

LOCAL COUNCILS' ASSOCIATION

**Annual Report
and
Financial Statements**

for the year ended 31 December 2019

Prepared by

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ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2019

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Financial Statements for the year ended 31 December 2019


Statement of Executive Committee 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 Association's statement of comprehensive income for the year and a statement of the Committee's retained funds at the end of year. By virtue of the same regulations it is the duty of the Committee Members 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 Association 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, Local Councils (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the Local Councils' Association on the 17th January 2020 and was signed on its behalf by:



Mario Fava
President

Lianne Mifsud
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	102,772	102,772
EU Funded projects	5	8,059	29,586
General Income	6	542,245	467,534
		<u>653,076</u>	<u>599,892</u>
Expenditure			
Personal emoluments	8	142,534	118,221
EU Projects expenses	9	-	393
Administrative and other expenditure	10	461,470	346,359
		<u>604,004</u>	<u>464,973</u>
Operating surplus for the year		49,072	134,919
Finance income	11	6,240	679
Surplus for the year		<u><u>55,312</u></u>	<u><u>135,598</u></u>

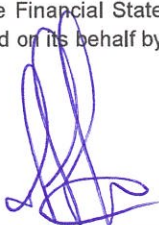
The notes on pages 8 to 24 are an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

		2019 €	2018 €
	<i>Notes</i>		
ASSETS			
Non-Current Assets			
Property, plant and equipment	12	136,734	46,945
Intangible assets	13	1,695	1,443
		<u>138,429</u>	<u>48,388</u>
Current Assets			
Receivables	14	485,672	604,053
Cash and Cash Equivalents	15	935,101	933,137
		<u>1,420,773</u>	<u>1,537,190</u>
Total Assets		<u><u>1,559,202</u></u>	<u><u>1,585,578</u></u>
EQUITY AND LIABILITIES			
Reserves			
Retained Fund		<u>1,020,765</u>	<u>965,453</u>
Current Liabilities			
Payables	16	<u>538,437</u>	<u>620,125</u>
Total Equity and Liabilities		<u><u>1,559,202</u></u>	<u><u>1,585,578</u></u>

These Financial Statements were approved by the Local Councils' Association on the 17th January 2020 and signed on its behalf by:



 Mario Fava
 President



 Lianne Minsud
 Executive Secretary

The notes on pages 8 to 24 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Retained Funds €
At 1 January 2018	829,855
Surplus for the year 2018	135,598
	<hr/>
At 31 December 2018	965,453
	<hr/> <hr/>
At 1 January 2019	965,453
Surplus for the year 2019	55,312
	<hr/>
At 31 December 2019	1,020,765
	<hr/> <hr/>



The notes on pages 8 to 24 are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 €	2018 €
<i>Note</i>		
Cash flows from Operating Activities		
Surplus for the year	55,312	135,598
Reconciliation to cash generated from operations:		
Depreciation	13,849	19,579
Decrease in provision on refundable expenses	-	16,332
Loss on disposal of asset	1,401	8,754
Interest receivable	(6,240)	(679)
Operating Profit before Working Capital Changes	64,322	179,584
Decrease in receivables	118,381	661,183
(Decrease) in payables	(81,688)	(735,049)
Cash generated from operating activities	101,015	105,718
Cash flows from Investing Activities		
Interest received	6,240	679
Purchase of property, plant & equipment	(105,291)	(37,651)
Cash used in investing activities	(99,051)	(36,972)
Net increase in Cash and Cash Equivalents	1,964	68,746
Cash and Cash Equivalents at the Beginning of the year	933,137	864,391
Cash and Cash Equivalents at the End of the year	935,101	933,137

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The notes on pages 8 to 24 are an integral part of the financial statements.

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

1. General Information

Local Councils' Association is a local and regional authority set up in accordance with the Local Councils Act, (Cap 363) and the Local Councils (Association) Regulations (Cap 363.06). The office of the Local Councils' Association is situated at Local Government Building, Local Government Road, Marsa Industrial Estate, Marsa, Malta. These financial statements were approved for issue by the Association's Members on the 17th January 2020. The Association'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 Association

In the current year, the Association has applied a number of 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 9 Financial Instruments

The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

IFRS 15 Revenue from Contracts with Customers

The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

Notes to the Financial Statements for the year ended 31 December 2019**Accounting Policies and Reporting Procedures***New Standards and amendments not yet effective:*

A number of new International Financial Reporting Standards and amendments and revisions thereto were in issue but not yet effective during the financial period under review. These include the following:

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.

The Members of the Association and Executive Secretary are assessing the impact that the adoption of these International Financial Reporting Standards will have on the financial statements in the period of initial application. The Association anticipates that the adoption of other 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:

	%
Office Furniture and Fittings	7.5
Office Equipment	20.0
Computer Equipment	25.0
Computer Software	25.0

The change in the depreciation method from reducing balance to straight line method took place as of January 2018 and has been effected according to the instructions in the DLG Directive 1/2017.

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 Association 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.

Leases

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

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

Accounting Policies and Reporting Procedures (cont.)

Impairment of Assets

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.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes freight, handling and other direct costs. Costs of inventories include the transfer from retained funds of any gains/losses on qualifying cash flow hedges relating to purchases of stock items. However, borrowing costs and foreign exchange differences are excluded. Net realisable value is the price at which stocks can be sold in the course of Council activities less anticipated costs of selling. Provision is made where necessary for obsolete, slow moving and defective stocks.

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 Association 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.

Government Grants

Government grants are accounted for on the Income Approach in accordance with IAS 20. They are accounted for on a systematic basis in the Statement of Comprehensive Income over the periods necessary to match them with the related costs which they intend to compensate. If such costs are already incurred when the grant is made, or if there are no related costs, then the grant is accounted for when it becomes receivable.

Payables

Payables are classified with either the current or the non-current liabilities depending on their due dates and are stated at their nominal value unless the effect of discounting is material, in which case trade payables are measured at amortised cost using the effective interest method.

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 trade and other payables are measured at amortised cost using the effective interest method.

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 Association 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 year ended 31 December 2019 (cont.)

Accounting Policies and Reporting Procedures (cont.)

Financial instruments

Financial assets and financial liabilities are recognised when the Association 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 Association 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

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 Association'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 Association'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 Association as defined in International Accounting Standard No. 24.

Income recognition

Income is recognised at the fair value of the amount received or receivable, to the extent that it is probable that future economic benefits will flow to the Association and these can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Government grants are recognised when there is reasonable assurance that all conditions attaching to them are complied with and the grants will be received. Government grants related to income are recognised in profit or loss over the periods necessary to match them with the related costs which are intended to compensate, on a systematic basis. Such grants are presented as a credit in the statement of comprehensive income.

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

Accounting Policies and Reporting Procedures (cont.)

Local Enforcement Income

The Local Councils' Association does not form part of any Joint Committee. The function of the Association within the system is to manage the bank account in which the LES Online receipts are deposited and then distribute the paid contraventions to the various Local Councils. The amounts disclosed in the financial statements under Local Enforcement payables is the net of the cash held at the bank, into which the LES Online deposits are credited and the amount of contravention receipts, so credited, that were not yet distributed by year end. The notes within the cash and cash equivalents and payables further illustrate the situation.

Foreign currencies

Items included in the financial statements are measured using the currency of the primary economic environment in which the Association operates. These financial statements are presented in €, which is the Association'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 Association's capital consists of its net assets, including working capital, represented by its retained funds. The Association's management objectives are to ensure:

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

To achieve the above, the Association 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 Association also uses budgets and business plans to set its strategy to optimise its use of available funds and implement its commitments to the locality.

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 Association, 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.

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**4. Funds received from Central Government**

	2019 €	2018 €
In terms of Section 55 of the Local Councils Act, 1993 (Cap 363)	<u>102,772</u>	<u>102,772</u>

5. Surplus on EU Projects

	2019 €	2018 €
Local Sats	5,333	-
Grisi Plus	-	1,369
IN-EUR	-	1,389
Seemore	-	1,759
Merhartility	-	4,532
ERSI	-	5,892
CENSE	-	14,349
Coppem	2,726	-
AC4ACP	-	296
	<u>8,059</u>	<u>29,586</u>

6. General Income

	2019 €	2018 €
Re-imbursement of travel expenses	63,983	111,274
Re-imbursement of insurance expenses	80,440	59,078
Registration fees from local conferences	48,427	26,118
LES management fees	159,784	187,141
Other management fees	90,000	-
Other income	99,611	83,923
	<u>542,245</u>	<u>467,534</u>

7. Surplus for the year

	2019 €	2018 €
Surplus for the year is stated after charging		
Staff salaries	142,534	118,221
Depreciation of property, plant & equipment	<u>13,849</u>	<u>19,579</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**8. Personal Emoluments**

	2019 €	2018 €
President's Allowance	15,926	11,196
Elected Officers' Allowances	22,524	22,167
Executive Secretary Salary and Allowances	35,774	42,614
Employees' Salaries	60,890	36,718
Social Security Contributions	7,420	5,526
	<u>142,534</u>	<u>118,221</u>

9. Deficit on EU Projects Expenses

	2019 €	2018 €
(Decrease) / Increase in Provision for Association's cost on EU Projects	-	(16,332)
E2Sformed	-	9,272
SmileGov	-	4,967
Effivet	-	393
Other EU Projects	-	2,093
	<u>-</u>	<u>393</u>

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

	2019	2018
	€	€
Utilities	6,632	3,734
Repair and Upkeep	14,729	20,264
Rent	18,063	14,657
National and International Memberships	12,353	574
Office Services	15,723	9,224
Travelling Costs	12,837	9,058
Refundable Tickets	63,983	111,274
Transport	10,132	6,584
Information Services	30,064	755
Other Contractual Service	104,635	87,553
Bank charges	1,021	3,468
Training	8,254	236
Conferences	80,474	28,807
Community & Hospitality	68,625	21,838
Profit /(loss) on disposal of property, plant & equipment	96	8,754
Depreciation	13,849	19,579
	<u>461,470</u>	<u>346,359</u>

11. Investment Income

	2019	2018
	€	€
Bank Interest	<u>6,240</u>	<u>679</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**12. Property, Plant and Equipment**

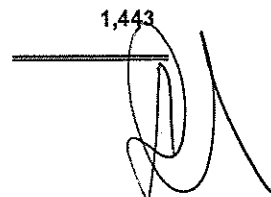
	Office Furniture & fittings €	Office Equipment €	Computer Equipment €	Assets Not Yet Capitalised €	Total €
Cost					
At 1 January 2019	38,029	39,564	25,550	-	103,143
Additions	34,293	18,480	8,237	43,167	104,177
Disposal	(1,610)	-	-	-	(1,610)
At 31 December 2019	70,712	58,044	33,787	43,167	205,710
Depreciation					
At 1 January 2019	13,510	23,784	18,904	-	56,198
Charge for the year	3,441	5,696	3,850	-	12,987
Released on disposal	(209)				(209)
At 31 December 2019	16,742	29,480	22,754	-	68,976
Net Book values					
At 31 December 2019	53,970	28,564	11,033	43,167	136,734

	Office Furniture & fittings €	Office Equipment €	Computer Equipment €	Total €
Cost				
At 1 January 2018	40,452	34,055	28,530	103,037
Additions	12,999	15,585	7,565	36,149
Disposal	(15,422)	(10,076)	(10,545)	(36,043)
At 31 December 2018	38,029	39,564	25,550	103,143
Depreciation				
At 1 January 2018	16,853	23,906	23,686	64,445
Charge for the year	4,294	9,549	5,199	19,042
Adjustment Direttiva 1/2017	1,524	1,760	3,775	7,059
Released on disposal	(7,637)	(9,671)	(9,981)	(27,289)
At 31 December 2018	13,510	23,784	18,904	56,198
Net Book values				
At 31 December 2018	24,519	15,780	6,646	46,945

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**13. Intangible assets**

	Computer software €
Cost	
At 1 January 2019	2,328
Additions	1,114
	<hr/>
At 31 December 2019	3,442
	<hr/>
Depreciation	
At 1 January 2019	885
Charge for the year	862
	<hr/>
At 31 December 2019	1,747
	<hr/>
Net Book value	
At 31 December 2019	1,695
	<hr/>

	Computer software €
Cost	
At 1 January 2018	826
Additions	1,502
	<hr/>
At 31 December 2018	2,328
	<hr/>
Depreciation	
At 1 January 2018	348
Charge for the year	537
	<hr/>
At 31 December 2018	885
	<hr/>
Net Book value	
At 31 December 2018	1,443
	<hr/>



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

	2019	2018
	€	€
Current		
Other receivables	808	8,099
Prepayments	9,946	5,892
Accrued income	80,240	86,020
Refundable expenditure in respect to EU Projects	394,678	504,042
	<u>485,672</u>	<u>604,053</u>
<i>Receivables</i>		
Other receivables are analysed as follows:		
	2019	2018
	€	€
Within credit period	<u>808</u>	<u>8,099</u>

Included in the accounts receivable are amounts due from related parties amounting to €808 (2018 : (€7,928)). These amounts are unsecured, interest free and repayable on demand.

Refundable expenditure is stated net of provision for bad debts of €52,482 (2018: €52,482)

15. Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and at bank. Cash and cash equivalents in the statement of Cash Flows comprise of the following amounts in the Association's Statement of Financial Position:

	2019	2018
	€	€
Cash at Bank		
Current and savings accounts	1,779,228	1,175,127
LES Savings accounts	662,351	587,600
Cash in Hand	50	107
	<u>2,441,629</u>	<u>1,762,834</u>
(less) LES Savings account transferred to payables	(662,351)	(587,600)
(less) Regional Committees/Local Councils funds transferred to payables	(844,177)	(242,097)
Local Councils' Association's cash & cash equivalents	<u>935,101</u>	<u>933,137</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**16. Payables**

	2019	2018
	€	€
Current		
Accounts payable	24,943	20,759
Other payables	6,009	-
Accruals	19,474	10,434
Deferred income	463,741	566,064
Deferred rental income	22,667	21,667
Law Enforcement Payable - Note 16.1	1,603	1,201
	<u>538,437</u>	<u>620,125</u>

Included in the accounts payable are €5,798 (2018: €5,174) due to related parties. These amounts are unsecured, interest free and repayable on demand.

16.1 Law Enforcement System Payable

	2019	2018
	€	€
Amount distributable to Regional Committees/Local Councils	663,954	588,801
LES Savings Account	<u>(662,351)</u>	<u>(587,600)</u>
	<u>1,603</u>	<u>1,201</u>

16.2 Regional Committees/Local Councils Funds

	2019	2018
	€	€
Regional Committees/Local Councils Bank Accounts	844,177	242,097
Amount distributable to Regional Committees/Local Councils	<u>(844,177)</u>	<u>(242,097)</u>
	<u>-</u>	<u>-</u>

17. Ultimate controlling party

The ultimate controlling party is the Department of Local Government within the Ministry for National Heritage, Culture and Local Government. The individual financial statements of the Association are included with the consolidated financial statements of the Government of Malta.

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**18. Capital commitments**

	2019	2018
	€	€
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	29,000	14,000
- Contracted for but not provided in the financial statements	-	-
(i) Approved but not yet contracted for:		
Office Furniture and fittings	10,000	2,000
Computer Equipment	9,000	5,000
Office equipment	5,000	5,000
Computer Software	5,000	2,000
	<u>29,000</u>	<u>14,000</u>

19. Contingent Liability

Proceedings have been filed by Ms Isabella Testaferrata De Noto against the Association, which are currently being heard before the Industrial Tribunal with reference 3664/JD.

Proceedings have been filed by 365 Holdings Limited against the Association, various Local Councils and Faces Consultants Limited, which are currently heard before the Civil Court, First Hall with reference 1018/2019 AF.

Similar proceedings have been filed by 365 Holdings Limited against the Association, various Local Councils and Faces Consultants Limited before the Public Contracts review Board.

The Association is subject to a judicial letter filed by Mr John Mary sive Jimmy Magro, filed on the 7th of August 2017. No further action was taken to date.

20. Related Party Transactions

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

<i>Name of Entity</i>	<i>Nature of relationship</i>
Department of Local Government	Significant control
Airmalta plc	No control
Bank of Valletta plc	No control
Office of the Prime Minister	No control
Data Commissioner	No control
Malta Industrial Parks	No control

During the course of the year, the Association entered into transactions with related parties which are related through common ultimate controlling party.

The amounts due from / to related parties at year-end are disclosed in notes 14 and 16. 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.

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**20. Related Party Transactions (cont.)***Key Management compensation*

The Association considers the President, Elected Officers and the Executive Secretary to be Key Management Personnel.

Transactions with key management personnel are disclosed in note 8.

	Related party activity €	2019 Total activity €	%	Related party activity €	2018 Total activity €	%
<i>Income</i>						
Transactions with central government	102,772			102,772		
Transactions with government entities	241,823			71,633		
Transactions with local councils	128,867			85,196		
	<u>473,462</u>	<u>653,076</u>	<u>72</u>	<u>259,601</u>	<u>599,892</u>	<u>43</u>
<i>Expenditure</i>						
Transactions with central government	5,841			3,183		
Transactions with government entities	88,678			129,665		
Key personnel remuneration	74,224			78,502		
	<u>168,743</u>	<u>604,004</u>	<u>28</u>	<u>211,350</u>	<u>464,973</u>	<u>45</u>

21. Fair value of financial assets and financial liabilities

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.

22. Operating Lease arrangements

The Association sub-leased parts of its premises to two related parties as from 2018 for €14,400 and €18,600 each per annum and expires on 1 June 2021 and 16 April 2021. Rental income recognised in 2019 amount to €31,228 (2018: €28,000).

Minimum lease payments receivable under this contract amount to:

	2019 €	2018 €
Not later than one year	33,000	19,500
Later than one year and not later than five years	11,425	14,667
	<u>44,425</u>	<u>34,167</u>

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

23. Financial Risk Management (cont.)

Market risks

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. The Local Councils' Association is not exposed to Market Risks.

Other risks

The Local Councils' Association's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Local Councils' Association to cash flow interest rate risk. In general, the Local Councils' Association is not exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financing position and cash flows in view of the nature of the assets and liabilities.

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.

