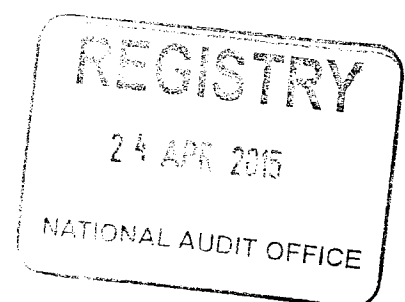


MARSA LOCAL COUNCIL
FINANCIAL STATEMENTS
for the year ended 31 DECEMBER 2014



MARSA LOCAL COUNCIL
REPORT AND FINANCIAL STATEMENTS
For the year ended 31 December 2014

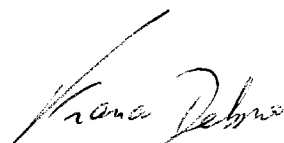
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| Statement of local council members' and executive secretary's responsibilities | 1 |
| Report of local council auditors' on the financial statements | 2 |
| Statement of comprehensive income | 3 |
| Statement of financial position | 4 |
| Statement of changes in equity | 5 |
| Statement of cash flows | 6 |
| Notes to the financial statements | 7 - 29 |

MARSA LOCAL COUNCIL
STATEMENT OF LOCAL COUNCIL MEMBERS' AND EXECUTIVE SECRETARY'S
RESPONSIBILITIES
For the year ended 31 December 2014

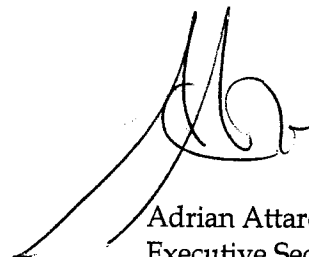
The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Council's comprehensive income for the year and of the Council's retained funds at the end of year. By virtue of the same regulations it 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 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.

This statement was approved by the Council on 18 February 2015 and signed on its behalf by:



Francis Debono
Mayor



Adrian Attard
Executive Secretary

Marsa Local Council

Financial Statements for the year ended 31 December 2014

Report of the Local Government auditor to the Auditor General

We have audited the accompanying financial statements of Marsa Local Council which comprise the statement of financial position as at 31 December 2014, 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 audit opinion.

Basis for qualified opinion

1. The council's financial statements do not include all the quantitative disclosures required by IFRS 7, *Financial Instruments: Disclosures*. These include information about the council's maximum exposure to credit risk, the contractual maturities of the council's liabilities, details of any receivables that are past due but not impaired and categories of financial assets and liabilities at the end of the reporting period.
2. As explained in note 2 the council passed prior year adjustments to reverse an overprovision of € 368 in the amortisation charge on the intangible asset and to adjust for an overstatement in Property, Plant and Equipment due to imputed interest method applied on PPP assets of € 14,208. The council did not account for the prior year adjustment in accordance with IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and did not provide the required disclosures that emerge from these standards.
3. Excluded from these financial statements are the budgeted figures for the year. This is not in accordance with the Local Councils (Financial) Procedures, 1996.

Marsa Local Council

Financial Statements for the year ended 31 December 2014

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

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 Marsa Local Council as of 31 December 2014, 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 7 to 16.

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



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

15 April 2015

MARSA LOCAL COUNCIL
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2014

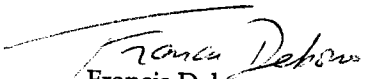
| | Notes | 2014 € | 2013 € |
|--|-------|-----------|-----------|
| REVENUE | | | |
| Funds received from Central Government | 3 | 610,361 | 530,157 |
| Income raised under Local Council Bye-Laws | 4 | 1,833 | 1,370 |
| Income raised under Local Enforcement System | 5 | - | 178 |
| General income | 6 | 6,833 | 9,241 |
| | | <hr/> | <hr/> |
| | | 619,027 | 540,946 |
| | | <hr/> | <hr/> |
| EXPENDITURE | | | |
| Personal emoluments | 7 | (86,879) | (82,884) |
| Operations and maintenance costs | 8 | (325,735) | (301,406) |
| Administration and other expenses | 9 | (196,756) | (178,649) |
| | | <hr/> | <hr/> |
| | | (609,370) | (562,939) |
| | | <hr/> | <hr/> |
| OPERATING PROFIT/(LOSS) FOR THE YEAR | | 9,657 | (21,993) |
| Finance income | 10 | 130 | 336 |
| | | <hr/> | <hr/> |
| PROFIT/(LOSS) FOR THE YEAR | 7 | 9,787 | (21,657) |
| | | <hr/> | <hr/> |

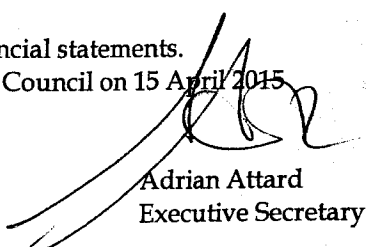
The notes on pages 7 to 29 form an integral part of these financial statements.

MARSA LOCAL COUNCIL
STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

| | Notes | 2014 € | 2013 € |
|-------------------------------|-------|-----------|-----------|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Intangible asset | 11 | 1,210 | 368 |
| Property, plant and equipment | 12 | 1,255,305 | 1,206,808 |
| | | <hr/> | <hr/> |
| | | 1,256,515 | 1,207,176 |
| CURRENT ASSETS | | | |
| Inventories | 13 | 383 | 389 |
| Receivables | 14 | 24,856 | 27,658 |
| Cash and cash equivalents | 15 | 236,674 | 231,627 |
| | | <hr/> | <hr/> |
| | | 261,913 | 259,674 |
| | | <hr/> | <hr/> |
| TOTAL ASSETS | | 1,518,428 | 1,466,850 |
| EQUITY | | | |
| RESERVES | | | |
| Retained earnings | | 943,392 | 933,605 |
| NON-CURRENT LIABILITIES | | | |
| Long-term third party loan | 18 | 37,104 | 44,659 |
| Long-term borrowings | 17 | 287,047 | 287,567 |
| Deferred income | 19 | 145,565 | 110,093 |
| | | <hr/> | <hr/> |
| | | 469,716 | 442,319 |
| CURRENT LIABILITIES | | | |
| Payables | 16 | 84,325 | 70,968 |
| Short-term third party loan | 18 | 7,556 | 6,972 |
| Short-term borrowings | 17 | 13,439 | 12,986 |
| | | <hr/> | <hr/> |
| | | 105,320 | 90,926 |
| | | <hr/> | <hr/> |
| TOTAL LIABILITIES | | 575,036 | 533,245 |
| | | <hr/> | <hr/> |
| RESERVES AND LIABILITIES | | 1,518,428 | 1,466,850 |
| | | <hr/> | <hr/> |

The notes on pages 7 to 29 form an integral part of these financial statements.
These financial statements were approved and signed by the Council on 15 April 2015


Francis Debono
Mayor


Adrian Attard
Executive Secretary

MARSA LOCAL COUNCIL
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014

| | Retained funds € |
|-----------------------|---------------------|
| At 1 January 2013 | 963,875 |
| Loss for the year | (21,657) |
| Prior year adjustment | (8,613) |
| | <hr/> |
| At 31 December 2013 | 933,605 |
| | <hr/> |
| At 1 January 2014 | 933,605 |
| Profit for the year | 9,787 |
| | <hr/> |
| At 31 December 2014 | 943,392 |
| | <hr/> |
| Retained earnings | 943,392 |
| | <hr/> |

MARSA LOCAL COUNCIL
STATEMENT OF CASH FLOWS
For the year ended 31 December 2014

| | Note | 2014 € | 2013 € |
|---|------|-----------------|------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Profit/(Loss) for the year | | 9,787 | (21,657) |
| Reconciliation to cash generated from operations: | | | |
| Depreciation | | 110,406 | 66,364 |
| Amortisation | | 181 | 148 |
| Movements in provision for doubtful debts | | (136) | 25,971 |
| Interest receivable | | (130) | (336) |
| Prior year adjustment | | - | (8,613) |
| Operating profit before working capital changes | | 120,108 | 61,877 |
| Decrease in inventories | | 6 | 28 |
| Decrease/(Increase) in receivables | | 2,938 | (2,038) |
| Increase/(Decrease) in payables | | 6,711 | (266) |
| Government grant released | | (21,105) | (7,150) |
| NET CASH FLOW FROM OPERATING ACTIVITIES | | 108,658 | 52,451 |
| CASH FLOW USED IN INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (158,903) | (312,892) |
| Adjustment to prior year - property, plant and equipment | | - | 14,339 |
| Purchase of intangible assets | | (1,023) | - |
| Interest received | | 130 | 336 |
| Receipt/Receipt of grant | | 63,223 | 53,141 |
| NET CASH USED IN INVESTING ACTIVITIES | | (96,573) | (245,076) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| New long term borrowings | | 11,184 | 140,939 |
| Repayment of short term borrowings | | (18,222) | (24,139) |
| NET CASH FLOW FROM FINANCING ACTIVITIES | | (7,038) | 116,800 |
| NET (DECREASE)/(DECREASE) IN CASH AND CASH EQUIVALENTS | | 5,047 | (75,825) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | 231,627 | 307,452 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 15 | 236,674 | 231,627 |

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2014

1 GENERAL INFORMATION

Marsa Local Council is the local authority of Marsa incorporated in accordance with the Local Councils Act, 1993. The office of the Council is situated at 173, Balbi Street, Marsa. These financial statements were approved for issue by the Council Members on 15 February 2015. The Local Council's presentation as well as functional currency are dominated in €.

2 ACCOUNTING POLICIES AND REPORTING PROCEDURES

The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

ACCOUNTING COVENTION

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 (IFRSs) as adopted by the EU 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.

NEW AND AMENDED STANDARDS APPLIED BY THE LOCAL COUNCIL

The Council has adopted the following new and amended standards as of 1 January 2011:

On 6 May 2010, the IASB completed its annual improvements project, entitled Improvements to IFRS. This project incorporates amendments to a number of IFRSs, including IFRS 7 Financial Instruments: Disclosures, IAS 1 Presentation of Financial Statements and IAS 34 Interim Financial Reporting. The IFRS 7 Amendment addresses a perceived lack of clarity in the intended interaction between the qualitative and quantitative disclosures of the nature and extent of risks arising from financial instruments and clarifies the required level of disclosure in connection with credit risk. The IAS 1 Amendment clarifies that entities may present the required reconciliations for each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

NEW AND AMENDED STANDARDS APPLIED BY THE LOCAL COUNCIL
(continued)

The IAS 34 Amendment (effective 1 January 2014) emphasises the principle in IAS 34 that the disclosure about significant events and transactions in interim periods should update the relevant information presented in the most recent annual financial report and clarifies how to apply this principle in respect of financial instruments and their fair value. The Amendments, which have been endorsed by the European Union, are applicable for annual periods beginning on or after 1 January 2011, with earlier application being permitted:

- IAS 24 – Related party disclosures (effective 1 January 2011) Amendments simplified the definition of a related party, clarified its intended meaning and eliminating inconsistencies from the definition. It also provided for a partial exemption from the disclosure requirements for government-related entities.

NEW IMPORTANT STANDARDS AND AMENDMENTS NOT YET
ADOPTED

On 7 October 2010, the IASB issued amendments to IFRS 7, which amendments are entitled Disclosures – Transfers of Financial Assets. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets. The amendments also require certain additional disclosures. The Amendments are applicable for annual periods beginning on or after 1 July 2011.

NEW IMPORTANT STANDARDS AND AMENDMENTS NOT YET
ADOPTED BY EU

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

- IFRS 9 Financial Instruments is applicable for annual periods beginning on or after 1 January 2015, with earlier application being permitted. This Standard represents the completion of the classification and measurement part of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This Standard addresses the classification and measurement of certain financial assets and financial liabilities. IFRS 9 requires financial assets that fall within its scope to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

2 ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

NEW IMPORTANT STANDARDS AND AMENDMENTS NOT YET
ADOPTED BY EU (continued)

The Standard requires financial assets to be subsequently measured at amortised cost or at fair value. The new requirements in relation to financial liabilities address the problem of volatility in profit or loss arising from an issuer to measure its own debt at fair value. With the new requirements, any entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income rather than within profit or loss.

- On 12 May 2011, the IASB also issued IFRS 13 Fair Value Measurement (applies to periods beginning on or after 1 January 2014). This Standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not require fair value measurements in addition to those already required or permitted by other IFRS. The Standard is applicable for annual periods beginning on or after 1 January 2014, with earlier application being permitted.
- On 12 May 2011, the IASB also issued IFRS 12 Disclosure of Interests in Other Entities. This is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. Disclosures are presented as a series of objectives, with detailed guidance on satisfying those objectives. The Standard is applicable for annual periods beginning on or after 1 January 2014, with earlier application being permitted. On 31 October 2013 the IASB issued Amendments to IFRS 12 namely Investment Entities (effective for annual periods beginning on or after 1 January 2014). The objective is to develop an exemption from the requirement to consolidate subsidiaries for eligible investment entities and instead requiring the use of the fair value to measure these investments.
- On 16 June 2011, the IASB issued amendments to IAS 1, which amendments are entitled Presentation of Items of Other Comprehensive Income. These Amendments will require Local Councils to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement. These Amendments are effective for financial years beginning on or after 1 July 2013. IAS 1 was also amended by Annual Improvements 2009-2011 Cycle (effective for annual periods beginning on or after 1 July 2014). This project provides a streamlined process for dealing efficiently with a collection of amendments of IFRS's.

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

NEW IMPORTANT STANDARDS AND AMENDMENTS NOT YET
ADOPTED BY EU (continued)

- On 16 June 2011, the IASB issued an amended version of IAS 19 Employee Benefits. This represents the completion of the IASB's project to improve the accounting for pensions and other post-employment benefits. The amended version of IAS 19 comes into effect for financial years beginning on or after 1 January 2014. Earlier application is permitted.

The Councillors 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 Councillors and Executive Secretary anticipate 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.

REVENUE RECOGNITION

Revenue is recognised when there are no significant uncertainties concerning the derivation of consideration or associated costs. Funds received from Central Government, income earned from Bye-Laws and interest income are recognised in the income statement as they accrue.

LOCAL ENFORCEMENT SYSTEM

Marsa Local Council formed part of Valletta Joint Committee up to 31 August 2011. The amount disclosed in the financial statements under Local Enforcement Income represents the share of profit derived from the Joint Committee after deducting the related expenses.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

INTANGIBLE FIXED ASSETS

In line with IAS 38, intangible assets are initially recorded at cost and are subsequently stated at cost less amortisation. Amortisation to write off the cost is calculated on a monthly basis using the reducing balance method.

%

| | |
|-------------------|----|
| Computer software | 20 |
|-------------------|----|

PROPERTY, PLANT AND EQUIPMENT

In line with IAS 16, property, plant and equipment, are initially recorded at cost and are subsequently stated at cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of items. Subsequent costs are included in the asset's carrying amount, or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group, and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Income, during the financial period in which they are incurred.

Depreciation is calculated to write off the cost of fixed assets on a monthly basis using the reducing balance method over the expected useful lives of the assets concerned having regard to their residual value. The annual rates used for this purpose, which are applied consistently, are:

%

| | |
|---------------------------------------|-------------------|
| 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 |

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

PROPERTY, PLANT AND EQUIPMENT (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Freehold land, land held on perpetual emphyteusis and assets in the course of construction are not depreciated.

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 in the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

RELATED PARTIES

Related parties are those persons or bodies of persons having relationships with the Council as defined in International Accounting Standard number 24.

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

GOVERNMENT GRANTS

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement over the expected lives of the related assets.

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 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.

SURPLUSES AND DEFICITS

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.

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

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.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 Executive Secretary, the accounting estimates and judgements made in the preparation of the financial statements are not difficult, subjective or complex, to a degree that would warrant their description as critical in terms of the requirements of IAS1 (revised) - 'Presentation of Financial Statements'.

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 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.

FINANCIAL INSTRUMENTS

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

2 ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

FINANCIAL INSTRUMENTS (continued)

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

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.

MARSA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS (continued)

FINANCIAL LIABILITIES

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

Prior year adjustment

During the year the company affected a prior year adjustment which reflects the effects of expenses not recognised during the previous year. This adjustment did not affect taxation due to the fact that the council does not pay taxes. . These amounted to €8,613

To this effect, the adjustments comprise:

| | € |
|---|----------|
| Increase in intangible assets | 368 |
| Decrease in property, plant and equipment | (14,208) |
| Increase in retained earnings | 13,840 |
| | ----- |
| Net effect | - |
| | ===== |

Comparative amounts

The following items relating to the comparative year were restated in view of the prior year adjustment effected during the current year (note 10).

| | As restated € | As previously reported € | Change € |
|---------------------------------|------------------|--------------------------------|-------------|
| Statement of financial position | | | |
| Intangible assets | 368 | - | 368 |
| Property plant and equipment | 1,206,808 | 1,221,016 | (14,208) |
| Retaining earning | 947,445 | 933,605 | 13,840 |
| | ----- | ----- | ----- |
| | 2,154,621 | 2,154,621 | - |
| | ===== | ===== | ===== |

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

3 FUNDS RECEIVED FROM CENTRAL GOVERNMENT

| | 2014 € | 2013 € |
|--|-----------|-----------|
| In terms of section 55 of the Local Councils Act | 471,379 | 472,005 |
| Supplementary Government income | 10,434 | 18,111 |
| Other Government income | 107,443 | 32,891 |
| Urban improvement funds | 21,105 | 7,150 |
| | <hr/> | <hr/> |
| | 610,364 | 530,157 |
| | <hr/> | <hr/> |

4 INCOME RAISED FROM BYE-LAWS

| | 2014 € | 2013 € |
|-------------------------------------|-----------|-----------|
| Bye-Law - Protection of public land | 1,833 | 1,370 |
| | <hr/> | <hr/> |

5 LOCAL ENFORCEMENT SYSTEM

| | 2014 € | 2013 € |
|--------------------------------|-----------|-----------|
| Contraventions and other fines | - | 178 |
| | <hr/> | <hr/> |

6 GENERAL INCOME

| | 2014 € | 2013 € |
|----------------------------------|-----------|-----------|
| Community services | 1,098 | 698 |
| Sponsorships | 140 | 2,425 |
| Document and information charges | 432 | 2,121 |
| Contributions | 3,016 | 2,549 |
| Income from permits | 2,147 | 1,448 |
| | <hr/> | <hr/> |
| | 6,833 | 9,241 |
| | <hr/> | <hr/> |

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

7 PROFIT / (LOSS) FOR THE YEAR

| | 2014 | 2013 |
|--|---------|--------|
| | € | € |
| Profit/(loss) for the year is stated after charging: | | |
| Staff salaries (note) | 86,879 | 82,884 |
| Depreciation on tangible assets | 110,406 | 66,463 |
| Amortisation on intangible assets | 181 | 49 |

| | 2014 | 2013 |
|---|--------|--------|
| | € | € |
| Staff salaries | | |
| Personal emoluments include, inter alia: | | |
| Mayor's remuneration | 10,302 | 10,056 |
| Councillors' allowances | 8,800 | 8,800 |
| Executive secretary salary and allowances | 29,643 | 29,174 |
| Employee's salaries | 33,159 | 30,190 |
| Social security contributions | 4,975 | 4,664 |
| | 86,879 | 82,884 |

8 OPERATIONS AND MAINTENANCE

| | 2014 | 2013 |
|--|--------|--------|
| | € | € |
| Repair and upkeep: | | |
| Road and street pavements (patching works) | 33,822 | 10,533 |
| Street signs | 1,005 | 4,002 |
| Road markings | 5,901 | 7,552 |
| Office furniture and equipment | 325 | 793 |
| Other repairs and upkeep | 120 | 10,647 |
| | 41,173 | 33,527 |

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

8 OPERATIONS AND MAINTENANCE (continued)

| | 2014 € | 2013 € |
|---|-----------|-----------|
| Contractual services: | | |
| Refuse collection | 131,442 | 117,738 |
| Bulky refuse collection | 4,960 | 4,820 |
| Road and street cleaning | 47,400 | 47,339 |
| Cleaning and maintenance of public conveniences | 24,594 | 24,900 |
| Cleaning and maintenance of parks and gardens | 12,361 | 12,171 |
| Cleaning and maintenance of verges/non-urban | 46,079 | 42,712 |
| Local warden service expenses | 115 | 514 |
| Other contractual services | 17,611 | 17,685 |
| | <hr/> | <hr/> |
| | 284,562 | 267,879 |
| | <hr/> | <hr/> |
| Total | 325,735 | 301,406 |
| | <hr/> | <hr/> |

9 ADMINISTRATION AND OTHER EXPENSES

| | 2014 € | 2013 € |
|-----------------------------------|-----------|-----------|
| Utilities | 15,580 | 9,902 |
| Office services | 7,096 | 10,082 |
| Transport | 1,592 | 1,430 |
| Information services | 3,773 | 8,143 |
| Other contractual services | 9,160 | 14,992 |
| Staff uniforms | 364 | 624 |
| Professional services | 8,948 | 6,725 |
| Penalties | 150 | 24 |
| Provision for doubtful debtors | (136) | 25,971 |
| Rent | 700 | 700 |
| Community and hospitality | 19,335 | 27,808 |
| Depreciation on tangible assets | 110,406 | 66,364 |
| Amortisation on intangible assets | 181 | 148 |
| Bank interest payable | 14,118 | 5,736 |
| Training | 40 | - |
| Repairs | 5,449 | - |
| | <hr/> | <hr/> |
| | 196,756 | 178,649 |
| | <hr/> | <hr/> |

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

10 FINANCE INCOME

| | 2014 € | 2013 € |
|--------------------------|-----------|-----------|
| Bank interest receivable | 130 | 336 |
| | <hr/> | <hr/> |

11 INTANGIBLE ASSETS

| | |
|--------------------------------------|-------|
| | € |
| Cost | |
| As at 1 st January 2014 | 1,356 |
| Addition for the year | 1,023 |
| | <hr/> |
| As at 31 st December 2014 | 2,379 |
| | <hr/> |
| Depreciation | |
| As at 1 st January 2014 | 988 |
| Amortisation for the year | 181 |
| | <hr/> |
| As at 31 st December 2014 | 1,169 |
| | <hr/> |
| Net Book Value | |
| As at 31 st December 2014 | 1,210 |
| | <hr/> |
| Net Book Value | |
| As at 31 st December 2013 | 368 |
| | <hr/> |

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)
12 PROPERTY, PLANT AND EQUIPMENT

| ASSET | Assets under construction € | Office furniture & fittings € | New street signs € | Office equipment € | Computer equipment € | Plant & machinery € | Urban improvements & construction € | Special programmes € | Total € |
|--|--------------------------------------|--|--------------------------|--------------------------|----------------------------|---------------------------|--|----------------------------|------------|
| COST | | | | | | | | | |
| As at 1 January 2013 | 297,604 | 18,450 | 14,378 | 12,992 | 5,952 | 389 | 735,057 | 933,720 | 2,018,542 |
| Additions | 265,066 | 384 | - | - | - | - | 36,414 | 11,028 | 312,892 |
| Re-allocation to intangible assets | | | | | (1,356) | | | | (1,356) |
| As at 31 December 2013 | 562,670 | 18,834 | 14,378 | 12,992 | 4,596 | 389 | 771,471 | 944,748 | 2,330,078 |
| GRANTS & OTHER REIMBURSEMENTS | | | | | | | | | |
| As at 1 January 2013 | - | - | - | - | - | - | - | 337,755 | 337,755 |
| Additions | - | - | - | - | - | - | - | - | - |
| As at 31 December 2013 | - | - | - | - | - | - | - | 337,755 | 337,755 |
| ACCUMULATED DEPRECIATION | | | | | | | | | |
| As at 1 January 2013 | - | 9,974 | 14,378 | 9,204 | 4,030 | 361 | 400,439 | 281,778 | 720,164 |
| Charge for the year | - | 630 | - | 691 | 352 | 4 | 33,859 | 30,828 | 66,364 |
| Re-allocation to intangible asset | | | | | (1,013) | | | | (1,013) |
| As at 31 December 2013 | - | 10,604 | 14,378 | 9,895 | 3,369 | 365 | 434,298 | 312,606 | 785,515 |
| NET BOOK VALUE | | | | | | | | | |
| As at 31 December 2013 | 562,670 | 8,230 | - | 3,097 | 1,227 | 24 | 337,173 | 294,387 | 1,206,808 |

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

12 PROPERTY, PLANT AND EQUIPMENT

| ASSET | Assets under construction € | Office furniture & fittings € | Buildings € | New street signs € | Office equipment € | Computer equipment € | Plant & machinery € | Urban improvements & construction € | Special programmes € | Total € |
|--|--------------------------------|----------------------------------|----------------|-----------------------|-----------------------|-------------------------|------------------------|--|-------------------------|------------|
| COST | | | | | | | | | | |
| As at 1 January 2014 | 562,670 | 18,834 | - | 14,378 | 12,992 | 4,596 | 389 | 771,471 | 944,748 | 2,330,078 |
| Additions | - | 132,628 | 329,212 | 668 | 11,479 | 4,457 | 63,632 | 176,219 | - | 718,295 |
| Assets concluded | (559,392) | - | - | - | - | - | - | - | - | (559,392) |
| As at 31 December 2014 | 3,278 | 151,462 | 329,212 | 15,046 | 24,471 | 9,053 | 64,021 | 947,690 | 944,748 | 2,488,981 |
| GRANTS & OTHER REIMBURSEMENTS | | | | | | | | | | |
| As at 1 January 2014 | - | - | - | - | - | - | - | - | 337,755 | 337,755 |
| Additions | - | - | - | - | - | - | - | - | - | - |
| As at 31 December 2014 | - | - | - | - | - | - | - | - | 337,755 | 337,755 |
| ACCUMULATED DEPRECIATION | | | | | | | | | | |
| As at 1 January 2014 | - | 10,604 | - | 14,378 | 9,895 | 3,369 | 365 | 434,298 | 312,606 | 785,515 |
| Charge for the year | - | 8,343 | 2,733 | 668 | 2,124 | 1,157 | 9,847 | 57,498 | 28,036 | 110,406 |
| As at 31 December 2014 | - | 18,947 | 2,733 | 15,046 | 12,019 | 4,526 | 10,212 | 491,796 | 340,642 | 895,921 |
| NET BOOK VALUE | | | | | | | | | | |
| As at 31 December 2014 | 3,278 | 132,515 | 326,479 | - | 12,452 | 4,527 | 53,809 | 455,894 | 266,351 | 1,255,305 |

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

13 INVENTORIES

| | 2014 € | 2013 € |
|------------------------------|-----------|-----------|
| Lapel badges/sets for resale | 383 | 389 |

14 RECEIVABLES

| | 2014 € | 2013 € |
|--------------------------------|---------------|---------------|
| Receivables (note 1) | 19,440 | 2,337 |
| LES debtors (note 2) | 656 | - |
| Other receivables | 466 | - |
| Prepayments and accrued income | 4,291 | 25,321 |
| | <u>24,853</u> | <u>27,658</u> |

Note 1: General receivables are analysed as follows:

| | 2014 € | 2013 € |
|---|---------------|--------------|
| Within credit period | 13,440 | 193 |
| Exceeded credit period but not impaired | 6,000 | 2,144 |
| Impaired and provided for | 6,422 | 6,422 |
| Provision for doubtful debts | (6,422) | (6,422) |
| | <u>19,440</u> | <u>2,337</u> |

Note 2:

LES debtors are stated after a specific provision for doubtful debts amounting to €95,949 (2013 - €96,568).

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

| | 2014 € | 2013 € |
|----------------|-----------|-----------|
| Bank balances: | | |
| Ordinary funds | 235,295 | 230,715 |
| Cash in hand | 1,379 | 912 |
| | <hr/> | <hr/> |
| | 236,674 | 231,627 |
| | <hr/> | <hr/> |

16 PAYABLES

| | 2014 € | 2013 € |
|------------------------------|-----------|-----------|
| Payables | 45,307 | 42,896 |
| Accruals and deferred income | 39,018 | 28,072 |
| | <hr/> | <hr/> |
| | 84,325 | 70,968 |
| | <hr/> | <hr/> |

17 BORROWINGS

| | 2014 € | 2013 € |
|-----------------|-----------|-----------|
| Non-current | | |
| Bank borrowings | 287,047 | 287,567 |
| | <hr/> | <hr/> |
| Current | | |
| Bank borrowings | 13,439 | 12,986 |
| | <hr/> | <hr/> |

The two bank loans are secured by First General Hypothec over the assets of the Council and by a letter of undertaking by the Government of Malta. The loans bears interest at 4.15% (2013: 4.3%) per annum and are repayable over 20 years by monthly instalments of €1,682 and €456 respectively.

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

18 THIRD PARTY LOAN

| | 2014 € | 2013 € |
|--------------------------------------|-----------|-----------|
| Non-current third party loan | 37,104 | 44,659 |
| Current third party loan | 7,556 | 6,972 |
| Repayable between one and two years | 8,189 | 7,556 |
| Repayable between two and five years | 28,915 | 26,681 |
| Repayable in five years or more | - | 10,422 |
| | 44,660 | 51,631 |

The third party loan falls under the PPP scheme utilised for the construction of two major roads in the locality. The loan is unsecured and is repayable by annual installments in line with the scheme for a period of eight years.

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

19 DEFERRED INCOME

| | 2014 € | 2013 € |
|---|---------------------|--------------------|
| Government grants | | |
| At 1 January | 120,826 | 74,835 |
| Increase in year | 63,223 | 53,141 |
| | <hr/> | <hr/> |
| Released in year | 184,049 (21,105) | 127,976 (7,150) |
| | <hr/> | <hr/> |
| At 31 December | 162,944 | 120,826 |
| | <hr/> | <hr/> |
| Current deferred income | 17,379 | 10,733 |
| | <hr/> | <hr/> |
| Non-current deferred income | 145,565 | 110,093 |
| | <hr/> | <hr/> |
| Deferred Government grants: | | |
| Deferred between one and two years | 29,295 | 10,518 |
| Deferred between two and five years | 23,363 | 25,901 |
| Deferred in five years or more | 92,907 | 73,674 |
| | <hr/> | <hr/> |
| | 145,565 | 110,093 |
| | <hr/> | <hr/> |
| Deferred after five years or more: Government grants | 92,907 | 73,674 |
| | <hr/> | <hr/> |

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

20 CAPITAL COMMITMENTS

| | 2014 € | 2013 € |
|--|-----------|-----------|
| Details of capital commitments at 31 December 2014 are as follows; | | |
| Approved but not yet contracted for | 48,550 | 104,047 |
| | <hr/> | <hr/> |
| These could be analysed further as follows: | | |
| Approved but not yet contracted for: | | |
| New council premises | - | 37,047 |
| Embellishment of public areas | 11,750 | 30,000 |
| Construction of culvert | 32,000 | 32,000 |
| Installation of new traffic lights | - | 5,000 |
| Pavements | 4,800 | - |
| | <hr/> | <hr/> |
| | 48,550 | 104,047 |
| | <hr/> | <hr/> |

21 RELATED PARTY TRANSACTIONS

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

| Name of Entity | Nature of relationship |
|--|------------------------|
| Department of Local Councils | Significant control |
| South Eastern Regional Committee | Joint control |
| Police General Head Quarters | No control |
| Central Regional Committee | No control |
| South Regional Committee | No control |
| Gozo Regional Committee | No control |
| North 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 |
| Department of Lands | No control |
| Bank of Valletta plc | No control |
| Wasteserv Malta Limited | No control |
| Transport Malta | No control |

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

22 RELATED PARTY TRANSACTIONS (continued)

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

| | 2014 € | 2013 € |
|-----------------------------|-----------|-----------|
| Annual financial allocation | 471,379 | 472,005 |

23 CONTINGENT ASSET

| | 2014 € | 2013 € |
|---|-----------|-----------|
| Claim for reimbursement of refuse collection expenses from Marsa Racecourse area (note a) | - | 60,915 |
| Repayment of balance due from Water Services Corporation (note b) | 6,422 | 6,422 |

- a. The Council was placed under an obligation by means of a court order dated 15 July 2005 to continue co-ordinating the collection of refuse from the Marsa Racecourse area. The same order entitled the Council to claim a refund from central Government equal to the expense involved. Since the collection of refuse has been ongoing since 1999, the Council has initiated legal proceedings against central Government to recover the payments made in previous years on the principle that it should be reimbursed even retroactively. As at the date of the statement of affairs, it could not be determined with any degree of probability whether these funds would be due to the Council and for this reason the amount of €60,915 is being merely as a note to the financial statements in accordance with IAS 37. Case has been settled during the year under review.
- b. The Local Councils Association has reached a preliminary agreement with the Water Services Corporation regarding the settlement of the pending balances, in respect of new services as per agreement with the Corporation of which agreement has expired on the 31 December 2006. After the Corporation agrees with the balances due to the respective Local Councils the pending balances will be settled within a period of three years.

The amount due for reinstatement fees to Marsa Local Council as at 31 December 2014, for the period August 2010 to June 2011, amounted to €6,422. In view of the fact that no acknowledgement of the said balance from the Corporation has been reached at the time of the compilation of these financial statements, this amount has been provided for in these financial statements. Marsa Local Council will continue to make its utmost in order to recover all the amount due from the Corporation.

MARSA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS (continued)

24 FINANCIAL RISK MANAGEMENT

The Council's activities expose it to a variety of financial risks such as market risk, credit risk, liquidity risk and interest rate risk. The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Council's financial performance.

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.

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 €236,674. This should ensure ongoing working capital of the Council for the next 12 months. The Council also maintains a positive net asset position of €953,824 ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

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 currencies.

MARSA LOCAL COUNCIL
NOTES TO THE FINANCIAL STATEMENTS (continued)

24 FINANCIAL RISK MANAGEMENT (continued)

INTEREST RATE RISK

Interest rate risk mainly arises through interest bearing liabilities and assets. The objective of interest rate risk management is to optimise the balance between minimising uncertainty caused by fluctuations in interest rates and maximising the net interest income and expense.

25 FAIR VALUES ESTIMATION

The nominal values less estimated credit adjustments of receivables and payables are assumed to approximate their fair values, otherwise, these have been adjusted to approximate their fair values.