

Luqa Local Council

**Annual Report
and
Financial Statements**

1 January – 31 December 2012

**Prepared by
JCA Limited**

**ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2012**

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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 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, Local Councils (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Council and signed on its behalf on April 2013 by:

John Schembri
Mayor

Michael Portelli
Executive Secretary

Financial Statements for the year ended 31 December 2013

Independent Auditors' report

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	31 December 2012 €	31 December 2011 €
ASSETS			
Non-Current Assets			
Plant and Equipment	3	<u>1,057,042</u>	<u>876,859</u>
		<u>1,057,042</u>	<u>876,859</u>
Financial Asset			
Investments	4	<u>205,968</u>	<u>203,643</u>
Current Assets			
Trade and other receivables	5	16,838	94,071
Cash and Cash Equivalents	6	<u>169,327</u>	<u>327,979</u>
		<u>186,165</u>	<u>422,050</u>
TOTAL ASSETS		<u><u>1,449,175</u></u>	<u><u>1,502,552</u></u>
RESERVES AND LIABILITIES			
Capital and reserves			
Retained Fund		1,237,908	1,267,666
Investment revaluation reserve		<u>5,968</u>	<u>3,643</u>
		<u>1,243,876</u>	<u>1,271,309</u>
Liabilities			
Non-Current Liabilities			
Deferred income grants	7	106,592	44,394
Current Liabilities			
Trade and other payables	7	98,707	186,849
Total Liabilities		<u>205,299</u>	<u>231,243</u>
TOTAL RESERVES AND LIABILITIES		<u><u>1,449,175</u></u>	<u><u>1,502,552</u></u>

The notes on pages 10 to 22 are an integral part of the financial statements.

These Financial Statements were approved by the Local Council on April 2013 and signed on its behalf by:

John Schembri
Mayor

Michael Portelli
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	2012 €	2011 €
REVENUE			
Funds received from central government	8	374,456	350,664
Funds raised from contraventions	9	3,954	140,897
Investment income	10	676	806
General Income	11	16,415	15,574
		<u>395,501</u>	<u>507,941</u>
EXPENDITURE			
Personal emoluments	12	(93,977)	(82,651)
Operations and maintenance	13	(159,451)	(216,123)
Administration and other expenditure	14	(171,831)	(154,348)
		<u>(425,259)</u>	<u>(453,122)</u>
OPERATING (LOSS)/INCOME FOR THE YEAR		(29,758)	54,819
OTHER COMPREHENSIVE INCOME			
Increase in fair value of available-for-sale investments		2,325	1,701
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		<u>(27,433)</u>	<u>56,520</u>

The notes on pages 10 to 22 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

At 31 December 2012

	Retained Funds €	Investment Revenue Reserve €	Total €
At 1 January 2011	1,212,847	1,942	1,214,789
Total comprehensive income for the year	54,819	-	54,819
Investment revaluation reserve	-	1,701	1,701
At 31 December 2011	<u>1,267,666</u>	<u>3,643</u>	<u>1,271,309</u>
At 1 January 2012	1,267,666	3,643	1,271,309
Total comprehensive income for the year	(29,758)	-	(29,758)
Investment revaluation reserve		2,325	2,325
At 31 December 2012	<u>1,237,908</u>	<u>5,968</u>	<u>1,243,876</u>

The notes on pages 10 to 22 are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

At 31 December 2012

	Note	2012 €	2011 €
Cash Flows from Operating Activities			
Total comprehensive (loss)/income for the year		(29,758)	54,819
Adjustments for:			
Depreciation		80,261	60,563
Increase in Provision for doubtful debts		38,924	47,618
Deferred income released		(3,739)	-
Interest receivable		(676)	(806)
Operating Profit before Working Capital Changes		85,012	162,194
Increase/(Decrease) in Receivables		38,309	(19,885)
(Increase)/Decrease in Payables		(97,205)	58,798
Cash generated from operations		26,116	201,107
Net Cash inflow from operating Activities		26,116	201,107
Cash flows from Investing Activities			
Interest received		676	806
Purchase of property, plant and equipment		(260,444)	(290,181)
Cash Flow (used in) Investing Activities		(259,768)	(289,375)
Cash flows from Financing Activities			
Grants received		75,000	9,723
Cash flows generated from Financing activities		75,000	9,723
Net (decrease) in Cash and Cash Equivalents		(158,652)	(78,545)
Cash and Cash Equivalents at the Beginning of year		327,979	406,524
Cash and Cash Equivalents at the End of year	6	169,327	327,979

The notes on pages 10 to 22 are an integral part of the financial statements.

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

1. General Information

The Luqa Local Council is the local authority of Luqa setup in accordance with the Local Councils Act. The office of the Local Council is situated at St Paul Street Luqa.

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

Annual Improvements: 2012 made several minor amendments to a number of IFRSs. None of the changes to IFRSs and interpretations has had, or is expected to have, a material impact on the council's financial statements.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the council

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the council.

Council members anticipate that all of the relevant pronouncements will be adopted in the council's accounting policies for the first period beginning after the effective date of the pronouncement.

Information on new standards, amendments and interpretations that are expected to be relevant to the Council's financial statements is provided below. Certain other new standards and interpretations have been issued but are not relevant and therefore are not expected to have a material impact on the council's financial statements.

IFRS 9 Financial Instruments (effective from 1 January 2013)

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

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

Notes to the Financial Statements for the period ended 31 December 2012 – continued

c. Revenue recognition

Revenue is recognised when there are no significant uncertainties concerning the derivation of consideration or associated costs. Government income is received quarterly. Interest income is recognised in the income statement as it accrues.

d. Local Enforcement System

Luqa Local Council does not form part of the pooling system with the Zurrieq Joint Committee. The amount disclosed in the financial statements under Local Enforcement Income represents the amount of contraventions that have been issued within the locality and that have been decided by the tribunal as guilty. On 1st September 2011 Luqa Local Council became part of the South Regional Committee and started to charge an administrative fee of 10% to the respective Regional Committees for contraventions paid at the Council

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 reducing balance method at rates calculated to write off the cost less residual value of each asset over its expected useful life as follows:

	%
Land	0
Trees	0
Buildings	1
Office Furniture and Fittings	7.5
Construction Works	10
Urban Improvements (Street Furniture)	10
Special Projects	10
Office Equipment	20
Motor Vehicles	20
Plant and Machinery	20
Computer Equipment	25
Plants	100
Litter Bins	Replacement basis
Playground furniture	100
Traffic and 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 financial reporting date. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

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

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

f. 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.

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 present currency.

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.

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

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 company.

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.

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, and available-for-sale 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.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale assets. They are included in non-current assets unless the asset matures or management intends to dispose of it within twelve months from the end of the reporting period.

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.

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

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'.

o. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires council members to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Use of available information and application of judgement are inherent in making estimates. Actual results in future could differ from such estimates and the differences may be material to the financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. 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 2012 – continued**3a Property, Plant and Equipment**

	Property	Office Furniture /fittings	Computer Equipment	Office Equipment	Urban Improvements	New Street Signs	Construction	Trees	Special Programmes	Machinery	Motor Vehicle	Assets not yet capitalised	Total
Cost	€	€	€	€	€	€	€	€	€	€	€	€	€
At 1 January 2012	179,426	26,680	13,863	9,487	211,531	21,424	1,647,513	5,066	42,264	2,062	10,000	11,250	2,180,566
Additions	-	-	-	-	48,750	-	160,446	-	-	-	-	51,248	260,444
At 31 December 2012	179,426	26,680	13,863	9,487	260,281	21,424	1,807,959	5,066	42,264	2,062	10,000	62,498	2,441,010
Grants and other reimbursements													
At 1 January 2012	-	-	-	-	(21,433)	-	(613,211)	-	(30,133)	-	-	-	(664,777)
Additions	-	-	-	-	-	-	-	-	-	-	-	-	-
At 31 December 2012	-	-	-	-	(21,433)	-	(613,211)	-	(30,133)	-	-	-	(664,777)
Accumulated depreciation													
At 1 January 2012	(20,264)	(17,089)	(12,208)	(8,833)	(62,951)	(21,424)	(485,308)	(154)	(9,418)	(950)	(331)	-	(638,930)
Charge for the period	(1,592)	(695)	(414)	(131)	(16,430)	-	(58,584)	-	(259)	(222)	(1,934)	-	(80,261)
At 31 December 2012	(21,856)	(17,784)	(12,622)	(8,964)	(79,381)	(21,424)	(543,892)	(154)	(9,677)	(1,172)	(2,265)	-	(719,191)
Net book value													
At 31 December 2012	157,570	8,896	1,241	523	159,467	-	650,856	4,912	2,454	890	7,735	62,498	1,057,042

Notes to the Financial Statements for the year ended 31 December 2012 – continued**3b Property, Plant and Equipment**

	Property	Office Furniture /fittings	Computer Equipment	Office Equipment	Urban Improvements	New Street Signs	Construction	Trees	Special Programmes	Machinery	Motor Vehicle	Assets not yet capitalised	Total
Cost	€	€	€	€	€	€	€	€	€	€	€	€	€
At 1 January 2011	179,426	26,680	13,863	9,218	157,802	21,424	1,421,155	5,066	42,264	885	10,000	2,602	1,890,385
Additions	-	-	-	269	53,729	-	226,358	-	-	1,177	-	8,648	290,181
At 31 December 2011	179,426	26,680	13,863	9,487	211,531	21,424	1,647,513	5,066	42,264	2,062	10,000	11,250	2,180,566
Grants and other reimbursements													
At 1 January 2011	-	-	-	-	(21,433)	-	(613,211)	-	(30,133)	-	-	-	(664,777)
Additions	-	-	-	-	-	-	-	-	-	-	-	-	-
At 31 December 2011	-	-	-	-	(21,433)	-	(613,211)	-	(30,133)	-	-	-	(664,777)
Accumulated depreciation													
At 1 January 2011	(18,656)	(16,311)	(11,657)	(8,669)	(52,286)	(21,424)	(439,255)	(154)	(9,116)	(672)	(167)	-	(578,367)
Charge for the period	(1,608)	(778)	(551)	(164)	(10,665)	-	(46,053)	-	(302)	(278)	(164)	-	(60,563)
At 31 December 2011	(20,264)	(17,089)	(12,208)	(8,833)	(62,951)	(21,424)	(485,308)	(154)	(9,418)	(950)	(331)	-	(638,930)
Net book value													
At 31 December 2011	159,162	9,591	1,655	654	127,147	-	548,994	4,912	2,713	1,112	9,669	11,250	876,859

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

4 Investments	2012	2011
	€	€
Valetta Fund Management		
Money fund	203,643	201,942
Investment growth	<u>2,325</u>	<u>1,701</u>
	<u><u>205,968</u></u>	<u><u>203,643</u></u>

The investment income consists of the La Valette Management money fund held with Bank of Valletta. The fair value changes on available-for-sale financial assets is being recognised directly in equity, and presented accordingly in the statement of changes in equity (within investment revaluation reserve).

5 Receivables	2012	2011
	€	€
Trade debtors	3,106	-
LES receivables	403,640	438,455
Allowance for doubtful debts	(392,646)	(353,722)
Prepayments and accrued income	<u>2,738</u>	<u>9,338</u>
	<u><u>16,838</u></u>	<u><u>94,071</u></u>

Trade receivables	2012	2011
	€	€
Within the current period	5,844	3,704
Exceeded credit period but not yet impaired	<u>10,994</u>	<u>90,367</u>
	<u><u>16,838</u></u>	<u><u>94,071</u></u>

Provision for doubtful debts	2012	2011
	€	€
Balance on 1 January	353,722	306,104
Movements during the year	<u>38,924</u>	<u>47,618</u>
Balance at 31 December	<u><u>392,646</u></u>	<u><u>353,722</u></u>

6 Cash and Cash Equivalents	2012	2011
	€	€
Bank Balances:		
Current Accounts	14,854	90,803
Savings Accounts	154,412	237,176
Cash in hand	<u>61</u>	<u>-</u>
	<u><u>169,327</u></u>	<u><u>327,979</u></u>

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

	2012	2011
7 Payables	€	€
Trade payables	71,645	175,338
Other payables and accruals	17,999	9,547
Deferred income short term	9,063	1,964
Current Liabilities	<u>98,707</u>	<u>186,849</u>
Deferred Income	2012	2011
	€	€
Deferred Income – between 1 to 2 years	10,184	-
Deferred Income – between 2 to 5 years	25,077	-
Deferred Income - over 5 years	71,331	44,394
	<u>106,592</u>	<u>44,394</u>
	2012	2011
	€	€
Opening balance	44,394	44,394
Increase in grants	75,000	-
Release of grants	3,739	-
Closing balance	115,655	44,394
Less Current portion	9,063	-
Non-current portion	<u>106,592</u>	<u>44,394</u>
8 Funds received from Central Government	2012	2011
	€	€
In terms of section 55 of the Local Councils Act (CAP 363)	366,752	348,223
Other Government income	7,704	2,441
	<u>374,456</u>	<u>350,664</u>
9 Local Enforcement System Income		
Contraventions income receivable	-	140,897
Regional Committees – Admin fee	3,954	-
	<u>3,954</u>	<u>140,897</u>
10 Investment income	2012	2011
	€	€
Bank Interest Receivable	676	806
	<u>676</u>	<u>806</u>
11 General Income		
Sundry Contributions & donations	6,726	12,332
Income from tender documents	6,662	150
Income from permits	3,027	3,092
	<u>16,415</u>	<u>15,574</u>

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

12 Personal Emoluments	2012	2011
Personal emoluments include, inter alia:	€	€
Mayor's Allowance	9,953	9,546
Councillors' Allowance	8,500	8,600
Executive secretary's salary	31,415	25,713
Employees' salaries	38,911	33,923
Social Security contributions	5,198	4,869
	<u>93,977</u>	<u>82,651</u>
13 Operations and Maintenance	2012	2011
Operations and maintenance includes, inter alia:	€	€
Repairs and Upkeep:		
Road and Street Pavements (patching works)	2,882	2,794
Signs & Road Markings	6,612	7,348
Other Repairs	8,910	10,220
Total	<u>18,404</u>	<u>20,362</u>
Contractual Services:	2012	2011
	€	€
Refuse Collection (including bins on wheels)	41,717	39,833
Refuse disposal fee	37,929	36,249
Bulky Refuse Collection (including open skips)	2,124	3,155
Road and Street Cleaning (mechanical and manual)	23,744	23,600
Cleaning and Maintenance of Public Conveniences	4,643	5,000
Cleaning and Maintenance of Parks and Gardens	13,241	14,326
Local Enforcement expenses	4,498	68,765
Street Lighting	13,151	4,833
	<u>141,047</u>	<u>195,761</u>
Total Operations and Maintenance Expenses	<u>159,451</u>	<u>216,123</u>
14 Administration and other expenditure	2012	2011
	€	€
Utilities	9,639	5,941
Materials & Supplies	2,645	1,137
Rent	1,819	1,707
Office Services	1,490	2,504
Transport	424	1,382
Travel	523	1,446
Information services	1,645	2,881
Insurance and bank charges	4,143	1,995
Professional Services	15,319	14,099
Community services and events	11,996	10,803
Other office expenses	495	531
Increase in allowance for bad debts	38,924	47,618
Penalty	2,508	1,741
Depreciation	80,261	60,563
	<u>171,831</u>	<u>154,348</u>

Notes to the Financial Statements for the year ended 31 December 2012 – continued**15 Capital Commitments**

	2012	2011
Construction	€	€
Day Centre	27,598	75,000
Restoration St. Thomas Cemetery	10,059	-
Family Park Hal Farrug	300,000	-
PPP resurfacing	283,614	267,164
	<u>621,271</u>	<u>342,164</u>

16 Related Parties

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
Malta Environment and Planning Authority	No control
Water Services Corporation	No control

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

	2012	2011
Significant control:	€	€
Annual financial allocation	<u>366,752</u>	<u>348,223</u>

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.

17 Contingent Liability

The amount of €38,072 is being claimed by Wasteserve Malta Limited. The Council followed instructions received from LCA through circular 43/2010 dated 26 July 2010 wherein it was stated that the council is not to pay tipping fees in excess of the Government tipping fees allocated. During 2010 the council did not record the amount of €4,674 was not recorded in the financial statements based on the circular mentioned above; whereas the full invoice amount was recorded under creditors in the following years.

Notes to the Financial Statements for the period ended 31 December 2012 – continued

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:

	2012	2011
Class of financial assets – carrying amounts	€	€
Trade and other receivables	15,675	90,367
Gross investments	205,968	203,643
Cash and Cash Equivalents	<u>169,327</u>	<u>327,979</u>
	<u>390,970</u>	<u>621,989</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.

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

18.2 Liquidity risk

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

The council manage its liquidity needs through yearly budgets and business plans by carefully monitoring expected cash inflows and outflows on a daily basis. The council's liquidity is deemed to be sufficient in view of an excess of financial assets.

	2012	2011
Current payables within one year:	€	€
Trade payables	71,645	175,338
Other payables and accruals	17,999	9,547
Financial Liabilities	<u>89,644</u>	<u>184,885</u>

Notes to the Financial Statements for the period ended 31 December 2012 – continued**18.3 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:

	2012 €	2011 €
Non-Current Assets		
Investments	<u>205,968</u>	<u>203,643</u>
Current Assets		
Loans and receivables:		
Trade and other receivables	15,675	90,367
Cash and Cash Equivalents	<u>169,327</u>	<u>327,979</u>
	<u>185,002</u>	<u>418,346</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Trade payables	71,645	175,338
Other payables and accruals	17,999	9,547
Financial Liabilities	<u>89,644</u>	<u>184,885</u>

18.4 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 and the extent of borrowings, the capital level as at the end of the reporting period is deemed adequate by the Council.

At 31 December 2012, 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.