

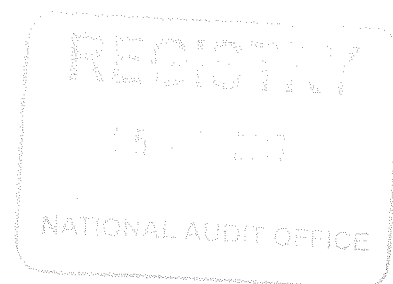


MELLIEHA

LOCAL COUNCIL MELLIEHA

**Annual Report
and
Financial Statements**

for the year ended 31 December 2015



Prepared by

Daniel Galea B. Accty. (Hons.) CPA

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2015

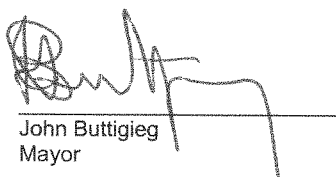
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Statement of Local Council Members' and Executive Secretary's Responsibilities
for the year ended 31 December 2015

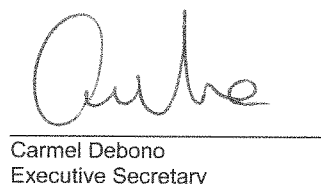
The Local Councils (Financial) Regulations' require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Council's comprehensive income for the year and of the Council's retained funds at the end of year. By virtue of the same regulations 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, the Local Council (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the Local Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the Local Council on the 24th May 2016 and signed on its behalf by



John Buttigieg
Mayor



Carmel Debono
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

		2015 €	2014 €
	<i>Notes</i>		
INCOME			
Funds received from Central Government	4	1,437,015	1,199,600
Income raised under Local Council Bye-Laws	5	5,504	7,064
Income raised under Local Enforcement System	6	9,000	7,083
General Income	7	41,123	80,626
		<u>1,492,642</u>	<u>1,294,373</u>
EXPENDITURE			
Personal emoluments	9	(134,576)	(126,365)
Operations and maintenance	10	(478,393)	(536,975)
Administration and other expenditure	11	(909,971)	(642,224)
		<u>(1,522,940)</u>	<u>(1,305,564)</u>
Operating loss for the year		(30,298)	(11,191)
Finance income	12	3,470	7,228
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u><u>(26,828)</u></u>	<u><u>(3,963)</u></u>

The notes on pages 8 to 25 form an integral part of these financial statements

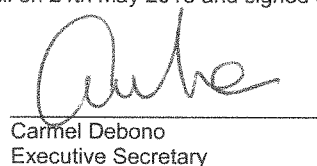
STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

		2015 €	2014 €
	<i>Notes</i>		
ASSETS			
Non-Current Assets			
Property, plant and equipment	13	5,467,999	5,874,651
		<u>5,467,999</u>	<u>5,874,651</u>
Current Assets			
Inventories	14	11,057	11,456
Receivables	15	107,687	142,802
Cash and Cash Equivalents	16	627,395	685,092
		<u>746,139</u>	<u>839,350</u>
Total Assets		<u>6,214,138</u>	<u>6,714,001</u>
EQUITY AND LIABILITIES			
Reserves			
Retained Fund		3,948,026	3,974,854
		<u>3,948,026</u>	<u>3,974,854</u>
Non-Current Liabilities			
Long-term borrowings	18	98,309	97,915
Deferred income	19	1,633,408	1,996,809
		<u>1,731,717</u>	<u>2,094,724</u>
Current Liabilities			
Payables	17	534,395	644,423
		<u>534,395</u>	<u>644,423</u>
Total Equity and Liabilities		<u>6,214,138</u>	<u>6,714,001</u>

These financial statements were approved by the Local Council on 24th May 2016 and signed on its behalf by:


John Buttigieg
Mayor


Carmel Debono
Executive Secretary

The notes on pages 8 to 25 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Retained Funds €
At 1 January 2014	3,978,817
Loss for the year	(3,963)
	<hr/>
At 31 December 2014	3,974,854
	<hr/> <hr/>
At 1 January 2015	3,974,854
Loss for the year	(26,828)
	<hr/>
At 31 December 2015	3,948,026
	<hr/> <hr/>

The notes on pages 8 to 25 form an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 €	2014 €
	Note	
Cash flows from Operating Activities		
Loss for the year	(26,828)	(3,963)
Reconciliation to cash generated from operations:		
Depreciation	719,764	386,368
Movement in provision for bad debts	(10,398)	-
Interest receivable	(3,470)	(7,228)
Grant released	(292,805)	(117,988)
Operating Profit before Working Capital Changes	386,263	257,189
Decrease/(increase) in inventories	399	(1,044)
(Increase)/decrease in receivables	(3,989)	2,899
Decrease/(increase) in other receivables	39,104	(108,414)
(Decrease)/increase in payables	(91,836)	67,691
(Decrease)/increase in other payables	(117,496)	175,914
Cash generated from operating activities	212,445	394,235
Cash flows from Investing Activities		
Interest received	3,470	7,228
Purchase of property, plant & equipment	(313,111)	(697,187)
Receipt of grant	28,708	275,497
Cash used in investing activities	(280,933)	(414,462)
Cash flows from Financing Activities		
Movement in long term third party borrowings	10,791	(54,444)
Net decrease in Cash and Cash Equivalents	(57,697)	(74,671)
Cash and Cash Equivalents at the Beginning of the year	685,092	759,763
Cash and Cash Equivalents at the End of the year	16 627,395	685,092

The notes on pages 8 to 25 form an integral part of these financial statements

Notes to the Financial Statements for the year ended 31 December 2015

1. General Information

The Mellieha Local Council is the local Authority of Malta set up in accordance with the Local Councils Act, 1993. The office of the Local Council is situated at 126, New Mill Street, Mellieha, MLH 1107. These financial statements were approved for issue by the Council Members on 24th May 2016. The Local Council's presentation as well as functional currency is denominated in €.

2. Accounting Policies and Reporting Procedures

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

Accounting convention

These financial statements are prepared under the historical cost convention, as modified to include fair values where it is stated in the accounting policies below. These financial statements are prepared in accordance with the provisions of the Local Councils Act Cap. 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 enacted in Malta and with the requirements of the International Financial Reporting Standards as adopted by the EU.

These financial statements have been drawn up in accordance with the accounting policies and reporting procedures prescribed for Local Councils in the Financial Regulations issued by the Minister of Finance in conjunction with the Minister responsible for Local Government in terms of section 67 of the Local Councils Act (Cap. 363).

New and amended standards adopted by the Local Council

During the year under review, the Local Council has adopted the following International Financial Reporting Standards as adopted by the EU:

On 21 November 2013 the IASB published narrow scope amendments to IAS 19 Employee Benefits entitled Defined Benefit Plans: Employee Contributions (Amendments to IAS 19). These amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective from 1 July 2014 with earlier application permitted.

In December 2013, the IASB issued Annual Improvements to IFRSs 2010-2012 Cycle, a collection of amendments to IFRSs, in response to eight issues addressed during the 2010-2012 cycle. The amendments reflect issues discussed by the IASB during the project cycle that began in 2010, and that were subsequently included in the exposure draft of proposed amendments to IFRSs Annual Improvements to IFRSs 2010-2012 Cycle (published in May 2012). The issues included in this cycle are: Definition of 'vesting condition' (IFRS 2); Accounting for contingent consideration in a business combination (IFRS 3); Aggregation of operating segments (IFRS 8); Reconciliation of the total of the reportable segments' assets to the entity's assets (IFRS 8); Short term receivables and payables (IFRS 13); Interest paid that is capitalised (IAS 7); Revaluation method – proportionate restatement of accumulated depreciation (IAS 16 and IAS 38); a Key management personnel services (IAS 24). The amendments are effective for annual periods beginning on or after 1 July 2014.

In December 2013, the IASB issued Annual Improvements to IFRSs 2011-2013 Cycle, a collection of amendments to IFRSs, in response to four issues addressed during the 2011-2013 cycle. The amendments reflect issues discussed by the IASB during the project cycle that began in 2011, and that were subsequently included in the exposure draft of proposed amendments to IFRSs Annual Improvements to IFRSs 2011-2013 Cycle (published in November 2012). The issues include in this cycle are Meaning of effective IFRSs (IFRS 1); Scope exceptions for joint ventures (IFRS 3); Scope of paragraph 52 (portfolio exception) (IFRS 13); and Clarifying the Interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner-occupied property (IAS 40). The amendments are effective for annual periods beginning on or after 1 July 2014.

Notes to the Financial Statements for the year ended 31 December 2015**Accounting Policies and Reporting Procedures (cont.).***New standards and amendments not yet effective and not yet adopted by the Local Council*

The following standards and amendments to existing standards have been published and are mandatory (as applicable) for the Council accounting periods beginning on or after 1 January 2016 or later periods, but the Council has not early adopted them:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The Council is yet to address the full impact of IFRS 9 and intends to adopt IFRS 9 subject to endorsement by the EU, no later than the accounting period beginning on or after 1 January 2018.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and established principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS18 "Revenue: and IAS11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted, subject to endorsement by the EU. The Council is assessing the impact of IFRS 15.

The amendments to IFRS 11, 'Joint Arrangements', provide guidance on the accounting for acquisitions of interests in joint operations constituting a business. The amendments require all such transactions to be accounted for using the principles on business combinations accounting in IFRS 3 'Business Combinations' and other IFRSs except where those principles conflict with IFRS 11. Acquisitions of interests in joint ventures are not impacted by this new guidance. The amendments are effective for reporting periods beginning on or after 1 January 2016.

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 Council anticipates that the adoption of other International Financial Reporting Standards that were in issue at the date of authorisation of these financial statements, but not yet effective will have no material impact on the financial statements in the period of initial application.

Property, plant and equipment

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

	%
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

Notes to the Financial Statements for the year ended 31 December 2015 (cont.)

Accounting Policies and Reporting Procedures (cont.)

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

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Leases

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

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.

Inventories

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

Amounts receivable

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

Borrowings

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

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

Notes to the Financial Statements for the year ended 31 December 2015 (cont.)

Accounting Policies and Reporting Procedures (cont.)

Other payables

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

Financial instruments

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

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

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

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

Financial assets

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

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

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

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

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

Financial liabilities

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

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

Related parties

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

Revenue

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

Notes to the Financial Statements for the year ended 31 December 2015 (cont.)

Accounting Policies and Reporting Procedures (cont.)

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

Local Enforcement System

The Mellieha Local Council formed part of the North Joint Committee until August 2012. As from September 2012, the income recognised in the Income Statement was derived from the five Regional Committees.

Government grants

Government grants relating to costs are deferred and recognised in the income statement 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 the rates of exchange in operation on the dates of the transactions. Monetary assets and liabilities expressed in foreign currencies are translated into € at the rates of exchange prevailing at the date of the Statement of Financial Position.

Borrowing costs

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

Profits and losses

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

Cash and cash equivalents

Cash and Cash Equivalents are carried in the Statement of Financial Position at face value. For the purposes of the Cash Flow Statement, 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'.

Notes to the Financial Statements for the year ended 31 December 2015 (cont.)**Accounting Policies and Reporting Procedures (cont.)***Capital Management*

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

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

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

3. Judgments in applying accounting policies and key sources of estimation

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the Council, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

4. Funds received from central government

	2015	2014
	€	€
In terms of section 55 of the Local Councils Act	1,044,287	1,009,987
Supplementary Government Income	92,606	27,195
EU funding	-	9,671
Other Government Income	7,317	34,759
Grants Released	292,805	117,988
	<u>1,437,015</u>	<u>1,199,600</u>

5. Income raised from Bye-Laws

	2015	2014
	€	€
Bye-Law - Attivitajiet fil-Beraħ	3,289	5,345
Bye-Law - Organisation of Courses	885	545
Bye-Law - Skips	1,330	1,174
	<u>5,504</u>	<u>7,064</u>

Notes to the Financial Statements for the year ended 31 December 2015 (cont.)**6. Local Enforcement system**

	2015	2014
	€	€
Contraventions and other fines	9,000	7,083
	<u>9,000</u>	<u>7,083</u>

7. General Income

	2015	2014
	€	€
Cultural Events & sponsorships from NGOs	10,415	2,930
Sale of books and other merchandise	292	1,496
Rent Receivable	233	466
General Income	140	60,883
Tender Documents/Info Charges	1,330	1,160
Refund of expenses	1,655	1,294
Income from Permits	27,058	12,397
	<u>41,123</u>	<u>80,626</u>

8. Loss for the year

	2015	2014
	€	€
Loss for the year is stated after charging		
Staff salaries	134,576	126,365
Depreciation of property, plant & equipment	719,764	386,368
Decrease in provision for doubtful debts	(10,398)	-

9. Staff Salaries

	2015	2014
	€	€
Mayor's Remuneration	10,573	10,302
Councillors' Allowances	11,200	11,200
Executive Secretary Salary and Allowances	31,774	30,989
Employees' Salaries	72,866	66,166
Social Security Contributions	8,163	7,708
	<u>134,576</u>	<u>126,365</u>

Notes to the Financial Statements for the year ended 31 December 2015 (cont.)**10. Operations and Maintenance**

	2015	2014
	€	€
<i>Repairs and Upkeep:</i>		
Road/Street Pavements	72,575	119,466
Signs	13,410	14,981
Road Markings	10,015	14,435
Other repairs and Upkeep	3,094	2,355
Council Property	2,762	1,149
Repairs and maintenance - litter bins	591	2,226
	<u>102,447</u>	<u>154,612</u>
<i>Contractual Services:</i>		
Refuse Collection	161,933	157,023
Bulky Refuse Collection	15,818	15,964
Open Skips & Bring-In Sites	1,752	1,564
Road & Street Cleaning	45,379	53,099
Cleaning & Maintaining Non-Urban	26,667	28,934
Cleaning - Public Conveniences	49,509	49,217
Cleaning - Council Premises	3,171	3,049
Cleaning & Maintaining Parks & Gardens	51,383	60,389
Cleaning & Maintaining Beaches	-	320
Street Lighting	19,292	10,799
Studies & Consultations	864	1,907
LES related expenditure	178	98
	<u>375,946</u>	<u>382,363</u>
Total Operations and Maintenance Costs	<u>478,393</u>	<u>536,975</u>

Notes to the Financial Statements for the year ended 31 December 2015 (cont.)**11. Administration and other expenditure**

	2015	2014
	€	€
Utilities	22,982	27,411
Other repairs and upkeep	3,998	5,162
Rent	4,048	4,232
National and International Memberships	640	922
Office Services	2,883	3,920
Transport	2,680	2,414
Travel	819	5,482
Information Services	8,080	10,930
Lease of Equipment	3,213	2,734
Insurance Coverage	5,837	5,041
Bank Charges	313	237
Professional Services	14,876	18,721
EU Projects Expenses	4,372	34,120
Tuition for courses and expenses	3,850	2,430
Entertainment	2,287	2,086
Conference Expenses	65	1,412
Cultural Events	101,538	111,527
Community Services	12,969	11,344
Sundry Minor Expenses	3,250	1,811
General and administrative expenses	735	2,985
Twinning expenses	1,168	933
Provision for doubtful debts	(10,398)	-
Depreciation	719,763	386,368
	<u>909,971</u>	<u>642,224</u>

12. Finance Income

	2015	2014
	€	€
Bank Interest Receivable	3,470	7,228
	<u>3,470</u>	<u>7,228</u>

MELLIEHA LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2015 (cont.)

13. Property, plant and equipment

	Property	Assets	New	Urban	Plant,	Office	Special	Total
	€	under	Street	Improvements	machinery	Furniture	Program	€
		construction	Signs	& Construction	& Equipment	& fittings	mes	€
Cost								
At 1 January 2014	338,425	2,376,461	73,322	208,532	32,729	133,359	6,187,057	9,349,885
Additions	-	110,273	-	75,522	4,841	27,427	479,124	697,187
Reclassification	-	-	-	-	-	-	-	-
At 31 December 2014	338,425	2,486,734	73,322	284,054	37,570	160,786	6,666,181	10,047,072
Depreciation								
At 1 January 2014	8,116	-	73,322	206,540	29,820	29,710	2,086,647	2,434,155
Charge for the year	857	-	-	75,958	1,869	9,632	298,052	386,368
At 31 December 2014	8,973	-	73,322	282,498	31,689	39,342	2,384,699	2,820,523
Grants								
At 1 January 2014	-	-	-	-	-	-	1,351,898	1,351,898
At 31 December 2014	-	-	-	-	-	-	-	-
Net Book values								
At 31 December 2014	329,452	2,486,734	-	1,556	5,881	121,444	2,929,584	5,874,651

MELLIEHA LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2015 (cont.)

13. Property, plant and equipment (cont.)

	Property	Assets under construction	New Street Signs	Urban Improvements & Construction	Plant, machinery & Equipment	Office Furniture & fittings	Special Programmes	Total
	€	€	€	€	€	€	€	€
Cost								
At 1 January 2015	338,425	2,486,734	73,322	284,054	37,570	160,786	6,666,181	10,047,072
Additions	-	295,791	-	7,397	1,652	175	8,096	313,111
Reclassification	229,799	(2,207,540)	-	106,580	-	-	1,871,161	-
At 31 December 2015	568,224	574,985	73,322	398,031	39,222	160,961	8,545,438	10,360,183
Depreciation								
At 1 January 2015	8,973	-	73,322	282,498	31,689	39,342	2,384,699	2,820,523
Charge for the year	1,501	-	-	111,161	2,174	9,120	595,807	719,763
At 31 December 2015	10,474	-	73,322	393,659	33,863	48,462	2,980,506	3,540,286
Grants								
At 1 January 2015	-	-	-	-	-	-	1,351,898	1,351,898
At 31 December 2015	-	-	-	-	-	-	-	-
Net Book values								
At 31 December 2015	557,750	574,985	-	4,372	5,359	112,499	4,213,034	5,467,999

Notes to the Financial Statements for the year ended 31 December 2015 (cont.)**14. Inventories**

	2015	2014
	€	€
Books and other publications	11,057	11,456

15. Receivables

	2015	2014
	€	€
Receivables	9,163	5,174
Prepayments and accrued income	98,524	137,628
	107,687	142,802

Receivables

General receivables are analysed as follows:

	2015	2014
	€	€
Within credit period	6,814	2,755
Exceeded credit period but not impaired	2,349	2,419
Impaired and provided for	7,745	18,143
Provision for doubtful debts	(7,745)	(18,143)
	9,163	5,174

Local Enforcement System (LES) Debtors

LES Debtors are stated after a specific provision for doubtful debts amounting to €18,819 (2014 - €18,819).

Included in the accounts receivable are amounts due from related parties amounting to €3,215 (2014 : €9,931). These amounts are unsecured, interest free and repayable on demand.

16. Cash & cash equivalents

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

	2015	2014
	€	€
Cash at Bank	627,163	684,859
Cash in Hand	232	233
	627,395	685,092

Notes to the Financial Statements for the year ended 31 December 2015 (cont.)**17. Payables**

	2015	2014
	€	€
Payables	198,205	290,041
Other Payables	400	-
Accruals and deferred income	335,790	354,382
	<u>534,395</u>	<u>644,423</u>

Included in the accounts payable are amounts to related parties amounting to €59,123 (2014 : €44,345). These amounts are unsecured, interest free and repayable on demand.

18. Borrowings

	2015	2014
	€	€
Non-current		
Third party borrowings	<u>98,309</u>	<u>97,915</u>
Borrowings		
Repayable between one and two years	31,807	24,934
Repayable between two and five years	66,502	63,824
Repayable in five years or more	-	9,157
	<u>98,309</u>	<u>97,915</u>

Third party loan is payable to a supplier under the Public Private Partnership scheme as per memo 45/2010 separated into two phases. It is repayable over a period of 7 years up to 2019 (Phase 1) and up to 2020 (Phase 2).

Long term amount payable under the scheme, inclusive of interest is €124,875.

Notes to the Financial Statements for the year ended 31 December 2015 (cont.)

19. Deferred income

	2015	2014
	€	€
Government grants		
At 1 January	2,068,146	1,967,679
Increase in year	28,708	218,455
	<u>2,096,854</u>	<u>2,186,134</u>
Released in year	(292,805)	(117,988)
At 31 December	<u>1,804,049</u>	<u>2,068,146</u>
 Current Deferred Income	 <u>170,641</u>	 <u>71,337</u>
 Non-Current Deferred Income	 <u>1,633,408</u>	 <u>1,996,809</u>
 Deferred Government Grants		
Deferred between one and two years	154,347	64,533
Deferred between two and five years	380,170	159,003
Deferred in five years or more	1,098,891	1,773,273
	<u>1,633,408</u>	<u>1,996,809</u>
 Deferred after five years or more	 <u>1,098,891</u>	 <u>1,773,273</u>

Notes to the Financial Statements for the year ended 31 December 2015 (cont.)**20. Capital commitments**

	2015	2014
	€	€
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	387,500	350,500
- Contracted for but not provided in the financial statements	438,589	299,500
(i) Approved but not yet contracted for:		
Embellishment of Stepped Streets	135,000	60,000
Ghajn tal-Mellieha & Environs Restoration	20,000	15,000
Gnien il-Qieghan Improvements	34,000	53,000
Misrah il-Parrocca Manikata Embellishment	15,000	25,000
Misrah il-Parrocca Mellieha Project	-	31,000
Mons F Xuereb/Nahal/Etna Open Space	80,000	50,000
Tunnara Project	30,000	-
Construction of Culverts	50,000	-
Street Furniture	2,000	2,000
Torri l-Abjad Project	-	5,000
Office Equipment & Computer Equipment	6,500	6,500
Office Improvements	15,000	13,000
Triq l-Inkurunazzjoni Embellishment	-	90,000
	387,500	350,500
(i) Contracted for but not provided in the Financial Statements:		
Construction of Culverts	-	17,000
New Street Lamps	164,689	-
Misrah il-Parrocca Project	6,200	-
Road Resurfacing	265,000	279,000
Churches Area Floodlighting	2,700	-
Triq l-Erwieħ Playing Field Improvement	-	3,500
	438,589	299,500

MELLIEHA LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2015 (cont.)

21. Contingent liabilities

The Council is involved in a court case filed by two individuals which involves the road levels following road resurfacing. Although the outcome of this decision is uncertain, the Council does not exclude the possibility of being burdened with Court, legal fees and the construction of a rainwater culvert, the costs of which may exceed €40,000.

The Council has also received a claim for damages for alleged injuries at ir-Ramla tal-Mixquqa amounting to €20,000, however liability is not being accepted by the Council's Insurance. The last correspondence received from claimant was in February 2015.

Furthermore, the Council was notified that a court case was opened by Atlas Insurance against Transport Malta and Mellieha Local Council for damages to a vehicle in an accident at Triq Dahlet ix-Xmajjar, which claim does not exceed €1,000. The case is still pending before the Small Claims Tribunal.

22. Related party transactions

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

<i>Name of Entity</i>	<i>Nature of relationship</i>
Department for Local Government	Significant control
North Joint Committee (Local Enforcement)	Joint Control
North Regional Committee	Joint Control
Central Regional Committee	No control
Gozo Regional Committee	No control
South Eastern Regional Committee	No control
South Regional Committee	No control
Malta Environment and Planning Authority	No control
Water Services Corporation	No control
Enemalta Corporation	No control
Cleansing Services Department	No control
Director General - Works Division	No control
Wasteserv Malta Limited	No control
Police General Headquarters	No control
Department of Lands	No control
ARMS	No control
Bank of Valletta plc	No control
Mellieha Primary School	No control
Department of Information	No control
MITA	No control
Office of the Commissioner for Data Protection	No control
Association of Local Councils' Secretaries	No control
Ministry for Resources and Rural Affairs	No control

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

	Related party activity €	2015 Total activity €	%	Related party activity €	2014 Total activity €	%
<i>Income</i>						
Transactions with central government	1,144,210			1,081,612		
Transactions with regions	9,000			7,083		
	<u>1,153,210</u>	<u>1,492,642</u>	<u>77</u>	<u>1,088,695</u>	<u>1,294,373</u>	<u>84</u>
<i>Expenditure</i>						
Transactions with government entities	96,754			97,687		
Key personnel remuneration	134,576			126,365		
	<u>231,330</u>	<u>1,522,940</u>	<u>15</u>	<u>224,052</u>	<u>1,305,564</u>	<u>17</u>

Notes to the Financial Statements for the year ended 31 December 2015 (cont.)

22. Related party transactions (cont.).

Ultimate controlling party

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

23. 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 receivables is monitored continuously and the Council places a provision on any debt on which there is doubt of recoverability. Bad debts are therefore negligible and in this respect the Council has no significant concentration of credit risk.

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

- Receivables from Related Parties: €3,215

Liquidity Risk

Liquidity risk is defined as financial distress, an extraordinary measure which needs to be taken to manage the council's present commitments arising due to shortage of funds. The objective of liquidity risk management is to maintain sufficient liquidity, and to ensure that it is available within the necessary time frame in order not to create financial distress and curtail current obligations as well as future short term commitments. The Council monitors and manages its risk to a shortage of funds by maintaining sufficient cash and by monitoring the availability of raising funds to meet commitments due. In fact at year end, the Council has as cash and cash equivalents the amount of Euro 627,395. This should ensure an ongoing working capital of the Council for the next 12 months. The Council also maintains a positive current net asset position of Euro 330,197 (2014: Euro 228,320) ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

	2015	2014
	€	€
Current Assets		
Loans and receivables:		
Accounts and other receivables	9,163	5,174
Cash and Cash Equivalents	627,395	685,092
	<u>636,558</u>	<u>690,266</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	<u>198,205</u>	<u>290,041</u>

Notes to the Financial Statements for the year ended 31 December 2015 (cont.)

23. Financial Risk Management (cont.)

Foreign Currency Risk

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

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 minimizing uncertainty caused by fluctuations in interest rates and maximising the net interest income.

Market risks

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks.

The Council's current discount rate in respect of the third party loan is 8.38%, with cash flows amounting to €124,875 over the next 5 years.

Other risks

The Council's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Council to cash flow interest rate risk. In general, the Council's exposure to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financing position and cash flows are not deemed to be substantial by the Councillors and Executive Secretary in view of the nature of the assets and liabilities.

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

24. Fair value of financial assets and financial liabilities

At 31 December 2015 and at 31 December 2014, the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively, approximated their fair values due to the short term maturities of these assets and liabilities. The fair values of non-current financial assets and non-current financial liabilities are not materially different from their carrying amount.

LOCAL COUNCIL MELLIEHA

Report of the Local Government Auditors to the Auditor General

We have audited the accompanying financial statements of LOCAL COUNCIL MELLIEHA, which comprise the statement of financial position on page 5 as of 31st December 2015, and 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.

Council's Responsibility for the Financial Statements

The Council Members and the Executive Secretary are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 from 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 Members and the Executive Secretary, 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

In accordance with the Local Enforcement System (LES) issued by the Ministry by virtue of Article 72 of the Local Councils Act, 1993, the income relating to contraventions was delegated to the local Councils through Legal Notice 32 of 2000. The Council entered into a pooling agreement with a number of local councils within the Local Enforcement System and formed a Joint Committee to manage and administer this function up to September 2011, when this was delegated to Regional Committees. Due to the fact that no proper audited financial statements have been prepared by the Joint Committee, we could not obtain reasonable assurance on the completeness of the share of income, which was nil for the year under review, that has been recorded in the financial statements as well as on any possible accrued income or liabilities present as at end of the current financial year.

The Council received a number of government grants in respect of various capital projects. The Council applies IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance using the income approach in relation to such grants. The amount recognised by the Council as deferred income at year end amount to €1,804,049, split in a Current Liability of €170,641 and a Non-Current Liability of €1,633,408. In view of the deficiencies noted in the calculations of the deferred income for each specific project, the variances arising in the release of deferred income to the Comprehensive Income Statement as well as variances in the dating of capitalisation of assets as compared to when deferred income started to be released for the related asset for which the grant would have been provided, it was not practicable to quantify the amount of misstatement in relation to the release of this deferred income, the amount of deferred income as recognised in the Financial Statements as well as the split between Current and Non-Current portion of this deferred income.

The Council recognized an amount payable to the supplier of the Public Private Partnership (PPP) scheme of €99,891 as well as disclosed that the total amount due and payable up to 2019 (inclusive of interest) amounts to €124,875. In our opinion, the total liability of €129,301.70 should have been recognised as at year end, being €24,988 as a current liability and €104,313.7 as a non-current liability.

International Financial Reporting Standards require that all applicable standards and their disclosure requirements are complied with in the preparation of financial statements. These financial statements lack proper disclosures emanating from IAS 39-Recognition and Measurement in relation to the disclosure of the liability accounted for using amortised cost in relation to the PPP scheme as well as from IAS 24-Related Parties in view that note 22 to the financial statements does not reflect the requirement of articles 18, 25 and 26 of the said standard.

Qualified Opinion

In our opinion, except for the effect on the financial statements of the matters referred to in the Basis for Qualified Opinion paragraphs, the financial statements give a true and fair view of the financial position of Local Council Mellieha as at 31st December, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Opinion on Other Legal and Regulatory Requirements

These financial statements do not comply fully with the Local Council (Financial) Procedures, 1996.

According to the Financial Procedures supplementing the Financial Regulations issued in terms with the Local Councils Act 1993, the financial statements should include the budget for the year. In line with Local Councils' generally accepted reporting procedures, the budget has been excluded from these financial statements.

The Local Council (Financial) Procedures, 1996, require that the financial statements should be prepared in accordance with the International Financial Reporting Standards. In view of the matters set out in paragraph three under the basis for qualified opinion above, these financial statements have not been prepared in line with the requirements of International Financial Reporting Standards.



This copy of the report has been signed by
Neville Cutajar (Partner) on its behalf

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Certified Public Accountants

Level 2

Palazzo Ca' Brugnera

Valley Road

Birkirkara Malta

Date: 24th May 2016