
Impairment loss recognized on receivables during the year	17,217	-
Amounts written off during the year as uncollectable	-	-
Balance at end of year	<u>92,619</u>	<u>75,402</u>

Impairment recognized on receivables relates to receivables balances due from Water Services Corporation amounting to EUR 5,881 (2011 EUR 5,881) and all outstanding monies due from the Law Enforcement Pre-Pooling System amounting to EUR 86,738 (2011 – EUR 69,521).

In 2012, the Council undertook various resurfacing works in relation to the Public Private Partnership (PPP) scheme. During the year, the appointed contractor advised the Council on that there was a countrywide shortage of tar and road works could not continue. The appointed contractors asked for an advance payment to the Council in order to import directly the material for works to continue. In view of the extraordinary circumstances, the Council agreed to advance EUR 69,200 to the appointed contractor as a prepayment on future works.

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

17. Cash and Cash Equivalents

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

	2012 EUR	2011 EUR
Bank balances:		
Cash at bank	29,797	242,363
Share of cash and cash equivalent of Joint Venture	1,407	2,001
Cash in hand	80	37
	<u>31,284</u>	<u>244,401</u>

18. Current Liabilities – Bank Current Account

The Council operates two main bank accounts;

- (a) current account
- (b) savings account

All proceeds from the Council's activities (including government allocation) are deposited in the savings account. The current account is used to issue payments for all expenses. The Council entered into an arrangement with the bank to automatically transfer funds from the savings account to the current account on a need basis, that is when payments are actually presented to the bank. As at the end of year, there were the following un-presented payments pending on the current account.

	2012 EUR	2011 EUR
Bank balances:		
Bank Current Account	<u>8,958</u>	<u>10,173</u>

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

19. Payables

	2012	2011
	EUR	EUR
Payables	93,512	56,280
Accruals	12,974	31,714
Other payables	7,171	12,985
Share of payables from Joint Venture	625	1,576
Share of accruals and other payables from Joint Venture	6,486	3,601
	<u>120,768</u>	<u>106,156</u>

20. Deferred Income

Deferred income relates to income received from government grants. According to IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, government grants are presented in the Statement of Financial Position as deferred income. The grants are recognized in the Statement of Profit or Loss and Other Comprehensive Income over the useful life of the asset.

	2012	2011
	EUR	EUR
At beginning of the year	87,597	46,950
Grants received/receivable during year	215,225	45,110
Grant income released during the year	(8,709)	(4,463)
At end of the year	<u>294,113</u>	<u>87,597</u>
Deferred Income (Grants) – Current Liabilities	<u>17,192</u>	<u>4,016</u>
Deferred Income (Grants) – Non Current Liabilities	<u>276,921</u>	<u>83,581</u>
<i>Deferred Government Grants</i>		
Deferred between one and two years	72,947	7,294
Deferred between two and five years	85,306	9,858
Deferred in five years or more	118,668	66,429
	<u>276,921</u>	<u>83,581</u>
<i>Deferred after five years or more:</i>		
Government Grants	<u>118,668</u>	<u>66,429</u>

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

21. Borrowings

	2012 EUR	2011 EUR
<i>Non - current</i>		
Third party borrowings	<u>72,741</u>	<u>-</u>
<i>Borrowings</i>		
Repayable between one and two years	27,278	-
Repayable between two and five years	27,278	-
Repayable in five years or more	<u>18,185</u>	<u>-</u>
	<u>72,741</u>	<u>-</u>

The third party loan relates to an amount payable to a supplier under the Public Private Partnership scheme as per Memo 45/2010. It is repayable over a period of seven years, from 2014 to 2020.

22. Related Party Transactions

The Government of Malta, specifically the Department of Local Government, is considered to be a related party by virtue of control.

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

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

22. Related Party Transactions cont...

Name of Entity	Nature of Relationship
Department for Local Councils	Significant Control
Southern Harbour District Joint Comm.	Joint Control
ARMS Ltd	No Control
Commissioner of Police	No Control
Dept of Information	No Control
Education Department	No Control
Enemalta Corporation	No Control
Housing Authority	No Control
Information and Data Protection Commissioner	No Control
Land Department	No Control
Local Council Association	No Control
Malta Tourism Authority	No Control
Malta Transport Authority	No Control
Malta Transport Authority	No Control
MEPA	No Control
MITTS Ltd	No Control
Office of the Prime Minister	No Control
Regjun Centrali	No Control
Regjun Ghawdex	No Control
Regjun Nofsinhar	No Control
Regjun Tramuntana	No Control
Regjun Xlokk	No Control
The Accountant General	No Control
WasteServ Malta Ltd	No Control
Water Services Corp.	No Control

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

Income	2012 EUR	2011 EUR
Funds received from Central Government	<u>459,061</u>	<u>437,611</u>

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

22. Related Party Transactions cont

During the year, the Council entered into the following transactions with related parties:

	Amounts transacted with related parties (receivables)		Amounts transacted with related parties (payables)	
	2012 EUR	2011 EUR	2012 EUR	2011 EUR
Joint Control	<u>4,731</u>	<u>29,126</u>	<u>-</u>	<u>-</u>
No Control	<u>38,325</u>	<u>184</u>	<u>68,533</u>	<u>61,710</u>

Amounts transacted with Related Parties – Receivables relate to trenching works fees and contravention income. Amounts transacted with Related Parties – Payables refer to purchases effected by the Council from related parties.

The following balances were outstanding at the end of the year;

	Amounts owed by related parties		Amounts owed to related parties	
	2012 EUR	2011 EUR	2012 EUR	2011 EUR
Joint Control	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
No Control	<u>40,635</u>	<u>39,653</u>	<u>36,900</u>	<u>31,859</u>

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior year for bad or doubtful debts in respect of the amounts owed by related parties.

Key Management Compensation

Transactions with key management personnel are disclosed in note 10.

23 Fair values of financial assets and financial liabilities

At 31 December 2012 and up to incorporation, the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively, approximated their fair values due to the short term maturities of these assets and liabilities. The fair values of non-current financial assets and non-current financial liabilities, are not materially different from their carrying amounts.

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

24 Financial risk management

The exposures to risk and the way risks arise, together with the Council's objectives, policies and processes for managing and measuring these risks are disclosed in more detail below. The objectives, policies and processes for managing financial risks and the methods used to measure such risks are subject to continual improvement and development.

Credit risk

Financial assets which potentially subject the Council to concentrations of credit risk consist principally of receivables and cash at bank. Receivables are presented net of an allowance for doubtful debts. An allowance for doubtful debts is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The pre-pooling LES debtor balances have been provided for in full. Any income receivable from the LES system is accounting for on a cash basis. Credit risk with respect to receivables is limited due to credit control procedures and the government-owned customers comprising the Council's debtor base. Cash at bank is placed with reliable financial institutions.

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

	2012	2011
	EUR	EUR
<i>Trade receivables by class:</i>		
Government Owned entities	<u>40,661</u>	<u>43,844</u>

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. As at year end, the Council has a positive current net asset position (excluding deferred income related to government grants) of Eur 61,117 (2011 – EUR 182,909) ensuring that adequate funds are available to cover present liabilities as well as short term obligations and commitments arising.

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

24 Financial risk management cont....

Interest Rate Risk

The Council operates bank accounts without any financing facilities. As a result, the Council is not exposed to cash flow interest rate risk on bank borrowings.

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 trade in any foreign currency transactions.

Market risks

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. The Council currently does not have any third party loans and operates only on the cash surplus it generates from the LES system.

25. Contingent liabilities, Contingent assets and Capital Commitments

Contingent liabilities

The Council has entered into a Local Enforcement Pooling System, losses from which system cannot be quantified at the year-end date and have been excluded from these financial statements.

The Council is currently disputing the amount of rent charged by the Lands Departments for a land recently devoluted to Council. The Council has formally asked for a reduction in the amount charged. The outcome is still unclear as at the date of issuance of these financial statements.

The Council is involved in a court case along with other Government entities in respect of land used by Government. According to the Council's lawyer, it is not envisaged that the Council will be found guilty in this case.

Contingent assets

The Council has entered into a Local Enforcement Pooling System profits from which system cannot be quantified at the year-end date and have been excluded from these financial statements

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

Capital Commitments	2012	2011
	EUR	EUR
<i>(i) Details of capital commitments are as follows:</i>		
Contracted for but not provided in the financial statements	287,398	466,514
	<u>287,398</u>	<u>466,514</u>
<i>(ii) Contracted for but not provided in Financial Statements:</i>		
Napuljun Street	-	1,500
Zejtun Street	-	1,500
Tourism Project – PPCD	-	50,000
Sqaq Sta.Maria	-	26,912
Resurfacing – PPP (Phase 1)	187,398	383,602
War Shelter	-	3,000
Resurfacing related works	100,000	-
	<u>287,398</u>	<u>466,514</u>

26. Investment in Joint Venture

The Council has a Joint Venture agreement to develop and manage a football pitch in the locality. The Council owns 50% of the venture. The Joint Venture is being accounted for as a "jointly controlled asset" in accordance with IAS 31 – Interests in Joint Ventures through proportionate consolidation as established by the standard. The Council's initial investment cost was EUR46,587. The proportionate consolidation method of the Joint Venture as at 31 December 2012 is based on unaudited financial statements.

Share of Jointly Controlled Assets and Liabilities recognized in the Statement of Financial Position as at:

	2012	2012	2011	2011
	Joint	50%	Joint	50%
	Venture	Council's	Venture	Council's
	Total	Share	Total	Share
	Value		Value	
	EUR	EUR	EUR	EUR
Property, Plant and Equipment	17,040	8,520	30,666	15,333
Trade Receivables	248	124	172	86
Cash and Cash Equivalents	2,816	1,408	4,004	2,002
	<u>20,104</u>	<u>10,052</u>	<u>34,842</u>	<u>17,421</u>
Trade and Other Payables	14,220	7,110	10,354	5,177

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

Share of Jointly Controlled Revenues and Expenditure recognized in the Statement of Comprehensive Income for the year ended:

	2012 Joint Venture Total Value EUR	2012 50% Council's Share EUR	2011 Joint Venture Total Value EUR	2011 50% Council's Share EUR
Income	-	-	1,870	935
Expenditure	18,601	9,301	20,854	10,427

There were neither contingent liabilities nor any capital commitments as at year end in respect of the joint venture.

27. Operating Lease arrangements

Operating leases relate to leases of premises from the Government, private individual and a motor vehicle lease. Lease terms range between three and fifteen years.

Payments recognized as an expense

	2012 EUR	2011 EUR
Minimum lease payments	9,710	5,129
Contingent rentals & other sub lease payments received	-	-
	<u>9,710</u>	<u>5,129</u>

Non-cancellable operating lease commitments

	2012 EUR	2011 EUR
Not later than 1 year	14,030	5,129
Later than 1 year and not later than 5 years	40,901	23,270
Later than 5 years	25,510	5,475
	<u>80,441</u>	<u>33,874</u>

LOCAL COUNCIL TARXIEN

Report of the Local Government Auditors to the Auditor General

We have audited the accompanying financial statements of LOCAL COUNCIL TARXIEN, which comprise the statement of financial position on page 5 as of 31st December 2012, 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 audit opinion.

Basis for Qualified Opinion

The Council entered into a pooling agreement with a number of local councils within the Local Enforcement System. 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 amounting to €4,731, which were 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 has recognised an investment in Joint Venture in line with IAS 31– Interests in Joint Ventures. In the absence of an audited annual report as at 31st December 2012, we could not rely on the financial information as provided by the Council to obtain reasonable assurance on the amount of assets and liabilities recorded in this joint venture.

The calculation of the grant income amounting to €8,709 released to the Statement of Comprehensive Income was not in accordance with the income approach as detailed in IAS 20, Accounting for Government Grants and Disclosure.

The Council has recognized under its long term borrowings, an amount due to a supplier in view of works undertaken through the PPP scheme for the amount of €72,741. Measurement and recognition of this financial liability should have been undertaken at amortised cost in line with the requirements of IAS 39- Financial Instruments: Recognition and Measurement.

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 Local Council Tarxien as at 31st December 2012, 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.

According to memo 37/2002, Legal Notices 323 and 324 of 2002, the Council should have a net current asset value (as adjusted in line with the guidelines) of not less than 10% of the annual financial allocation. As of 31 December 2012, the Council's minimum net current asset value (after certain adjustments) should have amounted to at least €45,906 being 10% of the annual allocation. Nonetheless, the actual financial indicator at 31st December 2012 stood at a negative 1.76%.

This copy of the report has been signed by
Clive Farrugia (Partner) on its behalf

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Date: 29th April 2013