

HAL-SAFI LOCAL COUNCIL
Report and Financial Statements for
the period ended 30 September 2016

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Obo Dconsulta Ltd,
(March 2017)

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HAL-SAFI LOCAL COUNCIL

STATEMENT OF COUNCIL MEMBERS' AND EXECUTIVE SECRETARY'S RESPONSIBILITIES

For the period ended 30 September 2016

Upon a change of Executive Secretary, the Local Councils (Financial) Regulations 1993 require the incoming Secretary to prepare a detailed Interim Administrative Report which includes a statement of the Council's statement of comprehensive income for the period and of the Council's retained funds at the end of the period. By virtue of the same regulations it is the duty of the Council and the Deputy 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 Council for the period and its retained funds as at the period end, and that they comply with the Act, the Local Councils (Financial) Regulations, 1993, and the Local Council (Financial) Procedures, 1996 issued in terms of the said Act.

The Deputy Executive Secretary is responsible to ensure that an appropriate system of internal control is in operation, to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, 1993, the Local Council (Financial) Regulations, 1993, and the policies, systems and time scales referred to in the Local Council (Financial) Procedures, 1996. The Deputy Executive Secretary is also responsible to provide reasonable assurance that the assets of the Council are properly safeguarded, that fraud and other irregularities will be detected and that the operations of the Council are properly conducted in accordance with the Local Councils Act, 1993.

This statement was approved by the Council on 26/04/2017 and signed on its behalf by:

Johan Mula
Mr Johan Mula
Mayor

Doris Baldacchino
Ms Doris Baldacchino
Deputy Executive Secretary

HAL-SAFI LOCAL COUNCIL

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME for the period ended 30 September 2016

| | Notes | Period Ended 2016 € | Year Ended 2015 € |
|---|-------|---------------------------|-------------------------|
| Income | | | |
| Funds received from Central Government | 3 | 184,804 | 238,281 |
| Income raised under Council Bye-Laws | 4 | 6,029 | 6,506 |
| Income from Local Enforcement System | 5 | 4,636 | 2,280 |
| General Income | 6 | 9,208 | 17,898 |
| | | <hr/> 204,677 | 264,965 |
| Expenditure | | | |
| Personnel emoluments | 7 | (60,759) | (80,225) |
| Operations and maintenance | 8 | (89,861) | (106,822) |
| Administrative and other expenditure | 9 | (51,475) | (82,392) |
| | | <hr/> (202,095) | (269,439) |
| Operating Surplus/(Deficit) for the year | | 2,582 | (4,474) |
| Finance income | 10 | - | 61 |
| Net Surplus/(Deficit) for the year | | <hr/> 2,582 | (4,413) |
| Total Comprehensive Surplus/(Expense) | | <hr/> 2,582 | (4,413) |

The notes on pages 6 to 26 form an integral part of these financial statements.

HAL-SAFI LOCAL COUNCIL

STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

| | Notes | Period Ended 2016 € | Year Ended 2015 € |
|---------------------------------------|-------|---------------------------|-------------------------|
| Assets | | | |
| <i>Non-current assets</i> | | | |
| Property, plant and equipment | 11 | 424,918 | 439,881 |
| | | 424,918 | 439,881 |
| <i>Current assets</i> | | | |
| Receivables | 12 | 15,172 | 18,038 |
| Cash at bank and in hand | 13 | 124,540 | 127,929 |
| | | 139,712 | 145,967 |
| Total assets | | 564,630 | 585,848 |
| Reserves and liabilities | | | |
| <i>Reserves</i> | | | |
| Retained Earnings | | 477,630 | 475,048 |
| <i>Non-current liabilities</i> | | | |
| Deferred Income | 14 | 47,540 | 53,191 |
| | | 47,540 | 53,191 |
| <i>Current liabilities</i> | | | |
| Short-term borrowings | 15 | 11,564 | 11,028 |
| Payables | 16 | 27,896 | 46,581 |
| | | 39,460 | 57,609 |
| Total reserves and liabilities | | 564,630 | 585,848 |

The financial statements were approved by the Council on 26/04/2017 and signed on its behalf by:

Johan Mula
Mr Johan Mula
Mayor

Doris Baldacchino
Ms Doris Baldacchino
Deputy Executive Secretary

The notes on pages 6 to 26 form an integral part of these financial statements.

**HAL-SAFI LOCAL COUNCIL
STATEMENT OF CHANGES IN EQUITY**

For the period ended 30 September 2016

| | Retained Earnings € | Total Earnings € |
|-----------------------------|------------------------------------|---------------------------------|
| At 1 January 2015 | 479,461 | 479,461 |
| (Deficit) for the year | (4,413) | (4,413) |
| Total comprehensive expense | <u>(4,413)</u> | <u>(4,413)</u> |
| At 31 December 2015 | <u>475,048</u> | <u>475,048</u> |
| | | |
| At 1 January 2016 | 475,048 | 475,048 |
| Surplus for the period | 2,582 | 2,582 |
| Total comprehensive income | <u>2,582</u> | <u>2,582</u> |
| At 30 September 2016 | <u>477,630</u> | <u>477,630</u> |
| | | |
| Equity Interest | <u>477,630</u> | <u>477,630</u> |

The notes on pages 6 to 26 form an integral part of these financial statements.

HAL-SAFI LOCAL COUNCIL

STATEMENT OF CASHFLOWS

For the period ended 30 September 2016

| | Notes | 2016 € | 2015 € |
|---|-------|----------------|-----------|
| Cash flows from operating activities | | | |
| Surplus/(Deficit) for the period/year | | 2,582 | (4,413) |
| <i>Adjustments for:</i> | | | |
| Depreciation | | 18,183 | 22,993 |
| Grants Released | | (4,777) | (6,078) |
| Interest receivable | | - | (61) |
| | | 15,988 | 12,441 |
| <i>Movements in working capital:</i> | | | |
| Decrease/(Increase) in receivables | | 2,866 | (4,607) |
| (Decrease)Increase in payables | | (19,560) | 5,396 |
| Net cash flows from operating activities | | (706) | 13,230 |
| Cash flows used in investing activities | | | |
| Purchase of property, plant and equipment | | (3,219) | (75,522) |
| Interest received | | - | 61 |
| Net cash flows used in from investing activities | | (3,219) | (75,461) |
| Cash flows from financing activities | | | |
| Grants received | | - | 27,059 |
| Net cash flows from financing activities | | - | 27,059 |
| Net (decrease) in cash and cash equivalents | | (3,925) | (35,172) |
| Cash and cash equivalents at beginning of year | | 116,901 | 152,073 |
| Cash and equivalents at end of year | 13 | 112,976 | 116,901 |

The notes on pages 6 to 26 form an integral part of these financial statements.

HAL-SAFI LOCAL COUNCIL

Notes to the Financial Statements for the period ended 30 September 2016

1. General Information

The Safi Local Council is a local authority of Malta set up in accordance with the Local Councils Act (1993). The office of the Local Council is situated at Dar il-Kunsill, Triq l-Iskola, Hal-Safi. These financial statements were approved for issue by the Council Member on the 26 April 2017. The Local Council's presentations as well as functional currency are denominated in Euro (€). Its ultimate controlling party is the Department for Local Government within the Office of the Prime Minister.

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, 1993 (Chap. 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, 1993 (Chap. 363).

Standards, amendments and interpretations that are not yet effective

IFRS 9, 'Financial instruments' addresses the classification and measurement of financial assets and replaces the multiple classification and measurement tools in IAS 39 with a single model that only has two classification categories: amortised cost and fair value. Classification under IFRS 9 will be driven by the entity's business model for managing the financial assets and the contractual characteristics of the financial assets. Subject to adoption by the EU, IFRS 9 will be effective for financial periods beginning on, or after, 1 January 2018. The Company is considering the implications of the standard and its impact on the Company's financial results and position.

**Notes to the Financial Statements
for the period ended 30 September 2016**

..... continued

2. Accounting Policies and Reporting Procedures – continued

IFRS 15, ‘Revenue from Contracts from Customers’ requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five step methodology that is required to be applied to all contracts with customers. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. Subject to adoption by the EU, IFRS 15, will be effective for financial periods beginning on, or after, 1 January 2018.

IFRS 16, ‘Leases’, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 Statement of Cash Flows. IFRS 16 contains expanded disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Subject to adoption by the EU, IFRS 16, will be effective for financial periods beginning on, or after, 1 January 2019.

The Local Council is considering the implications of the standard and its impact on the Local Council’s financial results and position.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Local Council.

HAL-SAFI LOCAL COUNCIL

Notes to the Financial Statements for the period ended 30 September 2016

..... continued

2. Accounting Policies and Reporting Procedures – continued

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, impairment and grants received for specific projects (which grants were treated through the balance sheet approach). Depreciation is calculated on a monthly basis using the reducing balance method at rates estimated to write down the cost of all assets over their expected useful life, other than land and trees, over their expected useful lives as follows:

| | Rates in % |
|---|-------------------|
| Land | 0 |
| Trees | 0 |
| Buildings | 1 |
| Office Furniture & Fittings | 7.5 |
| Construction Works | 10 |
| Urban Improvements (Street Furniture) | 10 |
| Special Programmes (Projects) | 10 |
| Office Equipment and Computer Equipment | 20 |
| Motor Vehicles | 20 |
| Plant and Machinery | 20 |
| Road/Street Signs | Replacement basis |
| Litter Bins | Replacement basis |
| Playground Equipment | 100 |
| Street Lighting | 100 |
| Street Mirrors | Replacement basis |
| Plants | 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 surplus. The residual values and useful lives of the assets are reviewed and adjusted as appropriate, at each year end. 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 year in which they are incurred.

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2. Accounting Policies and Reporting Procedures – continued

Impairment of property, plant and equipment

At the end of each reporting year, the Council reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Council estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Tangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Impairment of financial assets other than inventories

At the end of each reporting year, the carrying amount of assets is reviewed to determine whether there is any indication or objective evidence of impairment, as appropriate, and if any such indication or objective evidence exists, the recoverable amount of the asset is estimated.

In the case of financial assets that are carried at amortised cost, objective evidence of impairment includes observable data about the following loss events - significant difficulty of the issuer (or counterparty) and/or breach of contract.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

**Notes to the Financial Statements
for the period ended 30 September 2016**

..... Continued

2. Accounting Policies and Reporting Procedures – continued

For loans, and receivables or, if there is objective evidence that an impairment loss has been incurred, the loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

In the case of other assets tested for impairment, the recoverable amount is the higher of fair value less costs to sell (which is the amount obtainable from sale at arm's length transaction between knowledgeable, willing parties, less the costs of disposal) and value in use (which is the present value of the future cash flows expected to be derived, discounted using a discount rate that reflects current market assessment of the time value of money and the risks specific to the asset). Where the recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount, as calculated.

Impairment losses are recognised immediately in the statement of comprehensive income, unless the asset is carried at a re-valued amount, in which case, the impairment loss is recognised directly against the asset's revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for the asset.

For loans and receivables, if, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised; the previously recognised impairment loss is reversed directly.

In the case of assets tested for impairment, an impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but in a manner that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Impairment reversals are recognised immediately in the statement of comprehensive income, unless the asset is carried at a re-valued amount, in which case, the impairment reversal is recognised directly in reserves, unless an impairment loss on the same asset was previously recognised in the statement of comprehensive income.

**Notes to the Financial Statements
for the period ended 30 September 2016**

..... continued

2. Accounting Policies and Reporting Procedures – continued

Cash and cash equivalents

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

Receivables

Receivables are recognised initially at the transaction price, less provision for impairment. A provision for impairment of general receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

A provision for impairment is established when there is objective evidence that the Council will not be able to collect all amounts receivable. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the amount to be received is impaired. Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Related parties

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

Income recognition

Income in general is stated when there is reasonable certainty that the income would be receivable and thus can be accrued for. Other income such as that derived from the organisation of courses, cultural, sporting and social activities is only recognised on a cash basis.

Income from investment activities is recognised when the rights of receipt have been established.

Interest income from financial assets is recognised when it is probable that the economic benefits will flow to the Council and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Notes to the Financial Statements
for the period ended 30 September 2016**

..... continued

2. Accounting Policies and Reporting Procedures – continued

Government grants

Government grants are not recognised until there is reasonable assurance that the Council will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in statement of comprehensive income on a systematic basis over the years in which the Council recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Council should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to statement of comprehensive income on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Council with no future related costs are recognised in statement of comprehensive income in the year in which they become receivable.

The benefit of a Central Government loan at a below-market rate of interest is treated as a government grant, measured as the difference between the proceeds received and the fair value of the loan based on prevailing market interest rates.

Financial instruments

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

Financial assets are de-recognised 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.

Financial liabilities are de-recognised when they are extinguished, discharged, cancelled or expired. Financial assets and financial liabilities are measured initially at fair value plus transaction costs. Financial assets and financial liabilities are measured subsequently as described below:

Financial assets

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

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss.

Loans and 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.

**Notes to the Financial Statements
for the period ended 30 September 2016**

..... continued

2. Accounting Policies and Reporting Procedures – continued

Financial instruments - continued

Loans and receivables

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 company's trade receivables and cash and cash equivalents 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 counterparty and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counter party default rates for each identified group. Impairment of 'trade receivables' is presented within 'other expenses'.

Financial liabilities

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

Foreign currencies

Functional and presentation currency

These financial statements are presented in Euro (€), which is the Local Council's functional and presentation currency. In preparing the financial statements of the Council, transactions in currencies other than the Council's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting year, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for the intended use or sale.

Investment income on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in total comprehensive income for the year in which they are incurred.

**Notes to the Financial Statements
for the period ended 30 September 2016**

..... continued

2. Accounting Policies and Reporting Procedures – continued

Payables

Payables and accrued expenditure are recognised initially at the transaction price and subsequently measured at amortised cost. The difference between the proceeds and the amount payable is recognised over the period of the payable using the effective interest method.

Judgements in applying accounting policies and key sources of estimating uncertainty

In the process of applying the Council's accounting policies, the Council Members have made no judgements which can significantly affect the amounts recognised in the financial statements.

At the end of the reporting year, except as disclosed in note 19, there were no key assumptions concerning the future, or any other key sources of estimating uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provisions

Provisions are recognised when the Council has a present obligation (legal or constructive) as a result of a past event, it is probable that the Council will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting year, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

HAL-SAFI LOCAL COUNCIL

Notes to the Financial Statements for the period ended 30 September 2016

..... continued

3. Funds Received from Central Government

| | 2016 (9 months) € | 2015 (12 months) € |
|--|-------------------------|--------------------------|
| In terms of section 55 of the Local Councils Act, 1993 | 175,620 | 226,813 |
| Supplementary Income | 4,407 | 6,823 |
| Special Project Allocation | 4,777 | 4,645 |
| | <u>184,804</u> | <u>238,281</u> |

4. Income raised under Council Bye-Laws

| | 2016 (9 months) € | 2015 (12 months) € |
|------------------------------------|-------------------------|--------------------------|
| Permits | 2,105 | 2,619 |
| Income from hire of football pitch | 3,575 | 3,887 |
| Kiosks | 349 | - |
| | <u>6,029</u> | <u>6,506</u> |

5. Income from Law Enforcement System

| | 2016 (9 months) € | 2015 (12 months) € |
|----------------|-------------------------|--------------------------|
| Contraventions | <u>4,636</u> | <u>2,280</u> |

In accordance with the Law Enforcement System (LES) issued by the Ministry by virtue of Section 72 of the Local Councils Act, 1993, the income relating to contraventions was delegated to the local councils through Legal Notice 32 of 2000.

Up to the 31 August 2011, income from contraventions was based on cash received which represented 100% of the contravention.

As from the 1 September 2011 the contraventions previously accruing to the Council started accruing in favour of the 'Regjun Nofsinhar'. The Council's income from the Law Enforcement System therefore started reflecting two revenue streams as of that date. The revenue streams are as follows:

- a) Receipts of funds accruing to the council up to the 31 August 2011;
- b) 10% on the contraventions accruing to all Regional Committees that were settled at the Council's cash point.

HAL-SAFI LOCAL COUNCIL

Notes to the Financial Statements for the period ended 30 September 2016

..... continued

6. General Income

| | 2016 | 2015 |
|---|-------------------|-------------|
| | (9 months) | (12 months) |
| | € | € |
| Income from Community and cultural activities | 3,022 | 8,233 |
| Income from local Regions | - | 7,106 |
| Income from Sponsorships | 1,340 | 1,988 |
| Other income | 4,846 | 571 |
| | 9,208 | 17,898 |

7. Personnel emoluments

| | 2016 | 2015 |
|--------------------------------------|-------------------|-------------|
| | (9 months) | (12 months) |
| | € | € |
| <i>Personnel emoluments include:</i> | | |
| Mayor's Honoraria & Allowance | 6,621 | 8,648 |
| Council Members' Allowance | 2,300 | 4,800 |
| Executive Salary and Allowance | 21,050 | 28,196 |
| Employees' Salaries | 26,679 | 33,525 |
| Social Security Contribution | 4,109 | 5,056 |
| | 60,759 | 80,225 |

HAL-SAFI LOCAL COUNCIL

Notes to the Financial Statements for the period ended 30 September 2016

..... continued

8. Operations and maintenance

| | 2016 (9 months) € | 2015 (12 months) € |
|--|-------------------------|--------------------------|
| <i>Operations and maintenance includes:</i> | | |
| Repairs and Upkeep: | | |
| Road and Street Pavements | 4,043 | 6,662 |
| Road signs and markings | 2,941 | 4,315 |
| Other Repairs & Upkeep | 2,795 | 1,227 |
| Council property | 3,204 | 1,701 |
| Public Property | 3,425 | 4,517 |
| Office furniture and equipment repairs | 692 | - |
| Plant & machinery and sundry repairs | | 5,779 |
| Street Lighting | 5,632 | 3,229 |
| | <hr/> 22,732 | <hr/> 27,430 |
| Contractual Services: | | |
| Waste Disposal | 10,872 | 14,635 |
| Refuse Collection | 17,887 | 24,090 |
| Bulky Refuse Collection | 1,440 | 94 |
| Hire of Open Skips | - | 307 |
| Road & Street Cleaning | 18,530 | 17,495 |
| Cleaning & Maintenance - Public Conveniences | 2,517 | 3,600 |
| Cleaning & Maintenance Soft Areas | 1,888 | 2,516 |
| Law Enforcement System (LES) | 1,000 | - |
| Cleaning Council Premises | 4,274 | 4,140 |
| Other Contractual Service | 8,721 | 12,515 |
| | <hr/> 67,129 | <hr/> 79,392 |
| Total Operations and Maintenance expenses | <hr/> 89,861 | <hr/> 106,822 |

HAL-SAFI LOCAL COUNCIL

Notes to the Financial Statements for the period ended 30 September 2016

..... continued

9. Administrative and other expenditure

| | 2016 | 2015 |
|---|---------------------|---------------------|
| | (9 months) | (12 months) |
| | € | € |
| Utilities | 5,176 | 9,341 |
| Operating materials and supplies | 1,540 | 2,727 |
| Participation fee national and EU organisations | 2,575 | 85 |
| Office services | 3,375 | 4,345 |
| Hire of transport | 763 | 3,044 |
| Transport expenses | 906 | 2,001 |
| Information services | 187 | 185 |
| Library expenses | 16 | 1,638 |
| Insurance coverage | 1,215 | 1,362 |
| Bank charges | 34 | 143 |
| Professional services | 1,583 | 2,639 |
| Over-accrual of engineering services | (5,050) | - |
| ICT expenses | 1,790 | 3,899 |
| Other hospitality costs | - | 118 |
| Overseas travelling & subsistence | - | 3,346 |
| Community services and social events | 16,132 | 19,424 |
| Sundry minor expenses | 80 | 586 |
| Movement in provision for doubtful debts | (326) | - |
| Rent | 2,363 | 2,719 |
| Youth organisation - Safi | 894 | 1,797 |
| Fines and penalties | 39 | - |
| Depreciation | 18,183 | 22,993 |
| | <hr/> 51,475 | <hr/> 82,392 |

10. Finance income

| | 2016 | 2015 |
|--------------------------|----------------|-----------------|
| | (9 months) | (12 months) |
| | € | € |
| Bank interest receivable | - | 61 |
| | <hr/> - | <hr/> 61 |

HAL-SAFI LOCAL COUNCIL

Notes to the Financial Statements for the period ended 30 September 2016

..... continued

11. Property, plant and equipment

| | Buildings & Improvements | Construction Works | Office Furniture & Fittings | New Street Signs | Urban. Improvements | Trees | Office & Computer Equip. | Plant & machinery | Special Programmes | Total |
|------------------------------------|--------------------------|--------------------|-----------------------------|------------------|---------------------|--------------|--------------------------|-------------------|--------------------|----------------|
| | € | € | € | € | € | € | € | € | € | € |
| Cost | | | | | | | | | | |
| At 1 January 2016 | 261,296 | 121,280 | 41,384 | 18,611 | 149,124 | 1,031 | 48,215 | 14,486 | 311,428 | 966,855 |
| Additions | - | - | 1,385 | - | 396 | - | 1,244 | 194 | - | 3,219 |
| At 30 September 2016 | 261,296 | 121,280 | 42,770 | 18,611 | 149,520 | 1,031 | 49,459 | 14,680 | 311,428 | 970,075 |
| Government Grants | | | | | | | | | | |
| At 1 January & 30 September 2016 | - | - | - | - | - | - | - | - | - | - |
| Depreciation | | | | | | | | | | |
| At 1 January 2016 | 32,658 | 52,912 | 26,191 | 18,611 | 100,053 | - | 34,196 | 9,346 | 253,007 | 526,974 |
| Charge for the year | 1,709 | 4,960 | 870 | - | 3,589 | - | 2,093 | 724 | 4,238 | 18,183 |
| At 30 September 2016 | 34,367 | 57,872 | 27,061 | 18,611 | 103,642 | - | 36,289 | 10,070 | 257,245 | 545,157 |
| N.B.V. at 30 September 2016 | 226,929 | 63,408 | 15,709 | - | 45,878 | 1,031 | 13,170 | 4,610 | 54,183 | 424,918 |

HAL-SAFI LOCAL COUNCIL

Notes to the Financial Statements for the period ended 30 September 2016

..... continued

11. Property, plant and equipment

| | Assets Under Construction € | Buildings & Improvements € | Construction Works € | Office Furniture & Fittings € | New Street Signs € | Urban. Improve- ments € | Trees € | Office & Computer Equip. € | Plant & machinery € | Special Programmes € | Total € |
|---------------------------------------|--------------------------------------|----------------------------------|----------------------------|--|--------------------------|----------------------------------|--------------|-------------------------------------|---------------------------|----------------------------|----------------|
| Cost | | | | | | | | | | | |
| At 1 January 2015 | 30,635 | 253,459 | 63,133 | 40,567 | 18,611 | 148,524 | 1,031 | 41,605 | 13,871 | 279,897 | 891,333 |
| Additions | 27,512 | 7,837 | 58,147 | 817 | - | 600 | - | 6,610 | 615 | 31,531 | 133,669 |
| Transfer of Assets under construction | (58,147) | - | - | - | - | - | - | - | - | - | (58,147) |
| At 31 December 2015 | - | 261,296 | 121,280 | 41,384 | 18,611 | 149,124 | 1,031 | 48,215 | 14,486 | 311,428 | 966,855 |
| Government Grants | | | | | | | | | | | |
| At 1 January & 31 December 2015 | - | - | - | - | - | - | - | - | - | - | - |
| Depreciation | | | | | | | | | | | |
| At 1 January 2015 | - | 30,396 | 48,175 | 25,014 | 18,611 | 94,879 | - | 31,297 | 8,241 | 247,368 | 503,981 |
| Charge for the year | - | 2,262 | 4,737 | 1,177 | - | 5,174 | - | 2,899 | 1,105 | 5,639 | 22,993 |
| At 31 December 2015 | - | 32,658 | 52,912 | 26,191 | 18,611 | 100,053 | - | 34,196 | 9,346 | 253,007 | 526,974 |
| N.B.V. at 31 December 2015 | - | 228,638 | 68,368 | 15,193 | - | 49,071 | 1,031 | 14,019 | 5,140 | 58,421 | 439,881 |

HAL-SAFI LOCAL COUNCIL

Notes to the Financial Statements for the period ended 30 September 2016

..... continued

12. Receivables

| | 2016 | 2015 |
|------------------------------------|---------------|---------------|
| | € | € |
| Falling due within One Year | | |
| Receivables – LES | 92,833 | 93,159 |
| Provision for doubtful debts – LES | (92,833) | (93,159) |
| Amounts owed by related parties | 2,788 | 849 |
| Other receivables | 134 | 735 |
| Advance payments to suppliers | 103 | - |
| Prepayments and accrued income | 12,147 | 16,454 |
| | <u>15,172</u> | <u>18,038</u> |

Local Enforcement System (LES) debtors amount to €92,833; these have been fully provided for. As at 30.09.2016, provision for doubtful debts amounts to €92,833 (2015: €93,159). At year end LES debtors which are two (2) years old or older have been fully provided for. All other receivables are within credit period allowed and receivable within 1 year.

13. Cash and cash equivalents

Cash and cash equivalents in the Statement of cash flows comprise the following amounts:

| | 2016 | 2015 |
|---|-----------------|-----------------|
| | € | € |
| Petty cash | 11 | 11 |
| Bank balances: Savings and current accounts | 32,496 | 37,281 |
| Bank balances: LES deposits account | 81,033 | 79,637 |
| Bank balances: football ground sinking fund account | 11,000 | 11,000 |
| Cash at bank and in hand | <u>124,540</u> | <u>127,929</u> |
| Less bank balances overdrawn (note 15) | <u>(11,564)</u> | <u>(11,028)</u> |
| | <u>112,976</u> | <u>116,901</u> |

HAL-SAFI LOCAL COUNCIL

Notes to the Financial Statements for the period ended 30 September 2016

..... continued

14. Deferred Income

| | 2016 | 2015 |
|--|---------------|---------------|
| | € | € |
| Balance at the beginning of the year | 59,560 | 34,958 |
| Grants received/receivable during the year | - | 30,680 |
| Released to income | (4,777) | (6,078) |
| Balance at the end of the period/year | <u>54,783</u> | <u>59,560</u> |
| Amount to be released within one year (note 16) | <u>7,243</u> | 6,369 |
| Amount to be released between 1 and 2 years | 5,018 | 5,649 |
| Amount to be released between 2 and 5 years | 11,982 | 13,457 |
| Amount to be released after 5 years | <u>30,540</u> | <u>34,085</u> |
| Non-current deferred income | <u>47,540</u> | <u>53,191</u> |

Deferred income represents capital grants received under the UIF and the alternative energy government scheme for local councils plus other grants received from the OPM up to the end of the period under review. The funds are released to income on a systematic basis over the useful life of the asset in line with the depreciation charge on the projects that were capitalised up the end of the period under review.

15. Short-term borrowings

| | 2016 | 2015 |
|-------------------------------------|---------------|---------------|
| | € | € |
| Falling due within one year: | | |
| Bank balances overdrawn | 11,564 | 11,028 |
| Short-term borrowings | <u>11,564</u> | <u>11,028</u> |

HAL-SAFI LOCAL COUNCIL

Notes to the Financial Statements for the period ended 30 September 2016

..... continued

16. Payables

| | 2016 | 2015 |
|------------------------------------|---------------|---------------|
| | € | € |
| Falling due within One Year | | |
| Trade Payables | 8,393 | 14,003 |
| Amounts due to related parties | 4,005 | 6,703 |
| Other creditors | 1,795 | 4,056 |
| Accruals | 6,460 | 15,450 |
| Deferred income- Grants (note 14) | 7,243 | 6,369 |
| | <u>27,896</u> | <u>46,581</u> |

17. Capital commitments

| | 2016 | 2015 |
|---|----------|----------|
| | € | € |
| Details of capital commitments at the accounting date are as follows: | | |
| (i) Approved but not yet contracted for: | <u>-</u> | <u>-</u> |
| (ii) Approved and contracted for | <u>-</u> | <u>-</u> |

- Capital projects in particular works on Gnien il-Helsien, IT Room, ATM and Misrah San Matthew have now been finished and capitalised. It was confirmed by the deputy executive secretary that there were no capital commitments for 2016 by period end.

HAL-SAFI LOCAL COUNCIL

Notes to the Financial Statements for the period ended 30 September 2016

..... continued

18. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The ultimate controlling party of the Safi Local Council is the Local Councils Department within the Office of the Prime Minister.

All the companies, Authorities and Agencies set up by the Central Government are also considered to be related parties to Safi Local Council but do not have significant control. All Regional Committees (from 1 September 2011), the Local Councils Association and the other Local Councils are also considered to be related parties.

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

| Name of Entity: | Nature of Relationship |
|--|-------------------------------|
| Department of Local Councils | Significant |
| Regional Committee - Local Law Enforcement | No Control |
| Bank of Valletta | No Control |
| Department of Education | No Control |
| Enemalta Corporation | No Control |
| Local Councils Association | No Control |
| Water Services Corporation | No Control |
| Wasteserv Malta Limited | No Control |
| Works Division - Director General Works | No Control |

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

| | 2016 | 2015 |
|--------------------------------------|-------------------|--------------------|
| | (9 months) | (12 months) |
| | € | € |
| Income - Annual Financial Allocation | 175,620 | 226,813 |

**Notes to the Financial Statements
for the period ended 30 September 2016**

..... continued

19. Financial Risk Management

The Council's activities expose it to a variety of financial risks that include market risks, credit risk, liquidity risk and interest risk. The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Council's financial performance.

Where applicable, any significant changes in the Council's exposure to financial risks or manner in which the Council manages and measures these risks are disclosed below.

Where possible, the Council aims to reduce and control risk concentrations. Concentrations of financial risk arise when financial instruments with similar characteristics are influenced in the same way by changes in economic or other factors. The amount of risk exposure associated with the financial instruments sharing similar characteristics is disclosed in more detail in the notes to the financial statements.

With respect to credit risk, the receivables are monitored continuously for recoverability. Receivables are presented net of an allowance for doubtful debts. An allowance for doubtful debts is made where there is an identified loss event which, based on previous experience, is evidences of a reduction in the recoverability of the cash flows. Known bad debts are therefore maintained to the lowest possible, thereby lowering as much as possible the concentration of credit risk.

Liquidity risk

The Council monitors and manages its risk to a shortage of funds by maintaining sufficient cash and plans projects accordingly. The Council Members and Executive Secretary do not consider that it is significantly exposed to liquidity risk.

Capital management

It is the policy of the council to maintain an adequate capital base in order to sustain the future development of the council and safeguard the ability of the council to continue operating. In this respect, the council monitors the operations and results of the council. The council is not subject to externally imposed capital requirements. There were no changes in the council's approach to capital management during the period.

Interest Rate risk

The Council's interest rate risk arises from the borrowings issued at variable rates expose the Council to cash flow interest rate risk, In general, the Council Members and Executive Secretary 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 in view of the nature of the assets and liabilities.

HAL-SAFI LOCAL COUNCIL

Notes to the Financial Statements for the period ended 30 September 2016

..... continued

19. Financial Risk Management - continued

Credit risk

Financial assets which potentially subject the Council to concentration of credit risk consist primarily 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 financial credit history. In this respect, credit 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.

Movement in provision for doubtful debts

| | 2016 | 2015 |
|---------------------------|---------------|--------|
| | € | € |
| Provision at 1 January | 93,159 | 93,159 |
| Movement | (326) | - |
| Provision at 30 September | 92,833 | 93,159 |

Provision for doubtful debts is in respect of LES debtors. As at 30.09.2016, full provision has been made in this respect after correctly reflecting the amount due to the council in respect of LES as per Loqus (Datatrak) report.

20. Post Balance Sheet events

There were no particular important events affecting the Council which occurred since the end of the accounting period.

REPORT OF THE LOCAL GOVERNMENT AUDITORS' ON THE HAL-SAFI LOCAL COUNCIL TO THE AUDITOR GENERAL

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hal-Safi Local Council, set out on pages 2 to 26, which comprise the Statement of Financial Position as at 30 September 2016, and the statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows statement for the period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the statement of financial position of Hal-Safi Local Council as at 30 September 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

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

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

Responsibilities of the Executive Secretary

The Executive Secretary is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the EU, and for such internal control as the Executive Secretary determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Secretary is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the entity is intended to be liquidated or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

REPORT OF THE LOCAL GOVERNMENT AUDITORS' ON THE HAL-SAFI LOCAL COUNCIL TO THE AUDITOR GENERAL - CONTINUED

Report on the Audit of the Financial Statements - continued

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

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

We communicate with the Executive Secretary regarding, among other matters, the planned scope and timing of the audit and significant audit figures, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In our opinion, the financial statements comply fully with the Local Councils Act, the Financial Regulations issued in terms of this Act and the Local Council (Financial) Procedures.

Mr Manuel Castagna

For and on behalf of

Nexia BT

Certified Public Accountants

The Penthouse, Suite 2

Capital Business Centre, Entrance C

Triq taz-Zwejt

San Gwann SGN 3000

Malta

Date: 26th April 2017