

**Local Council Ta' Sannat**

**Annual Report and Financial Statements**

**For the year ended 31 December 2015**



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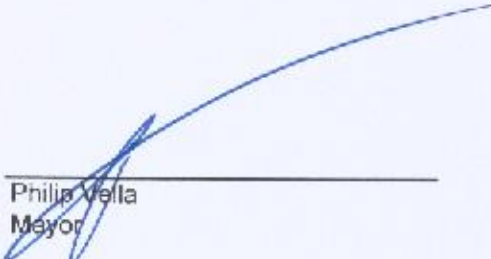
**Statement of Local Council Members' and Executive Secretary's Responsibilities**  
**For the year ended 31 December 2015**

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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, 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 Council on 18th April 2016 and signed on its behalf by:



Philip Vella  
Mayor



Jason Curmi  
Executive Secretary

## Statement of Comprehensive Income

For the year ended 31 December 2015

	Notes	2015 €	2014 €
<b>Revenue</b>			
Funds Received from Central Government	3	253,992	249,111
Income raised under the Local Enforcement System	4	1,604	1,307
General Income	5	6,182	4,275
		<u>261,778</u>	<u>254,693</u>
<b>Expenditure</b>			
Personal Emoluments	6	(63,586)	(58,321)
Operations and Maintenance	7	(74,690)	(91,065)
Administration and Other Expenditure	8	(130,178)	(108,515)
		<u>(268,454)</u>	<u>(257,901)</u>
<b>Operating loss for the year</b>		(6,676)	(3,208)
Finance Income	9	185	118
Finance costs	10	(5,066)	(6,557)
<b>Total Comprehensive loss for the year</b>	6	<u>(11,557)</u>	<u>(9,647)</u>


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


## Statement of Financial Position

For the year ended 31 December 2015

	Notes	2015 €	2014 €
<b>ASSETS</b>			
Property, plant and equipment	12	936,123	720,564
Intangible Assets	11	252	-
<b>Total non-current assets</b>		<u>936,375</u>	<u>720,564</u>
Receivables	13	58,862	43,944
Cash and cash equivalents	14	37,920	171,089
<b>Total current assets</b>		<u>96,782</u>	<u>215,033</u>
<b>TOTAL ASSETS</b>		<u>1,033,157</u>	<u>935,597</u>
<b>RESERVES AND LIABILITIES</b>			
Retained earnings		147,156	158,713
<b>Total reserves</b>		<u>147,156</u>	<u>158,713</u>
<b>LIABILITIES</b>			
Deferred Income	17	579,389	445,015
Bank Borrowings	16	91,561	98,303
<b>Total non-current liabilities</b>		<u>670,950</u>	<u>543,318</u>
Payables	15	215,051	233,566
<b>Total current liabilities</b>		<u>215,051</u>	<u>233,566</u>
<b>TOTAL RESERVES AND LIABILITIES</b>		<u>1,033,157</u>	<u>935,597</u>

These financial statements were approved by the Local council on 19th April 2016 and signed on its behalf by:

  
Philip Vella  
Mayor

  
Jason Curmi  
Executive Secretary

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

## Statement of Changes in Reserves

For the year ended 31 December 2015

		Retained Funds €
At 1 January 2014	<i>Note</i>	168,360
Loss for the year		(9,647)
		<hr/>
<b>At 31 December 2014</b>		<b>158,713</b>
		<hr/>
At 1 January 2015		158,713
Loss for the year		(11,557)
		<hr/>
<b>At 31 December 2015</b>		<b>147,156</b>
		<hr/>

## Statement of Cash Flows

For the year ended 31 December 2015

	Notes	2015 €	2014 €
<b>Cash flow from operating activities</b>			
<b>Net Loss for the year</b>		(11,557)	(9,647)
Reconciliation to cash generated from operations:			
Depreciation		70,978	64,313
Amortisation		32	-
Interest Receivable		(185)	(118)
Interest Payable		5,066	6,446
Operating profit before working capital changes		64,334	60,994
(Increase) in receivables		(14,918)	(22,224)
(Decrease) / Increase in payables		(17,420)	46,511
Government grants released		(37,818)	(33,633)
<b>Cash (used in)/generated from operating activities</b>		<b>(5,822)</b>	<b>51,648</b>
<b>Cash flows from investing activities</b>			
Interest received		185	118
Purchase of property, plant and equipment		(286,537)	(132,870)
Purchase of intangible fixed assets		(284)	-
Receipt of Grant		171,097	173,326
<b>Cash (used in) / generated from investing activities</b>		<b>(115,539)</b>	<b>40,574</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(6,742)	(6,317)
Interest payable		(5,066)	(6,446)
<b>Cash used in financing activities</b>		<b>(11,808)</b>	<b>(12,763)</b>
<b>Net (decrease) / increase in cash in the year</b>		<b>(133,169)</b>	<b>79,459</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>171,089</b>	<b>91,630</b>
<b>Cash and cash equivalents at end of year</b>	14	<b>37,920</b>	<b>171,089</b>

## Notes to the Financial Statements

### For the year ended 31 December 2015

#### 1 General Information

The Local council Ta Sannat is the local authority of Sannat set up in accordance with the Local Councils Act (1993). The office of the Local Council is situated at Sannat Road, Sannat, Gozo. As from September 2015, the Local Council started forming part of the Local Enforcement System Agency. These financial statements were approved for issue by the Council Members on 15th February 2016. The Local Council's presentation as well as functional currency are 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 period under review, the Council has applied the following International Financial Reporting Standards as adopted by the EU:

The amendment in IFRS 8 in the Annual Improvements 2010-2012 Cycle requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments including a brief description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments share similar economic characteristics and clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if information about the amount of the segment assets are regularly provided to the chief operating decision-maker. The amendment is applied to annual periods on or after 1 July 2014.

The amendment to the basis for conclusions of IFRS 13 in the Annual Improvements 2010-2012 Cycle clarifies that the issuance of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. This amendment does not include any effective date because this is just to clarify the intended meaning in the basis of conclusions. The amendment is applied to annual periods on or after 1 July 2014.

The amendments to IAS 16 and IAS 38 in the Annual Improvements 2010-2012 Cycle remove perceived inconsistencies in the accounting for accumulated depreciation/amortization when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortization is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses. The amendments apply prospectively for annual periods beginning on or after 1 July 2014 with earlier application permitted. The amendment is applied to annual periods on or after 1 July 2014.

The amendment in IAS 24 Related Party Disclosures in the Annual Improvements 2010-2012 Cycle clarifies that a management entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of compensation to key management personnel that is paid by the management entity to the management entity's employees or directors is not required. The amendment is applied to annual periods on or after 1 July 2014.

The Annual Improvements 2011-2013 Cycle in IFRS 13 Fair Value Measurement clarifies that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32. The amendment is applied to annual periods on or after 1 July 2014.

The Annual Improvements 2011-2013 Cycle in IFRS 3 and IAS 40 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring an investment property must determine whether the property meets the definition of investment property in accordance with IAS 40 and the transaction meets the definition of a business combination in accordance with IFRS 3. An entity should apply the amendment prospectively for acquisitions of investment property from the beginning of the first period for which it adopts the amendment. Consequently, accounting for acquisitions of investment property in prior periods should not be restated. However, an entity may choose to apply the amendment to individual acquisitions of investment property that occurred prior to the beginning of the first annual period occurring on or after the effective date of 1 July 2014, if and only if information needed to apply the amendment to earlier transactions is available to the entity. The amendment is applied to annual periods on or after 1 July 2014.

In IAS 40 the Annual Improvements 2011-2013 Cycle clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property. The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property. IFRS 3 is used to determine if the transaction is the purchase of an asset or a business combination. The amendment is applied prospectively for business combinations for periods beginning on or after 1 January 2015.

The amendment to IAS 24 clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment is applied retrospectively.

In IFRS 1 the Annual Improvements 2011-2013 Cycle clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. The amendment is effective immediately for periods beginning on or after 1 January 2015.

The Annual Improvements 2011-2013 Cycle clarifies that IFRS 3 joint arrangements are outside the scope of IFRS 3, not just joint ventures and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. IFRS 11 Joint Arrangements introduced 'joint arrangements' to replace the concept of 'joint ventures' in IAS 31 Interests in Joint Ventures. The scope exception to IFRS 3 is updated to reflect this change. The amendment is applied prospectively for periods beginning on or after 1 January 2015.

The portfolio exception in IFRS 13 can be applied to financial assets, financial liabilities and other contracts. When measuring fair value, the portfolio exception can be applied to contracts within IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 not just to those contracts that meet the definition of financial assets or financial liabilities. The amendment is applied prospectively for periods beginning on or after 1 January 2015.

*Standards, amendments and interpretations to existing standards that are not yet effective*

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 year under review. These include the

The International Accounting Standards Board (IASB) has published 'Disclosure Initiative – Amendments to IAS 1'. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers of exercising their judgment in presenting their financial reports. These are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted.

In July 2014, the IASB finalized the reform of financial instrument accounting and issued IFRS 9 which contains requirements for the classification and measurement of financial assets and financial liabilities, impairment methodology and general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date for annual periods beginning on or after 1 January 2018.

The Annual Improvements 2012-2014 Cycle include a number of amendments to various IFRSs. The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an activity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify that the guidance for when held-for-distribution accounting is discontinued. The amendment is applied to annual periods on or after 1 January 2016.

The amendments to IFRS 7 in the Annual Improvements 2012-2014 Cycle provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets. The amendment is applied to annual periods on or after 1 January 2016.

Amendments to IAS 1 Presentation of Financial Statements addresses perceived impediments to preparers exercising their judgment 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 re-classified to profit or loss. Additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.

The amendments to IAS 16 prohibits entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendment to IAS 38 introduce a rebuttable presumption that revenue is not appropriate basis for amortization of an intangible asset. This presumption can only be rebutted when the intangible asset is expressed as a measure of revenue and when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendments apply prospectively for annual periods beginning on or after 1 January 2016 with earlier application permitted.

The amendments of IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. Consequential amendments have also been made to IAS 28 to clarify that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity that measures all its subsidiaries at fair value. The amendments further clarify that the requirement of an investor entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves. Moreover the amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries. Lastly, clarification is also made that in investment entity that measures all its subsidiaries at fair value should provide the disclosure required by IFRS 12 Disclosures of Interests in Other entities. The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with earlier application permitted.

In IFRS 2 the Annual Improvement 2010-2012 Cycle amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'. Performance condition and service condition are defined in order to clarify various issues, including a performance condition which must contain a service condition, a performance target that must be met while the counterparty is rendering service, a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group and a performance condition that may be a market or non-market condition. The period of the performance target must not extend beyond the end of the service period, but may start earlier if the service period is not 'substantially before the commencement of the service period'. The amendment is effective prospectively for annual periods beginning on or after 1 February 2015.

In IFRS 3 the Annual Improvement 2010-2012 Cycle requires contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date. Contingent consideration is a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments. Contingent consideration cannot be measured at fair value through other comprehensive income. The amendment is effective for business combinations prospectively for annual periods beginning on or after 1 February 2015.

In IFRS 8 the Annual Improvement 2010-2012 Cycle requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly. Operating segments may be combined/aggregated if they are consistent with the core principle of the standard. If the segments have similar economic characteristics and if they are similar in other qualitative respects. If they are combined, the entity must disclose the economic characteristics used to assess whether the segments are 'similar'. The amendment is effective retrospectively for annual periods beginning on or after 1 February 2015.

In IFRS 13 the Annual Improvement 2010-2012 Cycle clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis. The IASB clarified in the Basis of Conclusions that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. Entities still need to perform an evaluation of 'immaterial' in order to record the receivable and payable at invoice amounts. The amendment is effective immediately for annual periods beginning on or after 1 February 2015.

The amendment to IAS 16 and IAS 38 in the Annual Improvement 2010-2012 Cycle clarifies that revaluation can be performed either by adjusting the gross carrying amount of the asset to market value or determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value. The IAS also clarified that accumulated depreciation/amortization is the difference between the gross carrying amount and the carrying amount of the asset. The amendment to IAS 16 and IAS 38 clarifies that the accumulated depreciation/amortization is eliminated so that the gross carrying amount and carrying amount equal the market value. The amendment is effective retrospectively for annual periods beginning on or after 1 February 2015.

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

#### *Intangible Asset*

Computer software is valued at cost less accumulated depreciation and impairment losses to date. Depreciation to write off the cost is calculated on a monthly basis using the reducing balance method at 20% per annum.

#### *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	8%
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	10%
Litter Bins	Replacement Basis
Playground Furniture	100%
Traffic Signs	Replacement Basis
Road Signs	Replacement Basis
Street Mirrors	Replacement Basis
Street Lights	100%

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.

#### *Related Parties*

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

#### *Revenue*

Revenue is recognised when there are no significant uncertainties concerning the derivation of consideration or associated costs. 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.

*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 statement of comprehensive income 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 euro at the rates of exchange prevailing at the date of the Statement of Financial Position.

*Profits and losses*

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

*Cash and cash equivalents*

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

*Critical accounting estimates and judgements*

Estimates and judgements are continually evaluated and based on historic experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. In the opinion of the Executive Secretary, the accounting estimates and judgements made in the preparation of the financial statements are not difficult, subjective or complex, to a degree that would warrant their description as critical in terms of the requirements of IAS1 (revised) - 'Presentation of Financial Statement'.

*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
- that the Council maintains a positive working capital

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 and has not changed significantly from the previous year. The Council also uses budgets and business plans to set its strategy to optimise its use of available funds and implement its commitments to the locality.

*Financial Instrument*

Financial assets and financial liabilities are recognised when the Council becomes a party to the

contractual provisions of the 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 expired.

Financial assets and financial liabilities are measured initially at fair value plus transaction 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 at each identified group.

#### *Financial Liabilities*

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

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

### **3 Funds received from central government**

	2015 €	2014 €
In terms of section 55 of the Local	210,933	203,688
Other Government Income	43,059	45,423
	<u>253,992</u>	<u>249,111</u>
	=====	=====

#### 4 Income raised under Local Enforcement System

	2015 €	2014 €
Administration Income from Contraventions	1,604	1,307
	<u>1,604</u>	<u>1,307</u>
	=====	=====

#### 5 General Income

	2015 €	2014 €
Community Services	1,128	-
Cultural Events	1,823	1,051
Contributions	56	857
Income from Permits	1,812	1,148
Document and information charges	1,363	1,219
	<u>6,182</u>	<u>4,275</u>
	=====	=====

#### 6 Loss for the year

	2015 €	2014 €
Loss for the year is stated after charging:		
Staff Salaries	63,586	58,281
Amortisation of Intangible assets	32	-
Depreciation of property, plant and equipment	70,978	64,313
	<u>134,596</u>	<u>122,594</u>
	=====	=====

#### Staff Salaries

	2015 €	2014 €
Mayor's Remuneration	7,048	6,868
Mayor and Councillors' Allowances	6,400	6,400
Executive Secretary salary and allowances	27,993	25,816
Employees' Salaries	18,468	15,884
Social security contributions	3,677	3,313
	<u>63,586</u>	<u>58,281</u>
	=====	=====

#### Average number of persons employed

Employees	2	2
Mayor and Councillors	5	5
	<u>7</u>	<u>7</u>

## 7 Operations and Maintenance

	2015 €	2014 €
<i>Repairs and upkeep</i>		
Road and street pavements	3,207	3,147
Street signs	1,575	1,760
Road markings	-	443
Public Property	1,484	8,320
Other repairs and upkeep	3,727	5,772
	<u>9,993</u>	<u>19,442</u>
<i>Contractual services:</i>		
Refuse collection	18,225	18,471
Bring-in sites and tipping fees	10,508	7,727
Bulky refuse collection	612	3,172
Road and street cleaning	10,269	9,806
Cleaning and maintenance of public conveniences	1,698	1,051
Cleaning and maintenance of parks and gardens	18,391	18,263
Street lighting	4,994	13,133
	<u>64,697</u>	<u>71,623</u>
Total operations and maintenance expenses	<u>74,690</u>	<u>91,065</u>

## 8 Administration and other expenditure

	2015 €	2014 €
Utilities	4,930	4,626
Materials and supplies	815	1,149
Rent	1,278	1,278
National and international memberships	610	872
Office services	8,478	5,365
Transport	609	110
Information services	3,236	1,735
Other contractual services	123	3,052
Professional services	9,212	10,360
Community and hospitality	21,650	15,240
Depreciation	70,978	64,313
Amortisation	32	-
Increase in Provision for bad debts	1,013	158
Lease of equipment	513	257
Penalties	6,701	-
	<u>130,178</u>	<u>108,515</u>

## 9 Finance Income

	2015 €	2014 €
Bank Interest receivable	185	118
	<u>185</u>	<u>118</u>
	=====	=====

## 10 Finance Costs

	2015 €	2014 €
Interest payable	5,022	6,446
Bank charges	44	111
	<u>5,066</u>	<u>6,557</u>
	=====	=====

## 11 Intangible Fixed Assets

	Computer Software €	Total €
<b>Cost</b>		
At 1 January 2015	-	-
Additions	284	284
	<u>284</u>	<u>284</u>
At 31 December 2015	=====	=====
<b>Provision for amortisation</b>		
At 1 January 2015	-	-
Charge for the year	32	32
	<u>32</u>	<u>32</u>
At 31 December 2015	=====	=====
<b>Net Book Value</b>		
At 31 December 2015	<u>252</u>	<u>252</u>
	=====	=====

Local Council Tai Sannat  
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12 Property, plant and equipment

a)

	Construction	Office Furniture & Fittings	New Street Signs	Urban Improvements	Office Equipment	Plant and Machinery	Computer Equipment	Special Programmes	Assets under Construction	Total
€	€	€	€	€	€	€	€	€	€	€
<b>Cost</b>										
At 1 January 2014	474,621	31,377	9,735	117,300	7,939	1,511	6,574	502,491	37,058	1,188,608
Additions-New	-	4,850	-	-	2,448	-	-	128,092	-	135,390
Over-accrual in previous year	(2,520)	-	-	-	-	-	-	-	-	(2,520)
Reclassification	-	-	-	-	-	-	-	37,058	(37,058)	-
At 31 December 2014	472,101	36,227	9,735	117,300	10,387	1,511	6,574	667,641	-	1,321,476
<b>Depreciation</b>										
At 1 January 2014	175,709	12,913	9,735	56,054	6,523	1,172	5,562	107,213	-	374,881
Charge for the year	18,326	1,546	-	3,983	456	62	226	39,714	-	64,313
At 31 December 2014	194,035	14,459	9,735	60,037	6,979	1,234	5,788	146,927	-	439,194
<b>Grants</b>										
At 1 January 2014	-	-	-	19,553	-	-	-	35,065	-	161,718
At 31 December 2014	107,100	-	-	-	-	-	-	-	-	-
<b>Net Book Amount</b>										
At 31 December 2014	170,966	21,768	-	37,710	3,408	277	786	485,649	-	720,564

**12 Property, plant and equipment**  
b)

	Construction	Office Furniture & Fittings	New Street Signs	Urban Improvements	Office Equipment	Plant and Machinery	Computer Equipment	Special Programmes	Assets under Construction	Total
	€	€	€	€	€	€	€	€	€	€
<b>Cost</b>										
At 1 January 2015	472,101	36,227	9,735	117,300	10,387	1,511	6,574	667,641	-	1,321,476
Additions-New	-	839	-	9,503	-	-	-	21,936	254,259	286,537
At 31 December 2015	472,101	37,066	9,735	126,803	10,387	1,511	6,574	689,577	254,259	1,608,013
<b>Depreciation</b>										
At 1 January 2015	194,035	14,459	9,735	60,037	6,979	1,234	5,788	145,927	-	439,194
Charge for the year	16,334	1,718	-	4,270	623	51	175	47,807	-	70,978
At 31 December 2015	210,369	16,177	9,735	64,307	7,602	1,285	5,963	194,734	-	510,172
<b>Grants</b>										
At 1 January 2015	107,100	-	-	19,553	-	-	-	35,065	-	161,718
At 31 December 2015	107,100	-	-	19,553	-	-	-	35,065	-	161,718
<b>Net Book Amount</b>										
At 31 December 2015	154,632	20,889	-	42,943	2,785	226	611	459,778	254,259	936,123

### 13 Receivables

	2015 €	2014 €
Amounts receivable	3,728	2,528
Prepayments and accrued income	54,684	40,965
Other receivables	450	451
	<u>58,862</u>	<u>43,944</u>
	=====	=====

#### *Amounts receivable*

General receivables are analysed as follows:

	2015 €	2014 €
Within credit period	1,105	429
Exceeded credit period but not impaired	2,623	2,099
	<u>3,728</u>	<u>2,528</u>
	=====	=====

#### *Note*

Receivables are net of provision for doubtful debts of Eur 1,013 (2014 : Eur 0)

### 14 Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following Statement of Financial Position amounts:

	2015 €	2014 €
Bank Balances	37,795	170,991
Cash in Hand	125	98
	<u>37,920</u>	<u>171,089</u>
	=====	=====

### 15 Payables

	2015 €	2014 €
Amounts payable	35,848	38,353
Accruals	129,562	144,473
Deferred income within one year	37,820	38,915
Loan payable within one year	11,821	11,825
	<u>215,051</u>	<u>233,566</u>
	=====	=====

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Prepayments and accrued income	54,684	40,965
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	=====	=====

<b>16 Long Term borrowings</b>	<b>2015</b>	<b>2014</b>
	<b>€</b>	<b>€</b>
Bank loan	91,561	98,303
	=====	=====
Loan repayable from 1 to 2 years	11,821	11,825
Loan repayable from 2 to 5 years	35,484	35,475
Loan repayable over 5 years	44,276	51,003
	-----	-----
	91,561	98,303
	=====	=====

The loan taken out by Sannat Local Council, with the approval of the Ministry of Finance carried an interest rate of 4.65% per annum during 2015. The duration of the loan is for a period of 20 years. The bank loan is secured by a 1st General Hypothec over the assets of Sannat Local Council for Loan I and Loan II total of €110,128 and by a letter of undertaking dated 01/02/2008 by the council that :

- funds received from the government shall be channelled to an account held with the bank;
- to authorise the bank to settle loan instalments, fees and costs which may be due;
- to retain at all times sufficient funds in account.

<b>17 Deferred income</b>	<b>2015</b>	<b>2014</b>
	<b>€</b>	<b>€</b>
<b>Government Grants</b>		
At 1 January	483,930	344,237
Increase in year	171,097	173,326
	-----	-----
	655,027	517,563
Released in year	(37,818)	(33,633)
	-----	-----
At 31 December	617,209	483,930
	=====	=====
 Current deferred income	 37,820	 38,915
	=====	=====
 Non-current deferred income	 579,389	 445,015
	=====	=====
 <b>Deferred Government Grants</b>		
Deferred between one and two years	53,033	35,494
Deferred between two and five years	136,839	85,549
Deferred in five years or more	389,517	323,972
	-----	-----
	579,389	445,015
	=====	=====

18 Capital commitments

	2015 €	2014 €
Total capital commitments	142,800 =====	228,008 =====
(i) Approved but not yet contracted for:		
Special Programmes	61,100	-
Playing field	60,200	-
	<u>121,300</u>	<u>-</u>
(ii) Contracted for but not provided in Financial Statements		
Special Programmes	20,000	219,054
Playing field	-	8,114
Office Equipment	1,500	-
Office furniture	-	840
	<u>21,500</u>	<u>228,008</u>

## 19 Related Parties

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 of Local Councils	Significant control
Local Enforcement System Agency	Joint control
Gozo Regional Committee	Joint control
Central Regional Committee	No control
North Regional Committee	No control
South Eastern Regional Committee	No control
South Regional Committee	No control
Police General Head Quarters	No control
Malta Environment and Planning Authority	No control
Water Services Corporation	No control
Enemalta Corporation	No control
Department of Agriculture	No control
Director General - Works Division	No control
Department of Lands	No control
Department of Inland Revenue	No control
Airmalta plc	No control
Bank of Valletta plc	No control
Wasteserv Malta Limited	No control
Kunsill Malti għall-iSports	No control
Mitts Limited	No control
Ministry for the Family	No control
Malta Communications Authority	No control
Green MT	No control

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

	2015 €	2014 €
Annual Financial Allocation	210,933 =====	203,688 =====

### Key management compensation

Transactions with key management personnel are disclosed in note 6.

### 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 to specific projects as well as other funds for the improvement and betterment of the locality.

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

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

	€
Receivables from related parties	3,728
	=====

### 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 €37,920. This should ensure an ongoing working capital of the Council for the next 12 months. The Council also maintains a positive net asset position of €147,158 ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

### Foreign currency risk

Foreign currency transactions arise when the Council buys or sells goods whose prices 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 and expense.

## 21 Fair values estimation

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

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**LOCAL COUNCIL SANNAT**
**Report of the Local Government Auditor to the Auditor General**

We have audited the accompanying financial statements of Local Council Sannat set out on pages 4 to 25, which comprise the statement of financial position as at 31<sup>st</sup> December 2015, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows of the Local Council for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Council Responsibilities for the Financial Statements**

As described on page 3, the Executive Secretary and the Council are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the EU and for such internal control as the Council determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Local Government Auditor's Responsibility**

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

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

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

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**Basis for Qualified Opinion**

An amount of Euro 196,657 shown within the property, plant and equipment category 'Construction', relates to works carried out on the new premises of the Local Council which project was only finished in May 2012. Depreciation started being calculated on the project while it was still in progress, when no depreciation should have been calculated thereon in accordance with International Accounting Standard 16 – Property, Plant and Equipment. Furthermore, the interest on the bank loan taken specifically for this project, amounting to Euro 10,018, was not capitalized in accordance with International Accounting Standard 23 – Borrowing costs. As a consequence of these matters, the depreciation charge for the year is understated by approximately Euro 2,835, the accumulated depreciation is overstated by Euro 16,823 while the total net book value of this asset is understated by approximately Euro 26,841.

**Qualified Opinion**

In our opinion, except for the matter mentioned in the preceding paragraph, the financial statements give a true and fair view of the financial position of the Council as of 31 December 2015 and of the Council's financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

**Report on Other Legal and Regulatory Requirements**

In our opinion, except as set out in the preceding paragraph, the financial statements have been properly prepared in accordance with the Local Councils Act, (CAP 363); the Financial Regulations issued in terms of the said Act; and the Local Councils (Financial) Procedures.

**Emphasis of Matter**

Without further qualifying our audit opinion, we would like to bring your attention to the fact that as at 31<sup>st</sup> December 2015, the current liabilities of the Local Council exceeded its current assets by Euro 118,269 indicating possible liquidity problems.