

Audited

PAOLA LOCAL COUNCIL

REPORT AND FINANCIAL STATEMENTS
For the year ended 31 December 2018

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PAOLA LOCAL COUNCIL

STATEMENT OF LOCAL COUNCIL MEMBERS' AND EXECUTIVE SECRETARY'S RESPONSIBILITIES

For the year ended 31 December 2018

The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Council's comprehensive income for the year and of the Council's retained funds at the end of year. By virtue of the same regulations it is the duty of the Local Council and the Executive Secretary to ensure that the financial statements forming part of the report present fairly, in accordance with accounting policies applicable to Local Councils, the income and expenditure of the Local Council for the year and its retained funds as at year end, and that they comply with the Act, the Local Council (Financial) Regulations, and the Local Council (Financial) Procedures issued in terms of the said Act.

The Executive Secretary is responsible to maintain a continuous internal control to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, Local Council (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the Council on 24th April 2019 and signed on its behalf by:



Dominic Grima
Mayor



Kurt Scerri
Executive Secretary

PAOLA LOCAL COUNCIL
 STATEMENT OF TOTAL COMPREHENSIVE INCOME
 For the year ended 31 December 2018


	Notes	2018 €	Re-Styled 2017 €
REVENUE			
Funds received from Central Government	3a	735,548	689,093
Income raised under Local Council Bye-Laws	4	1,130	1,109
Income raised under Local Enforcement System	5	11,951	25,404
General Income	7	26,739	41,126
		<u>775,368</u>	<u>756,732</u>
EXPENDITURE			
Personal emoluments	8	(132,081)	(127,600)
Operations and maintenance	9	(297,659)	(275,495)
Administration and other expenses	10	(310,751)	(169,960)
		<u>(740,491)</u>	<u>(573,055)</u>
OPERATING PROFIT FOR THE YEAR		34,877	183,677
Finance Income	6	317	257
Financial costs	11	(509)	(1,110)
PROFIT FOR THE YEAR		<u>34,685</u>	<u>182,824</u>

The notes on pages 6 to 23 form an integral part of these financial statements.

PAOLA LOCAL COUNCIL
STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	2018 €	Re-Styled 2017 €
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	12	443,340	557,695
Current Assets			
Receivables	13	16,691	19,844
Cash and cash equivalents	14	1,114,983	895,978
		<u>1,131,674</u>	<u>915,822</u>
TOTAL ASSETS		<u>1,575,014</u>	<u>1,473,517</u>
EQUITY			
RESERVES			
Retained earnings		<u>1,212,686</u>	<u>1,178,001</u>
NON-CURRENT LIABILITIES			
Long-term borrowings	15	-	3,088
Long-term third party loan	17	58,338	77,783
Advance Payment	16	50,000	50,000
		<u>108,338</u>	<u>130,871</u>
CURRENT LIABILITIES			
Payables and accruals	16	232,613	131,567
Short-term borrowings	15	1,930	13,631
Short-term third party loan	17	19,447	19,447
		<u>253,990</u>	<u>164,645</u>
TOTAL LIABILITIES		<u>362,338</u>	<u>295,516</u>
RESERVES AND LIABILITIES		<u>1,575,014</u>	<u>1,473,517</u>

The notes on pages 6 to 23 form an integral part of these financial statements.
These financial statements were approved by the Council on 24th April 2019.


Dominic Grima
Mayor


Kurt Scerri
Executive Secretary

PAOLA LOCAL COUNCIL
 STATEMENT OF CHANGES IN EQUITY
 For the year ended 31 December 2018

	Retained Earnings	Total
	EUR	EUR
Year Ended 31 December 2017		
Balance as at 1 January 2017	995,177	995,177
Profit for the year	182,824	182,824
At 31 December 2017	<u>1,178,001</u>	<u>1,178,001</u>
Year Ended 31 December 2018		
Balance as at 1 January 2018	1,178,001	1,178,001
Profit for the year	34,685	34,685
Balance as at 31 December 2018	<u>1,212,686</u>	<u>1,212,686</u>

PAOLA LOCAL COUNCIL
 STATEMENT OF CASH FLOWS
 For the year ended 31 December 2018

	2018	Re-Stated 2017
Notes	€	€
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the year	34,685	182,824
Reconciliation to cash generated from operations:		
Depreciation	200,302	74,137
Movement in provision for doubtful debts	-	11,647
Bank interest receivable	(317)	(257)
Interest payable	509	1,110
	<u>235,179</u>	<u>269,461</u>
Operating surplus before working capital changes:	235,179	269,461
Decrease in Receivables	3,153	12,805
Increase in Payables	103,990	8,707
NET CASH GENERATED FROM OPERATING ACTIVITIES	<u>342,322</u>	<u>290,973</u>
CASH FLOW USED IN INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(85,947)	(83,444)
Interest received	317	257
NET CASH USED IN INVESTING ACTIVITIES	<u>(85,630)</u>	<u>(83,187)</u>
CASH FLOW USED IN FINANCIAL ACTIVITIES		
Repayment of short term borrowings	(14,789)	(11,881)
Repayment of third party loan	(19,447)	(19,447)
Interest paid on borrowings	(509)	(1,110)
NET CASH USED IN FINANCING ACTIVITIES	<u>(34,745)</u>	<u>(32,438)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>221,947</u>	<u>175,348</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>828,110</u>	<u>652,762</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	14 <u>1,050,057</u>	<u>828,110</u>

1. GENERAL INFORMATION

Paola Local Council is the local authority of Paola incorporated in accordance with the Local Councils Act, 1993. The office of the Council is situated at Gnien Pawlu Boffa, Church Street, Paola. These financial statements were approved for issue by the Council Members on 24th April 2019. The Local Council's presentation as well as functional currency is dominated in €.

2. ACCOUNTING POLICIES AND REPORTING PROCEDURES

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

ACCOUNTING COVENTION

These financial statements have been drawn up in accordance with the accounting policies and reporting procedures prescribed for Local Councils in the Financial Regulations issued by the Minister of Finance in conjunction with the Minister responsible for Local Government in terms of Section 67 of the Local Councils Act (Cap 363). The financial statements are prepared under the historical cost convention as modified to include fair values stated in the accounting policies below. These financial statements are prepared in accordance to the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and comply with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996.

NEW AND AMENDED STANDARDS ADOPTED BY THE LOCAL COUNCIL

During the year under review, the Council adopted new standards, amendments and interpretations to existing standards that are mandatory for the Council's accounting year beginning on 1 January 2018. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Council's accounting policies.

NEW AND AMENDED STANDARD ADOPTED BY THE COUNCIL

IFRS 9 Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2018. It replaces the parts of IAS 39 that relate to the classification and measurement of Financial Instruments. IFRS 9 requires Financial Assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entities business module for managing its financial instruments and the contractual cashflow characteristics of the instruments. For Financial Liabilities, the standard retains most of IAS 39 requirements. The main change is that, in cases of where the fair value option is taken for financial liabilities, the part of a fair value change due to an entities credit risk is recorded in Other Comprehensive Income rather than the Income Statement, unless this creates an accounting mismatch. The council adopted IFRS 9 for annual reporting periods beginning on or after 1 January 2018.

NEW IMPORTANT STANDARDS AND AMENDMENTS NOT YET ADOPTED

IFRS 16, Leases, introduces a single, on balance lease sheet accounting model for lessees. A lessee recognizes a right of use asset representing its right to use the underlying asset and lease liability representing its obligation to make lease payments. There are optional exemptions for short term leases and leases of low value items. Lessor accounting remains similar to the current accounting standard – i.e. Lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17, Leases, IFRC 4. Determining whether an arrangement contains a lease, SIC-15 Operating Leases – Incentives and SIC-27. Evaluating the substance of transactions involving the legal form of a lease. The standard is effective for annual period beginning on or 1 January 2019.

2. ACCOUNTING POLICIES AND REPORTING PROCEDURES

NEW IMPORTANT STANDARDS AND AMENDMENTS NOT YET ADOPTED – continued

The council has also changed the accounting policy on government grants as advised by the Local Government Authority. A detailed explanation of the effect of this change of policy is explain in Note 26 to the financial statements.

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

REVENUE RECOGNITION

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

LOCAL ENFORCEMENT SYSTEM

Up till August 2011, the Council used to manage the Local Enforcement System as part of the Valletta Joint Committee. As from 1 September 2011, the Council started to form part of the Southern Region which took over the management of Local Enforcement System and the Council is receiving a 10% administration fee on every fine paid at the Council. As from October 2015 LESA took over the administration of the Local Enforcement System.

INVENTORIES

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

INTANGIBLE FIXED ASSETS

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

	%
Computer software	20 – 100

2. ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

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 straight line method at rates calculated to write off the cost less residual value of asset over its expected useful life as follows:

	%
Land	0
Trees	0
Buildings	1
Office furniture and fittings	7.5 - 100
Construction works	10 - 100
Urban improvements (street furniture)	10 - 100
Special projects	10 - 100
Office equipment	20 - 100
Motor vehicles	20
Plant and machinery	20 - 100
Computer equipment	25 - 100
Traffic signs	100
Road signs	Replacement Basis
Playground furniture	100

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

Directive issued in 2017 by the Government of Local Councils, applicable as from 1 January 2018, instructs the council to depreciate non-current assets on a monthly basis using straight line method at the rates specified in Local Council (financial) Procedures (P1.X1).

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are considered in determining operating profit. The residual value and useful life 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 recognized as a separate asset, as appropriate only when it is probable that future economic benefits associated with the item will flow to the company 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.

2. ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

IMPAIRMENT OF ASSETS

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

AMOUNTS RECEIVABLE

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

IFRS 9 Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the part of IAS 39 that relate to the classification and measurement of Financial Instruments. IFRS 9 requires Financial Assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entities business module for managing its financial instruments and the contractual cashflow characteristics of the instruments. For Financial Liabilities, the standard retains most of IAS 39 requirements. The main change is that, in cases of where the fair value option is taken for financial liabilities, the part of a fair value change due to an entities credit risk is recorded in Other Comprehensive Income rather than the Income Statement, unless this creates an accounting mismatch. The council adopted IFRS 9 for annual reporting periods beginning on or after 1 January 2018.

RELATED PARTIES

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

GOVERNMENT GRANTS

During the year the Local Council has changed the accounting of government grants from the income approach to the capital approach as defined by IAS 20 'Government Grants'. With the capital approach grants are deducted from capital assets.

On 1 January 2018, the Local Council applied Directive 1/2017 issued by the Department of Local Government in respect of the accounting of grants as per IAS 20 'Government Grants'. The Department of Local Government has instructed Local Councils to adopt the alternative capital approach as from 1 January 2018.

This is a change in accounting policies and according to IAS 8 'Accounting Policies, Changes in Accounting Estimates', this has been accounted for retrospectively. The change in accounting policy did not effect the Statement of Comprehensive Income, but has effected the Statement of Financial Position as per Note 26.

2. ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

SURPLUSES AND DEFICITS

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the statement of financial position at face value. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and balances held with banks.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

CAPITAL MANAGEMENT

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

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

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

FINANCIAL INSTRUMENTS

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

2. ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

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 in 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 included other payables, bank and third-party loans. These are stated at their nominal amount which is a reasonable approximation of fair value.

3. FUNDS RECEIVED FROM CENTRAL GOVERNMENT

	2018	2017
	€	€
In terms of section 55 of the Local Councils Act	682,819	654,759
Supplementary Government income	18,239	34,483
Other Government income	34,490	(149)
	<u>735,548</u>	<u>689,093</u>

PAOLA LOCAL COUNCIL
 NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 31 December 2018

4. FEES FROM BYE LAWS

	2018 €	2017 €
Fees from Bye Laws	<u>1,130</u>	<u>1,109</u>

5. LOCAL ENFORCEMENT INCOME

	2018 €	2017 €
Fines and Penalties (10% on Contraventions)	9,852	12,934
Fines re Traffic contraventions from individuals	2,099	668
LESA Income Distribution	-	11,802
	<u>11,951</u>	<u>25,404</u>

6. FINANCE INCOME

	2018 €	2017 €
Bank Interest	<u>317</u>	<u>257</u>

7. GENERAL INCOME

	2018 €	2017 €
Other Income	519	15,048
Community services	26,192	25,973
Parking	28	105
	<u>26,739</u>	<u>41,126</u>

8. PERSONAL EMOLUMENTS

	2018 €	2017 €
Mayor's allowance	11,195	11,018
Executive Secretary	31,965	31,696
Employees' salaries	70,047	67,315
Councillors' Honoraria	8,800	8,800
Social Security Contributions	8,754	8,771
Performance Bonus	1,320	-
	<u>132,081</u>	<u>127,600</u>

PAOLA LOCAL COUNCIL
 NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 31 December 2018

OPERATIONS AND MAINTENANCE

9. REPAIRS & UPKEEP

	2018	2017
	€	€
Road/Street pavements	2,829	4,726
Road Markings	2,445	4,621
Street signs	3,445	2,301
Street lighting maintenance	19,726	12,803
Sundry repairs	1,577	337
Other repairs & maintenance	3,768	1,962
	<u>33,790</u>	<u>26,750</u>

CONTRACTUAL SERVICES

	2018	2017
	€	€
Waste Disposal	61,840	58,811
Refuse Collection	78,901	77,241
Bulky refuse collection	13,852	9,997
Road & Street cleaning	50,794	48,828
Cleaning of Public Convenience	9,076	7,797
Provision of skips	3,815	3,446
Other Contractual services	1,268	1,813
Cleaning & Main Parks & Gardens	28,682	26,194
Cleaning & M. Soft Areas	14,820	13,585
Live streaming	821	821
Local Enforcement System	-	212
	<u>263,869</u>	<u>248,745</u>

TOTAL OPERATIONS AND MAINTENANCE COSTS

<u>297,659</u>	<u>275,495</u>
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PAOLA LOCAL COUNCIL
 NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 31 December 2018

10. ADMINISTRATION AND OTHER EXPENDITURE

	2018	2017
	€	€
Utilities	13,473	10,224
Operating materials/General supplies	18,887	11,601
Rent	3,620	3,641
Stationery, Postage etc.	7,693	8,150
Transport	4,184	1,277
Public Relations	2,835	3,541
Insurance and charges	3,003	3,811
Professional services	15,687	10,569
Conferences/Training	3,155	2,015
Bank charges	302	95
Hire Purchase Interest	-	165
Travel/Fair & Exhibitions	2,361	2,271
Community & Hospitality	32,784	26,390
Projects	1,982	-
Permits (MEPA)	233	233
Penalties	250	193
Increase in Provision for Doubtful Debts	-	11,647
Depreciation	200,302	74,137
	<u>310,751</u>	<u>169,960</u>

11. FINANCE COST

	2018	2017
	€	€
Interest on Bank Loan	<u>509</u>	<u>1,110</u>

PAOLA LOCAL COUNCIL
 NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 31 December 2018

12 PROPERTY, PLANT AND EQUIPMENT

ASSET	Property Office Building	Furniture & Fixtures	Office Equipment	Computer System	Plant & Machinery	Motor Vehicle	New Street Signs	Trees	Construction & Urban Improvement	Total
	€	€	€	€	€	€	€	€	€	€
COST										
As at January 2017	97,834	37,466	29,524	23,345	23,487	36,506	15,148	17,006	1,898,627	2,178,943
Additions	-	108	1,877	1,608	670	-	-	-	79,181	83,444
As at 31 December 2017	97,834	37,574	31,401	24,953	24,157	36,506	15,148	17,006	1,977,808	2,262,387
GRANTS & OTHER REIMBURSEMENTS										
As at 1 January 2017	-	-	-	-	-	-	-	-	255,357	255,357
Prior Year Adjustment – Note 26	-	-	12,188	-	-	17,000	-	14,157	226,731	270,076
As at 31 December 2017	-	-	12,188	-	-	17,000	-	14,157	482,088	525,433
DEPRECIATION										
As at 1 January 2017	9,979	21,623	23,277	20,008	11,598	2,319	15,148	3,577	1,084,411	1,191,940
Charge for the year 2017	875	1,153	1,293	897	2,275	6,244	-	2,034	80,327	95,098
Prior Year Adjustment – Note 26	-	-	(7,563)	-	-	(4,009)	-	(5,611)	(90,596)	(107,779)
As at 31 December 2017	10,854	22,776	17,007	20,905	13,873	4,554	15,148	-	1,074,142	1,179,259
WRITTEN DOWN VALUES										
As at 31 December 2017	86,980	14,798	2,206	4,048	10,284	14,952	-	2,849	421,578	557,695
As at 31 December 2016	87,855	15,843	6,247	3,337	11,889	34,187	-	13,429	558,859	731,646

PAOLA LOCAL COUNCIL
 NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 31 December 2018

12. PROPERTY, PLANT AND EQUIPEMENT

ASSET	Property Office Building	Furniture & Fixtures	Office Equipment	Computer System	Assets not yet Capitalised	Plant & Machinery	Motor Vehicle	New Street Signs	Trees	Construction & Urban Improvement	Total
	€	€	€	€	€	€	€	€	€	€	€
COST											
As at January 2018	97,834	37,574	31,401	24,953	-	24,157	36,506	15,148	17,006	1,977,808	2,262,387
Additions	-	254	1,192	11,594	64,300	-	-	-	-	8,607	85,947
As at 31 December 2018	97,834	37,828	32,593	36,547	64,300	24,157	36,506	15,148	17,006	1,986,415	2,348,334
GRANTS & OTHER REIMBURSEMENTS											
As at 1 January 2018	-	-	12,188	-	-	-	17,000	-	14,157	482,088	525,433
Charge for the year	-	-	-	-	-	-	-	-	-	-	-
As at 31 December 2018	-	-	12,188	-	-	-	17,000	-	14,157	482,088	525,433
DEPRECIATION											
As at 1 January 2018	10,854	22,776	17,007	20,905	-	13,873	4,554	15,148	-	1,074,142	1,179,259
Charge for the year 2018	978	2,838	2,368	5,916	-	4,936	3,901	-	-	179,365	200,302
As at 31 December 2018	11,832	25,614	19,375	26,821	-	18,809	8,455	15,148	-	1,253,507	1,379,561
WRITTEN DOWN VALUES											
As at 31 December 2018	86,002	12,214	1,030	9,726	64,300	5,348	11,051	-	2,849	250,820	443,340
As at 31 December 2017	86,980	14,798	2,206	4,048	-	10,284	14,952	-	2,849	421,578	557,695

PAOLA LOCAL COUNCIL
 NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 31 December 2018

13. RECEIVABLES

	2018 €	2017 €
LES Debtors	144,957	144,957
Other debtors – Deposits	11,647	11,647
Provision for bad and doubtful debts – LES Debtors	(144,957)	(144,957)
Provision for doubtful debts	(11,647)	(11,647)
Trade Receivables	1,438	4,193
Accrued Income	12,900	12,534
Other Debtors	100	100
Financial Assets	14,438	16,827
Prepayments	2,253	3,017
Total Receivables	16,691	19,844

RECEIVABLES	2018 €	2017 €
General receivables are analysed as follows:		
Within credit period	1,438	4,193
Exceed credit period but not impaired	15,253	15,651
Impaired and provided for	156,604	163,957
Provision for doubtful debts	(156,604)	(163,957)
	16,691	19,844

Local Enforcement System (LES Debtors)

The stated amount €144,957 refers to pre-pooling, while the amount of EUR 11,647 has been outstanding for a number of year now which has been fully provided for in 2017.

14. CASH AND CASH EQUIVALENTS

	2018 €	2017 €
Cash at bank	1,114,918	895,764
Cash in hand	65	129
Cash in transit	-	85
	1,114,983	895,978
Bank Overdrawn	(64,926)	(67,868)
	1,050,057	828,110

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15. BORROWINGS

	2018 €	2017 €
Non-Current		
Bank Loan	-	3,088
Current		
Bank Loan	1,930	13,631
Borrowings		
Repayable within one year	1,930	13,631
Repayable between two and five years	-	3,088
	<u>1,930</u>	<u>16,719</u>

Bank Loan

The bank loan is secured by General Hypotech over all the assets of the Paola Local Council, and pledges on the Council's Insurance Policy. The loan bears an interest rate of 5.15% per annum and is repayable within ten years, that is by the year 2019.

16. PAYABLES

	2018 €	Re-Styled 2017 €
Current Liabilities		
Trade creditors	69,047	39,831
Other creditors	70	70
Bank Overdrawn	64,926	67,868
Accruals	98,570	23,798
	<u>232,613</u>	<u>131,567</u>
Non Current Liabilities		
Advanced Payment	50,000	50,000

The Council is accounting for Government Grants relating to Special Projects by applying the method of deferring the income, which is recognized as income, on a systematic basis over the useful life of the asset, in line with IAS 20.

17. THIRD PARTY LOAN

	2018 €	2017 €
Non-Current third party loan	58,338	77,783
Current third party loan	19,447	19,447
Repayable within one year	19,447	19,447
Repayable between two and five years	58,338	77,783
	<u>77,785</u>	<u>97,230</u>

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

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18. CAPITAL COMMITMENTS

	2018 €	2017 €
Capital commitments at the accounting date are as follows:		
Approved but not yet contracted for	300,000	353,000
	<u>300,000</u>	<u>353,000</u>
Commitments approved and contracted for:		
Electric driven van	-	-
	<u>-</u>	<u>-</u>

19. RELATED PARTY TRANSCATIONS

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

	2018 €	2017 €
Department for Local Government Annual Financial Allocation	<u>682,819</u>	<u>654,759</u>
	<u>682,819</u>	<u>654,759</u>

The number of related parties or bodies in terms of IAS 24, that the Paola Local Council had carried out transactions with during the year under review are the following:

Name of Entity	Nature of relationship
Department for Local Government	Significant Control
South Eastern Regional Committee	Joint Control
Police General Head Quarters	No Control
Central Regional Committee	No Control
South Regional Committee	No Control
Gozo Regional Committee	No Control
North Regional Committee	No Control
Malta Environment and Planning Authority	No Control
Water Services Corporation	No Control
Enemalta Corporation	No Control
Cleansing Services Department	No Control
Director General – Works Division	No Control
Department of Lands	No Control
Bank of Valletta Plc	No Control
Wasteserv Malta Limited	No Control
Transport Malta	No Control
Local enforcement system agency	No Control

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 debtors. The Council's cash is placed with quality financial with a credit rating of BBB+. 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. The risk of default is negligible for both banks and debtors and hence there are not expected credit losses.

The council's exposure to credit risk is limited to the carrying amount of financial assets recognised at the end of the reporting period and is summarised as follows:

	2018 €	2017 €
Classes of financial assets – carrying amounts:		
Trade and Other Receivables	14,438	16,827
Cash and Cash Equivalents	1,114,983	895,978
	<u>1,129,421</u>	<u>912,805</u>

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 €1,050,642. This should ensure ongoing working capital of the Council for the next 12 months. The Council also maintains a positive net asset position of €1,222,436 ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

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20. FINANCIAL RISK MANAGEMENT – continued

At 31 December 2018 the Council's financial liabilities have contractual maturities which are summarised below:

	Current Payable within 1 year €	Non-Current Payable within 2 & 5 years €	Payable after more than 5 years €
31 December 2018			
Payables	69,047	-	-
Other Payables	70	-	-
Accruals	98,570	-	-
Bank Borrowings	1,930	-	-
PPP Payables	19,447	58,338	-
Bank Overdrawn	64,926	-	-
	253,990	58,338	-
31 December 2017			
Payables	39,831	-	-
Other Payables	70	-	-
Accruals	23,798	-	-
Bank Borrowings	13,631	3,088	-
PPP Payables	19,447	77,783	-
Bank Overdrawn	67,868	-	-
	164,645	80,871	-

FOREIGN CURRENCY RISK

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

INTEREST RATE RISK

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

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21. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts of the council's financial assets and liabilities as recognised at the reporting dates under review are categorised as follows:

	2018	2017
	€	€
Current Assets		
Loans and Receivables:		
Trade and Other Receivables	14,438	16,827
Cash and Cash Equivalents	1,114,983	895,978
	<u>1,129,421</u>	<u>912,805</u>
Current and		
Financial Liabilities measure at amortised cost:		
Payables	69,047	39,831
Other Payables	70	70
Accruals	98,570	23,798
Bank Borrowings	1,930	13,631
PPP Payables	19,447	19,447
Bank Overdrawn	64,926	67,868
	<u>253,990</u>	<u>164,645</u>
Non Current Liabilities		
PPP Payables	58,338	77,783
Bank Borrowings	-	3,088
	<u>58,338</u>	<u>80,871</u>

22. 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.

23. COMPARATIVE FIGURES

Certain amounts have been reclassified to conform with the current year's representation.

24. EVENTS AFTER THE REPORTING PERIOD

There were no particular important event or transactions affecting the company that have occurred since the end of the accounting period, which, though properly excluded from the financial statements, are of such importance that they should have been disclosed in the notes to the financial statements.

25. GOING CONCERN

The statement of financial position on page 3 and the notes thereto, with special reference to capital commitments, suggest that going concern assumption used in the preparation of these financial statements is dependent on further sources of funds other than the annual financial allocation by Central Government, on the collection of debts due to the Council and on the continued support of the Council's creditors. Any adverse change in either of these assumptions above, would not let the Council able to meet its financial obligations as they all due without curtailing its future commitments.

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26. PRIOR YEAR ADJUSTMENT

On 1 January 2018, the Local Council applied Directive 1/2017, issued by the Department of Local Government in respect of the Accounting of Grants as per IAS 20 'Government Grants'. The Department for Local Government has instructed Local Councils to adopt the alternative capital approach as from 1 January 2018.

This is a change in accounting policies, and according to IAS 8 'Accounting Policies, Changes in Accounting Estimates' this has been accounted for retrospectively. The change in accounting policy did not effect the Statement of Comprehensive Income, but has effected the Statement of Financial Position as follows:

The comparative figures in the Statement of Financial Position was restated as follows:

	Note	Balances before Adjustments	Adjustments	Balances after Adjustments
Non-Current Assets				
Property, Plant and Equipment	12	719,992	(162,297)	557,695
Current Assets				
Receivables	13	19,844	-	19,844
Cash and Cash Equivalents	15	895,978	-	895,978
		915,822	-	915,822
Total Assets		1,635,814	(162,297)	1,473,517
Reserves and Liabilities				
Reserves				
Retained Earnings		1,178,001	-	1,178,001
Non-Current Liabilities				
Non-Current Payables	14,17,18	275,452	(144,581)	130,871
Current Liabilities				
Trade and other Payables	14,16,17	182,361	(17,716)	164,645
Total Liabilities		457,813	(162,297)	295,516
Total Equity and Liabilities		1,635,814	(162,297)	1,473,517

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