



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

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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 a statement of the Local Council's income and expenditure for the year and of the Council's retained funds at the end of year. By virtue of the same regulations it is the duty of the Local Council and the Executive Secretary to ensure that the financial statements forming part of the report present fairly, in accordance with the accounting policies applicable to Local Councils, the income and expenditure of the Local Council for the year and its retained funds as at the year end, and that they comply with the Act, the Local Council (Financial) Regulations, and the Local Council (Financial) Procedures issued in terms of the said Act.

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

Monday, 13th February 2012

Mr. Noel Galea
(Mayor)

Mr. Anthony Bonello
(Executive Secretary)

Financial Statements for the year ended 31st December 2011

Report of the Local Government Auditor to the Auditor General

TO BE REPORTED BY THE LOCAL GOVERNMENT AUDITOR

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

		2011	2010
	Note	€	€
Income			
Funds received from Central Government	3	590,326	252,680
Income raised under Local Council Bye-Laws	4	4,259	3,903
Income raised under Local Enforcement System	5	13,495	19,210
Investment Income	6	429	747
General Income	7	12,730	16,758
		<u>621,239</u>	<u>293,298</u>
Expenditure			
Personal emoluments	8	66,750	66,305
Operations and maintenance	9	102,023	101,876
Administration and other expenditure	10	117,741	102,358
		<u>(286,514)</u>	<u>(270,539)</u>
Profit for the year		<u><u>334,725</u></u>	<u><u>22,759</u></u>

The notes on pages 9 to 21 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	11 a-b	653,950	502,272
Current Assets			
Receivables	12	107,734	91,466
Cash and cash equivalents	13	190,971	148,642
		<u>298,705</u>	<u>240,108</u>
Total Assets		<u>952,655</u>	<u>742,380</u>
<u>Reserves and Liabilities</u>			
Reserves			
Retained funds		768,055	433,329
Current Liabilities			
Trade and other payables	14	91,461	124,009
Current deferred income	15	93,139	18,781
		<u>184,600</u>	<u>142,790</u>
Non-current Liabilities			
Non-current deferred income	15	-	166,261
		<u>-</u>	<u>166,261</u>
Total Reserves and Liabilities		<u>952,655</u>	<u>742,380</u>

The notes on pages 9 to 21 form an integral part of these financial statements.

These financial statements were approved by the Local Council on the 13th February 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 31 December 2009	410,570
Profit for the year ended 31st December 2010	<u>22,759</u>
Balance as at 31 December 2010	<u>433,329</u>
Profit for the year ended 31st December 2011	<u>334,726</u>
Balance as at 31 December 2011	<u>768,055</u>

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

	2011	2010
Note	€	€
Cash flow from operating activities		
Profit for the year	334,726	22,759
Adjustment for:		
Depreciation	50,462	31,263
Loss on disposal of assets	-	77
Increase in provision for doubtful LES debtors	12,220	11,127
Grants received	(232,848)	(124,950)
Grants released to income	8,296	4,843
Interest received	(585)	(591)
	<u>172,271</u>	<u>(55,472)</u>
Increase in payables	(120,750)	200,992
Increase in receivables	(28,489)	(66,851)
Decrease in inventories	-	4,052
<i>Net cash from operating activities</i>	<u>23,032</u>	<u>82,721</u>
Cash flow from investing activities		
Payment to acquire property, plant and equipment	(205,840)	(164,292)
Interest received	585	591
<i>Net cash from investing activities</i>	<u>(205,255)</u>	<u>(163,701)</u>
Cash flow from financing activities		
Grants received during the year	224,552	120,107
<i>Net cash from financing activities</i>	<u>224,552</u>	<u>120,107</u>
Net increase in cash and cash equivalents		
	42,329	39,127
Cash and cash equivalents at beginning of year	<u>148,642</u>	<u>109,515</u>
Cash and cash equivalents at end of year	13 <u>190,971</u>	<u>148,642</u>

The notes on pages 9 to 21 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-Parrocca, 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 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 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. 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.

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

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

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:

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

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

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.

h. 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.

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

i. 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.

j. 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. Funds received from Central Government

	2011	2010
	€	€
In terms of section 55 of the Local Councils Act (Cap 363)	235,459	239,819
Government Grants	328,321	3,408
Other Government Income	26,546	9,453
	<u>590,326</u>	<u>252,680</u>

4. Income raised from Bye-Laws

	2011	2010
	€	€
Income raised under Local Council Bye-Laws	<u>4,259</u>	<u>3,903</u>

5. Local Enforcement Income

	2011	2010
	€	€
Fines and Penalties	<u>13,495</u>	<u>19,210</u>

6. Investment Income

	2011	2010
	€	€
Bank interest	<u>429</u>	<u>747</u>

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

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	5,866	1,722
	<u>12,730</u>	<u>16,758</u>

8. Personal Emoluments

	2011	2010
	€	€
Mayor's allowance	6,281	6,360
Councillors' allowances	6,360	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>66,750</u>	<u>66,305</u>

9. Operations and Maintenance

	2011	2010
	€	€
Repairs and upkeep:		
Road and street pavements	9,363	6,575
Street signs	1,480	1,601
Road markings	525	2,559
	<u>11,368</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	4,446	4,813
Local Enforcement System (L.E.S.) Expenses	11,706	18,467
	<u>90,655</u>	<u>91,141</u>
	<u>102,023</u>	<u>101,876</u>

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

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	12,351	6,402
Community and hospitality	16,314	18,442
Penalties	2,043	1,750
Sundry expenses	2,154	1,847
Depreciation	50,462	31,263
Increase in provision for doubtful L.E.S. debtors	12,220	11,127
	<u><u>117,741</u></u>	<u><u>102,358</u></u>

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

11a. Property, Plant and Equipment

Asset	Buildings €	Office Furniture & Fittings €	Plant & Machinery €	Computer Equipment €	Office Equipment €	Urban Improvements €	Traffic Signs/Lights €	Construction Works €	Special Projects €	Total €
Cost										
As at 31 December 2010	106,324	19,327	6,986	7,740	8,218	311,517	3,962	602,600	360,680	1,427,354
Additions	-	890	-	1,119	6,790	-	-	193,341	-	202,140
As at 31 December 2011	106,324	20,217	6,986	8,859	15,008	311,517	3,962	795,941	360,680	1,629,494
Grants and other reimbursements										
As at 31 December 2010	-	-	-	2,637	-	255,231	-	32,956	360,680	651,504
Additions	-	-	-	-	-	-	-	-	-	-
As at 31 December 2011	-	-	-	2,637	-	255,231	-	32,956	360,680	651,504
Accumulated Depreciation										
As at 31 December 2010	8,186	7,697	1,103	3,328	5,383	41,286	3,962	202,633	-	273,578
Charge for the year	981	878	1,177	525	701	1,500	-	44,700	-	50,462
As at 31 December 2011	9,167	8,575	2,280	3,853	6,084	42,786	3,962	247,333	-	324,040
Net Book Value										
As at 31 December 2011	97,157	11,642	4,706	2,369	8,924	13,500	-	515,652	-	653,950

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

11b. Property, Plant and Equipment

Asset	Office										Total
	Buildings	Furniture & Fittings	Plant & Machinery	Computer Equipment	Office Equipment	Urban Improvements	Traffic Signs/Lights	Construction Works	Special Projects		
€	€	€	€	€	€	€	€	€	€	€	€
Cost											
As at 31 December 2009	106,324	12,996	573	10,021	5,999	309,819	1,526	423,471	360,680		1,231,409
Additions	-	6,331	6,413	555	2,219	1,805	2,436	179,129	0		198,888
Disposals	-	-	-	(2,836)	-	(107)	-	-	-		(2,943)
As at 31 December 2010	106,324	19,327	6,986	7,740	8,218	311,517	3,962	602,600	360,680		1,427,354
Grants and other reimbursements											
As at 31 December 2009	-	-	-	2,637	-	255,231	-	32,956	360,680		651,504
Additions	-	-	-	-	-	-	-	-	-		-
As at 31 December 2010	-	-	-	2,637	-	255,231	-	32,956	360,680		651,504
Accumulated Depreciation											
As at 31 December 2009	7,195	7,123	434	5,553	4,761	39,893	1,526	178,696	-		245,181
Charge for the year	991	574	669	557	622	1,477	2,436	23,937	-		31,263
Released on disposal	-	-	-	(2,782)	-	(84)	-	-	-		(2,866)
As at 31 December 2010	8,186	7,697	1,103	3,328	5,383	41,286	3,962	202,633	-		273,578
Net Book Value											
As at 31 December 2010	98,138	11,630	5,883	1,775	2,835	15,000	-	367,011	-		502,272

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

12. Receivables

	2011	2010
	€	€
Receivables (Note 12.1)	12,350	12,350
LES receivables (Note 12.2)	11,421	21,489
Prepayments and accrued income	83,963	57,627
	<u>107,734</u>	<u>91,466</u>

Note 12.1

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

* None of these receivables are at impaired status

The credit period on receivables (Note 12.1) 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 (12.1) 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
	€	€
90 - 730 days	<u>12,350</u>	<u>12,350</u>

Note 12.2

	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 12.2) 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 (12.2) 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>

13. 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	190,751	148,392
Cash in Hand	220	250
	<u>190,971</u>	<u>148,642</u>

14. Trade and other payables

	2011	2010
	€	€
Payables	68,972	98,150
Accruals	22,489	25,859
	<u>91,461</u>	<u>124,009</u>

15. Deferred income

Deferred income relates to grants received from Central Government by the Council. It is composed of an amount which will be allocated to a project within the next financial year (Current). There is no deferred income to be allocated to after the next financial year (Non-current).

	2011	2010
	€	€
Non-current deferred income	-	166,261
Current deferred income	93,139	18,781
	<u>93,139</u>	<u>185,042</u>

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

16. Capital commitments

At the end of the reporting period, the Council had future capital expenditure plans relating to road resurfacing. 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>

17. 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 590,326 (2010: Euro 252,680). The Council also received income derived from the Local Enforcement System amounting to Euro 13,495 (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.

18. Financial instruments**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:

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

Net working capital ratio and liquidity ratio

	2011	2010
	€	€
Current Assets (a)	298,705	240,108
Current Liabilities (b)	<u>184,599</u>	<u>142,790</u>
Net Working Capital (c=a-b)	<u>114,106</u>	<u>97,318</u>
Total Assets (d)	952,656	742,380
Net Working Capital Ratio (c÷d)	0.12	0.13
Liquidity Ratio (a÷b)	1.00 : 1.62	1.00 : 1.68

Categories of financial instruments

	2011	2010
	€	€
<u>Financial assets</u>		
Cash and bank balances	190,971	148,642
Receivables and Accrued Income	106,092	88,541
<u>Financial liabilities</u>		
Payables and accruals	91,461	124,009

Credit risk

The Council's exposure to credit risk arises from cash and cash equivalents and credit exposures from receivables as follows:

	€
LES receivables	11,421
Receivables	12,350
Accrued Income	82,321
Cash at bank	190,751

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.

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. 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.

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.

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

Liquidity risk

The Council monitors and manages its liquidity risk to a shortage of funds by maintaining sufficient cash and cash at bank, and by monitoring the availability of raising funds to meet its commitments.

Contractual maturity

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.