

TA' KERĊEM

TA' KERĊEM LOCAL COUNCIL

**Annual Report
and
Financial Statements**

for the year ended 31 December 2019

Prepared by

Daniel Galea B. Accty. (Hons.) CPA

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2019

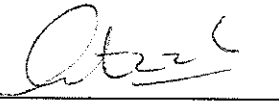
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Statement of Local Council Members' and Executive Secretary's Responsibilities
for the year ended 31 December 2019

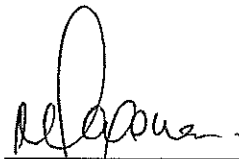
The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Councils' statement of comprehensive income for the year and of the Council's retained funds at the end of year. By virtue of the same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

The Executive Secretary is responsible to maintain a continuous internal control to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, the Local Councils (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.

This statement was approved by the Local Council on the 11th June 2020 and signed on its behalf by



Mario Azzopardi
Mayor



Marianne Sagona
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

		2019	2018
		€	€
	<i>Notes</i>		
Income			
Funds received from Central Government	4	303,140	280,317
Income raised under Local Enforcement System	5	903	1,100
General Income	6	<u>34,298</u>	<u>25,118</u>
		<u>338,341</u>	<u>306,535</u>
Expenditure			
Personal emoluments	8	(91,343)	(81,097)
Operations and maintenance	9	(99,786)	(112,566)
Administration and other expenditure	10	<u>(110,927)</u>	<u>(97,691)</u>
		<u>(302,056)</u>	<u>(291,354)</u>
Operating surplus for the year	7	36,285	15,181
Finance costs	11	(4,885)	(5,436)
Finance income	12	146	45
		<u>31,546</u>	<u>9,790</u>
Total comprehensive income for the year		<u><u>31,546</u></u>	<u><u>9,790</u></u>


The notes on pages 8 to 22 form an integral part of these financial statements

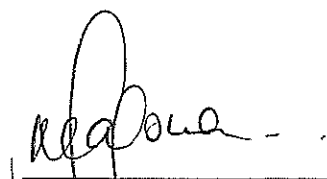
STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 €	2018 €
ASSETS			
Non-Current Assets			
Property, plant and equipment	13	<u>487,242</u>	<u>520,143</u>
		487,242	520,143
Current Assets			
Inventories	14	2,215	2,995
Receivables	15	46,318	19,317
Cash and Cash Equivalents	16	<u>914,518</u>	<u>576,523</u>
		963,051	598,835
Total Assets		<u>1,450,293</u>	<u>1,118,978</u>
RESERVES AND LIABILITIES			
Reserves			
Retained Funds		<u>405,928</u>	<u>374,382</u>
		405,928	374,382
Non-Current Liabilities			
Accruals	17	5,414	14,828
Long-term borrowings	18	57,255	75,113
Deferred income	19	-	51,974
		<u>62,669</u>	<u>141,915</u>
Current Liabilities			
Payables	17	196,042	107,279
Deferred income	19	767,768	478,255
Short-term borrowings	18	<u>17,886</u>	<u>17,147</u>
		981,696	602,681
Total Reserves and Liabilities		<u>1,450,293</u>	<u>1,118,978</u>

These financial statements were approved by the Local Council on 11th June 2020 and signed on its behalf by:


 Mario Azzopardi
 Mayor


 Marianne Sagona
 Executive Secretary

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Retained Funds €
At 1 January 2018	364,592
Total comprehensive income for the year 2018	9,790
At 31 December 2018	374,382
At 1 January 2019	374,382
Total comprehensive income for the year 2019	31,546
At 31 December 2019	405,928

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 €	2018 €
	Note	
Cash flows from Operating Activities		
Total comprehensive profit for the year	31,546	9,790
Reconciliation to cash generated from operations:		
Depreciation	53,431	56,989
Increase in provision for doubtful debts	-	(2,997)
Interest receivable	(146)	(45)
Operating Surplus before Working Capital Changes	<u>84,831</u>	<u>63,737</u>
Decrease / (Increase) in inventories	780	(440)
(Increase) / Decrease in receivables	(16,392)	531
Increase in other receivables	(10,609)	(1,847)
Increase / (Decrease) in payables	21,007	(57,016)
Increase / (Decrease) in other payables	58,342	(12,734)
Cash generated from / (used in) operating activities	<u><u>137,959</u></u>	<u><u>(7,769)</u></u>
Cash flows from Investing Activities		
Interest received	146	45
Purchase of property, plant & equipment	(347,513)	(16,809)
Receipt of grants	564,522	483,255
Cash generated from investing activities	<u><u>217,155</u></u>	<u><u>466,491</u></u>
Cash flows from Financing Activities		
Repayment of long term borrowings	(17,119)	(16,313)
Cash used in financing activities	<u><u>(17,119)</u></u>	<u><u>(16,313)</u></u>
Net Increase in Cash and Cash Equivalents	337,995	442,409
Cash and Cash Equivalents at the Beginning of the year	<u>576,523</u>	<u>134,114</u>
Cash and Cash Equivalents at the End of the year	<u><u>914,518</u></u>	<u><u>576,523</u></u>
	16	

The notes on pages 8 to 22 form an integral part of these financial statements

Notes to the Financial Statements for the year ended 31 December 2019

1. General Information

The Ta' Kerċem Local Council is the local Authority of Ta' Kerċem set up in accordance with the Local Councils Act, 1993. The office of the Local Council is situated at Orvieto Square, Ta' Kerċem, Gozo. These financial statements were approved for issue by the Council Members on the 11th June 2020. The Local Council's presentation as well as functional currency is denominated in €.

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 as adopted by the EU.

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:

In the current year, the Local Council has applied a number of new standards and amendments to IFRS issued by the International Accounting Standards Boards (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2019.

IFRS 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces IAS 17 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset and an interest expense on the recognised lease liability. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

IFRS 16 did not have any impact on the financial statements of the Local Council.

New Standards and amendments not yet effective:

At the end of the reporting period, certain new standards, interpretations or amendments thereto, were in issue and endorsed by the EU, but not yet effective for the current financial period. There have been no instances of early adoption of standards, interpretations or amendments ahead of their effective date.

The Councillors and Executive Secretary anticipate that the adoption of the International Financial Reporting Standards that were in issue at the date of authorisation of these financial statements, but not yet effective will have no material impact on the financial statements in the period of initial application.

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 straight line 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 period ended 31 December 2019 (cont.)**Accounting Policies and Reporting Procedures (cont.)**

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

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. The residual values and useful lives of the assets are reviewed and adjusted as appropriate, at each statement of financial position date. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the council 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**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.

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 Statement of Comprehensive Income.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds and the redemption value is recognised in the income and expenditure account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Local Council has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Notes to the Financial Statements for the period ended 31 December 2019 (cont.)

Accounting Policies and Reporting Procedures (cont.)

Other payables

Other payables are classified with current liabilities and are stated at their nominal value unless the effect of discounting is material in which case other payables are measured at amortised cost using the effective interest method.

Financial instruments

Financial assets and financial liabilities are recognised when the Council becomes a party to the contractual provisions of a financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs. They are measured subsequently as described below.

Financial assets

For the purpose of subsequent measurement, financial assets of the Council are classified into loans and receivables upon initial recognition.

Receivables are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to loans and receivables are presented within 'finance income' or 'finance costs', except for impairment of receivables which is presented within 'administration and other expenditure'.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Council's other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

Financial liabilities

The Council's financial liabilities include other payables. These are stated at their nominal amount which is a reasonable approximation of fair value.

All interest-related charges are included within 'finance costs'.

Related parties

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

Notes to the Financial Statements for the period ended 31 December 2019 (cont.)

Accounting Policies and Reporting Procedures (cont.)

Revenue

Revenue is recognised when there are no significant uncertainties concerning the derivation of consideration or associated costs and it can be measured reliably. Interest income is recognised in the statement of comprehensive income as it accrues.

Income from central government is not recognised until there is reasonable assurance that the Council will comply with any conditions attached to it, and that the income will be received. The received income is to be recorded gross and any deductions made for non-compliance are to be disclosed separately with expenses.

Local Enforcement System

During the year, the income recognised in the Statement of Comprehensive Income under the Local Enforcement System represents the administrative fees receivable from the Regional Committees and Local Enforcement System Agency for contraventions paid at the Local Council.

Government grants

Government grants relating to operating expenditure are recognized in the statement of Comprehensive Income in the same period that the related expenditure is incurred.

Government grants relating to the purchase of property, plant and equipment are accounted for using the capital approach, and are thus deducted from the carrying amount of the relative non-current asset.

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.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Profits and losses

Only surpluses that were realised at the date of the Statement of Financial Position are recognised in these financial statements. All foreseeable liabilities and potential 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 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.

Capital Management

The Council's capital consists of its net assets, including working capital, represented by its retained funds. The Council's management objectives are to ensure:

- that the Council's ability to continue as a going concern is still valid and
- that the Council maintains a positive working capital ratio.

To achieve the above, the Council carries out a quarterly review of the working capital ratio ("Financial Situation Indicator"). This ratio was positive at the reporting date and has not changed significantly from the previous year. The Council also uses budgets and business plans to set its strategy to optimise its use of available funds and implement its commitments to the locality.

Notes to the Financial Statements for the period ended 31 December 2019 (cont.)**3. Judgments in applying accounting policies and key sources of estimation**

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.

4. Funds received from central government

	2019	2018
	€	€
In terms of section 55 of the Local Councils Act	280,181	265,626
Supplementary income		4,816
Other Government Income	22,959	9,875
	<u>303,140</u>	<u>280,317</u>

5. Local Enforcement system

	2019	2018
	€	€
Administrative fees on contraventions	903	1,100
	<u>903</u>	<u>1,100</u>

6. General Income

	2019	2018
	€	€
Cultural Events	-	1,250
Sponsorships	-	450
General Income	4,459	1,209
Community services	21,613	14,560
Rent receivable	4,924	4,924
Income from Permits	3,302	2,725
	<u>34,298</u>	<u>25,118</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**7. Operating surplus for the year**

	2019	2018
	€	€
Operating surplus for the year is stated after charging		
Staff salaries	91,343	81,097
Depreciation of property, plant and equipment	<u>53,431</u>	<u>56,989</u>

8. Personal emoluments

	2019	2018
	€	€
Mayor's Remuneration	9,790	7,464
Mayor's and Councillors' Allowances	9,700	6,400
Executive Secretary Salary and Allowances	31,656	31,123
Employees' Salaries	34,605	30,665
Social Security Contributions	5,592	5,445
	<u>91,343</u>	<u>81,097</u>

9. Operations and Maintenance

	2019	2018
	€	€
<i>Repairs and Upkeep:</i>		
Road/Street Pavements	9,991	15,393
Walkways	5,370	7,367
Signs	1,754	968
Road Markings	661	1,318
Other repairs and Upkeep	3,049	530
	<u>20,825</u>	<u>25,576</u>
<i>Contractual Services:</i>		
Waste Disposal	9,545	10,908
Refuse Collection	37,792	38,489
Open Skips	2,440	-
Road & Street Cleaning	2,508	3,652
Cleaning & Maintaining Non-Urban	17,257	27,706
Cleaning - Council Premises	300	803
Cleaning & Maintaining Parks & Gardens	779	1,090
Street Lighting	8,340	3,405
Studies & Consultations	-	937
	<u>78,961</u>	<u>86,990</u>
Total Operations and Maintenance Costs	<u>99,786</u>	<u>112,566</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**10. Administrative and other expenditure**

	2019	2018
	€	€
Utilities	6,038	6,475
Other repairs and upkeep	545	232
Rent	1,794	877
National and International Memberships	854	705
Office Services	4,684	3,159
Transport	4,731	2,754
Information Services	29	63
Lease of Equipment	-	50
Insurance Coverage	3,263	1,543
Training	277	-
Professional Services	12,312	12,439
Other Hospitality Costs	1,167	699
Social and Cultural Events	21,802	14,703
Decrease in provision on the receivables	-	(2,997)
Depreciation	53,431	56,989
	<u>110,927</u>	<u>97,691</u>

11. Finance Costs

	2019	2018
	€	€
Bank charges	838	566
Bank interest	4,047	4,870
	<u>4,885</u>	<u>5,436</u>

12. Investment Income

	2019	2018
	€	€
Bank Interest Receivable	146	45
	<u>146</u>	<u>45</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)

13. Property, plant and equipment

	New Street Signs	Urban Improvements & Construction	Computer & Office Equipment	Office Furniture & fittings	Assets under Construction	Special Programmes & Construction	Total
	€	€	€	€	€	€	€
Cost							
At 1 January 2019	4,554	593,977	26,867	21,426	-	1,329,914	1,976,738
Additions	-	2,696	3,649	4,024	211,579	125,565	347,513
At 31 December 2019	4,554	596,673	30,516	25,450	211,579	1,455,479	2,324,251
Depreciation							
At 1 January 2019	4,554	410,616	19,376	11,003	-	487,093	932,642
Charge for the year	-	14,797	806	908	-	36,920	53,431
At 31 December 2019	4,554	425,413	20,182	11,911	-	524,013	986,073
Grants							
At 1 January 2019	-	37,195	6,198	-	-	480,560	523,953
Additions	-	-	-	-	203,491	123,492	326,983
At 31 December 2019	-	37,195	6,198	-	203,491	604,052	850,936
Net Book values							
At 31 December 2019	-	134,065	4,136	13,539	8,088	327,414	487,242

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)

13. Property, plant and equipment (cont.)

	New Street Signs €	Urban Improvements & Construction €	Computer & Office Equipment €	Office Furniture & fittings €	Special Programmes & Construction €	Total €
Cost						
At 1 January 2018	4,554	593,977	25,531	21,426	1,314,441	1,959,929
Additions	-	-	1,336	-	15,473	16,809
At 31 December 2018	4,554	593,977	26,867	21,426	1,329,914	1,976,738
Depreciation						
At 1 January 2018	4,554	394,376	19,187	10,158	447,378	875,653
Charge for the year	-	16,240	189	845	39,715	56,989
At 31 December 2018	4,554	410,616	19,376	11,003	487,093	932,642
Grants						
At 1 January 2018	-	37,195	6,198	-	475,560	518,953
Additions	-	-	-	-	5,000	5,000
At 31 December 2018	-	37,195	6,198	-	480,560	523,953
Net Book values						
At 31 December 2018	-	146,166	1,293	10,423	362,261	520,143

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**14. Inventories**

	2019	2018
	€	€
Stock of stamps	<u>2,215</u>	<u>2,995</u>

15. Receivables

	2019	2018
	€	€
Accounts receivables	21,557	5,165
Prepayments and accrued income	<u>24,761</u>	<u>14,152</u>
	<u>46,318</u>	<u>19,317</u>

Receivables

Account receivables are analysed as follows:

	2019	2018
	€	€
Within credit period	7,507	5,031
Exceeded credit period but not impaired	14,050	134
Impaired and provided for	2,186	2,303
Provision for doubtful debts	<u>(2,186)</u>	<u>(2,303)</u>
	<u>21,557</u>	<u>5,165</u>

16. Cash & cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts.

	2019	2018
	€	€
Cash at Bank	907,953	567,811
Cash in Hand	<u>6,565</u>	<u>8,712</u>
	<u>914,518</u>	<u>576,523</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**17. Payables**

	2019	2018
	€	€
Accounts payable	98,482	77,475
Other payables	1,599	2,047
Accruals and deferred income	101,375	42,585
	<u>201,456</u>	<u>122,107</u>
Less Non-current accruals	5,414	14,828
	<u>196,042</u>	<u>107,279</u>
Non-Current Accruals	<u>5,414</u>	<u>14,828</u>
PPP		
Deferred between one and two years	5,414	9,832
Deferred between two and five years	-	4,996
Deferred in five years or more	-	-
	<u>5,414</u>	<u>14,828</u>

18. Borrowings

	2019	2018
	€	€
Non-current		
Bank borrowings	<u>57,255</u>	<u>75,113</u>
Current		
Bank borrowings	<u>17,886</u>	<u>17,147</u>
Borrowings		
Repayable between one and two years	18,800	17,887
Repayable between two and five years	38,455	56,241
Repayable in five years or more	-	985
	<u>57,255</u>	<u>75,113</u>
Repayable after five years or more:		
Bank Loan	<u>-</u>	<u>985</u>

Bank Loans

Long term borrowings consists of two bank loans borrowed by the Council with the approval of the Minister responsible for the Local Government to be repaid over a period of twenty years. The bank loan's interest rates are 4.65% and 4.90% respectively and repayments for the current year amounts to Eur 21,287. The loan is paid through Eur 5,322 quarterly installments inclusive of interest. The Loans are secured by a general hypothec on the Council's assets and a pledge over an insurance policy.

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**19. Deferred income**

	2019	2018
	€	€
Government grants		
At 1 January	530,229	51,974
Increase in year	564,522	478,255
	<u>1,094,751</u>	<u>530,229</u>
Transferred to PPE Capital Approach	(326,983)	-
At 31 December	<u>767,768</u>	<u>530,229</u>
Current Deferred Income	<u>767,768</u>	<u>478,255</u>
Non-Current Deferred Income	<u>-</u>	<u>51,974</u>
Deferred Government Grants		
Deferred between one and two years	-	-
Deferred between two and five years	-	-
Deferred in five years or more	-	51,974
	<u>-</u>	<u>51,974</u>
Deferred after five years or more:		
Government Grants	<u>-</u>	<u>51,974</u>

20. Capital commitments

	2019	2018
	€	€
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	371,686	-
- Contracted for but not provided in the financial statements	<u>435,199</u>	<u>418,622</u>
(i) Approved but not yet contracted for:		
Triq Ghajn Tuta & Triq il-Gamiem	<u>371,686</u>	<u>-</u>
	<u>371,686</u>	<u>-</u>
(i) Contracted for but not provided in the Financial Statements:		
Project financed under Measure 4.3	-	282,367
Triq Wenzu Mintoff - Project financed under Ministry for Gozo	-	89,285
Lunzjata Works	-	46,970
Triq is-Summien	252,302	-
Triq ta' Doti cw Triq Qasam S Pawl	<u>182,897</u>	<u>-</u>
	<u>435,199</u>	<u>418,622</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**21. Financial Risk Management**

The Council's activities expose it to credit risk and liquidity risk through its use of financial instruments which result from its operating activities. The Council is not exposed to any market risk. The Council's risk management is coordinated by the council members and focuses on actively securing the council's short to medium term cash flow by minimising exposure to financial risks.

Credit risk

Financial assets which potentially subject the Council to concentrations of credit risk consist principally of cash at bank and debtors. The Council's cash is placed with quality financial institutions as well as it limits the amount of credit exposure with any one financial institution. The Council has appropriate policies to ensure that income is received from sources with appropriate credit history. In this respect, credit risk with respect to debtors is monitored continuously and the Council places a provision on any debt on which there is doubt of recoverability. Bad debts are therefore negligible and in this respect the Council has no significant concentration of credit risk.

The maximum exposure to credit risk for amounts receivable at the reporting date, net of impairment losses, by type of customer is as follows:

- Receivables from Related Parties: € 29,271

Liquidity Risk

Liquidity risk is defined as financial distress, an extraordinary measure which needs to be taken to manage the council's present commitments arising due to shortage of funds. The objective of liquidity risk management is to maintain sufficient liquidity, and to ensure that it is available within the necessary time frame in order not to create financial distress and curtail current obligations as well as future short term commitments. The Council monitors and manages its risk to a shortage of funds by maintaining sufficient cash and by monitoring the availability of raising funds to meet commitments due. In fact, at year end, the Council has as cash and cash equivalents the amount of Euro 914,518. This should ensure an ongoing working capital of the Council for the next 12 months.

Going Concern Risk

The Council registered a net profit of €31,546 (2018: €9,790) during the year ended 31 December 2019, and as at that date, the Council had a net current liabilities position of €18,645 (2018: €3,846) These financial statements have been prepared on a going concern basis in view of the fact that it is understood that the ultimate controlling party will provide adequate funds for the Council to cover present liabilities as well as short term obligations and commitments arising.

Summary of financial assets and liabilities by category:

	2019	2018
	€	€
Current Assets		
Loans and receivables:		
Accounts and other receivables	21,557	5,165
Cash and Cash Equivalents	914,518	576,523
	<u>936,075</u>	<u>581,688</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	<u>100,081</u>	<u>79,522</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**21. Financial Risk Management (cont.)***Foreign Currency Risk*

Foreign currency transactions arise when the Council buys or sells goods whose price is denominated in a foreign currency, or incurs or settles liabilities, denominated in a foreign currency. The Council does not trade in any foreign currency transactions.

Interest Rate Risk

The Council operates two bank accounts which have financing facilities. These facilities have interest rates which did not fluctuate over the past years and as a result, the Council is not exposed to cash flow interest rate risk on bank balances.

Other risks

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions.

22. Related parties disclosures

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
Gozo Regional Committee	Joint Control
North Regional Committee	No control
Central Regional Committee	No control
South Eastern Regional Committee	No control
South Regional Committee	No control
Malta Environment and 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
Police General Headquarters	No control
Department of Lands	No control
Airmalta plc	No control
Bank of Valletta plc	No control
MCAST	No control
National Library of Malta	No control
Malta Tourism Authority	No control
Office of the Prime Minister	No control
Office of the Commissioner for Data Protection	No control

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**22. Related parties disclosures (cont.)**

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

	Related party activity €	2019 Total activity €	%	Related party activity €	2018 Total activity €	%
<i>Income</i>						
Transactions with central government	303,140			280,317		
Transactions with regions	903			1,100		
	<u>304,043</u>	<u>338,341</u>	<u>90</u>	<u>281,417</u>	<u>306,535</u>	<u>92</u>
<i>Expenditure</i>						
Transactions with government entities	9,545			10,908		
Key personnel remuneration	91,343			81,097		
	<u>100,888</u>	<u>302,056</u>	<u>33</u>	<u>92,005</u>	<u>291,354</u>	<u>32</u>

The amounts due from / to related parties at year-end are disclosed in notes 15 and 17. The terms and conditions do not specify the nature of the consideration to be provided in settlement. These amounts are unsecured, interest free and repayable on demand.

23. Ultimate Controlling party

The ultimate controlling party of the Local Council is Central Government since the Council's main revenue is from the Government allocation received every quarter. Apart from the normal funds received from the Government, Councils also receive funds relating to specific projects as well as other funds for the improvement and betterment of the locality.

24. Fair values estimation

At 31 December 2019 and at 31 December 2018, the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively, approximated their fair values due to the short term maturities of these assets and liabilities. The fair values of non-current financial assets and non-current financial liabilities are not materially different from their carrying amount.

Report of the Local Government Auditor to the Auditor General