

Xewkija Local Council

**Annual Report
and
Financial Statements**

1 January – 31 December 2010

**Prepared by
Victor Camilleri
FCCA, FIA, CPA, Dip. Tax.**

**ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2010**

<i>CONTENTS</i>	<i>PAGES</i>
Statement of Local Council Members' and Executive Secretary's responsibilities	3
Statement of financial position	4
Statement of comprehensive income	5
Statement of changes in equity	6
Statement of cash flows	7
Schedule of special needs	8
Notes to the financial statements	9
Independent auditor's report	18

Financial Statements for the year ended 31 December 2010

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, and the Local Council (Financial) Procedures issued in terms of the said Act.

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

Approved by the Council and signed on its behalf on

2011 by:

Dr. Monica Vella
Mayor

Ruben Cassar
Executive Secretary

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	2010 €	2009 €
ASSETS			
Non-current assets			
Property, plant and equipment	3	<u>400,799</u>	<u>384,698</u>
		<u>400,799</u>	<u>384,698</u>
Current Assets			
Receivables	4	139,361	21,429
Cash and Cash Equivalents	5	<u>153,220</u>	<u>44,505</u>
		<u>292,581</u>	<u>65,934</u>
Total Assets		<u><u>693,380</u></u>	<u><u>450,632</u></u>
RESERVES AND LIABILITIES			
Reserves			
Retained Funds		486,636	424,822
Non-current Liabilities			
Deferred income	6	149,171	-
Current Liabilities			
Payables	7	<u>57,573</u>	<u>25,810</u>
Total reserves and liabilities		<u><u>693,380</u></u>	<u><u>450,632</u></u>

The notes on pages 9 to 17 are an integral part of the financial statements.

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

2011

Dr. Monica Vella
Mayor

Ruben Cassar
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Notes	Year ended 31 Dec 2010 €	Period from 1 Apr to 31 Dec 2009 €
INCOME			
Funds received from Central Government	8	316,493	233,780
Funds raised from Local Enforcement System	9	1,031	11,988
Investment income	10	291	110
General Income	11	33,060	3,386
		<u>350,875</u>	<u>249,264</u>
EXPENDITURE			
Personal emoluments	12	(61,875)	(38,337)
Operations and maintenance	13	(96,601)	(85,205)
Administration and other expenditure	14	(130,585)	(76,769)
		<u>(289,061)</u>	<u>(200,311)</u>
Total Comprehensive Income for the year/period		<u>61,814</u>	<u>48,953</u>

The notes on pages 9 to 17 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Retained Funds €
At 31 March 2009	375,869
Total Comprehensive Income for the period	48,953
	<hr/>
At 31 December 2009	424,822
Total Comprehensive Income for the year	61,814
	<hr/>
At 31 December 2010	<u>486,636</u>

The notes on pages 9 to 17 are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Note	2010 €	2009 €
Cash Flows from Operating Activities			
Total Comprehensive Income for the year/period		61,814	48,953
Adjustments for:			
Depreciation		32,939	25,354
Interest receivable		(291)	(110)
Operating Profit before Working Capital Changes		<u>94,462</u>	<u>74,197</u>
Decrease/(Increase) in Receivables		(117,932)	(20,846)
Increase in Payables		<u>31,763</u>	<u>7,322</u>
Net Cash Flow generated from operating Activities		<u>8,293</u>	<u>60,673</u>
Cash flows from Investing Activities			
Purchase of property, plant and equipment		(49,040)	(1,192)
Interest received		291	110
Increase in deferred income		149,171	-
Cash Flow generated from/(used in) Investing Activities		<u>100,422</u>	<u>(1,082)</u>
Net Increase in Cash and Cash Equivalents		108,715	59,591
Cash and Cash Equivalents at the Beginning of year/period		44,505	(15,086)
Cash and Cash Equivalents at the End of year/period	5	<u>153,220</u>	<u>44,505</u>

The notes on pages 9 to 17 are an integral part of the financial statements.

SCHEDULE OF SPECIAL NEEDS FUNDS

For the year ended 31 December 2010

Fund received and expended	Brought forward	Received	Expended	Balance
	€	€	€	€
Public Convenience – Soil Street	20,000	-	20,000	-
PPP Scheme	-	49,178	-	49,178
Total	20,000	49,178	20,000	49,178

Commitments

	€	€	€	€
Public Convenience – Soil Street	20,000	-	20,000	-
PPP Scheme	-	49,178	-	49,178
Total	20,000	49,178	20,000	49,178

Capital Creditors

	€	€	€	€
Public Convenience – Soil Street	20,000	-	20,000	-
PPP Scheme	-	49,178	-	49,178
Total	20,000	49,178	20,000	49,178

The notes on pages 9 to 17 are an integral part of the financial statements.

Notes to the Financial Statements for the year ended 31 December 2010

1. General Information

Xewkija Local Council is the local authority of Xewkija setup in accordance with the Local Councils Act. The office of the Local Council is situated at 2, Triq Torri Tingi, Xewkija XWK 2231.

2. Basis of Preparation and Accounting Policies

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.

The principal accounting policies and reporting procedures used by the Local Councils 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 income statement as it accrues.

b. Local Enforcement System

Xewkija Local Council forms part of Gozo 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.

c. Property, Plant and Equipment

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

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

Notes to the Financial Statements for the year ended 31 December 2010 (cont)

d. Government Grants

Government grants are accounted for on the Income Approach according to IAS 20. They are accounted for on a systematic basis in the Statement of Comprehensive Income over the periods necessary to match them with the related costs which they are intended to compensate. If such costs have already been incurred when the grant is made, or if there are no related cost, then the grant is accounted for when it becomes receivable.

e. Impairment of Assets

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

f. Amounts Receivable

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

g. 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 present currency.

Transactions denominated in foreign currencies are translated into Euro at rates of exchange in operation on the dates of transactions. Monetary assets and liabilities expressed in foreign currencies are translated into Euro 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 Equivalents

Cash and Cash Equivalents are carried in the Statement of Affairs 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. 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.

Notes to the Financial Statements for the year ended 31 December 2010 (cont)

k. Related parties

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

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

l. Financial instruments

The council recognises a financial instrument in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Receivables are initially recognised at fair value. All regular way transactions in assets classified in the receivables category are accounted for using settlement date accounting, i.e. on the date an asset is delivered to or by the entity.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the council has transferred substantially all risks and rewards of ownership or has not retained control of the financial asset.

The council assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. If there is objective evidence that an impairment loss on receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

Receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Amounts due from related parties are recognised and carried at cost.

m. Critical accounting estimates and judgements

In preparing the financial statements, the Executive Secretary is required to make judgements, estimates and assumptions that effect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements. These estimates are reviewed on a regular basis and if a change is needed, it is accounted for in the period the changes become known.

In the opinion of the executive secretary, the accounting estimates, assumptions 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) – 'Presentation of financial statements'.

Notes to the Financial Statements for the year ended 31 December 2010 (cont)
3a Property, Plant and Equipment

	Property	Office Furniture /fittings	Computer Equipment	Office Equipment	Urban Improvements	New Street Signs	Construction	Total
Tangible Assets								
Cost								
At 1 January 2010	85,539	22,891	4,523	5,997	409,377	28,781	305,756	862,864
Additions this year	-	89	361	-	-	1,681	46,909	49,040
At 31 December 2010	85,539	22,980	4,884	5,997	409,377	30,462	352,665	911,904
Grants and other reimbursements								
At 1 January 2010	-	-	-	-	(3,115)	-	(209,795)	(212,910)
Additions this year	-	-	-	-	-	-	-	-
At 31 December 2010	-	-	-	-	(3,115)	-	(209,795)	(212,910)
Accumulated Depreciation								
At 1 January 2010	(6,518)	(10,170)	(4,417)	(4,075)	(210,724)	(28,781)	(571)	(265,256)
Additions this year	(792)	(591)	(319)	(439)	(28,785)	(1,681)	(332)	(32,939)
At 31 December 2010	(7,310)	(10,761)	(4,736)	(4,514)	(239,509)	(30,462)	(903)	(298,195)
Net book value								
At 31 December 2010	78,229	12,219	148	1,483	166,753	-	141,967	400,799

Notes to the Financial Statements for the year ended 31 December 2010 (cont)

3b Property, Plant and Equipment

	Property	Office Furniture /fittings	Computer Equipment	Office Equipment	Urban Improvements	New Street Signs	Construction	Total
Tangible Assets								
Cost								
At 1 April 2009	85,539	22,520	4,523	5,611	408,942	28,781	305,756	861,672
Additions this year	-	371	-	386	435	-	-	1,192
At 31 December 2009	85,539	22,891	4,523	5,997	409,377	28,781	305,756	862,864
Grants and other reimbursements								
At 1 April 2009	-	-	-	-	3,115	-	209,795	212,910
Additions this year	-	-	-	-	-	-	-	-
At 31 December 2009	-	-	-	-	3,115	-	209,795	212,910
Accumulated Depreciation								
At 1 April 2009	5,919	9,720	4,153	3,740	187,024	28,781	565	239,902
Additions this year	599	450	264	335	23,700	-	6	25,354
At 31 December 2009	6,518	10,170	4,417	4,075	210,724	28,781	571	265,256
Net book value								
At 31 December 2009	79,021	12,721	106	1,922	195,538	-	95,390	384,698

Notes to the Financial Statements for the year ended 31 December 2010 (cont)

	2010	2009
	€	€
4 Receivables		
Accounts receivable	5,950	-
Guarantee	11,650	11,650
Prepayments and accrued income	121,761	9,779
	<u>139,361</u>	<u>21,429</u>

	2010	2009
	€	€
Receivables		
Within the credit period	26,759	9,779
Exceeded credit period but not yet impaired	11,650	11,650
Government grants receivable under the PPP scheme	100,952	-
	<u>139,361</u>	<u>21,429</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 affairs:

	2010	2009
	€	€
Bank Balances:		
Ordinary funds	153,120	44,405
Cash in hand	100	100
Overdrawn balances	(17,952)	-
	<u>124,359</u>	<u>44,505</u>
Transfer to payables	17,952	-
Cash at bank and in hand	<u>153,220</u>	<u>44,505</u>

	2010	2009
	€	€
6 Deferred Income		
Deferred Income – between 1 to 2 years	7,599	-
Deferred Income – between 2 to 5 years	36,825	-
Deferred Income - over 5 years	104,747	-
	<u>149,171</u>	<u>-</u>

	2010	2009
	€	€
7 Payables		
Accounts Payables	7,800	9,581
Accruals	30,862	16,229
Deferred income within 1 year	959	-
Overdrawn balances	17,952	-
	<u>57,573</u>	<u>25,810</u>

Notes to the Financial Statements for the year ended 31 December 2010 (cont)

	2010	2009
	€	€
8 Funds received from Central Government		
In terms of section 55 of the Local Councils Act (CAP 363)	299,964	208,146
Other Government Income	16,529	25,634
	<u>316,493</u>	<u>233,780</u>
9 Income raised under Local Enforcement System		
Income from Local Enforcement System	1,031	11,988
	<u>1,031</u>	<u>11,988</u>
10 Investment income		
Bank Interest Receivable	291	110
	<u>291</u>	<u>110</u>
11 General Income		
Income from permits	1,957	1,874
Income from tender documents	958	140
Income from reinstatement of roads	27,350	-
Contributions and donations	2,795	1,372
	<u>33,060</u>	<u>3,386</u>
12 Personal Emoluments		
Personal emoluments include, inter alia:		
Mayor's Allowance	8,924	4500
Councillors' Allowance	6,100	-
Executive Secretary salary and allowances	24,944	17980
Employees' Salaries	16,069	13375
Social Security Contributions	3,408	2482
	<u>61,875</u>	<u>38,337</u>

Notes to the Financial Statements for the year ended 31 December 2010 (cont)**13 Operations and Maintenance**

	2010	2009
	€	€

Operations and maintenance includes, inter alia:

Repairs and Upkeep:

Road and Street Pavements (patching works)	10,183	14,398
Public property	10,513	-
Street signs and markings	5,185	9,813
Total	<u>25,881</u>	<u>24,211</u>

Contractual Services:

Refuse Collection (including bins on wheels)	32,965	25,674
Bulky Refuse Collection (incl. open skips)	2,277	7,371
Road and Street Cleaning (mechanical and manual)	11,186	7,535
Cleaning and Maintenance of Public Conveniences	3,326	2,560
Tipping fees	15,200	5,064
Street Lighting	5,766	12,790
	<u>70,720</u>	<u>60,994</u>
Total Operations and Maintenance Expenses	<u><u>96,601</u></u>	<u><u>85,205</u></u>

14 Administration and other expenditure

	2010	2009
	€	€
Utilities	5,993	5,271
Other repairs and upkeep	20,860	10,320
National and International Memberships	1,529	3,118
Rent	256	192
Office Services	3,705	2,426
Travel	692	-
Transport	156	386
Information services	1,927	1,175
Other contractual services	3,108	2,803
Professional Services	28,108	8,614
Community and Hospitality	31,237	8,575
Training	75	8,535
Depreciation	32,939	25,354
	<u><u>130,585</u></u>	<u><u>76,769</u></u>

Notes to the Financial Statements for the year ended 31 December 2010 (cont)

15. Financial Instruments and Related Parties Disclosures

The Council's financial position at the end of the financial year is favourable with the current assets exceeding the current liabilities by € 235,008.

The ultimate controlling party of the local 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.

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

The accounts receivable by the council include outstanding balances relating to the current period from WSC and accrued income from Government, as well as a guarantee made to MEPA that will be refunded to the Council on the completion of the works being carried out. The accounts payable and accruals shown under current liabilities all relate to the current year. There is a temporary overdrawn balance on the bank current account which is financed by the savings account. This negative balance represents the cheques that have not yet been presented to the bank for payment.

16. Contingencies

The council forms part of a Local Enforcement Pooling System, profits or losses generated from which system cannot be quantified at year end and have been excluded from these financial statements.

There is a contingent liability for tipping fees that were overcharged but not entered in the accounts amounting to €5,401. This amount was not entered following instructions from the Local Council's Association since the bills for this service exceeded the amount received by the Council from Central Government for this purpose.

The Council has a bank guarantee of €11,650 in favour of MEPA.

17. Contingent gains

The credit regarding the debt due from Mr. Charles Cordina is still in force. The Local Council has obtained an executive title to retrieve this debt from Mr. Charles Cordina. A judicial sale by auction was made on request of the Local Council, however, other third party creditors concurred in this judicial sale and the Council received €238.11 from the amount due. This amount has been accounted for in the accounts of 2010. The remaining balance is still due.

18. Capital Commitments

Details of Capital commitments are as follows:	2010	2009
	Euro	Euro
Approved but not yet contracted for	<u>49,178</u>	<u>20,000</u>

These could be analysed as follows:

Approved but not yet contracted for:

Public Convenience – Soil Street	-	20,000
PPP Scheme	<u>49,178</u>	<u>-</u>
	<u>49,178</u>	<u>20,000</u>

Financial Statements for the year ended 31 December 2010

Independent Auditor's report