

Hal Balzan Local Council

Annual Audit Report 31st December 2015



Prepared by: Mark Debono B.Accty (Hons.), AIA, AIMIS, CPA


A handwritten signature in dark ink, consisting of stylized letters and a long, sweeping flourish extending upwards and to the right.

Hal Balzan Local Council

Financial Statements for the year ended 31st December 2015

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Hal Balzan Local Council**Statement of Local Council Members' and Executive Secretary's Responsibilities**

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

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


Dr Ian Spiteri
Mayor
Mr Mark Mallia
Executive Secretary

Date: 16 May 2016

Hal Balzan Local Council

Statement of comprehensive income
for the year ended 31st December 2015

| | <i>Note</i> | 2015 Eur | 2014 Eur |
|---|-------------|------------------|------------------|
| Funds received from Central Government | 3 | 282,920 | 272,777 |
| EU Financing | 3 | 34,131 | 30,191 |
| Income raised under the Local Enforcement System | 3 | 3,847 | 2,946 |
| General income | 3 | 7,960 | 9,381 |
| | | 328,858 | 315,295 |
| Expenditure | | | |
| Personal emoluments | 4 | (73,443) | (70,673) |
| Operations and maintenance | 5 | (115,785) | (125,956) |
| Administration and other expenditure | 6 | (130,208) | (109,902) |
| | | (319,436) | (306,531) |
| Surplus for the year | | 9,422 | 8,764 |



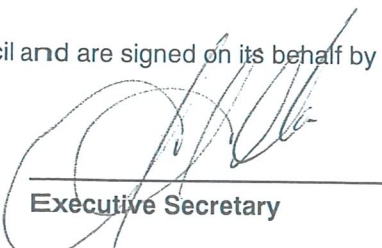
Hal Balzan Local Council

Statement of financial position at 31st December 2015

| | <i>Note</i> | 31st December 2015 Eur | 31st December 2014 Eur |
|-------------------------------------|-------------|------------------------------|------------------------------|
| Assets | | | |
| Non-current Assets | | | |
| Property, plant and equipment | <i>7a-b</i> | <u>817,206</u> | <u>784,297</u> |
| | | <u>817,206</u> | <u>784,297</u> |
| Current Assets | | | |
| Amounts receivable | <i>8</i> | 37,326 | 14,785 |
| Cash and bank balances | <i>9</i> | <u>183,452</u> | <u>160,384</u> |
| | | <u>220,778</u> | <u>175,169</u> |
| Total Assets | | <u><u>1,037,984</u></u> | <u><u>959,466</u></u> |
| Reserves and Liabilities | | | |
| Reserves | | | |
| Retained Fund | | <u>576,705</u> | <u>567,283</u> |
| Non-Current Liabilities | | | |
| Deferred income | <i>11</i> | <u>365,003</u> | <u>287,706</u> |
| Current Liabilities | | | |
| Trade and other payables | <i>10</i> | <u>96,276</u> | <u>104,477</u> |
| Total Equity and Liabilities | | <u><u>1,037,984</u></u> | <u><u>959,466</u></u> |

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


Mayor


Executive Secretary

Date: 16 may 2016

Hal Balzan Local Council**Statement of changes in equity
for the year ended 31st December 2015**

| | Retained fund |
|---|-----------------------|
| | Eur |
| At 1st January 2014 | 558,519 |
| Total comprehensive Income for the year | <u>8,764</u> |
| At 31st December 2014 | 567,283 |
| Total comprehensive Income for the year | <u>9,422</u> |
| At 31st December 2015 | <u><u>576,705</u></u> |

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Hal Balzan Local Council

**Statement of cash flows
for the year ended 31st December 2015**

| | <i>Note</i> | 2015 | 2014 |
|---|-------------|-------------|-------------|
| | | Eur | Eur |
| Cash flows from operating activities | | | |
| Operating surplus for the year | | 9,422 | 8,764 |
| <i>Adjustments for:</i> | | | |
| Assets written-off | | 0 | 0 |
| Non-cash release of income from grants | | (43,790) | (35,519) |
| Depreciation | | 87,660 | 65,141 |
| Surplus for the year before working capital movements | | 53,292 | 38,386 |
| Movement in receivables | | (9,009) | 3,662 |
| Movement in payables | | (12,340) | (34,498) |
| Net cash generated from operating activities | | 31,943 | 7,550 |
| Cash flows from investing activities | | | |
| Payment to acquire property, plant and equipment | | (122,569) | (155,741) |
| Bank interest received | | 0 | 0 |
| Net cash used in investing activities | | (122,569) | (155,741) |
| Cash flows from financing activities | | | |
| Receipts from Government to acquire fixed assets | | 113,694 | 63,395 |
| Net cash used in financing activities | | 113,694 | 63,395 |
| Movement in cash and cash equivalents | | 23,068 | (84,796) |
| Cash and cash equivalents at the beginning of the year | | 160,384 | 245,180 |
| Cash and cash equivalents at the end of the year | 9 | 183,452 | 160,384 |

The notes on pages 6 to 20 form an integral part of these financial statements

Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2015

Note

1 General information

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

2 Accounting policies and reporting procedures

These Financial Statements have been drawn up in accordance with the accounting policies and reporting procedures prescribed for Local Councils in the Financial Regulations issued by the Minister of Finance in conjunction with the Minister responsible for Local Government in terms of section 67 of the Local Councils Act, Cap 363. The financial statements are prepared under the historical cost convention as modified to include fair values stated in the accounting policies below. These Financial Statements are prepared in accordance to the requirements of International Financial Reporting Standards and comply with the Local Councils Act, Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996.

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

a) Revenue recognition

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

b) Local Enforcement System

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

c) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment loss to date. Depreciation is calculated on a monthly basis using the reducing balance method at rates calculated to write off the cost less residual value of each asset over its expected useful life as follows :

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



Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2015

Note

d) Government and EU Grants

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

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

e) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less cost to sell and the value in use. Impairment losses are immediately recognised as an expense in the Statement of Comprehensive Income.

f) Amounts receivable

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


g) Foreign Currencies

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the Local Council operates. These Financial Statements are presented in Euro, which is the Local Council's functional and presentation currency.

Transactions denominated in foreign currencies are translated into Euro at rates of exchange in operation on the dates of the transactions. Monetary assets and liabilities expressed in foreign currencies are translated into Euro at the rates of exchange prevailing at the date of the Statement of Financial Position.

h) Profits and Losses

Only profits that were realised at the date of the Statement of Financial Position are recognised in these Financial Statements. All foreseeable liabilities and potential losses arising up to the said date are accounted for even if they become apparent between the said date and the date on which the Financial Statements are approved.

Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2015

Note

i) Cash and cash equivalents

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

j) Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

k) Financial instruments

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

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

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

l) Critical estimates and judgements

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

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2015

Note

m) Accounting standards issued but not adopted

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

In September 2014, an update was issued for **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations** as part of the annual improvements process for the 2012-2014 cycle. This update is effective from annual periods starting 1st January 2016 but it can be adopted earlier. The update relates to changes in the methods of disposal of non-current assets held for sale whereby assets are classified from held for sale to held for distribution and vice-versa. This update provides guidance for specific cases. Since the Council does not carry such assets, this update does not have any effect on the Council's financial statements

The same issue of annual improvements for the 2012-2014 cycle also effected **IFRS 7 Financial Instruments: Disclosures** with consequential amendments to **IFRS 1 First-time Adoption of International Financial Reporting Standards**. The amendments add additional guidance in relation to servicing contracts to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required, while it is also clarified the position on offsetting disclosures in condensed interim financial statements. As for the amendments to IFRS 5, the effective date for these amendments is for annual periods commencing on the 1st January 2016 although they can be adopted earlier. These amendments do not effect the Council's financial

IFRS 9 (2014) Financial Instruments has been issued in July 2014, which is an amended version of IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013). This IFRS introduces new requirements for classifying and measuring financial assets and puts in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. In addition, it introduces a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. The adoption of this standard will not effect the net assets of the Council, since it does not carry any of the instruments effected, but it would effect the disclosures to the financial statements. Although early adoption is permitted, the Council did not follow this course of action.

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

Amendments to **IAS 36 Impairment of Assets** have been issued in May 2013 as a consequence of amendments to **IFRS 13 Fair Value Measurement**. These amendments remove the requirement to disclose the recoverable amount of each cash-generating unit where it is significant when compared to the entity's carrying amount of goodwill and intangible assets with indefinite useful lives. On the other hand, they require additional disclosures on individual assets, their fair value and discount rates applied. A further clarification for **IFRS 13** was issued in December 2014 relating to portfolios. These are disclosure amendments so they have no effect on the net assets of the Council.

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Notes to the financial statements for the year ended 31st December 2015

Note

m) Accounting standards issued but not adopted (continued)

IAS 39 Financial Instruments: Recognition and Measurement was amended in June 2013 for hedge accounting and novations. These financial statements do not carry such amounts and, thus, there is no effect on the net assets recorded in these financial statements. As a result of the final **IFRS 9 (2014) Financial Instruments**, this IAS will no longer be effective after 1st January 2018.

As a result of the IASB's **Disclosure Initiative**, amendments were issued to **IAS 1 Presentation of Financial Statements**. These amendments relate to materiality, the statement of financial position and statement of profit or loss and other comprehensive income and the notes. With regards to materiality, it specifies that materiality principles should prevail in disclosing information even where a standard requires disclosure. The amendments to the financial statements specify that lines can be aggregated and disaggregated as required to provide relevant information as well as clarifications on the presentation of equity-accounted associates and joint ventures. In relation to notes, the amendments give additional ways of ordering the notes in a bid to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. Although early adoption is permitted and these amendments come into effect on 1st January 2016, these amendments do not materially effect these financial statements.

IAS 16 Property, Plant and Equipment and **IAS 38 Intangible Assets** have been amended in June 2014 as a result of a clarification that revenue-based amortisation is not acceptable. This amendment does not effect the Council's financial statements since the depreciation method adopted is the reduced balance method. Another amendment was issued in 2013 that comes effective in July 2014 relating to restatement of depreciation on revaluation. However, this does not apply to the Council's financial statements since there are no revaluations.




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Notes to the financial statements for the year ended 31st December 2015

Note

| 3 | <u>Revenue</u> | 2015 | 2014 |
|---|--|-----------------------|-----------------------|
| | | <u>Eur</u> | <u>Eur</u> |
| | Government income | | |
| | In terms of section 55 of the Local Councils Act (Cap 363) | 257,557 | 249,135 |
| | Other Government Income | 13,183 | 3,300 |
| | Other Supplementary Government Income | 12,180 | 20,342 |
| | | <u>282,920</u> | <u>272,777</u> |
| | EU Financing | | |
| | ERDF Financing under OPI 2007-2013 | <u>34,131</u> | <u>30,191</u> |
| | Income raised under the Local Enforcement System | | |
| | Income from LES administration fees | <u>3,847</u> | <u>2,946</u> |
| | General income | | |
| | Income from tender documents | 1,427 | 1,866 |
| | Income from permits | 5,618 | 7,054 |
| | Sundry contributions & donations | 915 | 461 |
| | | <u>7,960</u> | <u>9,381</u> |
| | Total revenue | <u><u>328,858</u></u> | <u><u>315,295</u></u> |
| 4 | <u>Personal emoluments</u> | 2015 | 2014 |
| | | <u>Eur</u> | <u>Eur</u> |
| | Personal emoluments include, inter alia : | | |
| | Mayor's allowance | 7,049 | 6,868 |
| | Executive Secretary's salary and allowances | 26,115 | 26,961 |
| | Employees' salaries | 29,408 | 25,993 |
| | Social security contributions | 4,471 | 4,451 |
| | Councillors' Allowance | 6,400 | 6,400 |
| | | <u>73,443</u> | <u>70,673</u> |



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Notes to the financial statements for the year ended 31st December 2015

Note

5 Operations and maintenance

| | 2015 Eur | 2014 Eur |
|--|---------------------------|---------------------------|
| Repairs and upkeep: | | |
| Signs | 342 | 3,137 |
| Public property | 19,201 | 16,287 |
| Road markings | 2,054 | 2,296 |
| Other repairs and upkeep | 3,324 | 1,783 |
| | <u>24,921</u> | <u>23,503</u> |
| Contractual services: | | |
| Refuse collection | 54,431 | 65,533 |
| Bulky refuse collection | 2,967 | 3,288 |
| Road and street cleaning | 19,148 | 19,414 |
| Cleaning and maintenance - public conveniences | 4,164 | 5,000 |
| Cleaning and maintenance - parks and gardens | 2,214 | 2,214 |
| Cleaning services | 0 | 160 |
| Street lighting | 6,226 | 4,746 |
| Other | 1,714 | 2,098 |
| | <u>90,864</u> | <u>102,453</u> |
| | <u><u>115,785</u></u> | <u><u>125,956</u></u> |

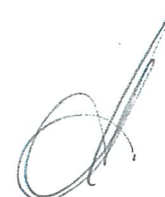
Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2015

Note

6 Administration and other expenditure

| | 2015 | 2014 |
|-----------------------------|----------------|----------------|
| | <u>Eur</u> | <u>Eur</u> |
| Utilities | 6,476 | 5,950 |
| Materials & supplies | 1,796 | 2,012 |
| Rent | 2,097 | 1,487 |
| Memberships | 240 | 550 |
| Office services | 3,033 | 2,289 |
| Transport | 8,271 | 6,830 |
| Information services | 2,364 | 2,586 |
| Professional services | 8,566 | 10,348 |
| Community services & events | 8,844 | 12,631 |
| Local enforcement expenses | 861 | 78 |
| Depreciation | 87,660 | 65,141 |
| | <u>130,208</u> | <u>109,902</u> |




Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2015

Note

7a Property, Plant and Equipment

| | Office furniture & fittings | Plant and machinery | Computer equipment | Office equipment | Urban improvements | New street signs | Construction works | Special programmes | Assets in the course of construction | Total |
|---|-----------------------------------|------------------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|-----------------------|--|-----------|
| | Eur | Eur | Eur | Eur | Eur | Eur | Eur | Eur | Eur | Eur |
| Cost - as at 1st January 2015 | 19,160 | 1,944 | 3,075 | 6,148 | 543,119 | 10,170 | 661,970 | 273,458 | 0 | 1,519,044 |
| Additions new this year | 1,150 | 0 | 0 | 14,065 | 107,354 | 0 | 0 | 0 | 0 | 122,569 |
| Cost - as at 31st December 2015 | 20,310 | 1,944 | 3,075 | 20,213 | 650,473 | 10,170 | 661,970 | 273,458 | 0 | 1,641,613 |
| Grants - as at 1st January 2015 | 0 | 0 | 0 | 0 | 17,375 | 0 | 0 | 143,182 | 0 | 160,557 |
| Transferred during the year | 0 | 0 | 0 | 0 | 2,000 | 0 | 0 | 0 | 0 | 2,000 |
| Grants - as at 31st December 2015 | 0 | 0 | 0 | 0 | 19,375 | 0 | 0 | 143,182 | 0 | 162,557 |
| Acc.depreciation - as at 1st January 2015 | 12,594 | 720 | 1,600 | 4,489 | 63,907 | 10,170 | 399,378 | 81,332 | 0 | 574,190 |
| Charge for the year | 582 | 245 | 346 | 2,152 | 53,252 | 0 | 28,121 | 2,962 | 0 | 87,660 |
| Acc.depreciation - as at 31st December 2015 | 13,176 | 965 | 1,946 | 6,641 | 117,159 | 10,170 | 427,499 | 84,294 | 0 | 661,850 |
| Net book value - as at 31st December 2015 | 7,134 | 979 | 1,129 | 13,572 | 513,939 | 0 | 234,471 | 45,982 | 0 | 817,206 |

Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2015

Note

| 7b Property, Plant and Equipment | Office furniture & fittings | Plant and Machinery | Computer equipment | Office equipment | Urban improvements | New street signs | Construction works | Special programmes | Assets in the course of construction | Total |
|---|-----------------------------|---------------------|--------------------|------------------|--------------------|------------------|--------------------|--------------------|--------------------------------------|-----------|
| | Eur | Eur | Eur | Eur | Eur | Eur | Eur | Eur | Eur | Eur |
| Cost - as at 1st January 2014 | 17,695 | 1,944 | 2,975 | 4,548 | 70,416 | 10,170 | 569,707 | 273,458 | 436,469 | 1,387,382 |
| Additions new this year | 1,465 | 0 | 100 | 1,600 | 0 | 0 | 92,263 | 0 | 36,234 | 131,662 |
| Reclassification | 0 | 0 | 0 | 0 | 472,703 | 0 | 0 | 0 | (472,703) | 0 |
| Cost - as at 31st December 2014 | 19,160 | 1,944 | 3,075 | 6,148 | 543,119 | 10,170 | 661,970 | 273,458 | 0 | 1,519,044 |
| Grants - as at 1st January 2014 | 0 | 0 | 0 | 0 | 17,375 | 0 | 0 | 143,182 | 0 | 160,557 |
| Transferred during the year | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Grants - as at 31st December 2014 | 0 | 0 | 0 | 0 | 17,375 | 0 | 0 | 143,182 | 0 | 160,557 |
| Acc.depreciation - as at 1st January 2014 | 12,001 | 414 | 1,138 | 4,026 | 25,729 | 10,170 | 377,530 | 78,041 | 0 | 509,049 |
| Charge for the year | 593 | 306 | 462 | 463 | 38,178 | 0 | 21,848 | 3,291 | 0 | 65,141 |
| Acc.depreciation - as at 31st December 2014 | 12,594 | 720 | 1,600 | 4,489 | 63,907 | 10,170 | 399,378 | 81,332 | 0 | 574,190 |
| Net book value - as at 31st December 2014 | 6,566 | 1,224 | 1,475 | 1,659 | 461,837 | 0 | 262,592 | 48,944 | 0 | 784,297 |

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Notes to the financial statements for the year ended 31st December 2015

Note

| 8 | <u>Amounts receivable</u> | 31st December 2015 Eur | 31st December 2014 Eur |
|----------|----------------------------------|---------------------------------------|---------------------------------------|
| | Current | | |
| | Debtors | 3,690 | 3,361 |
| | Blocked funds | 242 | 242 |
| | Prepayments | 1,334 | 1,095 |
| | Accrued income | 31,460 | 9,487 |
| | Deposits | 600 | 600 |
| | | 37,326 | 14,785 |

| 9 | <u>Cash and cash equivalents</u> | 31st December 2015 Eur | 31st December 2014 Eur |
|----------|---|---------------------------------------|---------------------------------------|
|----------|---|---------------------------------------|---------------------------------------|

For the purposes of the statement of cash flows, the year end cash and cash equivalents comprise the following:

| | | |
|------------------|----------------|----------------|
| Cash in hand | 116 | 116 |
| Bank balances : | | |
| Current accounts | 165,245 | 153,257 |
| Savings accounts | 18,091 | 7,011 |
| | 183,452 | 160,384 |

| 10 | <u>Trade and other payables</u> | 31st December 2015 Eur | 31st December 2014 Eur |
|-----------|--|---------------------------------------|---------------------------------------|
| | Current | | |
| | Creditors | 27,394 | 31,650 |
| | Accruals | 9,882 | 20,162 |
| | Deferred income (note 11) | 51,213 | 47,074 |
| | Other deferred income | 333 | 0 |
| | Retention money held | 7,454 | 5,591 |
| | | 96,276 | 104,477 |

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

| 11 | <u>Deferred income</u> | 31st December 2015 Eur | 31st December 2014 Eur |
|-----------|--|---------------------------------------|---------------------------------------|
| | Current | | |
| | Opening balance | 47,074 | 33,280 |
| | Released to income | (43,790) | (35,519) |
| | Regjun surplus | 11,843 | 15,107 |
| | Taken to capital on assets not depreciated | (2,000) | 0 |
| | Current deferred income | 38,086 | 34,206 |
| | Closing balance | 51,213 | 47,074 |

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Notes to the financial statements for the year ended 31st December 2015

Note

| 11 <u>Deferred income (cont.)</u> | 31st December 2015 Eur | 31st December 2014 Eur |
|--|---------------------------------------|---------------------------------------|
| Non-Current | | |
| Opening balance | 287,706 | 294,814 |
| Grants received from UIF | 93,744 | 0 |
| Grants received from ERDF | 21,639 | 27,098 |
| Current deferred income | (38,086) | (34,206) |
| Closing balance | 365,003 | 287,706 |

Maturity of deferred income is as follows:

| | | |
|----------------------------|---------|---------|
| Less than one year | 37,480 | 28,771 |
| Between one and five years | 90,459 | 70,171 |
| After five years | 237,064 | 188,764 |
| | 365,003 | 287,706 |

| 12 <u>Capital commitments</u> | 31st December 2015 Eur | 31st December 2014 Eur |
|--------------------------------------|---------------------------------------|---------------------------------------|
| Authorised and not contracted for | 30,000 | 94,944 |
| | 30,000 | 94,944 |

Analysed as follows:

| | | |
|-----------------------------------|--------|--------|
| Authorised and not contracted for | | |
| Construction works | 30,000 | 93,744 |
| Office equipment | 0 | 1,200 |
| | 30,000 | 94,944 |

Part of the construction works are being funded through UIF funds. The rest are being funded from the Council's internal funds.

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Notes to the financial statements for the year ended 31st December 2015

Note

13 Related party transactions

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

Central Government is the main related party of the Local Council. In 2015, the Local Council received Eur257,557 (2014: Eur249,135) in funding from Central Government.

14 Classification of financial assets and financial liabilities

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

| | Credits and other receivables | Other financial assets / liabilities | Total carrying amount | Fair value |
|------------------------------------|-------------------------------------|---|-----------------------------|----------------|
| 2014 | | | | |
| Assets | | | | |
| Trade and other receivables | 13,690 | - | 13,690 | 13,690 |
| Cash and cash equivalents | 160,384 | - | 160,384 | 160,384 |
| Total financial assets | 174,074 | - | 174,074 | 174,074 |
| Liabilities | | | | |
| Trade and other payables | - | 57,403 | 57,403 | 57,403 |
| Total financial liabilities | - | 57,403 | 57,403 | 57,403 |
| 2015 | | | | |
| Assets | | | | |
| Trade and other receivables | 35,992 | - | 35,992 | 35,992 |
| Cash and cash equivalents | 183,452 | - | 183,452 | 183,452 |
| Total financial assets | 219,444 | - | 183,452 | 183,452 |
| Liabilities | | | | |
| Trade and other payables | - | 44,730 | 44,730 | 44,730 |
| Total financial liabilities | - | 44,730 | 44,730 | 44,730 |

15 Financial risk management

16.1 Financial risk factors

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

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

a) Credit risk

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

| | 31st December 2015 Eur | 31st December 2014 Eur |
|-----------------------------|---------------------------------|---------------------------------|
| Trade and other receivables | 35,992 | 13,690 |
| Cash and bank balances | 183,452 | 160,384 |
| | 219,444 | 174,074 |

Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2015

Note

15 Financial risk management - Continued

a) Credit risk - continued

The ageing of the amounts receivable is as follows:

| | 31st December 2015 | 31st December 2014 |
|----------------------------|-----------------------|-----------------------|
| | Eur | Eur |
| Less than 1 month | 303 | 492 |
| Between 1 and 2 months due | 0 | 335 |
| Between 2 and 3 months due | 617 | 234 |
| Over 3 months due | 2,770 | 2,300 |
| | <u>3,690</u> | <u>3,361</u> |

The maximum exposure to credit risk at the reporting date in respect of the financial assets mentioned above is disclosed above and in Notes 8 and 9 to these financial statements. The Council does not hold any collateral as security in this respect.

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

The Council's major debtors are the Government and the Regional Committees, thus, it deems that it does not have any risk of non-recoverability of its dues. An amount of Eur3,387 is past the credit period but the Council does not deem this balance to be impaired.

b) Liquidity risk

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

| | 31st December 2015 | 31st December 2014 |
|----------------------|-----------------------|-----------------------|
| | Eur | Eur |
| Creditors | 27,394 | 31,650 |
| Accruals | 9,882 | 20,162 |
| Retention money held | 7,454 | 5,591 |
| | <u>44,730</u> | <u>57,403</u> |

16.2 Fair values of financial instruments

At 31 December 2015 and 2014, the carrying amounts of cash at bank, receivables, payables and accrued expenses in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

16 Contingent liabilities

The Council has a cash pledge of €245.

Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2015

Note

17 Operating Lease

In 2013, the Council entered into a non-cancellable operating lease of a commercial van to enable it to carry out road and street repairs over the whole village. The Council is obliged to pay €5,774 during the next year (2016) and €7,228 between 2017 and 2018, the year the lease expires.

On 1st January 2016, the Council entered into a property lease agreement to use as Council premises for a period of 15 years, with the first five years being non-cancellable and the rest cancellable with a notice period of six months. In 2016, the Council is obliged to pay €8,400 while the lease from 2017 till 2030 will total to €159,600.

18 Capital

The Council does not carry any capital but it does have an accumulated surplus which it uses to finance capital projects such as roads, urban improvements and other major projects of benefit to the Balzan residents and community. This, however, needs to be expended with due diligence in order not to fall below the minimum working capital requirements as required by the Local Councils (Financial) Procedures 1996.

Two handwritten signatures are present at the bottom right of the page. The first signature is a stylized 'ZS' and the second is a more complex, cursive signature.

Financial statements for the year ended 31 December 2015

Report of the Local Government auditor to the Auditor General

We have audited the accompanying financial statements of Hal Balzan Local Council which comprise the statement of financial position as at 31 December 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of the Local Council and Local Government auditors

As described in page 1, these financial statements are the responsibility of the Executive Secretary and the Local Council members.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

1. As from 30 September 2002, all income and expenditure from the Local Enforcement System (LES) were centralised through the Birkikara Joint Committee and LES debtors at that date were transferred to the Joint Committee as well. The Birkikara Joint Committee ceased operations on 31 August 2011 and LES was centralised through the Central Regional Committee as from 1 September 2011. The Council has not reported any income from LES in the current year. We were unable to determine the amount of any additional income the Council is entitled to receive from Birkikara Joint Committee since the audited financial statements of the Joint Committee are qualified on the basis that amounts receivable could not be reconciled to the IT system. All LES receivables of the Joint Committee have been provided for.

Financial statements for the year ended 31 December 2015

Report of the Local Government auditor to the Auditor General (continued)

Basis for qualified opinion (continued)

2. The information disclosed in note 1(m) in relation to new standards adopted by the council and other standards in issue but not yet adopted does not capture all the changes since 2014 and as such, does not meet the requirements on IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.
3. Excluded from these financial statements are the budgeted figures for the year. This is not in accordance with the Local Council (Financial) Procedures, 1996.

Qualified opinion

In our opinion, except for the effects of the matters described in paragraphs 1 and 2 above, the financial statements give a true and fair view of the financial position of Hal Balzan Local Council as of 31 December 2015 and of the results of its operations, changes in net assets/equity and its cash flows for the period then ended in accordance with the accounting policies set out on pages 6 to 10.

Because of the matter set out in paragraph 3 above, these financial statements do not comply fully with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 and because of the matters set out in paragraphs 1, and 2 above these financial statements have not been prepared in accordance with International Financial Reporting Standards.



*This copy of the audit report has been signed by
Ernestino Riolo (Partner) for and on behalf of*

Mazars Malta
Certified Public Accountants
Attard

16 May 2016