

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

Prepared by:  
Ms. Doreen Mintoff  
B. Accountancy (Honours) AIA, Dip. IFR, CPA, Reg Auditor



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

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The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes a 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 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.

This statement was approved by the Council on 3 April 2013 and signed on its behalf by:



Joseph Farrugia  
Mayor



Maria Galea  
Executive Secretary

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

**Report of the Local Government auditor to the Auditor General**

We have audited the accompanying financial statements of Birzebbuga Local Council which comprise the statement of financial position as at 31 December 2012, 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.

***Respective responsibilities of the Local Council and Local Government auditors***

As described in page 1, these financial statements are the responsibility of the Executive Secretary and the Local Council members.

***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 of 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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, 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***

1. As shown in note 10 to these financial statements, the net book value of property, plant and equipment at 31 December 2012 amounted to € 1,708,051. Our audit work for 2010 had revealed a discrepancy of € 439,461 between the fixed assets register and the carrying amount of these assets at 31 December 2010.

For the year under review the Council did not provide us with the fixed asset register and consequently we could not satisfy ourselves as to whether the discrepancy identified in 2010 has been resolved and as to the existence, completeness and valuation of the carrying amount of fixed assets at 31 December 2012 amounting to € 1,708,051.

2. The Council's financial statements do not include all of the qualitative and quantitative disclosures required by the IFRS 7, *Financial Instruments: Disclosures*. These include information about the recognition and measurement basis of financial instruments in the summary of accounting policies, categories of financial assets and liabilities at the end of the reporting period, and a reconciliation of the provision for doubtful debtors.
3. The cash flow statement was not prepared to reflect the actual cash movements for grants received and purchases of property, plant and equipment in accordance with IAS 7, *Cash Flow Statements*.
4. Excluded from these financial statements are the budgeted figures for the year. This is not in accordance with the Local Councils (Financial) Procedures, 1996.

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

**Report of the Local Government auditor to the Auditor General (continued)**

***Qualified Opinion***

In our opinion, except for the adjustment that would have been necessary had we been able to obtain sufficient audit evidence regarding the matter in paragraph 1 above, the financial statements give a true and fair view of the financial position of Birzebuga Local Council as of 31 December 2012, and of the results of its operations, changes in net assets/equity and its cash flows for the year then ended in accordance with the accounting policies set out on pages 7 to 11.

Because of the matter set out in paragraph 4, these financial statements do not comply fully with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 and because of the matters set out in paragraphs 2 and 3, these financial statements have not been prepared in accordance with International Financial Reporting Standards.

***Emphasis of matter***

The council's Statement of Financial Position on page 4 shows that at 31 December 2012 the Council's current liabilities, excluding deferred income, exceeded its current assets. Moreover the council has contracted capital commitments which, as shown in note 16, amounted to € 60,000 at reporting date.

Without qualifying our opinion, we draw attention to note 22 to these financial statements which explains that the going concern assumption underlying these financial statements is dependent on the Council having sources of funds other than the annual financial allocation it receives from Government, and on the continued support of the Council's creditors. If these assumptions do not materialise the Council will not be able to meet its financial obligations as they fall due without curtailing its future commitments.



Mark Bugeja  
f/Grant Thornton  
Certified Public Accountants  
Grant Thornton  
Tower Business Centre, Suite 3  
Tower Street  
Swatar BKR 4013

3 April 2013

**Statement of Comprehensive Income  
for the year ended 31 December 2012**


		<b>2012</b>	<b>2011</b>
	<b>Notes</b>	<b>€</b>	<b>€</b>
<b>Revenue</b>			
Funds received from Central Government	3	677,453	629,452
Income raised under Local Enforcement System	4	3,027	108,209
General Income	6	123,149	32,041
		<u>803,629</u>	<u>769,702</u>
<b>Expenditure</b>			
Personal Emoluments	7	(101,315)	(95,062)
Operations and maintenance	8	(346,718)	(421,697)
Administration and other expenditure	9	(329,596)	(269,364)
		<u>(777,629)</u>	<u>(786,123)</u>
<b>Operating profit/(loss) for the year</b>		26,000	(16,421)
Finance income	5	469	267
<b>Profit/(loss) for the year</b>		<u>26,469</u>	<u>(16,154)</u>

The notes on pages 7 to 25 form an integral part of these financial statements.


Statement of Financial Position  
as at 31 December 2012

		2012	2011
	Notes	€	€
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	10	1,708,051	1,872,051
		<u>1,708,051</u>	<u>1,872,051</u>
<b>Current Assets</b>			
Receivables	11	289,481	258,800
Cash and cash equivalents	12	165,618	93,737
		<u>455,099</u>	<u>352,537</u>
<b>Total Assets</b>		<u>2,163,150</u>	<u>2,224,588</u>
<b>RESERVES</b>			
Retained earnings		1,248,283	1,221,814
<b>Total reserves</b>		<u>1,248,283</u>	<u>1,221,814</u>
<b>Non-Current Liabilities</b>			
Long-term borrowings	14	165,948	221,264
Non-current Deferred Income	15	263,840	260,548
		<u>429,788</u>	<u>481,812</u>
<b>Current Liabilities</b>			
Trade and other payables	13	167,867	259,066
Short-term borrowings	14	317,212	261,896
		<u>485,079</u>	<u>520,962</u>
<b>Total Liabilities</b>		<u>914,867</u>	<u>1,002,774</u>
<b>Total reserves and liabilities</b>		<u>2,163,150</u>	<u>2,224,588</u>

These financial statements were approved by the Local Council on 3rd April 2013 and signed on its behalf by:



Joseph Farrugia  
Mayor



Maria Galea  
Executive Secretary

The notes on pages 7 to 25 form an integral part of these financial statements.

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

	<b>Retained Funds</b>	<b>Total</b>
	<b>€</b>	<b>€</b>
<b>At 1 January 2011</b>	1,237,968	1,237,968
Loss for the year	(16,154)	(16,154)
<b>At 31 December 2011</b>	<u>1,221,814</u>	<u>1,221,814</u>
<b>At 1 January 2012</b>	1,221,814	1,221,814
Profit for the year	26,469	26,469
<b>At 31 December 2012</b>	<u>1,248,283</u>	<u>1,248,283</u>



**Statement of Cash Flows**  
**for the year ended 31 December 2012**

	<b>2012</b>		<b>2011</b>	
	€	€	€	€
<b>Net profit/(loss) for the year</b>	26,469		(16,154)	
Reconciliation to cash generated from operations:				
Depreciation	176,628		130,282	
Movement in Provision for Doubtful Debts	49,035		36,827	
Provision for guarantees	(7,800)		-	
Interest receivable	(469)		(267)	
Operating surplus before working capital changes	243,863		150,688	
(Increase) in receivables	(4,511)		(2,279)	
(Increase) in other receivables	(67,405)		(99,591)	
(Decrease) / Increase in payables	(34,366)		69,226	
(Decrease) / Increase in other payables	(54,933)		61,408	
Government grant released	(32,219)		(15,789)	
Cash generated from operating activities		50,429		163,663
<b>Cash flow from Investing activities</b>				
Interest received	469		267	
Purchase of property, plant & equipment	(12,628)		(774,282)	
Grants received	33,611		75,165	
Cash generated from/(used in) investing activities		21,452		(698,850)
<b>Cash from financing activities</b>				
New long term third party borrowings	-		221,264	
New short term third party borrowings	-		261,896	
Cash generated from financing activities		-		483,160
<b>Net Increase/ (Decrease) in cash in the year</b>		71,881		(52,027)
Cash and equivalents at beginning of year		93,737		145,764
<b>Cash and equivalents at end of year</b>		165,618		93,737

**1. General Information**

The Birzebbuga Local Council is the local authority of Malta set up in accordance with the Local Councils Act(1993). The office of the Local Council is situated at Dar Birzebbuga, Triq Santa Marija, Birzebbuga. These financial statements were approved for issue by the Council Members on 3 April 2013. The Local Council's company's presentation as well as functional currency is €.

**2. Accounting Policies and Reporting Procedures**

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

*Accounting convention*

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

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

*New and amended standards adopted by the Local Council*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Local Council.

*New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Local Council, except the following set out below:

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as 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. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Local Council is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. Council members will also consider the impact of the remaining phases of IFRS 9 when these are published.

**Property, plant and equipment**

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

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

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

**Impairment of Assets**

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

**Leases**

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

**Amounts receivable**

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

**Related parties**

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

**Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

**Revenue**

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

**Local Enforcement System**

Up till August 2011, the Council used to manage the the Local Enforcement System in its locality and used to receive all the income generated from the fines. As from 1 September 2011, the Council started to form part of the Southern Region, which took over the management of Local Enforcement System and the Council is receiving a 10 % administration fee on every fine paid at the Council.

**Government grants**

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the profit or loss over the expected lives of the related assets.

**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 €, which is the Council's functional and presentation currency.

Transactions denominated in foreign currencies are translated into € at the rates of exchange in operation on the dates of the transactions. Monetary assets and liabilities expressed in foreign currencies are translated into € at the rates of exchange prevailing at the date of the statement of financial position.

**Profits and losses**

Only losses that were realised at the date of the statement of financial position are recognised in these financial statements. All foreseeable liabilities and potential losses arising up to the said date are accounted for even if they become apparent between the said date and the date on which the financial statements are approved.

**Cash and equivalents**

Cash and Cash Equivalents are carried in the statement of financial position. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and balances held with banks.

**Trade payables**

Trade payables are classified with current liabilities and are stated at their nominal value.

**Other borrowings**

Subsequent to initial recognition, other borrowings are measured at amortised cost using the effective interest method unless the effect of discounting is immaterial. Any difference between the proceed, net of transaction costs, and the settlement of the other borrowings is recognised in profit or loss over the term of the borrowings.

**Critical Accounting Estimates and Judgements**

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the Council, 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.

**Capital management policies**

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 services and benefits to its local community

The Council sets the amount of capital in proportion to risk. The Council manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

The Council monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt ÷ adjusted capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Adjusted capital comprises of retained earnings.

**3. Funds received from central government**

	2012	2011
	€	€
In terms of section 55 of the Local Councils Act	642,859	613,163
Other Government Income	34,594	16,289
	<u>677,453</u>	<u>629,452</u>

**4. Local Enforcement Income**

	<b>2012</b>	<b>2011</b>
	<b>€</b>	<b>€</b>
Contraventions and other fines	3,027	108,209
	<u>3,027</u>	<u>108,209</u>

**5. Investment Income**

	<b>2012</b>	<b>2011</b>
	<b>€</b>	<b>€</b>
Bank Interest	469	267
	<u>469</u>	<u>267</u>

**6. General Income**

	<b>2012</b>	<b>2011</b>
	<b>€</b>	<b>€</b>
Community Services	6,537	1,724
Cultural Events	8,119	3,737
General Income	570	40
Tender Documents/Info. Charges	1,850	1,425
Media Advertising	630	1,069
Payable write off	1,304	787
Twinnings	-	6,725
Donations	100	1,000
Contributions	2,050	10,750
Guarantees forfeited	95,441	-
Insurance Claims	1,753	-
Income from Permits	4,795	4,784
	<u>123,149</u>	<u>32,041</u>

**7. (Loss) for the year**

	<b>2012</b>	<b>2011</b>
	<b>€</b>	<b>€</b>
(Loss) for the year is stated after charging:		
Staff salaries	101,315	95,062
Depreciation of non-current assets	<u>176,628</u>	<u>130,282</u>

Note

*Personal Emoluments*

	2012	2011
	€	€
Mayor's Allowance	11,408	11,146
Councillors' Allowance	7,200	7,200
Executive Secretary Salary and Allowances	27,471	26,700
Employees' Salaries	48,808	44,037
Social Security Contributions	6,428	5,979
	<u>101,315</u>	<u>95,062</u>

**8. Operations and Maintenance**

	2012	2011
	€	€
<i>Repairs and Upkeep:</i>		
Public Property	4,199	4,932
Road/Street Pavements	424	1,106
Signs	4,135	4,641
Road Markings	6,874	525
Road & Street Patching	24,171	39,727
Office Furniture and Equipment	266	1,232
Plant & Equipment	45	-
Sundry Repairs	660	603
Other repairs and Upkeep	2,110	-
Council Property	-	77
	<u>42,884</u>	<u>52,843</u>



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<i>Contractual Services:</i>		
Waste Disposal	61,150	64,332
Refuse Collection	93,781	90,462
Bulky Refuse Collection	5,165	5,274
Cleaning Services	92	-
Road & Street Cleaning	34,145	35,836
Cleaning & Maint. Non-Urban	13,918	33,034
Cleaning - Public Conveniences	22,974	19,104
Cleaning - Council Premises	1,207	1,160
Other Contractual Services	22,262	61,240
Clean. & Maint. Parks & Gardens	13,775	13,775
Street Lighting	34,415	40,852
Experts	950	3,785
	<u>303,834</u>	<u>368,854</u>
	<u>346,718</u>	<u>421,697</u>

## 9. Administration and other expenditure

	2012	2011
	€	€
Utilities	13,137	8,325
Uniforms	-	1,320
Other repairs and upkeep	22,762	28,693
Rent	3,922	4,213
Other organisations	-	295
Participation fee - Nat. Mtg.	282	315
Office Services	15,800	14,780
Transport	22,339	21,233
Travel	1,029	-
Information Services	3,245	2,665
Lease of Equipment	317	-
Insurance Coverage	1,877	2,535
Bank Charges	113	167
Professional Services	5,270	8,790
Entertainment	925	2,276
Other Hospitality Costs	700	482
Annual General Meeting	20	-
Social Events	4,623	3,875
Cultural Events	7,160	614
Donations	12	24
Sundry Minor Expenses	400	59
Provision for LES receivables	49,035	36,827
Penalties	-	1,594
Depreciation	176,628	130,282
	<u>329,596</u>	<u>269,364</u>

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

**10. Property, plant and equipment**

	Property	New Street Signs	Urban Improvements	Plant, machinery & equipment	Office Furniture & fittings	Special Programmes	Total
	€	€	€	€	€	€	€
<b>Cost</b>							
At 1 January 2011	81,692	9,188	426,972	51,891	73,326	2,478,541	3,121,610
Additions	-	-	211,104	125	7,134	555,919	774,282
At 31 December 2011	81,692	9,188	638,076	52,016	80,460	3,034,460	3,895,892
<b>Depreciation &amp; Grants</b>							
At 1 January 2011	8,071	9,188	111,122	36,122	36,098	1,692,958	1,893,559
Charge for the year	733	-	44,101	2,939	2,831	79,678	130,282
At 31 December 2011	8,804	9,188	155,223	39,061	38,929	1,772,636	2,023,841
<b>Net book values</b>							
At 31 December 2011	72,888	-	482,853	12,955	41,531	1,261,824	1,872,051

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

**10. Property, plant and equipment**

	Property	Assets under construction	New Street Signs	Urban Improvements	Plant, machinery & equipment	Office Furniture & fittings	Special Programmes	Total
	€	€	€	€	€	€	€	€
<b>Cost</b>								
At 1 January 2012	81,692	-	9,188	638,076	52,016	80,460	3,034,460	3,895,892
Additions	-	2,360	-	8,709	1,172	387	-	12,628
At 31 December 2012	81,692	2,360	9,188	646,785	53,188	80,847	3,034,460	3,908,520
<b>Depreciation &amp; Grants</b>								
At 1 January 2012	8,804	-	9,188	155,223	39,061	38,929	1,772,636	2,023,841
Charge for the year	726	-	-	49,805	2,523	3,017	120,557	176,628
At 31 December 2012	9,530	-	9,188	205,028	41,584	41,946	1,893,193	2,200,469
<b>Net book values</b>								
At 31 December 2012	72,162	2,360	-	441,757	11,604	38,901	1,141,267	1,708,051

**11. Receivables**

		<b>2012</b>	<b>2011</b>
		<b>€</b>	<b>€</b>
Receivables	<i>Note</i>	5,505	994
LES Debtors	<i>Note</i>	97,561	153,842
Other receivables		23,274	17,146
Prepayments and accrued income		163,141	86,818
		<u>289,481</u>	<u>258,800</u>

The carrying value of the above receivables is considered a reasonable approximation of fair value.

In determining the recoverability of receivables the Council considers any change in the credit quality of each receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the debtor base being large and unrelated.

**Receivables**

General receivables are analysed as follows:

	<b>2012</b>	<b>2011</b>
	<b>€</b>	<b>€</b>
Within credit period	383	994
Exceeded credit period but not impaired	5,122	-
Impaired and provided for	-	-
	<u>5,505</u>	<u>994</u>

**LES Debtors**

LES debtors are stated after a specific provision for doubtful debts amounting to Eur 85,862. The amount of € 97,561 (2011: € 153,842) exceeded credit period but is not impaired.

**Other receivables**

	<b>2012</b>	<b>2011</b>
	<b>€</b>	<b>€</b>
Within credit period	7,800	-
Exceeded credit period but not impaired	15,474	17,146
	<u>23,274</u>	<u>17,146</u>

Included in other receivables there is a bank guarantee in favour of third party amounting to Eur 7,800.

**12. Cash and equivalents**

	<b>2012</b>	<b>2011</b>
	<b>€</b>	<b>€</b>
Bank Balances	165,503	93,361
Cash in Hand	115	376
	<u>165,618</u>	<u>93,737</u>

**13. Payables**

	<b>2012</b>	<b>2011</b>
	<b>€</b>	<b>€</b>
Payables	96,525	130,891
Other payables	-	52,679
Accruals	43,052	45,880
Deferred income	28,290	29,616
	<u>167,867</u>	<u>259,066</u>

Current financial liabilities are carried at their nominal value which is considered a reasonable approximation of fair value.

**14. Long-term Borrowings**

		<b>2012</b>	<b>2011</b>
		<b>€</b>	<b>€</b>
<b>Non-current</b>			
Third party borrowings	<i>Note</i>	<u>165,948</u>	<u>221,264</u>
<b>Current</b>			
Third party borrowings	<i>Note</i>	<u>317,212</u>	<u>261,896</u>
<b>Third Party Borrowings</b>			
Repayable between one and two years		27,658	55,316
Repayable between two and five years		82,974	82,974
Repayable in five years or more		55,316	82,974
		<u>165,948</u>	<u>221,264</u>

The fair value of long term financial liabilities is not materially different from their carrying amount.

**Third party loan**

Third party borrowings represent dues to the public private partnership payable. The Council entered into this agreement to carry out road resurfacing works. These amounts are unsecured, interest free and are repayable within 6 years.

In view of fraud allegations against this third party, who was the Council's roadworks contractor, the contractor has stopped working and has not completed all the works and obligations outlined in the respective agreement. As advised by the Central Government, all payments to this contractor are currently on hold due to these allegations. Furthermore, in view of the contractor defaulting to complete the contract, the Council is currently demanding the bank to transfer to the Council the maximum bank guarantees amounting to €95,441 as outlined in the contract agreements. The Council has recognised this income in these financial statements under Other Income in the Statement of Comprehensive Income and accrued income in the Statement of Financial Position.

15. Deferred Income	2012 €	2011 €
<b>Government grants</b>		
Balance at the beginning of the year	290,164	247,925
Increase during year	34,185	75,165
Released during year	(32,219)	(15,789)
Reallocated to other payables		(17,137)
	<u>292,130</u>	<u>290,164</u>
Current Deferred Income	<u>28,290</u>	<u>29,616</u>
Non-Current Deferred Income	<u>263,840</u>	<u>260,548</u>
<b>Deferred Government Grants</b>		
Deferred between one and two years	25,078	24,753
Deferred between two and five years	61,801	66,843
Deferred in five years or more	176,961	168,952
	<u>263,840</u>	<u>260,548</u>

**16. Capital commitments**

	<b>2012</b>	<b>2011</b>
	<b>€</b>	<b>€</b>
Details of capital commitments at the accounting date are as follows:		
Approved but not yet contracted for	653,019	49,000
Contracted for but not provided in the financial statements	60,000	451,895
These could be analysed as follows:		
<i>(i) Approved but not yet contracted for:</i>		
Urban Improvements	-	45,000
Office equipment	-	4,000
Road Resurfacing	653,019	-
	653,019	49,000
<i>(ii) Contracted for but not provided in the Financial Statements:</i>		
Road Resurfacing	60,000	451,895

The road resurfacing works amounting to Eur 653,019 falls under the new Public Private Partnership Scheme and against such works the Council is going to receive a grant amounting to € 137,056. Such works need to be completed by 2013 and the amount is payable over 8 years.

**17. Contingent liabilities**

The Council has a bank guarantee in favour of third parties amounting to € 7,800 (2011: € 0).



**18. Related party transactions**

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

<i>Name of Entity</i>	<i>Nature of relationship</i>
Department of Local Councils	Significant control
Malta Environment & Planning Authority	No Control
Water Services Corporation	No control
Enemalta Corporation	No control
Cleansing Services Department	No control
Director General - Works Division	No control
Wasteserv Malta Limited	No control

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

	<b>2012</b>	<b>2011</b>
	<b>€</b>	<b>€</b>
Annual Financial Allocation	<u>642,859</u>	<u>613,163</u>

**19. Financial Risk Management**

The exposure to risk and the way risks arise, together with the Local 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.

Where applicable, any significant changes in the Local Council's exposure to financial risks or manner in which the council manages and measures these risks are disclosed below.

Where possible, the Local Council aims to reduce and control risk concentrations. Concentrations of financial risk arise when financial instruments with similar characteristics are influenced in the same way by changes in economic or other factors. The amount of the risk exposure associated with financial instruments sharing similar characteristics is disclosed in more detail in the notes to the financial statements.

<i>Categories of financial instruments</i>	<b>2012</b>	<b>2011</b>
<i>Financial assets</i>	€	€
Cash and bank balances	165,618	93,737
Receivables	289,481	258,800
	<u>455,099</u>	<u>352,537</u>
<i>Financial liabilities</i>		
Borrowings - current	456,789	291,346
Borrowings - long term	165,948	221,264
	<u>622,737</u>	<u>512,610</u>

The Council is exposed 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 flows by minimising the exposure to financial risks.

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

**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:

	<b>2012</b>	<b>2011</b>
	€	€
Classes of financial assets - carrying amounts		
Receivables	289,481	258,800
Cash and cash equivalents	165,618	93,737
	<u>455,099</u>	<u>352,537</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 only with creditworthy counterparties. Receivables are presented net of provision for doubtful debts. A provision 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 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.

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

Liquid funds are placed with reputable banks with high quality external credit ratings, therefore credit risk is considered negligible.

#### 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 funding to meet the Council's obligations when they become due.

The Council manages its liquidity needs through yearly budgets and business plans by carefully monitoring expected cash inflows and outflows on a daily basis. At the end of the reporting period, the Local Council's net current liability position amounted to € 29,980 (2011 : € 168,425). However the Council's liquidity risk is not deemed to be significant in view of the matching of cash inflows and outflows arising from expected maturities of financial instruments.

At 31 December 2012 the Council's financial liabilities have contractual maturities which are summarised below:

	<b>Current</b>		<b>Non- Current</b>	
	<i>Payable within 1 year</i>	<i>Payable within 1 &amp; 2 years</i>	<i>Payable within 2 &amp; 5 years</i>	<i>Payable after more than 5 years</i>
<b>31 December 2012</b>	€	€	€	€
Payables	96,525	-	-	-
Other payables	-	-	-	-
Accruals	43,052	-	-	-
Third party borrowings	317,212	27,658	82,974	55,316
	<u>456,789</u>	<u>27,658</u>	<u>82,974</u>	<u>55,316</u>
<b>31 December 2011</b>				
Payables	130,891	-	-	-
Other payables	52,679	-	-	-
Accruals	45,880	-	-	-
Third party borrowings	261,896	55,316	82,974	82,974
	<u>491,346</u>	<u>55,316</u>	<u>82,974</u>	<u>82,974</u>

**20. Fair values estimation**

The nominal values less estimated credit adjustments of receivables and payables are assumed to approximate their fair values, otherwise, these have been adjusted to approximate their fair values.

**21. Comparative Figures**

Certain amounts have been re-classified to conform with the current year's presentation.

**22. Going Concern**

The Statement of Financial Position on 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.