

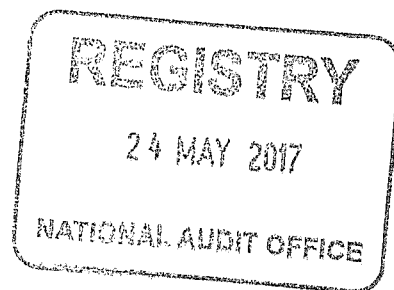


MELLIEĦA

LOCAL COUNCIL MELLIEĦA

**Annual Report
and
Financial Statements**

for the year ended 31 December 2016



Prepared by

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ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2016

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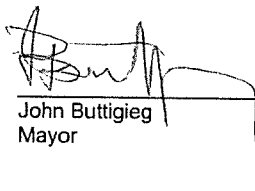
Statement of Local Council Members' and Executive Secretary's Responsibilities

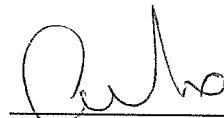
for the year ended 31 December 2016

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 3rd May 2017 and signed on its behalf by


John Buttigieg
Mayor


Carmel Debono
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

		2016 €	2015 €
	<i>Notes</i>		
INCOME			
Funds received from Central Government	4	1,413,522	1,437,015
Income raised under Local Council Bye-Laws	5	4,659	5,504
Income raised under Local Enforcement System	6	9,877	9,000
General Income	7	54,752	41,123
		<u>1,482,810</u>	<u>1,492,642</u>
EXPENDITURE			
Personal emoluments	9	(133,812)	(134,576)
Operations and maintenance	10	(482,880)	(478,393)
Administration and other expenditure	11	(835,301)	(909,971)
		<u>(1,451,993)</u>	<u>(1,522,940)</u>
Operating surplus / (deficit) for the year		30,817	(30,298)
Finance income	12	1,134	3,470
TOTAL COMPREHENSIVE SUPPLUS / (DEFICIT) FOR THE YEAR		<u>31,951</u>	<u>(26,828)</u>

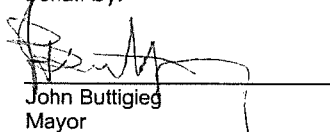
The notes on pages 8 to 25 form an integral part of these financial statements

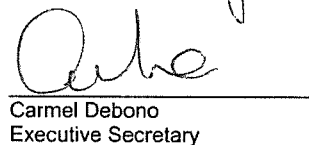
STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

		2016 €	2015 €
	<i>Notes</i>		
ASSETS			
Non-Current Assets			
Property, plant and equipment	13	5,269,671	5,467,999
		<u>5,269,671</u>	<u>5,467,999</u>
Current Assets			
Inventories	14	11,699	11,057
Receivables	15	91,712	107,687
Cash and Cash Equivalents	16	779,003	627,395
		<u>882,414</u>	<u>746,139</u>
Total Assets		<u>6,152,085</u>	<u>6,214,138</u>
EQUITY AND LIABILITIES			
Reserves			
Retained Fund		3,979,977	3,948,026
		<u>3,979,977</u>	<u>3,948,026</u>
Non-Current Liabilities			
Long-term borrowings	18	73,786	98,309
Deferred income	19	1,491,212	1,633,408
		<u>1,564,998</u>	<u>1,731,717</u>
Current Liabilities			
Payables	17	607,110	534,395
		<u>607,110</u>	<u>534,395</u>
Total Equity and Liabilities		<u>6,152,085</u>	<u>6,214,138</u>

These financial statements were approved by the Local Council on 3rd May 2017 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 2016

	Retained Funds €
At 1 January 2015	3,974,854
Total Comprehensive Deficit for the Year	(26,828)
	<hr/>
At 31 December 2015	3,948,026
	<hr/> <hr/>
At 1 January 2016	3,948,026
Total Comprehensive Surplus for the Year	31,951
	<hr/>
At 31 December 2016	3,979,977
	<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 2016

	2016 €	2015 €
	<i>Note</i>	
Cash flows from Operating Activities		
Surplus / (Deficit) for the year	31,951	(26,828)
Reconciliation to cash generated from operations:		
Depreciation	602,029	719,764
Movement in provision for bad debts	-	(10,398)
Interest receivable	(1,134)	(3,470)
Grant released	(264,475)	(292,805)
Operating Profit before Working Capital Changes	368,371	386,263
(Increase) / decrease in inventories	(642)	399
Decrease / (Increase) in receivables	536	(3,989)
Decrease in other receivables	15,166	39,104
Increase / (decrease) in payables	120,034	(91,836)
Decrease in other payables	(36,456)	(117,496)
Cash generated from operating activities	471,282	212,445
Cash flows from Investing Activities		
Interest received	1,134	3,470
Purchase of property, plant & equipment	(403,701)	(313,111)
Receipt of grant	107,416	28,708
Cash used in investing activities	(295,151)	(280,933)
Cash flows from Financing Activities		
Movement in long term third party borrowings	(24,523)	10,791
Net increase / (decrease) in Cash and Cash Equivalents	151,608	(57,697)
Cash and Cash Equivalents at the Beginning of the year	627,395	685,092
Cash and Cash Equivalents at the End of the year	779,003	627,395

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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 2016

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 _____ 2017. 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:

IFRS 14 permits an entity which is a first time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Entities which are eligible to apply IFRS 14 are not required to do so, and so can choose to apply only the requirements of IFRS 1 First time Adoption of International Financial Reporting Standards when first applying IFRSs. However, an entity that elects to apply IFRS 14 in its first IFRS financial statements must continue to apply it in subsequent financial statements. IFRS 14 cannot be applied by entities that have already adopted IFRSs. Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets to clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment introduce a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset. Applicable to annual periods beginning on or after 1 January 2016.

Improvements in Annual Improvements 2012-2014 Cycle makes amendments to the following standards: IFRS 5 — Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued,

Notes to the Financial Statements for the year ended 31 December 2016 (cont.)

2. Accounting Policies and Reporting Procedures

IFRS 7 — Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements,

IAS 9 — Clarify that the high quality corporate bonds used in estimating the discount rate for postemployment benefits should be denominated in the same currency as the benefits to be paid

IAS 34 — Clarify the meaning of 'elsewhere in the interim report' and require a cross reference. Applicable to annual periods beginning on or after 1 January 2016.

Amendments in IAS 1 Presentation of Financial Statements to address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes; clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply; clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarification that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; additional examples of possible ways of ordering the notes to clarify that understand ability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. Effective for annual periods beginning on or after 1 January 2016.

New Standards and amendments not yet adopted:

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

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows: Debt instruments meeting both a 'business model' test and a 'cash flow characteristics' test are measured at amortised cost (the use of fair value is optional in some limited circumstances). Investments in equity instruments can be designated as 'fair value through other comprehensive income' with only dividends being recognised in profit or loss. All other instruments (including all derivatives) are measured at fair value with changes recognised in the profit or loss. The concept of 'embedded derivatives' does not apply to financial assets within the scope of the Standard and the entire instrument must be classified and measured in accordance with the above guidelines. The standard remains available for application if the relevant date of initial application is before 1 February 2015 and is not yet endorsed for use in the EU.

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement. The revised financial liability provisions maintain the existing amortised cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss. The standard remains available for application if the relevant date of initial application is before 1 February 2015 and is not yet endorsed for use in the EU.

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

Impairment. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.

Notes to the Financial Statements for the year ended 31 December 2016 (cont.)

2. Accounting Policies and Reporting Procedures

Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and nonfinancial risk exposures.

Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39. These standards remain available for application if the relevant date of initial application is before 1 February 2015. Its effective for annual periods beginning on or after 1 January 2018 and is not yet endorsed for use in the EU.

IFRS 15 provides a single, principles based five step model to be applied to all contracts with customers. The five steps in the model are as follows:

Identify the contract with the customer

Identify the performance obligations in the contract

Determine the transaction price

Allocate the transaction price to the performance obligations in the contracts

Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018.

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. Applicable to annual reporting periods beginning on or after 1 January 2019.

Amendments to IAS 7 Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Effective for annual periods beginning on or after 1 January 2017 however not yet endorsed for use in the EU.

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 period ended 31 December 2016 (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.

Impairment of Assets

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

Amounts receivable

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

Borrowings

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

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

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.

Notes to the Financial Statements for the period ended 31 December 2016 (cont.)

Accounting Policies and Reporting Procedures (cont.)

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.

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

As from September 2012, the income recognised in the Statement of Comprehensive Income was derived from the five Regional Committees and Local Enforcement System Agency. During the year under review, the Council also received income from the Joint Committee under the pooling system.

Notes to the Financial Statements for the period ended 31 December 2016 (cont.)

Accounting Policies and Reporting Procedures (cont.)

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

Borrowing costs

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

Profits and losses

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

Cash and cash equivalents

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

Capital Management

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

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

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

Notes to the Financial Statements for the year ended 31 December 2016 (cont.)**3. Judgments in applying accounting policies and key sources of estimation**

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

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

4. Funds received from central government

	2016 €	2015 €
In terms of section 55 of the Local Councils Act	1,074,638	1,044,287
Supplementary Government Income	52,711	92,606
EU funding	910	-
Other Government Income	20,788	7,317
Grants Released	264,475	292,805
	<u>1,413,522</u>	<u>1,437,015</u>

5. Income raised from Bye-Laws

	2016 €	2015 €
Bye-Law - Attivitajiet fil-Beraħ	2,659	3,289
Bye-Law - Organisation of Courses	740	885
Bye-Law - Skips	1,260	1,330
	<u>4,659</u>	<u>5,504</u>

6. Local Enforcement system

	2016 €	2015 €
Contraventions and other fines	9,877	9,000
	<u>9,877</u>	<u>9,000</u>

Notes to the Financial Statements for the year ended 31 December 2016 (cont.)

7. General Income

	2016	2015
	€	€
Cultural Events & sponsorships from NGOs	8,213	10,415
Sale of books and other merchandise	530	292
Rent Receivable	233	233
General Income	116	140
Tender Documents/Info Charges	520	1,330
Refund of expenses	496	1,655
Income from Permits	44,644	27,058
	<u>54,752</u>	<u>41,123</u>

8. Surplus for the year

	2016	2015
	€	€
Surplus / Deficit) for the year is stated after charging		
Staff salaries	133,812	134,576
Depreciation of property, plant & equipment	602,029	719,764
Decrease in provision for doubtful debts	-	(10,398)
	<u>-</u>	<u>(10,398)</u>

9. Staff Salaries

	2016	2015
	€	€
Mayor's Remuneration	10,843	10,573
Councillors' Allowances	11,200	11,200
Executive Secretary Salary and Allowances	32,906	31,774
Employees' Salaries	70,632	72,866
Social Security Contributions	8,231	8,163
	<u>133,812</u>	<u>134,576</u>

Notes to the Financial Statements for the year ended 31 December 2016 (cont.)**10. Operations and Maintenance**

	2016	2015
	€	€
<i>Repairs and Upkeep:</i>		
Road/Street Pavements	75,599	72,575
Signs	12,363	13,410
Road Markings	10,156	10,015
Other repairs and Upkeep	2,170	3,094
Council Property	4,957	2,762
Repairs and maintenance - litter bins	1,283	591
	<u>106,528</u>	<u>102,447</u>
<i>Contractual Services:</i>		
Refuse Collection	164,615	161,933
Bulky Refuse Collection	18,946	15,818
Open Skips & Bring-In Sites	819	1,752
Road & Street Cleaning	45,628	45,379
Cleaning & Maintaining Non-Urban	26,667	26,667
Cleaning - Public Conveniences	49,198	49,509
Cleaning - Council Premises	4,336	3,171
Cleaning & Maintaining Parks & Gardens	50,989	51,383
Cleaning & Maintaining Beaches	449	-
Street Lighting	14,349	19,292
Studies & Consultations	207	864
LES related expenditure	149	178
	<u>376,352</u>	<u>375,946</u>
 Total Operations and Maintenance Costs	 <u>482,880</u>	 <u>478,393</u>

Notes to the Financial Statements for the year ended 31 December 2016 (cont.)**11. Administration and other expenditure**

	2016	2015
	€	€
Utilities	20,155	22,982
Other repairs and upkeep	2,226	3,998
Rent	3,450	4,048
National and International Memberships	2,579	640
Office Services	3,228	2,883
Transport	3,068	2,680
Travel	699	819
Information Services	7,897	8,080
Lease of Equipment	2,478	3,213
Insurance Coverage	6,474	5,837
Bank Charges	334	313
Professional Services	36,521	14,876
EU Projects Expenses	-	4,372
Tuition for courses and expenses	2,460	3,850
Entertainment	2,041	2,287
Conference Expenses	9,047	65
Cultural Events	116,249	101,540
Community Services	11,331	12,969
Sundry Minor Expenses	845	3,250
General and administrative expenses	1,055	735
Twinning expenses	1,135	1,168
Provision for doubtful debts	-	(10,398)
Depreciation	602,029	719,764
	<u>835,301</u>	<u>909,971</u>

12. Finance Income

	2016	2015
	€	€
Bank Interest Receivable	1,134	3,470
	<u>1,134</u>	<u>3,470</u>

MELLIEHA LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2016 (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 2016	568,224	574,985	73,322	398,031	39,222	160,961	8,545,438	10,360,183
Additions	-	358,667	-	42,695	1,003	1,336	-	403,701
Reclassification	-	(122,670)	-	97,836	-	6,812	18,022	-
At 31 December 2016	568,224	810,982	73,322	538,562	40,225	169,109	8,563,460	10,763,884
Depreciation								
At 1 January 2016	10,474	-	73,322	393,659	33,863	48,462	2,980,506	3,540,286
Charge for the year	1,951	-	-	140,531	2,013	8,792	448,742	602,029
At 31 December 2016	12,425	-	73,322	534,190	35,876	57,254	3,429,248	4,142,315
Grants								
At 1 January 2016	-	-	-	-	-	-	1,351,898	1,351,898
At 31 December 2016	-	-	-	-	-	-	-	-
Net Book values								
At 31 December 2016	555,799	810,982	-	4,372	4,349	111,855	3,782,314	5,269,671

MELLIEHA LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2016 (cont.)

13. Property, plant and equipment

	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								
At 31 December 2015	-	-	-	-	-	-	1,351,898	1,351,898
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 2016 (cont.)
14. Inventories

	2016	2015
	€	€
Books and other publications	<u>11,699</u>	<u>11,057</u>

15. Receivables

	2016	2015
	€	€
Receivables	8,627	9,163
Prepayments and accrued income	<u>83,085</u>	<u>98,524</u>
	<u>91,712</u>	<u>107,687</u>

Receivables

General receivables are analysed as follows:

	2016	2015
	€	€
Within credit period	6,278	6,744
Exceeded credit period but not impaired	2,349	2,419
Impaired and provided for	126,668	26,564
Provision for doubtful debts	<u>(126,668)</u>	<u>(26,564)</u>
	<u>8,627</u>	<u>9,163</u>

Local Enforcement System (LES) Debtors

LES Debtors are stated after a specific provision for doubtful debts amounting to €118,923 (2015 - €18,819).

Included in the accounts receivable are amounts due from related parties amounting to €7,112 (2015 : €3,215). 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.

	2016	2015
	€	€
Cash at Bank	778,771	627,163
Cash in Hand	<u>232</u>	<u>232</u>
	<u>779,003</u>	<u>627,395</u>

Notes to the Financial Statements for the year ended 31 December 2016 (cont.)**17. Payables**

	2016	2015
	€	€
Payables	322,329	198,205
Other Payables	1,452	400
Accruals and deferred income	283,419	335,790
	<u>607,110</u>	<u>534,395</u>

Included in the accounts payable are amounts to related parties amounting to €68,405 (2015 : €59,123). These amounts are unsecured, interest free and repayable on demand.

18. Borrowings

	2016	2015
	€	€
Non-current		
Third party borrowings	<u>73,786</u>	<u>98,309</u>
 Borrowings		
Repayable between one and two years	31,807	31,807
Repayable between two and five years	41,980	66,502
Repayable in five years or more	-	-
	<u>73,787</u>	<u>98,309</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 €89,058.

Notes to the Financial Statements for the year ended 31 December 2016 (cont.)
19. Deferred income

	2016	2015
	€	€
Government grants		
At 1 January	1,804,049	2,068,146
Increase in year	107,416	28,708
	<u>1,911,465</u>	<u>2,096,854</u>
Released in year	(264,475)	(292,805)
At 31 December	<u>1,646,990</u>	<u>1,804,049</u>
 Current Deferred Income	 <u>155,778</u>	 <u>170,641</u>
 Non-Current Deferred Income	 <u>1,491,212</u>	 <u>1,633,408</u>
 Deferred Government Grants		
Deferred between one and two years	140,927	154,347
Deferred between two and five years	347,053	380,170
Deferred in five years or more	1,003,232	1,098,891
	<u>1,491,212</u>	<u>1,633,408</u>
 Deferred after five years or more	 <u>1,003,232</u>	 <u>1,098,891</u>

Notes to the Financial Statements for the year ended 31 December 2016 (cont.)**20. Capital commitments**

	2016	2015
	€	€
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	178,700	387,500
- Contracted for but not provided in the financial statements	<u>217,700</u>	<u>432,389</u>
(i) Approved but not yet contracted for:		
Embellishment of Stepped Streets	-	135,000
Ghajn tal-Mellieha & Environs Restoration	20,000	20,000
Gnien il-Qighan Improvements	34,000	34,000
Misrah il-Parrocca Manikata Embellishment	15,000	15,000
Misrah il-Parrocca Mellieha Project	6,200	-
Mons F Xuereb/Nahal/Etna Open Space	80,000	80,000
Tunnara Project	-	30,000
Construction of Culverts	-	50,000
Street Furniture	2,000	2,000
Office Equipment & Computer Equipment	6,500	6,500
Office Improvements	<u>15,000</u>	<u>15,000</u>
	<u>178,700</u>	<u>387,500</u>
(i) Contracted for but not provided in the Financial Statements:		
Construction of Culverts	50,000	-
New Street Lamps	-	164,689
Road Resurfacing	-	265,000
Churches Area Floodlighting	2,700	2,700
Embellishment of Stepped Streets	135,000	-
Tunnara Project	<u>30,000</u>	<u>-</u>
	<u>217,700</u>	<u>432,389</u>

Notes to the Financial Statements for the year ended 31 December 2016 (cont.)**21. Contingent liabilities**

The Council has 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	2016		Related party activity	2015	
	€	Total activity	%	€	Total activity	%
<i>Income</i>						
Transactions with central government	1,149,047			1,144,210		
Transactions with regions	9,877			9,000		
	<u>1,158,924</u>	<u>1,482,810</u>	<u>78</u>	<u>1,153,210</u>	<u>1,492,642</u>	<u>77</u>
<i>Expenditure</i>						
Transactions with government entities	94,123			96,754		
Key personnel remuneration	133,812			134,576		
	<u>227,935</u>	<u>1,451,993</u>	<u>16</u>	<u>231,330</u>	<u>1,522,940</u>	<u>15</u>

Notes to the Financial Statements for the year ended 31 December 2016 (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: €7,112

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 779,003. 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 431,068 (2015: Euro330,197) ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

Summary of financial assets and liabilities by category:

	2016	2015
	€	€
Current Assets		
Loans and receivables:		
Accounts and other receivables	8,627	9,163
Cash and Cash Equivalents	779,003	627,395
	<u>787,630</u>	<u>636,558</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	<u>322,239</u>	<u>198,205</u>

Notes to the Financial Statements for the year ended 31 December 2016 (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 €89,058 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 2016 and at 31 December 2015, 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

Report on the Audit of the Financial Statements

We have audited the financial statements of LOCAL COUNCIL MELLIEHA, set out on pages 4 to 25, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of LOCAL COUNCIL MELLIEHA as at 31 December 2016, and its financial performance for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

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. In view 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 amounted to €722.02 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 €1,646,990, split in a Current Liability of €155,778 and a Non-Current Liability of €1,491,212. In view of the variances noted in the calculations of the deferred income for each specific project, the differences arising in the release of deferred income to the Comprehensive Income Statement as well as inconsistencies in the capitalization 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.

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.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Council in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information

The Council is responsible for the other information. The other information comprises the Statement of Local Council Members' and Executive Secretary's Responsibilities. Our opinion on the financial statements does not cover this information, including the Statement of Local Council Members' and Executive Secretary's Responsibilities. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. We have nothing to report in this regard.

Council's Responsibility for the Financial Statements

The Council Members and the Executive Secretary are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU 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.

In preparing the financial statements, the management are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intend to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

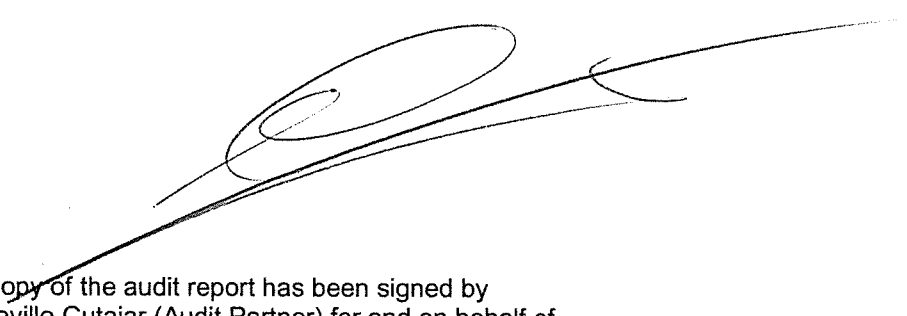
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council members and Executive secretary.
- Conclude on the appropriateness of the Council members and Executive secretary' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

The Local Council (Financial) Procedures, 1996, require that the financial statements should be prepared in accordance with the International Financial Reporting Standards as adopted by the European Union. These financial statements have not been prepared entirely in line with the requirements of International Financial Reporting Standards as adopted by the European Union.



This copy of the audit report has been signed by
Mr. Neville Cutajar (Audit Partner) for and on behalf of
3a
Certified Public Accountants
Level 2,
Palazzo Ca Brugnara',
Valley Road,
Birkirkara Malta.

Date: 3rd May 2017