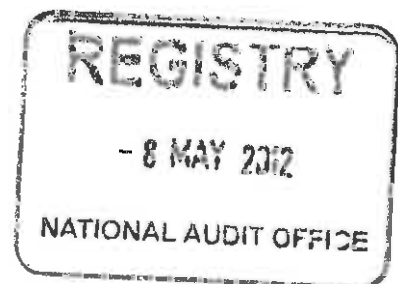




MQABBA LOCAL COUNCIL
REPORT AND FINANCIAL STATEMENTS
For the year ended 31st December 2011



Prepared by: J. Richard Falzon FIA AMIT CPA MBA (Henley)

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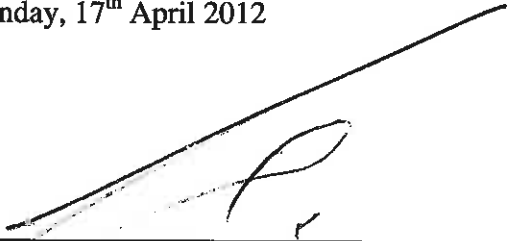
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Financial Statements for the year ended 31st December 2011**Statement of Local Council Members' and Executive Secretary's Responsibilities**

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 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 Local Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Monday, 17th April 2012



Mr. Noel Galea
(Mayor)



Mr. Anthony Bonello
(Executive Secretary)

Financial Statements for the year ended 31 December 2011**Report of the Local Government auditor to the Auditor General**

We have audited the accompanying financial statements of Mqabba Local Council which comprise the statement of financial position as at 31 December 2011, 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 3, 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. The Council operates the Local Enforcement System (LES). The Council does not prepare a reconciliation between the LES reports generated from the IT system and the income from contraventions, actual cash received, debtors outstanding at the end of the period, income received on behalf of other councils and amounts owed to other councils. We could not perform any audit procedures to satisfy ourselves as to the existence and completeness of LES income, LES debtors and the valuation of LES debtors at 31 December 2011.
2. The Local Councils (Audit) Procedures, 2006 contain a specimen of the financial statements which Local Councils should adhere to. It further stipulates that in the case where this specimen is not in conformity with International Financial Reporting Standards (IFRSs), the latter should prevail.

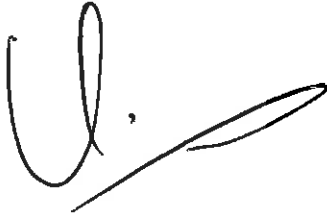
The Council's financial statements for the year under review have been prepared in accordance with the specimen referred to above but do not take into consideration all of the additional requirements that emerge from the applicable IFRSs. This contravenes the requirements of the Local Councils (Audit) Procedures, 2006.

3. 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 2011**Report of the Local Government auditor to the Auditor General (continued)**

In our opinion, except for the effect of the matter described in paragraph 1 under the basis of qualified opinion paragraph, the financial statements give a true and fair view of the financial position of Mqabba Local Council as at 31 December 2011, and of the results of its operations, changes in equity and its cash flows for the year then ended in accordance with the accounting policies set out on pages 9 to 12.

Because of the matters set out in paragraphs 2 and 3 above, 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 matter set out in paragraph 2 these financial statements have not been prepared in accordance with International Financial Reporting Standards.



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

17 April 2012

Statement of Comprehensive Income for the year ended 31st December 2011

		2011	2010
	Note	€	€
Income			
Funds received from Central Government	4	255,503	252,680
Income raised under Local Council Bye-Laws	5	4,600	3,903
Income raised under Local Enforcement System	6	15,025	19,210
General Income	7	12,717	16,758
		<u>287,845</u>	<u>292,551</u>
Expenditure			
Personal emoluments	8	66,749	66,305
Operations and maintenance	9	101,481	101,876
Administration and other expenditure	10	115,636	102,358
		<u>(283,866)</u>	<u>(270,539)</u>
Operating surplus for the year		3,979	22,012
Investment income	11	446	747
Surplus for the year		<u><u>4,425</u></u>	<u><u>22,759</u></u>

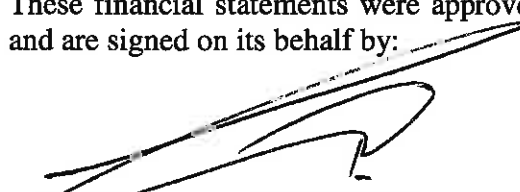
The notes on pages 9 to 22 form an integral part of these financial statements.

Statement of Financial Position as at 31st December 2011

	Note	2011 €	2010 €
<u>Assets</u>			
Non-current Assets			
Property, plant and equipment	12 a-b	658,325	502,272
Current Assets			
Receivables	13	55,332	91,466
Cash and cash equivalents	14	192,325	148,642
		<u>247,657</u>	<u>240,108</u>
Total Assets		<u>905,982</u>	<u>742,380</u>
<u>Reserves and Liabilities</u>			
Reserves			
Retained funds		437,754	433,329
Non-current Liabilities			
Non-current deferred income	15	353,269	166,261
		<u>353,269</u>	<u>166,261</u>
Current Liabilities			
Trade and other payables	16	114,959	142,790
		<u>114,959</u>	<u>142,790</u>
Total Reserves and Liabilities		<u>905,982</u>	<u>742,380</u>

The notes on pages 9 to 22 form an integral part of these financial statements.

These financial statements were approved by the Local Council on the 17th April 2012 and are signed on its behalf by:



Mr. Noel Galea
 (Mayor)



Mr. Anthony Bonello
 (Executive Secretary)

Statement of Changes in Equity for the year ended 31st December 2011

	Retained Funds
	€
Balance as at 01 January 2010	410,570
Total comprehensive income for the year ended 31st December 2010	<u>22,759</u>
Balance as at 31 December 2010	<u>433,329</u>
Balance as at 01 January 2011	<u>456,088</u>
Total comprehensive income for the year ended 31st December 2011	<u>4,425</u>
Balance as at 31 December 2011	<u>437,754</u>

Statement of Cash Flows for the year ended 31st December 2011

	2011	2010
Note	€	€
Cash flow from operating activities		
Profit for the year	4,425	22,759
Adjustment for:		
Depreciation	46,247	31,263
Loss on disposal of assets	0	77
Increase in provision for doubtful LES debtors	12,220	11,127
Grants released to income	(12,783)	(4,843)
Interest received	(602)	(591)
	<u>49,508</u>	<u>59,792</u>
Increase in payables	(25,281)	30,950
Increase in receivables	23,914	(66,851)
Decrease in inventories	0	4,052
<i>Net cash from operating activities</i>	<u>48,141</u>	<u>27,943</u>
Cash flow from investing activities		
Payment to acquire property, plant and equipment	(209,951)	(164,292)
Interest received	602	591
<i>Net cash from investing activities</i>	<u>(209,349)</u>	<u>(163,701)</u>
Cash flow from financing activities		
Grants received during the year	204,891	174,885
<i>Net cash from financing activities</i>	<u>204,891</u>	<u>174,885</u>
Net increase in cash and cash equivalents	43,683	39,127
Cash and cash equivalents at beginning of year	148,642	109,515
Cash and cash equivalents at end of year	<u>192,325</u>	<u>148,642</u>

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The notes on pages 9 to 22 form an integral part of these financial statements.

Notes to the Financial Statements for the year ended 31st December 2011

1. General Information

Mqabba Local Council is the local authority of Mqabba setup in accordance with the Local Councils Act. The office of the Local Council is situated at 29, Triq il-Parrocča, Mqabba, Malta.

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 with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires the council to exercise its judgment in the process of applying its accounting policies (see Note 3 – Critical accounting estimates and judgments).

The principal accounting policies and reporting procedures used by the Local Council are as follows:

a. Revenue recognition

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

b. Local Enforcement System

Local Enforcement Income represents the income as it accrues from contraventions as controlled by the Local Enforcement System (LES). The amount receivable from the Local Enforcement System is disclosed in the statement of financial position. A full provision for bad debts is accounted for receivables aged over two years. As from the 1st September 2011, the Council forms part of the Southern Regional Committee, which is responsible for the LES income of the locality. The contract provides for a 10% administration fee payable to the Council for contraventions collected by the Council and remitted to the respective Regional Committees.

Notes to the Financial Statements for the year ended 31st December 2011 (cont..)

c. Financial instruments

The Council recognises a financial instrument in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Receivables are initially recognised at fair value plus transaction costs. Receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Council has transferred substantially all risks and rewards of ownership or has not retained control of the financial asset.

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

At 31 December 2011, the carrying amounts of cash at bank, receivables, payables, and accrued expenses 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.

d. Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment loss to date. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The present values of property, plant and equipment do not differ materially from those that would be determined by using fair values at the end of each reporting period.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Local Council and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

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:

Notes to the Financial Statements for the year ended 31st December 2011 (cont..)

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

e. Government Grants

Government grants are accounted for on a systematic basis in the profit or loss 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.

f. 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 profit or loss.

g. Amounts Receivable

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

Notes to the Financial Statements for the year ended 31st December 2011 (cont..)

h. Payables

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of the council's activities from suppliers. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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 €, which is the Council's functional currency. Transactions denominated in foreign currencies are translated into € using the rates of exchange prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

j. Profits and Losses

Only profits that were realised at the reporting date 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.

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.

3. Critical accounting estimates and judgments

In the process of applying the council's accounting policies, the council has made no judgments which can significantly affect the amounts recognised in the financial statements.

At the statement of financial position date, there were no key assumptions concerning the future, or any other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Notes to the Financial Statements for the year ended 31st December 2011 (cont..)**4. Funds received from Central Government**

	2011	2010
	€	€
In terms of section 55 of the Local Councils Act (Cap 363)	237,569	239,819
Government Grants	466	3,408
Other Government Income	17,468	9,453
	<u>255,503</u>	<u>252,680</u>

5. Income raised from Bye-Laws

	2011	2010
	€	€
Income raised under Local Council Bye-Laws	<u>4,600</u>	<u>3,903</u>

6. Local Enforcement Income

	2011	2010
	€	€
Fines, Penalties and Fees	<u>15,025</u>	<u>19,210</u>

7. General Income

	2011	2010
	€	€
Income from tender documents	793	401
Income from permits	135	2,285
Income from trenching works	5,936	12,350
Contributions and donations	5,853	1,722
	<u>12,717</u>	<u>16,758</u>

8. Personal Emoluments

	2011	2010
	€	€
Mayor's allowance	6,360	6,360
Councillors' allowances	6,280	6,400
Executive Secretary's salary and allowances	25,006	25,035
Employees' salaries	25,029	24,787
Social Security Contributions	4,074	3,723
	<u>66,749</u>	<u>66,305</u>

Notes to the Financial Statements for the year ended 31st December 2011 (cont..)**9. Operations and Maintenance**

	2011	2010
	€	€
Repairs and upkeep:		
Road and street pavements	8,104	6,575
Street signs	1,480	1,601
Road markings	525	2,559
	<u>10,109</u>	<u>10,735</u>
Contractual Services:		
Refuse collection	23,516	22,040
Bulky refuse collection	1,642	1,263
Road and Street Cleaning	21,387	17,241
Waste disposal	20,627	19,270
Cleaning and Maintenance of Public Conveniences	3,682	3,367
Cleaning and Maintenance of Parks and Gardens	3,649	4,681
Street lighting expenses	5,163	4,813
Local Enforcement System (L.E.S.) Expenses	11,706	18,467
	<u>91,372</u>	<u>91,141</u>
	<u>101,481</u>	<u>101,876</u>

10. Administration and other expenditure

	2011	2010
	€	€
Utilities	5,934	6,961
Other repairs and upkeep	1,410	4,493
Rent	1,398	1,747
National and International Memberships	123	728
Office Services	4,130	6,770
Travel	51	0
Transport	1,223	1,189
Information Services	6,694	7,996
Insurance	1,234	1,643
Professional services	12,471	6,402
Community and hospitality	16,314	18,442
Penalties	4,033	1,750
Sundry expenses	2,154	1,847
Depreciation	46,247	31,263
Increase in provision for doubtful L.E.S. debtors	12,220	11,127
	<u>115,636</u>	<u>102,358</u>

11. Investment Income

	2011	2010
	€	€
Bank interest	<u>446</u>	<u>747</u>

Notes to the Financial Statements for the year ended 31st December 2011 (cont.)

12a. Property, Plant and Equipment

Asset	Buildings		Office Furniture & Fixings		Plant & Machinery		Computer Equipment		Office Equipment		Urban Improvements		Traffic Signal/Lights		Construction Works		Special Projects		Total
	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	€	
Cost																			
As at 31 December 2010	106,324	19,327	8,963	7,740	8,216	211,517	3,962	202,806	360,680	1,427,354									
Additions	-	690	-	1,119	6,790	39,111	-	154,390	-	202,300	-	-	-	-	-	-	-	-	-
As at 31 December 2011	106,324	20,017	8,963	8,859	15,006	350,628	3,962	356,956	360,680	1,629,654									
Grants and other reimbursements																			
As at 31 December 2010	-	-	-	2,637	-	25,231	-	32,966	360,680	631,504									
Additions	-	-	-	-	-	-	-	-	-	-									
As at 31 December 2011	-	-	-	2,637	-	25,231	-	32,966	360,680	631,504									
Accumulated Depreciation																			
As at 31 December 2010	8,166	7,637	1,103	3,328	5,383	41,286	3,062	202,633	-	273,578									
Charge for the year	981	876	1,177	525	701	1,915	-	40,029	-	46,247									
As at 31 December 2011	9,147	8,513	2,280	3,853	6,084	43,202	3,062	242,662	-	319,825									
Net Book Value																			
As at 31 December 2011	97,157	11,504	6,783	5,031	8,922	307,426	864	114,294	360,680	1,309,829									

Notes to the Financial Statements for the year ended 31st December 2011 (cont.)

12b. Property, Plant and Equipment

Asset	Buildings €	Office Furniture & Fixings					Plant & Machinery	Computer Equipment	Office Equipment	Urban Improvements	Traffic Signs/Lights	Construction Works	Special Projects	Total €
		€	€	€	€	€								
Cost														
As at 31 December 2009	106,324	12,996	573	10,021	5,999	302,619	1,526	423,471	360,690	1,231,409				
Additions	-	6,531	6,412	565	2,219	1,305	2,436	179,129	0	198,888				
Disposals	-	-	-	(2,836)	-	(107)	-	-	-	(2,943)				
As at 31 December 2010	106,324	19,527	6,985	7,740	8,218	311,517	3,962	602,600	360,690	1,427,354				
Grants and other reimbursements														
As at 31 December 2009	-	-	-	2,637	-	365,231	-	32,956	360,690	631,504				
Additions	-	-	-	-	-	-	-	-	-	-				
As at 31 December 2010	-	-	-	2,637	-	365,231	-	32,956	360,690	631,504				
Accumulated Depreciation														
As at 31 December 2009	7,195	7,123	434	5,553	4,701	39,833	1,525	178,696	-	245,181				
Change for the year	991	574	669	567	622	1,477	2,436	23,937	-	31,253				
Released on disposal	-	-	-	(2,762)	-	(84)	-	-	-	(2,806)				
As at 31 December 2010	8,186	7,697	1,103	3,328	5,323	41,206	3,962	202,633	-	273,578				
Net Book Value														
As at 31 December 2010	98,138	11,830	5,882	4,412	2,895	269,311	0	579,967	360,690	1,153,776				

Notes to the Financial Statements for the year ended 31st December 2011 (cont..)

13. Receivables

	2011	2010
	€	€
Receivables (Note 13.1)	10,412	12,350
LES receivables (Note 13.2)	11,421	21,489
Prepayments and accrued income	33,499	57,627
	<u>55,332</u>	<u>91,466</u>

Note 13.1

	2011	2010
	€	€
Receivables within credit period	0	0
Receivables not within credit period*	10,412	12,350
	<u>10,412</u>	<u>12,350</u>

* None of these receivables are at impaired status

The credit period on receivables (Note 13.1) is of 90 days. No interest is charged on receivables for the first 90 days from the date of request for payment. Thereafter, the Council may consider to impose an interest charge of 2% per annum on the outstanding balance. Allowances for doubtful debts are recognised against receivables after 730 days (two years). Receivables disclosed above (13.1) include amounts (see below for aged analysis) that are past due at the end of the reporting date for which the Council has not recognised an allowance for doubtful debts, as these are still considered recoverable. The aging of receivables that are past due but not impaired are as follows:

	2011	2010
	€	€
1-89 days	62	0
90 - 730 days	10,350	12,350

Note 13.2

	2011	2010
	€	€
LES receivables	101,472	99,320
Provision for LES doubtful debts (reconciled below)	(90,051)	(77,831)
	<u>11,421</u>	<u>21,489</u>

Movement in the allowance for doubtful debts:

	2011	2010
	€	€
Balance at beginning of the year	(77,831)	(66,704)
Movement in provision	(12,220)	(11,127)
Balance at the end of the year	<u>(90,051)</u>	<u>(77,831)</u>

Notes to the Financial Statements for the year ended 31st December 2011 (cont..)

The credit period on LES receivables (Note 13.2) is of 60 days. As the system is controlled by the Central Government, the Council has no control on the charging of interest or the imposition of penalties. Allowances for doubtful debts are recognised against receivables after 730 days (two years). LES receivables disclosed above (13.2) include amounts (see below for aged analysis) that are past due at the end of the reporting date for which the Council has not recognised an allowance for doubtful debts, as these are still considered recoverable. The aging of LES receivables that are past due but not impaired are as follows:

	2011	2010
	€	€
1 - 59 days	290	2,486
60 - 730 days	<u>11,131</u>	<u>19,003</u>

14. Cash and Equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following amounts in the Local Council Statement of Financial Position:

	2011	2010
	€	€
Bank Balances	192,105	148,392
Cash in Hand	<u>220</u>	<u>250</u>
	<u><u>192,325</u></u>	<u><u>148,642</u></u>

15. Deferred income

Deferred income relates to grants received from Central Government by the Council. It is composed of an amount which is apportioned between short-term and long-term components. The short-term component represents the amounts expected to be released in the next financial year.

	2011	2010
	€	€
Deferred income as at 01 January	185,042	15,000
Amount increased during the year	204,891	174,885
Less amount released during the year ¹	<u>(12,783)</u>	<u>(4,843)</u>
Deferred income as at 31 December	<u><u>377,150</u></u>	<u><u>185,042</u></u>
	€	€
Non-current deferred income	353,269	166,261
Current deferred income ²	<u>23,881</u>	<u>18,781</u>
	<u><u>377,150</u></u>	<u><u>185,042</u></u>

1: Released amount during the year to the Statement of Comprehensive Income

2: Disclosed under note 16

Notes to the Financial Statements for the year ended 31st December 2011 (cont..)**16. Trade and other payables**

	2011	2010
	€	€
Payables	67,871	98,150
Current deferred income	23,881	18,781
Accruals	23,207	25,859
	<u>114,959</u>	<u>142,790</u>

17. Capital commitments

At the end of the reporting period, the Council had future capital expenditure plans relating to road resurfacing. Some of these capital commitments will be financed by grants receivable in the next financial year. The capital commitments contracted by the Council as at accounting date are as follows:

	2011	2010
	€	€
<u>Contracted for:</u>		
Property, plant and equipment	<u>757,073</u>	<u>245,569</u>

18. Related party transactions

Mqabba Local Council is ultimately controlled by the Central Government Local Councils Department.

Other related parties through ultimate control of the Central Government, but which have no control on the Mqabba Local Council include Water Services Corporation, Enemalta Corporation and Malta Environmental Planning Authority.

In the ordinary course of its operations, the Council received funds and income from the related parties. The Council's income reflected in the statement of comprehensive income comprises funds received from the Central Government amounting to Euro 255,503 (2010: Euro 252,680). The Council also received income derived from the Local Enforcement System amounting to Euro 15,025 (2010: Euro 19,210).

In the opinion of the Local Council's members, disclosure of related party transactions, which are generally carried out, is only necessary when the transactions effected have a material impact on the operating results and financial position of the Council.

Notes to the Financial Statements for the year ended 31st December 2011 (cont..)

19. Capital management policies and procedures**Capital Management**

The Council manages its capital to ensure that it will be able to continue as a going concern, while implementing the planned commitments and optimising government funding in the locality. The Council's overall strategy remains unchanged from 2010.

The capital structure of the Council consists of the working capital made of the net assets as disclosed in the statement of financial position. On an annual basis, the Council reviews the net working capital ratio ensuring that it is positive and the liquidity ratio ensuring that it is more than 1:1.20. The ratios as at the end of the reporting period were as follows:

Net working capital ratio and liquidity ratio

	2011 €	2010 €
Current Assets (a)	247,657	240,108
Current Liabilities (b)	114,959	142,790
Net Working Capital (c=a-b)	<u>132,698</u>	<u>97,318</u>
Total Assets (d)	905,982	742,380
Net Working Capital Ratio (c÷d)	0.15	0.13
Liquidity Ratio (a÷b)	1.00 : 2.15	1.00 : 1.68

Categories of financial instruments

	2011 €	2010 €
<u>Financial assets</u>		
Cash and bank balances	192,325	148,642
Receivables	21,833	33,839
<u>Financial liabilities</u>		
Payables and accruals	91,078	124,009

Notes to the Financial Statements for the year ended 31st December 2011 (cont..)

20. Risk management objectives

The Council is exposed to credit risk, liquidity risk, foreign currency risk and contractual maturity risk through its use of financial instruments which result from its operating and investing activities. The most significant financial risks to which the Council is exposed to are described below.

Credit risk

The Council's exposure to credit risk is limited to the carrying amount of financial assets recognized at the date of the Statement of Financial Position (as disclosed in Notes 13 and 14, and as referred to hereunder), which arises from cash and cash equivalents and credit exposures from receivables as follows:

	€
Receivables (Note 13.1)	10,412
LES receivables (Note 13.2)	11,421
Prepayments and Accrued Income (Note 13)	33,499
Cash at bank (Note 14)	192,325

LES receivables relate to sentenced cases arising from contraventions which are legally due to the Council. The credit risk exposure is high on LES receivables as the Council has no control on such collectables. The amount disclosed of €11,421 represents 11.25% of the total LES receivables of €101,472 (100%), after deducting the provision for bad debts of €90,051 (88.75%).

Receivables arise from legal obligations due to the Council by third parties. The credit risk exposure is considered low as the Council is in direct contact with such debtors. Accrued income represents income receivable from Government and related agencies. Their relative credit exposure is considered low. The maximum exposure to credit risk at the end of the reporting period in respect of the financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective note to the financial statements and there is no collateral to secure such assets.

Cash at bank relates to balances held as savings accounts placed with a local reliable financial institution. The credit risk exposure in this respect is considered low.

Liquidity risk

The Council's exposure to liquidity risk arises from its obligations to meet financial liabilities, which comprise of trade and other payables. The Council monitors and manages its liquidity risk to a shortage of funds by maintaining sufficient cash and cash

Notes to the Financial Statements for the year ended 31st December 2011 (cont..)

at bank, and by monitoring the availability of raising funds to ensure adequate amounts of funding to meet the obligations when they become due.

Foreign currency risk

Most of the Council's transactions are carried out in Euro. Exposure to foreign currency exchange rates arise from the Council's transactions in foreign currency. There were no figures translates from foreign currency to Euro as at the date of the Statement of the Financial Position, thus eliminating the potential foreign currency risk.

Contractual maturity risk

The Council's remaining contractual maturities for its non-derivative financial liabilities with agreed payment periods are disclosed below. The contractual maturities are based on the earliest date on which the Council can be required to pay.

	within 1 year	1 year - 3 years	Total
	€	€	€
Contractual maturities	757,073	0	757,073

The maturity dates as at 31st December 2011 of the contracts consented by the Council are within one year. Contracts' terms do not impose any interest or penalties if such contracts are terminated.

Fair value of financial assets and financial liabilities

At 31 December 2011, the fair value of non-current financial assets and non-current financial liabilities are not materially different from the carrying amounts.