

Hal Balzan Local Council

**Annual Audit Report
31st December 2013**

Hal Balzan Local Council

Financial Statements for the year ended 31st December 2013

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Hal Balzan Local Council

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 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.

Hal Balzan Local Council

**Statement of comprehensive income
for the year ended 31st December 2013**

	<i>Note</i>	2013 Eur	2012 Eur
		<u> </u>	<u> </u>
Funds received from Central Government	3	261,453	255,962
Income raised under the Local Enforcement System	3	2,826	6,640
General income	3	<u>7,829</u>	<u>3,037</u>
		272,108	265,639
 Expenditure			
Personal emoluments	4	(68,080)	(65,774)
Operations and maintenance	5	(123,090)	(103,098)
Administration and other expenditure	6	<u>(68,094)</u>	<u>(77,252)</u>
 Surplus for the year		<u><u>12,844</u></u>	<u><u>19,515</u></u>

Hal Balzan Local Council

Statement of financial position at 31st December 2013

	<i>Note</i>	31st December 2013 Eur	31st December 2012 Eur
Assets			
Non-current Assets			
Property, plant and equipment	7a-b	717,776	453,495
		<u>717,776</u>	<u>453,495</u>
Current Assets			
Amounts receivable	8	37,637	10,419
Cash and bank balances	9	245,180	269,046
		<u>282,817</u>	<u>279,465</u>
Total Assets		<u><u>1,000,593</u></u>	<u><u>732,960</u></u>
Reserves and Liabilities			
Reserves			
Retained Fund		558,519	545,675
		<u>558,519</u>	<u>545,675</u>
Non-Current Liabilities			
Deferred income	11	294,814	122,926
		<u>294,814</u>	<u>122,926</u>
Current Liabilities			
Trade and other payables	10	147,260	64,359
		<u>147,260</u>	<u>64,359</u>
Total Equity and Liabilities		<u><u>1,000,593</u></u>	<u><u>732,960</u></u>

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

Mayor

Executive Secretary

Date :

Hal Balzan Local Council**Statement of changes in equity
for the year ended 31st December 2013**

	Retained fund
	Eur
At 1st January 2012	526,160
Total comprehensive Income for the year	<u>19,515</u>
At 31st December 2012	545,675
Total comprehensive Income for the year	<u>12,844</u>
At 31st December 2013	<u><u>558,519</u></u>

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Statement of cash flows for the year ended 31st December 2013

	<i>Note</i>	2013	2012
		Eur	Eur
Cash flows from operating activities			
Operating surplus for the year		12,844	19,515
<i>Adjustments for:</i>			
Assets written-off		365	0
Non-cash release of income from grants		(486)	(540)
Depreciation		32,058	34,544
Surplus for the year before working capital movements		44,781	53,519
Movement in receivables		(27,218)	2,126
Movement in payables		22,592	4,991
Net cash generated from operating activities		40,155	60,636
Cash flows from investing activities			
Payment to acquire property, plant and equipment		(239,908)	(46,449)
Bank interest received		0	0
Net cash used in investing activities		(239,908)	(46,449)
Cash flows from financing activities			
Receipts from Government to acquire fixed assets		175,871	0
Refund to Government for unutilised grants to acquire fixed assets		0	0
Net cash used in financing activities		175,871	0
Movement in cash and cash equivalents		(23,882)	14,187
Cash and cash equivalents at the beginning of the year		269,046	254,859
Cash and cash equivalents at the end of the year	9	245,164	269,046

The notes on pages 6 to 17 form an integral part of these financial statements

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Notes to the financial statements for the year ended 31st December 2013

Note

1 General information

Balzan Local Council is the local authority of Balzan set up in accordance with the Local Councils Act. The office of the Local Council is situated at 153, Main Street, Balzan.

2 Accounting policies and reporting procedures

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 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 Local Councils are as follows :

a) Revenue recognition

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

b) Local Enforcement System

As from the 1st September 2011 the Balzan Local Council started to form part of the Regional Committee. The amount disclosed in the financial statements under Local Enforcement System Income represents the share of profit derived from the Regional 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 :

	%
Trees	0
Land	0
Buildings	1
Office furniture and fittings	7.5
Construction works	10
Special programmes	10
Urban improvements (Street Furniture)	10
Office equipment	20
Plant & Machinery	20
Motor Vehicles	20
Computer equipment	25
Plants	100
New street signs	Replacement basis
Litter Bins	Replacement basis
Playground Furniture	100
Street Lights	100
Street Mirrors	100

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Notes to the financial statements for the year ended 31st December 2013

Note

d) Government and EU Grants

Government and EU grants 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 costs, then the grant is accounted for when it becomes receivable.

Government and EU grants relating to property, plant and equipment are included as deferred grants and treated as a component of total funds and equity. Grants are credited to the Statement of Comprehensive Income over the expected useful lives of the related assets.

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 Local 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 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 Local Council's functional and presentation currency.

Transactions denominated in foreign currencies are translated into Euro at rates of exchange in operation on the dates of the 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) Profits 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.

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Notes to the financial statements for the year ended 31st December 2013

Note

i) Cash and cash equivalents

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

j) Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. 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.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

k) Financial instruments

All financial assets are measured at cost and accounted for using settlement accounting.

A credit risk provision for financial asset impairment is established if there is objective evidence that the Council will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, including amounts receivable from collateral, discounted based on the interest rate at inception.

The financial liabilities, other than those referred to in the accounting policies above, are classified as liabilities which are not held for trading ("other liabilities") under IAS 39, and are measured at cost, that is, the face value of such investments.

l) Critical estimates and judgements

The Council did not apply any critical estimates and judgements in the preparation of these accounts.

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Notes to the financial statements for the year ended 31st December 2013

Note

m) Accounting standards issued but not adopted

The following new standards and interpretations, which have been issued by the IASB and the IFRIC and are relevant to these financial statements, are effective for future periods and have not been adopted early in these financial statements. A description of these standards and interpretations, together with (where applicable) an indication of the effect of adopting them, is set out below.

IFRS 9 (2013) *Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)* issued in November 2013, is an amended version of IFRS 9 (2009) and IFRS (2010). This IFRS introduces new requirements for classifying and measuring financial assets and puts in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. The adoption of this standard will not effect the net assets of the Council, since it does not carry any of the instruments effected, but it would effect the disclosures to the financial statements.

In December 2011, the IASB issued amendments to **IAS 32 *Financial Instruments: Presentation*** dealing with the offsetting of Financial Assets and Financial Liabilities. These amendments are effective from 1st January 2014. Adoption of these amendments would not have any effect on these financial statements.

Amendments to **IAS 36 *Impairment of Assets*** have been issued in May 2013 as a consequence of amendments to **IFRS 13 *Fair Value Measurement***. These ammendments remove the requirement to disclose the recoverable amount of each cash-generating unit where it is significant when compared to the entity's carrying amountof goodwill and intangible assets with indefinite useful lives. On the other hand, they require additional disclosures on individual assets, thair fair value and discout rates applied. This is a disclosure amendment so it has no effect on the net assets of the

IAS 39 *Financial Instrments: Recognition and Measurement* was amended in June 2013for hedge accounting and novations. These financial statements do not carry such amounts and, thus, there is no effect on the net assets recorded in these financial statements.

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Notes to the financial statements for the year ended 31st December 2013

Note

3 Revenue	2013	2012
	Eur	Eur
Government income		
In terms of section 55 of the Local Councils Act (Cap 363)	249,552	255,422
Other Government Income	0	540
Other Supplementary Government Income	11,901	0
	<u>261,453</u>	<u>255,962</u>
Income raised under the Local Enforcement System		
Income from Birkirkara Joint Committee	839	4,007
Income from LES administration fees	1,987	2,633
	<u>2,826</u>	<u>6,640</u>
General income		
Income from tender documents	1,536	1,073
Income from permits	2,921	3,165
Sundry contributions & donations	3,372	(1,201)
	<u>7,829</u>	<u>3,037</u>
Total revenue	<u><u>272,108</u></u>	<u><u>265,639</u></u>
4 Personal emoluments	2013	2012
	Eur	Eur
Personal emoluments include, inter alia :		
Mayor's allowance	6,703	6,529
Executive Secretary's salary and allowances	26,265	24,554
Employees' salaries	24,398	24,192
Social security contributions	4,314	4,099
Councillors' Allowance	6,400	6,400
	<u>68,080</u>	<u>65,774</u>

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Notes to the financial statements for the year ended 31st December 2013

Note

5 Operations and maintenance

	2013	2012
	Eur	Eur
	<u> </u>	<u> </u>
Repairs and upkeep:		
Signs	1,635	2,582
Public property	15,780	(1,494)
Road markings	1,222	1,980
Other repairs and upkeep	255	1,286
	<u>18,892</u>	<u>4,354</u>
Contractual services:		
Refuse collection	63,492	60,791
Bulky refuse collection	3,486	3,855
Road and street cleaning	21,851	20,828
Cleaning and maintenance - public conveniences	5,001	5,255
Cleaning and maintenance - parks and gardens	2,213	2,214
Cleaning and maintenance - soft areas	472	100
Cleaning services	0	130
Street lighting	4,170	3,012
Other	3,513	2,559
	<u>104,198</u>	<u>98,744</u>
	<u>123,090</u>	<u>103,098</u>

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Notes to the financial statements for the year ended 31st December 2013

Note

6 Administration and other expenditure	2013	2012
	<u>Eur</u>	<u>Eur</u>
Utilities	3,360	12,252
Materials & supplies	3,242	4,458
Rent	1,487	1,418
Memberships	200	200
Office services	2,957	1,088
Transport	6,684	459
Information services	2,806	1,304
Professional services	7,334	18,553
Community services & events	7,601	2,802
Asset write-off	365	0
Depreciation	32,058	34,718
	<u>68,094</u>	<u>77,252</u>

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Notes to the financial statements
for the year ended 31st December 2013

Note

7a Property, Plant and Equipment	Office furniture & fittings	Plant and machinery	Computer equipment	Office equipment	Urban improvements	New street signs	Construction works	Special programmes	Assets in the course of construction	Total
	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur
Cost - as at 1st January 2013	17,762	1,944	10,929	6,050	70,416	9,850	569,707	273,458	141,586	1,101,702
Additions new this year	0	0	1,327		0	494	0	0	294,883	296,704
Assets written-off	(67)	0	(9,281)	(1,502)	0	0	0	0	0	(10,850)
Cost - as at 31st December 2013	17,695	1,944	2,975	4,548	70,416	10,344	569,707	273,458	436,469	1,387,556
Grants - as at 1st January 2013	0	0	0	0	17,375	0	0	143,182	0	160,557
Transferred during the year	0	0	0	0	0	0	0	0	0	0
Grants - as at 31st December 2013	0	0	0	0	17,375	0	0	143,182	0	160,557
Acc.depreciation - as at 1st January 2013	11,575	32	9,721	5,283	22,695	9,850	354,109	74,385	0	487,650
Charge for the year	479	382	445	147	3,034	494	23,421	3,656	0	32,058
Released upon write-off	(53)	0	(9,028)	(1,404)	0	0	0	0	0	(10,485)
Acc.depreciation - as at 31st December 2013	12,001	414	1,138	4,026	25,729	10,344	377,530	78,041	0	509,223
Net book value - as at 31st December 2013	5,694	1,530	1,837	522	27,312	0	192,177	52,235	436,469	717,776

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Notes to the financial statements for the year ended 31st December 2013

Note

7b Property, Plant and Equipment	Office furniture & fittings	Plant and Machinery	Computer equipment	Office equipment	Urban improvements	New street signs	Construction works	Special programmes	Assets in the course of construction	Total
	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur
Cost - as at 1st January 2012	17,762	0	9,832	6,050	69,931	9,676	569,707	273,458	0	956,416
Additions new this year	0	1,944	1,097	0	485	174	0	0	141,586	145,286
Cost - as at 31st December 2012	17,762	1,944	10,929	6,050	70,416	9,850	569,707	273,458	141,586	1,101,702
Grants - as at 1st January 2012	0	0	0	0	17,375	0	0	143,182	0	160,557
Transferred during the year	0	0	0	0	0	0	0	0	0	0
Grants - as at 31st December 2012	0	0	0	0	17,375	0	0	143,182	0	160,557
Acc.depreciation - as at 1st January 2012	11,073	0	9,346	5,074	19,356	9,676	328,085	70,322	0	452,932
Charge for the year	502	32	375	209	3,339	174	26,024	4,063	0	34,718
Acc.depreciation - as at 31st December 2012	11,575	32	9,721	5,283	22,695	9,850	354,109	74,385	0	487,650
Net book value - as at 31st December 2012	6,187	1,912	1,208	767	30,346	0	215,598	55,891	141,586	453,495

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Notes to the financial statements for the year ended 31st December 2013

Note

8 <u>Amounts receivable</u>	31st December 2013 Eur	31st December 2012 Eur
Current		
Debtors	3,416	7,646
Blocked funds	242	242
Prepayments & accrued income	33,379	1,931
Deposits	600	600
	<u>37,637</u>	<u>10,419</u>

9 <u>Cash and cash equivalents</u>	31st December 2013 Eur	31st December 2012 Eur
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For the purposes of the statement of cash flows, the year end cash and cash equivalents comprise the following:

Cash in hand	116	116
Bank balances :		
Current accounts	245,053	268,868
Savings accounts	11	62
	<u>245,180</u>	<u>269,046</u>

10 <u>Trade and other payables</u>	31st December 2013 Eur	31st December 2012 Eur
Current		
Creditors	85,425	35,509
Accruals	20,169	18,813
Deferred income (note 12)	33,280	486
Retention money held	8,386	9,551
	<u>147,260</u>	<u>64,359</u>

Retention money held represents retention money held against permits issued to cover any breaches or damages caused by the permit holders. Once the permit is no longer required the money is refunded.

11 <u>Deferred income</u>	31st December 2013 Eur	31st December 2012 Eur
Current		
Opening balance	486	540
Released on depreciation	(486)	(540)
Current deferred income	<u>33,280</u>	<u>486</u>
Closing balance	<u>33,280</u>	<u>486</u>

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Notes to the financial statements for the year ended 31st December 2013

Note

	31st December 2013 Eur	31st December 2012 Eur
11 <u>Deferred income (cont.)</u>		
Non-Current		
Opening balance	122,926	26,499
Grants received from ERDF	205,168	96,913
Current deferred income	(33,280)	(486)
Closing balance	<u>294,814</u>	<u>122,926</u>
Maturity of deferred income is as follows:		
Less than one year	29,836	486
Between one and five years	92,496	39,032
After five years	176,465	83,894
	<u>298,797</u>	<u>123,412</u>
12 <u>Capital commitments</u>		
Authorised and contracted for (i)	16,000	422,720
Authorised and not contracted for (ii)	207,000	8,858
	<u>223,000</u>	<u>431,578</u>
Analysed as follows:		
(i) Authorised and contracted for		
Construction works	16,000	422,720
Urban improvements	0	0
	<u>16,000</u>	<u>422,720</u>
(ii) Authorised and not contracted for		
Construction works	119,000	6,358
Urban improvements	88,000	0
Others	0	2,500
	<u>207,000</u>	<u>8,858</u>

Part of the construction works are being funded through ERDF funds to the amount of €48,374, while the urban improvements are being funded through UIF funds. The rest are being funded from the Council's internal funds.

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Notes to the financial statements for the year ended 31st December 2013

Note

13 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Central Government is the main related party of the Local Council. In 2013, the Local Council received Eur249,552 (2011: Eur255,422) in funding from Central Government. In addition, Central Government settled dues to Wasteserve Ltd amounting to €11,415 on behalf of the Council. Payments to Central Government for services received amounted to Eur120 (2012: Eur 120).

14 Classification of financial assets and financial liabilities

The Council's financial assets and liabilities have been classified as follows in accordance with IAS 39:

	Credits and other receivables	Other financial assets / liabilities	Total carrying amount	Fair value
Assets				
Cash and cash equivalents	245,180	-	245,180	245,180
Trade and other receivables	37,637	-	37,637	37,637
Total financial assets	282,817	-	282,817	282,817
Liabilities				
Trade and other payables	-	113,980	113,980	113,980
Total financial liabilities	-	113,980	113,980	113,980

15 Financial risk management

16.1 Financial risk factors

The Council's activities expose it to both credit risk and liquidity risk. The Council did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial years.

The Council provides principles for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity.

a) Credit risk

The Council's credit risk arises from cash and cash equivalents, including deposits with the banks and amounts receivable. The Council's exposures to credit risk are analysed as follows:

	31st December Eur	31st December Eur
Amounts receivable	9,158	9,764
Cash and bank balances	245,180	269,046
	254,338	278,810

Notes to the financial statements for the year ended 31st December 2013

Note

15 Financial risk management - Continued

a) Credit risk - continued

The ageing of the amounts receivable is as follows:

	31st December 2013 Eur	31st December 2012 Eur
Less than 1 month	111	201
Between 1 and 2 months due	192	218
Between 2 and 3 months due	268	267
Over 3 months due	8,587	9,078
	<u>9,158</u>	<u>9,764</u>

The maximum exposure to credit risk at the reporting date in respect of the financial assets mentioned above is disclosed above and in Notes 9 and 10 to these financial statements. The Council does not hold any collateral as security in this respect.

The Council banks only with local financial institutions with high quality standing or rating.

The Council's major debtors are the Government and the Water Services Corporation, thus, it deems that it does not have any risk of non-recoverability of its dues.

b) Liquidity risk

The Council's exposure to liquidity risk is mainly from its payables and retention monies as per note 11 above and which are due within one year. Given the requirements at law to maintain a healthy working capital, the Council takes all measures to keep its liquidity risk exposure in check. In fact it maintains sufficient cash to ensure the availability of an adequate amount of funding to meet the Council's obligations. The Council's exposure to liquidity risk is as follows:

	31st December 2013 Eur	31st December 2012 Eur
Creditors	85,425	35,509
Accruals	20,169	18,813
Retention money held	8,386	9,551
	<u>113,980</u>	<u>63,873</u>

16.2 Fair values of financial instruments

At 31 December 2013 and 2012, the carrying amounts of cash at bank, receivables, payables and accrued expenses 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.

16 Contingent liabilities

The Council has a cash pledge of €245.

Notes to the financial statements for the year ended 31st December 2013

Note

17 Operating Lease

During the year, the Council entered into a non-cancellable operating lease of a commercial van to enable it to carry out road and street repairs over the hole village. The Council is obliged to pay €5,774 during the next year (2014) and €18,776 between 2015 and 2018, the year the lease expires.