

XAGHRA LOCAL COUNCIL

**Annual Report and
Financial Statements**

For the year ended 31 December 2018

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ANNUAL REPORT AND FINANCIAL STATEMENTS
For the year ended 31 December 2018

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Financial Statements for the year ended 31 December 2018

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 the Local Council's Statement of 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 Councils (Financial) Regulations, and the Local Councils (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, the Local Councils (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.

Approved by the Council and signed on its behalf on the 02 May 2019 by:



Joseph Cordina
Mayor

Ivan Attard
Executive Secretary


STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 €	2017 €
ASSETS			
Non-current assets			
Property, plant and equipment	3	464,584	1,054,803
Current Assets			
Receivables	4	102,407	44,566
Cash in bank and at hand	5	922,992	345,978
		<u>1,025,399</u>	<u>390,544</u>
Total Assets		<u>€ 1,489,983</u>	<u>€ 1,445,347</u>
RESERVES AND LIABILITIES			
Reserves			
Retained Fund		597,837	917,500
Non-current Liabilities			
Non-current payables		98,060	122,575
Current Liabilities			
Payables	7	794,086	405,272
Total reserves and liabilities		<u>€ 1,489,983</u>	<u>€ 1,445,347</u>

The notes on pages 8 to 26 are an integral part of the financial statements.

These Financial Statements were approved by the Local Council on the 02 May 2019 and signed on its behalf by:


Joseph Cordina
Mayor


Ivan Attard
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 €	2017 €
REVENUE			
Funds received from central government	8	529,398	514,535
Income from LES	10	2,481	4,510
General Income	11	46,177	19,634
		<u>578,056</u>	<u>538,679</u>
EXPENDITURE			
Personal emoluments	12	(91,305)	(90,835)
Operations and maintenance	13	(156,327)	(150,338)
Administration and other expenditure	14	(183,926)	(113,053)
Depreciation	15	(105,270)	(112,077)
		<u>(536,828)</u>	<u>(466,303)</u>
Operating surplus for the year		<u>41,228</u>	<u>72,376</u>
Investment income	9	454	300
Impairment provisions	15	(361,345)	-
Total Comprehensive (Loss)/ Income for the year		<u>€ (319,663)</u>	<u>€ 72,676</u>

The notes on pages 8 to 26 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Retained Funds 2018 €	Retained Funds 2017 €
At 1 January	917,500	844,824
Total Comprehensive (Loss)/ Income for the year	(319,663)	72,676
At 31 December	<u>€ 597,837</u>	<u>€ 917,500</u>

The notes on pages 8 to 26 are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 €	2017 €
Cash Flows from Operating Activities			
Total Comprehensive (loss)/ income for the year		(319,663)	72,676
Adjustments for:			
Depreciation		105,270	112,077
Investment Income		(454)	(300)
Impairment loss		361,345	-
Operating Profit before working capital changes		146,498	184,453
(Increase) in Receivables		(57,841)	(7,825)
Increase/ (decrease) in Payables		182,202	(56,549)
Net Cash generated operating activities		270,859	120,079
Cash flows from Investing Activities			
Purchase of property, plant and equipment		(181,411)	(40,206)
Investment Income		454	300
Capital grants received		305,015	-
Grants refunded back		-	(73,970)
Net Cash generated from/ (used in) Investing Activities		124,058	(113,876)
Net movement in Cash and Cash Equivalents		394,917	6,203
Cash and Cash Equivalents at the beginning of Year		291,309	285,106
Cash and Cash Equivalents at the end of year	5	686,226	291,309

The notes on pages 8 to 26 are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. General Information

Xaghra Local Council is the local authority of Xaghra setup in accordance with the Local Councils Act. The office of the Local Council is situated at 8th September Avenue, Xaghra, Gozo.

2. Accounting Policies and Reporting Procedures

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

(a) Accounting convention

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

The financial statements are prepared under the historical cost convention as modified to include fair values stated in the accounting policies below. These Financial Statements are prepared in accordance to the requirements of International Financial Reporting Standards as adopted by the EU and comply with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996.

(b) Standards, amendments and interpretations to existing standards

New and amended standards adopted by the council

The new and revised standards that became effective for annual periods beginning on or after 1 January 2018 made several minor amendments to a number of IFRSs. These include

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

(b) Standards, amendments and interpretations to existing standards (continued)

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and established principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS18 "Revenue" and IAS11 'Construction contracts' and related interpretations.

During the year the Local Council has changed its accounting policy on Government Grants to comply with Directive 1/2017 issued by the Department of Local Government. The Department for Local Government has instructed Local Councils to adopt the allowed alternative treatment as from 1 January 2018. The effect of this policy change is explained in Note 20 to the financial statements.

Standards, amendments and interpretations to existing standards that are not yet effective.

The following standards and amendments to existing standards have been published and are mandatory (as applicable) for the Council accounting periods beginning on or after 1 January 2019 or later periods, but the Council has not early adopted them:

IFRS 16 presents new requirements for the recognition of leases replacing IAS 17 'Leases, and some lease-related Interpretations'. The new standard requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value leases. The standard also provides new guidelines on the application of the definition of lease and on sale and lease back accounting. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. The council has started to assess the impact of IFRS 16 but is not yet in a position to provide quantified information.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

(c) Revenue recognition

Revenue is recognised when the amount of revenue and the associated costs can be measured reliably. Interest income is recognised in the statement of comprehensive income as it accrues.

(d) Local Enforcement System

During 2018 the amount disclosed in the financial statements under Local Enforcement Income represents the administrative fee of 10% that is chargeable to LESA and the various Regional Committees for contraventions paid at the Council. During the year the Local Council received income from the distributions made from the LESA pooling system

(e) Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment loss to date. Depreciation is calculated on a monthly basis using the straight line 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
Road and traffic Signs	replacement basis
Street Mirrors	replacement basis
Street Lights	100

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

(e) Property, Plant and Equipment (continued)

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Local Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

(f) Government Grants

Government grants are accounted for on the Capital Approach according to IAS 20 as the Council adopted Directive 1/2017 issued by the Department of Local Council. With the Capital Approach, any grants received are netted off against the cost of the asset to which they relate. Depreciation will be accounted on the resulting cost less grant.

(g) Impairment of Assets

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

(h) Amounts Receivable

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

(i) Foreign Currencies

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

(j) Surplus and deficits

Only surpluses that were realised at the date of the Statement of Financial Position are recognised in these Financial Statements. All foreseeable liabilities and potential deficits arising up to the said date are accounted for even if they become apparent between the said date and the date on which the Financial Statements are approved.

(k) Cash and Equivalents

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

(l) Related parties

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

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

(m) Payables

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

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

(n) Financial Instruments

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

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

(n) Financial Instruments (continued)

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 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'.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

(o) Critical accounting estimates and judgements

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

3. PROPERTY, PLANT AND EQUIPMENT

	Office Furniture & Fittings €	Office & Computer Equipment €	Urban Improvements €	New Street Signs €	Special Programmes €	Plant and Equipment €	Assets Under Construction €	Total €
Cost								
At 1 Jan 2018	22,047	30,229	379,939	42,145	3,303,980	8,558	33,063	3,819,961
Additions	-	1,313	23,953	-	156,145	-	-	181,411
At 31 Dec 2018	€ 22,047	€ 31,542	€ 403,892	€ 42,145	€ 3,460,125	€ 8,558	€ 33,063	€ 4,001,372
Grants and other reimbursements								
At 1 Jan 2018	-	(2,500)	-	-	(1,217,374)	-	-	(1,219,874)
Additions	-	-	-	-	(305,015)	-	-	(305,015)
At 31 Dec 2018	€ -	€ (2,500)	€ -	€ -	€ (1,217,374)	€ -	€ -	€ (1,524,889)
Depreciation								
At 1 Jan 2018	(18,826)	(23,212)	(221,648)	(42,145)	(1,235,085)	(4,368)	-	(1,545,284)
Charge for the year	(1,654)	(1,480)	(23,209)	-	(78,407)	(520)	-	(105,270)
Impairment loss	-	2,426	(52,092)	-	(271,136)	(2,628)	(33,063)	(361,345)
At 31 Dec 2018	€ (20,480)	€ (27,118)	€ (296,949)	€ (42,145)	€ (1,584,628)	€ (7,516)	€ 33,063	€ (2,011,899)
Net Book Value								
At 31 Dec 2018	€ 1,567	€ 1,924	€ 106,943	€ -	€ 353,108	€ 1,042	€ -	€ 464,584

Included with Grants additions of € 305,015 there is a grant of € 155,000 which the Local Council received in respect of the Private Partnership Project started in 2008.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

3. PROPERTY, PLANT AND EQUIPMENT – Continued

	Office Furniture & Fittings €	Office & Computer Equipment €	Urban Improvements €	New Street Signs €	Special Programmes €	Plant and Equipment €	Assets Under Construction €	Total €
Cost								
At 1 Jan 2017	21,397	28,557	367,385	42,145	3,278,650	8,558	33,063	3,779,755
Additions	650	1,672	12,554	-	25,330	-	-	40,206
At 31 Dec 2017	€ 22,047	€ 30,229	€ 379,939	€ 42,145	€ 3,303,980	€ 8,558	€ 33,063	€ 3,819,961
Grants and other reimbursements								
At 1 Jan 2017	-	-	-	-	(176,237)	-	-	(176,237)
Prior-year adjustment (note 20)	-	(2,500)	-	-	(1,041,137)	-	-	(1,043,637)
At 31 Dec 2017	€ -	€ (2,500)	€ -	€ -	€ (1,217,374)	€ -	€ -	€ (1,219,874)
Depreciation								
At 1 Jan 2017	(18,530)	(23,603)	(205,255)	(42,145)	(1,378,475)	(3,926)	€ -	(1,671,934)
Prior-year adjustment (note 20)	-	1,296 (905)	-	-	310,521 (167,131)	-	-	311,817 (185,167)
Charge for the year	(296)		(16,393)	-		(442)	-	
At 31 Dec 2017	€ (18,826)	€ (23,212)	€ (221,648)	€ (42,145)	€ (1,235,085)	€ (4,368)	€ -	€ (1,545,284)
Net Book Value								
At 31 Dec 2017	€ 3,221	€ 4,517	€ 158,291	€ -	€ 851,521	€ 4,190	€ 33,063	€ 1,054,803

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

4. Receivables	2018 €	2017 €
Accounts receivable	38,937	18,060
Prepayments and accrued income	63,470	26,506
	<u>€ 102,407</u>	<u>€ 44,566</u>

Receivables	2018 €	2017 €
Within the current period	36,556	17,401
Exceeded credit period but not yet impaired	65,851	27,165
	<u>€ 102,407</u>	<u>€ 44,566</u>

5. Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and balance with banks. Cash and cash equivalents included in the statement of cash flow comprise the following amounts in the Local Council statement of financial position:

	2018 €	2017 €
Bank Balances:		
Ordinary funds	734,187	343,121
Funds at Central Bank	187,529	-
Cash in hand	1,276	2,857
Overdrawn balances	(236,766)	(54,669)
Cash and cash equivalents	<u>686,226</u>	<u>291,309</u>
Transfer to payables (Note 7)	236,766	54,669
Cash at bank and in hand	<u>€ 922,992</u>	<u>€ 345,978</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

	2018 €	2017 €
6. Deferred Income		
Less: Current portion	-	70,024
Non-current portion	-	661,796
	-	731,820
Prior year adjustment - Transferred to property, plant and equipment (note 20)	-	(731,820)
	€ -	€ -
7. Payables	2018 €	2017 €
Accounts payable	278,078	447,436
Other payables	4,812	8,410
Accruals	21,487	17,332
Grants received in advance (Note)	351,003	-
Overdrawn bank balances (Note 5)	236,766	54,669
	892,146	527,847
Less: Non-current payables	(98,060)	(122,575)
	€ 794,086	€ 405,272
Non-current payables	2018 €	2017 €
Between one and two years	24,515	24,515
Between two and five years	73,545	73,545
Over five years	-	24,515
Closing balance	€ 98,060	€ 122,575

Note: The grants received in advance represent funding received on Measure 4.3 and from the Gozo Ministry which will be utilised on capital projects during 2019. Once the project will commence these will be capitalised under Property, plant and equipment. Capital commitments in relation to these grants are explained under Note 17 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

8. Funds received from Central Government	2018	2017
	€	€
In terms of section 55 of the Local Councils Act (CAP 363)	517,710	496,434
Supplementary Government Income	2,723	8,000
Other Government Income	145	-
Income from EU funds	8,820	10,101
	<u>€ 529,398</u>	<u>€ 514,535</u>
9. Investment income	2018	2017
	€	€
Bank Interest Receivable	€ 454	€ 300
	<u></u>	<u></u>
10. Income form LES	2018	2017
	€	€
Administrative income under LES	2,213	2,146
Distribution from LESA pooling system	268	2,364
	<u>€ 2,481</u>	<u>€ 4,510</u>
11. General Income	2018	2017
	€	€
Income from permits	9,878	7,018
Contributions and donations	13,844	2,231
Income from organic waste collection	22,455	10,385
	<u>€ 46,177</u>	<u>€ 19,634</u>
12. Personal emoluments	2018	2017
	€	€
Personal emoluments include, inter alia:		
Major's honoraria	7,464	7,345
Major and Councillors' Allowances	6,400	6,333
Executive Secretary salary and allowances	30,172	29,456
Employee salaries	41,045	41,431
Social Security Contributions	6,224	6,270
	<u>€ 91,305</u>	<u>€ 90,835</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

13. Operations and Maintenance	2018	2017
	€	€
Repairs and Upkeep:		
Road and Street Pavements (patching works)	7,982	26,410
Street signs and markings	6,010	7,931
Other repairs and upkeep	26,998	18,052
Plants and trees	5,360	5,699
Total	€ 46,350	€ 58,092
Contractual Services:		
Refuse Collection (including bins on wheels)	56,052	48,933
Bulky Refuse Collection (incl tipping fees)	22,415	20,658
Road and street cleaning (mechanical and manual)	22,201	15,325
Cleaning and maintenance of Public Conveniences	4,532	4,372
Street Lighting	4,777	2,958
Total	109,977	92,246
Total Operations and Maintenance Expenses	€ 156,327	€ 150,338
14. Administration and other expenditure	2018	2017
	€	€
Utilities	5,292	4,771
Rent	2,250	500
National and International Memberships	1,350	1,523
Office Services	3,899	2,815
Travel	8,111	5,071
Transport	5,281	6,077
Information services	908	3,944
Professional Services	35,466	12,862
Community and Hospitality	21,503	20,552
Cultural events	99,866	54,938
	€ 183,926	€ 113,053
15. Depreciation and impairment provisions	2018	2017
	€	€
Depreciation	105,270	112,077
Impairment losses	361,345	-
	€ 466,615	€ 112,077

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

16. Related Parties Disclosures

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

Name of entity	Nature of relationship
Department of Local Councils	Significant control
Regional Committees	No control
Ministry for Gozo	No control
Malta Environment and Planning Authority	No control

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

	2018	2017
Significant control		
Revenue:		
Annual financial allocation	€ 517,710	€ 496,434

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

17. Capital Commitments

At the end of the financial year there was one capital projects approved but not yet contracted for.

Details of capital commitments are as follows	2018 €	2017 €
Contracted for but not provided for		-
Projects under Measure 4.3 and Gozo Ministry	538,759	-
Approved but not contracted for	-	5,000
	<u>538,759</u>	<u>€ 5,000</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

17. Capital Commitments (continued)

	2018 €	2017 €
Approved but not contracted for:		
Fixtures and fittings	-	5,000
Improving accessibility in Rural areas in Xaghra	375,512	-
Resurfacing of part of Triq Ta' Gajdoru	54,932	
Resurfacing of Triq il-Kumittiva	46,652	
Resurfacing of part Triq tal-Masri	61,663	
	<u>€ 538,759</u>	<u>€ 5,000</u>

18. Risk management objectives and policies

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

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

18.1 Credit risk

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

	2018 €	2017 €
Class of financial assets – carrying amounts		
Trade and other receivables	102,407	44,566
Cash and Cash Equivalents	922,992	345,978
	<u>€ 1,025,399</u>	<u>€ 390,544</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

18. Risk management objectives and policies - continued**18.2 Liquidity risk**

The council considers that the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. See notes 4 and 5 for further information on impairment or financial assets that are past due.

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

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

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

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

Payables	2018	2017
Within one year	794,086	405,272
Within more than one year	98,060	122,575
	<u>€ 892,146</u>	<u>€ 527,847</u>

18.3 Interest rate risk

The Council has no significant interest-bearing assets other than cash and cash equivalents (Note 5), issued at variable rates. Cash and cash equivalents issued at variable rates expose the Council to cash flow interest rate risk. Management monitors the level of floating rate bank balances as a measure of cash flow risk taken on. Based on this analysis, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

18. Risk management objectives and policies - continued**18.4 Summary of the financial assets and liabilities by category**

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

Current Assets	2018	2017
	€	€
Loans and receivables:		
Trade and other receivables	102,407	44,566
Cash and Cash Equivalents	922,992	345,978
	<u>€ 1,025,399</u>	<u>€ 390,544</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Within one year	€ 794,086	€ 405,272
	<u></u>	<u></u>

18.5 Capital risk management

The Council's objectives when managing capital are to safeguard the Council's ability to continue as a going concern so that it can continue to provide a service to the residents of the Local Council by maintaining an optimal capital structure to reduce cost of capital.

The Council's equity, as disclosed in the statement of financial position, constitutes its capital. The Council's capital structure is monitored by the Executive Secretary and the Council with appropriate reference to its financial obligations and commitments arising from operational requirements. In view of the nature of the Council's activities, the capital level as at the end of the reporting period is deemed adequate by the Council.

19. Fair value estimation

At 31 December 2018 and 31 December 2017, the carrying amounts of cash at bank, receivables and payables reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

20 Prior Year Adjustment

On 1 January 2018, the Local Council applied Directive 1/2017 issued by the Department for Local Government in respect of the Accounting of Grants as per IAS 20 'Government Grants'. The Department for Local Government has instructed Local Councils to adopt the alternative capital approach as from 1 January 2018.

This is a change in accounting policies and, according to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', this has been accounted for retrospectively. The change in accounting policy has effected the Statement of Comprehensive Income and the Statement of Financial Position as follows:

STATEMENT OF CHANGES IN EQUITY

	Retained Funds €
Balance at 31 December 2017 before adjustment	917,500
Adjustment on depreciation for the year ended 31 December 2017	73,090
Adjustment on other government income for the year ended 31 December 2017 – Deferred government income	(73,090)
Balance at 31 December 2017 as restated	<u>€ 917,500</u>

20 Prior Year Adjustment – continued

	Note	Balances before adjustments €	Prior - Year Adjustments €	Reinstated Balances €
Non-current assets				
Property plant and equipment	3	1,786,623	(731,820)	1,054,803
Current assets				
Receivables	4	44,566	-	44,566
Cash at bank	5	345,978	-	345,978
		<u>390,544</u>	<u>-</u>	<u>390,544</u>
Total assets		<u>€ 2,177,167</u>	<u>(731,820)</u>	<u>€ 1,445,347</u>
Reserves and liabilities				
Reserves				
Retained earnings		917,500	-	917,500
Non-current liabilities				
Deferred income	6	661,796	(661,796)	-
Non-current payables	7	122,575	-	122,575
		<u>784,371</u>	<u>-</u>	<u>122,575</u>
Current liabilities				
Payables	7	475,296	(70,024)	405,272
Total equity and liabilities		<u>€ 2,117,167</u>	<u>(731,280)</u>	<u>€ 1,445,347</u>

Financial Statements for the year ended 31 December 2018

Independent Auditor's report