



# LOCAL COUNCIL MĠARR

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 the Local Council's statement of 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 Councils (Financial) Regulations, and the Local Councils (Financial) Procedures issued in terms of the said Act.

The Executive Secretary is responsible to maintain a continuous internal control to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, the Local Councils (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 12th April 2017 and signed on its behalf by

  
Paul Vella  
Mayor

  
Cyprian Dalli  
Executive Secretary

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

		2016 €	2015 €
	<i>Notes</i>		
<b>INCOME</b>			
Funds received from Central Government	4	495,225	434,806
Income raised under Local Enforcement System	5	2,206	4,018
General Income	6	17,971	19,702
		<u>515,402</u>	<u>458,526</u>
<b>EXPENDITURE</b>			
Personal emoluments	8	(84,164)	(81,137)
Operations and maintenance	9	(184,945)	(146,953)
Administration and other expenditure	10	(180,824)	(165,468)
		<u>(449,933)</u>	<u>(393,558)</u>
<b>OPERATING PROFIT FOR THE YEAR</b>		65,469	64,968
Finance income	11	23	80
<b>PROFIT FOR THE YEAR</b>		<u>65,492</u>	<u>65,048</u>


The notes on pages 8 to 23 form an integral part of these financial statements

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

		2016 €	2015 €
	Notes		
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	12	1,235,597	1,312,821
		<u>1,235,597</u>	<u>1,312,821</u>
<b>Current Assets</b>			
Inventory	13	5,204	-
Receivables	14	33,451	159,092
Cash and Cash Equivalents	15	152,355	28,451
		<u>191,010</u>	<u>187,543</u>
<b>Total Assets</b>		<u><u>1,426,607</u></u>	<u><u>1,500,364</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Reserves</b>			
Retained Fund		1,033,022	967,530
		<u>1,033,022</u>	<u>967,530</u>
<b>Non-Current Liabilities</b>			
Deferred income	17	314,276	347,366
		<u>314,276</u>	<u>347,366</u>
<b>Current Liabilities</b>			
Deferred income	17	32,623	36,894
Payables	16	46,686	148,574
		<u>79,309</u>	<u>185,468</u>
<b>Total Equity and Liabilities</b>		<u><u>1,426,607</u></u>	<u><u>1,500,364</u></u>

These financial statements were approved by the Local Council on 12th April 2017 and signed on its behalf by:

  
Paul Vella  
Mayor

  
Cyprian Dalli  
Executive Secretary

The notes on pages 8 to 23 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	902,482
Profit for the year	65,048
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At 31 December 2015	967,530
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At 1 January 2016	967,530
Profit for the year	65,492
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At 31 December 2016	1,033,022
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The notes on pages 8 to 23 form an integral part of these financial statements

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# STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 €	2015 €
Note		
<b>Cash flows from Operating Activities</b>		
Profit for the year	65,492	65,048
Reconciliation to cash generated from operations:		
Depreciation	90,218	78,262
Interest receivable	(23)	(80)
Grants released	(36,106)	(12,767)
Operating Profit before Working Capital Changes	119,581	130,463
Increase in inventory	(5,204)	-
Increase / (decrease) in receivables	125,641	(95,491)
(Decrease) / increase in payables	(101,885)	10,285
<b>Cash flow generated from operating activities</b>	<b>138,133</b>	<b>45,257</b>
<b>Cash flows from Investing Activities</b>		
Interest received	23	80
Purchase of property, plant & equipment	(12,997)	(320,584)
Movement in long-term borrowings	-	(36,082)
Refund of grants to Paying Agency	(8,255)	-
Receipt of grants	7,000	248,771
<b>Cash flow used in investing activities</b>	<b>(14,229)</b>	<b>(107,815)</b>
Net change in Cash and Cash Equivalents	123,904	(62,558)
Cash and Cash Equivalents at the Beginning of the year	28,451	91,009
<b>Cash and Cash Equivalents at the End of the year</b>	<b>152,355</b>	<b>28,451</b>
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The notes on pages 8 to 23 form an integral part of these financial statements

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Notes to the Financial Statements for the year ended 31 December 2016

**1. General Information**

The Mġarr Local Council is the local Authority of Mġarr set up in accordance with the Local Councils Act, 1993. The office of the Local Council is situated at 22, Sir Harry Luke Street, Mġarr. These financial statements were approved for issue by the Council Members on 12th April 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,

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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 year ended 31 December 2016 (cont.)

**2. Accounting Policies and Reporting Procedures**

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.

*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.



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

**2. Accounting Policies and Reporting Procedures**

*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.

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.

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

**2. Accounting Policies and Reporting Procedures**

*Local Enforcement System*

As from September 2012, the income recognised in the Income Statement was derived from the five Regional Committees and the Local Enforcement System Agency.

*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.

*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 negative at the reporting date. 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.





Notes to the Financial Statements for the year ended 31 December 2016 (cont.)
**4. Funds received from central government**

	2016	2015
	€	€
In terms of section 55 of the Local Councils Act	418,169	405,307
Supplementary Government Income	19,263	14,132
Other Government Income	21,687	2,600
Grants released	36,106	12,767
	<u>495,225</u>	<u>434,806</u>

**5. Local Enforcement system**

	2016	2015
	€	€
Contraventions and other fines	2,206	4,018
	<u>2,206</u>	<u>4,018</u>

**6. General Income**

	2016	2015
	€	€
General Income	6,043	7,418
Tender Documents/Info Charges	-	1,650
Donations	1,465	600
Income from Permits	10,463	10,034
	<u>17,971</u>	<u>19,702</u>

**7. Profit for the year**

	2016	2015
	€	€
Profit for the year is stated after charging		
Staff salaries	84,164	81,137
Depreciation of property, plant & equipment	<u>90,218</u>	<u>78,262</u>

Notes to the Financial Statements for the year ended 31 December 2016 (cont.)
**8. Personal Emoluments**

	2016	2015
	€	€
Mayor's Remuneration	7,229	7,048
Councillors' Allowances	6,400	6,400
Executive Secretary Salary and Allowances	30,680	29,675
Employees' Salaries	34,670	32,830
Social Security Contributions	5,185	5,184
	<u>84,164</u>	<u>81,137</u>

**9. Operations and Maintenance**

	2016	2015
	€	€
<i>Repairs and Upkeep:</i>		
Road/Street Pavements (patching)	27,712	23,246
Handyman service	24,811	27,070
Signs	6,430	3,774
Road Markings	1,537	1,441
Other repairs and Upkeep	9,373	5,491
	<u>69,866</u>	<u>61,022</u>
<i>Contractual Services:</i>		
Waste Disposal	30,117	27,216
Refuse Collection	34,682	26,474
Bulky Refuse Collection	1,046	1,308
Open Skips & Bring-In Sites	3,003	188
Road & Street Cleaning	12,408	3,565
Cleaning - Public Conveniences	16,784	14,668
Cleaning & Maintaining Parks & Gardens	2,607	4,014
Street Lighting	13,610	8,498
Local enforcement system expense	822	-
	<u>115,079</u>	<u>85,931</u>
 Total Operations and Maintenance Costs	 <u>184,945</u>	 <u>146,953</u>

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

**10. Administration and other expenditure**

	2016	2015
	€	€
Utilities	10,177	10,514
Other repairs and upkeep	1,850	2,066
Rent	4,775	4,534
National and International Memberships	1,295	788
Office Services	4,420	4,353
Transport	4,477	5,001
Travel	3,111	3,608
Insurance Coverage	3,742	3,595
Bank Charges	262	309
Professional Services	16,305	18,342
Public relations	2,236	9,803
Tuition for courses and expenses	-	2,142
Entertainment	423	960
Social and cultural events	14,402	18,595
Sundry Minor Expenses	925	1,176
General and administrative expenses	1,305	1,420
Twinning expenses	20,899	-
Depreciation	90,218	78,262
	<u>180,824</u>	<u>165,468</u>

**11. Finance Income**

	2016	2015
	€	€
Bank Interest Receivable	23	80
	<u>23</u>	<u>80</u>

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

12. Property, plant and equipment

	Office Furniture & fittings €	Computer Equipment €	Plant & Machinery €	Office Equipment €	New Street Signs €	Construction €	Special Programmes €	Office Extension €	Motor Vehicle €	Total €
<b>Cost</b>										
At 1 January 2015	50,812	22,579	18,312	25,536	63,775	677,106	1,075,645	399,673	12,346	2,345,784
Additions	692	650	-	4,197	-	9,117	295,228	-	10,700	320,584
At 31 December 2015	51,504	23,229	18,312	29,733	63,775	686,223	1,370,873	399,673	23,046	2,666,368
<b>Depreciation</b>										
At 1 January 2015	26,833	20,210	6,716	22,182	63,775	401,796	410,790	-	10,653	962,955
Charge for the year	1,760	581	2,118	972	-	14,047	56,669	-	2,115	78,262
At 31 December 2015	28,593	20,791	8,834	23,154	63,775	415,843	467,459	-	12,768	1,041,217
<b>Grants</b>										
At 1 January 2015	-	-	-	-	-	132,955	179,375	-	-	312,330
At 31 December 2015	-	-	-	-	-	-	-	-	-	-
<b>Net Book values</b>										
At 31 December 2015	22,911	2,438	9,478	6,579	-	137,425	724,039	399,673	10,278	1,312,821

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

12. Property, plant and equipment (cont.)

	Office Furniture & fittings €	Computer Equipment €	Plant & Machinery €	Office Equipment €	New Street Signs €	Construction €	Special Programmes €	Office Extension €	Motor Vehicle €	Total €
<b>Cost</b>										
At 1 January 2016	51,504	23,229	18,312	29,733	63,775	686,223	1,370,873	399,673	23,046	2,666,368
Additions	4,268	2,369	-	407	-	2,873	3,894	-	-	12,997
At 31 December 2016	55,772	25,598	18,312	29,326	63,775	689,096	1,374,767	399,673	23,046	2,679,365
<b>Depreciation</b>										
At 1 January 2016	28,593	20,791	8,834	23,154	63,775	415,843	467,459	-	12,768	1,041,217
Charge for the year	1,840	837	1,731	1,222	-	13,316	69,397	-	1,878	90,221
At 31 December 2016	30,433	21,628	10,565	24,376	63,775	429,159	536,856	-	14,646	1,131,438
<b>Grants</b>										
At 1 January 2016	-	-	-	-	-	132,955	179,375	-	-	312,330
At 31 December 2016	-	-	-	-	-	-	-	-	-	-
<b>Net Book values</b>										
At 31 December 2016	25,339	3,970	7,747	4,950	-	126,982	658,536	399,673	8,400	1,235,597



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

	2016	2015
	€	€
Books and other publications	<u>5,204</u>	<u>-</u>

**14. Receivables**

	2016	2015
	€	€
Receivables	1,619	3,489
Prepayments and accrued income	<u>31,832</u>	<u>155,603</u>
	<u>33,451</u>	<u>159,092</u>

*Receivables*

General receivables are analysed as follows:

	2016	2015
	€	€
Within credit period	1,619	3,489
Exceeded credit period but not impaired	-	-
Impaired and provided for	8,914	8,914
Provision for doubtful debts	<u>(8,914)</u>	<u>(8,914)</u>
	<u>1,619</u>	<u>3,489</u>

*Local Enforcement System (LES) Debtors*

LES Debtors are stated after a specific provision for doubtful debts amounting to €1,549 (2015 - €1,549).

Included in the accounts receivable are amounts due from related parties amounting to €1,619. (2015 : €3,421). These amounts are unsecured, interest free and repayable on demand.

**15. Cash & cash equivalents**

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

	2016	2015
	€	€
Cash at Bank	149,659	25,966
Cash in Hand	<u>2,696</u>	<u>2,485</u>
	<u>152,355</u>	<u>28,451</u>

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

	2016	2015
	€	€
Payables	33,270	96,341
Accruals and other payables	13,416	52,233
	<u>46,686</u>	<u>148,574</u>

Included in the accounts payable are amounts due to related parties amounting to €15,188 (2015 : €24,192). These amounts are unsecured, interest free and repayable on demand.

**17. Deferred Income**

	2016	2015
	€	€
<b>Government grants</b>		
At 1 January	384,260	148,256
Refund to Paying Agency	(8,255)	-
Increase in year	7,000	248,771
	<u>383,005</u>	<u>397,027</u>
Released in year	<u>(36,106)</u>	<u>(12,767)</u>
At 31 December	<u>346,899</u>	<u>384,260</u>
<b>Current Deferred Income</b>	<u>32,623</u>	<u>36,894</u>
<b>Non-Current Deferred Income</b>	<u>314,276</u>	<u>347,366</u>
<b>Deferred Government Grants</b>		
Deferred between one and two years	29,479	33,336
Deferred between two and five years	72,480	81,953
Deferred in five years or more	212,317	232,077
	<u>314,276</u>	<u>347,366</u>
<b>Deferred after five years or more</b>	<u>212,317</u>	<u>232,077</u>

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

## 18. Capital Commitments

	2016	2015
	€	€
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	-	26,010
- Contracted for but not provided in the financial statements	-	-
(i) Approved but not yet contracted for:		
Construction works	-	-
Office equipment	-	-
Motor Vehicle	-	-
Special Programmes	-	26,010
	-	26,010
(i) Contracted for but not provided in the Financial Statements:		
Special Programmes	-	-
	-	-

## 19. 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.

## 20. Related Party Transactions

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

Name of Entity	Nature of relationship
Department of Local 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
ARMS Limited	No control
Wasteserv Malta Limited	No control
Government Property Division	No control
Department of Lands	No control
LESA	No control
Bank of Valletta plc	No control
Commissioner of Police	No control
Department of Information	No control
Koperattiva Sinjali tat-Traffiku	No control
Majjistral Action Group	No control

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

### 20. Related Party Transactions (cont.)

The amounts due from / to related parties at year-end are disclosed in notes 13 and 15. The terms and conditions do not specify the nature of the consideration to be provided in settlement. These amounts are unsecured, interest free and repayable on demand.

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

	2016			2015		
	Related party activity €	Total activity €	%	Related party activity €	Total activity €	%
<i>Income</i>						
Transactions with central government	459,119			422,039		
Transactions with regions	2,206			4,018		
	<u>461,325</u>	<u>515,402</u>	<u>90</u>	<u>426,057</u>	<u>458,526</u>	<u>93</u>
<i>Expenditure</i>						
Transactions with government entities	30,117			29,365		
	<u>30,117</u>	<u>449,933</u>	<u>7</u>	<u>29,365</u>	<u>393,558</u>	<u>7</u>

### 21. 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.

### 22. 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 debtors. The Council's cash is placed with quality financial institutions as well as it limits the amount of credit exposure with any one financial institution. The Council has appropriate policies to ensure that income is received from sources with appropriate credit history. In this respect, credit risk with respect to debtors is monitored continuously and the Council places a provision on any debt on which there is doubt of recoverability. Bad debts are therefore negligible and in this respect the Council has no significant concentration of credit risk.

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: € 1,619



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

**22. Financial Risk Management**

*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 152,355. 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 111,701 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
	€	€
<b>Current Assets</b>		
Loans and receivables:		
Accounts and other receivables	1,619	3,489
Cash and Cash Equivalents	152,355	28,451
	<u>153,974</u>	<u>31,940</u>
<b>Current Liabilities</b>		
Financial liabilities measured at amortised costs:		
Payables	<u>33,270</u>	<u>96,341</u>

**22. 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 currency transactions.

*Interest Rate Risk*

The Council operates bank accounts without any financing facilities. As a result, the Council is not exposed to cash flow interest rate risk on bank balances.

*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.

*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.



Report of the Local Government Auditors to the Auditor General

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