REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF NAKURU WATER AND SANITATION SERVICES COMPANY LIMITED

FOR THE YEAR ENDED 30 JUNE 2014

Enriching Life

NAKURU WATER AND SANITATION SERVICES COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30TH JUNE 2014

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GENERAL INFORMATION

(a) Background information

Nakuru Water and Sanitation Services Company Ltd (NAWASSCO) is a Private Company Limited by Shares under the Companies Act (Chapter 486, Laws of Kenya). The Company was registered on 8th September 2003 and is fully owned the County Government of Nakuru. Pursuant to the provisions of the Water Act 2002, the Company is an agent of Rift Valley Water Services Board (RVWSB) and it is mandated with the provision of water and sanitation services in the area under the jurisdiction of the former Municipal Council of Nakuru and its environs.

Vision

"To be the Leading Water Utility in Kenya"

Mission

"To provide Quality, Reliable, Adequate, sustainable water and Sanitation Services to the delight of our customers"

Core Values

These values form the foundation on which we perform our work and conduct ourselves. The values underlie our work, how we interact with each other, and the strategies we employ to fulfil our mission. They are the practices we use every day in everything we do and are a constant description of who we are.

Our cores include the following:

Customer Focus, Professionalism, Integrity, Team Work and Innovation & Creativity

(b) Principal Activities

The mandates of the Company are as follows:

- To ensure that it possesses and retains all the necessary expertise necessary to fulfil the technical, commercial, financial and administrative functions.
- To provide the services within the Service Provider's Defined Service Area.
- To meet all the required standards, guidelines and provisions of the Service Provision Agreement (SPA)
- To obtain all necessary licenses, permits and warranties necessary to carry out its Obligations in accordance with statutes in force.
- To maintain the assets in good working order and not to dispose of any assets without the authorization of the Licensee.
- To come up with proposals for improvement of the assets so as to enhance service delivery.
- To propose tariff adjustments to the licensee.

(c) The Water Sector in Kenya

The Water Act 2002, established different but complimentary institutions to carry out functions in the sector. This includes:

- The Water Services Regulatory Board (WASREB) -responsible for regulation of water and sewerage services in the country.
- Water Services Boards (WSB) – responsible for provision of water and sewerage services in their areas of mandate. The Rift valley Water Services Board (RVWSB) is the WSB responsible for the Rift valley Region.

- Water Service Providers (WSP) – Are agents of the WSB. NAWASSCO is an agent of the RVWSB and responsible for provision of water and sanitation services in the jurisdiction of former Municipal Council of Nakuru and its environs.

- Under the constitution 2010, water and sanitation service is a devolved function under the County Governments.

(d) Shareholding

The Company fully owned by the County Government of Nakuru is registered with 5,000 shares of Kshs 20 each. According to the Company Memorandum and Articles of Association the shares are held in trust are as follows:

Shareholding	Number of Shares held
The County Government of Nakuru	4,996
His Excellency the Governor of County Government of Nakuru	1
The Executive Member, Finance &Economic Planning, County Government of Nakuru	1
The Executive Member, Environment, Water, &Natural Resources, County Government of Nakuru	1
The County Secretary, County Government of Nakuru	1
TOTAL	5,000

Each person has one voting right and the County Government is represented by a proxy during meetings.

BOARD OF DIRECTORS' & MANAGEMENT

Board of directors

The Company has a Board of Directors which is responsible for:

a) the efficient management of the human, physical, and financial resources of the Company;
b) making policies for Company;
c) approving Strategies and Development plans for the Company;
d) any other matters related to the management of the Company;

Members of Board of Directors during the year under review were the following:

	NAME	PROFILE
1	Ibrahim Mohamed. Osman **(Chairman)**	Mr Osman was appointed on 17th December 2012 and he is the Board Chairman. HE represents the Business/manufacturing community as per the water sector guidelines. He has wealth of experience in managing businesses in Nakuru town.
2	Joyce Akong'o Oduor	Joyce was appointed on 17th December 2012 She represents the Women's organization as per the water sector guidelines. Joyce is a renowned business lady in Nakuru and involved in advocating for women empowerment.
3	Geoffrey Makana Asanyo	Mr Asanyo was appointed on 17th December 2012. He represents the resident organization as per the water sector guidelines Mr Asanyo is prominent business man who has been in business for a long time.
4	Japheth Mutai	Mr Mutai was appointed on 16th July 2009. He represents the Ministry of Water and Irrigation He is the CEO of Rift Valley Water Services board.
5	Gilbert K. Mungania	Mr Mungania was appointed on 14th December 2010. He represents the Ministry of Local Government.
6	Stephen I Muiruri	Mr Muiruri was on appointed on 7th March 2011. He represents the Ministry of Finance.
7	Richard K.Rop	Mr Rop was appointed on 24th June 2013 and he represents the County Government of Nakuru. He is the CEC in charge of Water, Energy, Environment and Natural Resources.
8	Wilson Mungai	Mr Mungai was appointed on 24th June 2013 and he represents the County Government of Nakuru. He is the CEC in charge of Finance and Economic Planning.
9	John Kipkemoi Cheruiyot (Managing Director)	Mr Cheruiyot was appointed in 31st July 2008 as the Managing Director and retired on 26th June 2014. He has a degree Bachelor of Science in Civil Engineering. Before joining the Company, Mr Cheruiyot was Managing Director at Kericho Water and Sanitation Services Company Ltd.
10	James Nganga Gachathi (Managing Director)	Mr Gachathi was appointed on 26th June 2014 as the Managing Director. Before his appointment, Mr Gachathi was the Technical Manager. He has a degree Bachelor of Science in Civil Engineering. He has a rich experience in Water Sector spanning over 18years.

Corporate management team

The day to day operations of the Company is run by Corporate Management Team (CMT) headed by a Managing Director.

The following the Corporate Management Team:

	NAME	PROFILE
1	John Kipkemoi Cheruiyot (Managing Director)	Mr Cheruiyot was appointed in 31st July 2008 and retired on 26th June 2014. He has a degree Bachelor of Science in Civil Engineering Before joining the Company, Mr Cheruiyot was Managing Director at Kericho Water and Sanitation Services Company Ltd.
2	James Nganga Gachathi (Technical Manager)	Mr Gachathi was appointed on 26th June 2014 as the Managing Director. Before his appointment, Mr Gachathi was the Technical Manager having been appointed on 23rd October 2007. Before joining the Company, Mr Gachathi was the Technical Manager of Nyahururu Water and Sanitation Company He has a degree Bachelor of Science in Civil Engineering He has a rich experience in Water Sector spanning over 18years.
3	Isaac Mokaya Makori (Finance Manager)	Mr Makori was appointed on 18th May 2009. Before joining the Company, Mr Makori had worked at Pyrethrum Board of Kenya. He is experienced in Financial and Management Reporting, people management, monitoring and evaluation, Taxation, project Accounting. He has 21 years of work experience. Mr Makori holds a Bachelor of Commerce (Accounting Option) from Kenyatta University, MBA (Finance Option) from Kenya Methodist University. He is CPA (K) and a Member of the ICPAK. He is also a Certified M&E expert, a member of the Local Committee at Kenya Revenue Authority, Nakuru and a member of Kenya Institute of Management.
4	James Muthee Gathairu (Commercial Manager)	Mr Gathairu 46years was appointed on 18th May 2009. Before joining the Company, Mr Gathairu was an accountant with Kenindia Assurance Co. Ltd for 7years and Chief Accountant with Blueshield Insurance Co. Ltd for 7 years. He has a rich experience in finance and business development spanning 21 years. Mr Gathairu holds a degree in Bachelor of Arts (Business Studies & Economics) from Kenyatta University, MBA (Finance Option) from University of Nairobi. He has CPA (K) and is a Member of ICPAK.
5	Joseph John Githinji (Internal Audit Manager)	Mr Githinji 40 years was appointed on .1 November 2013. Before joining the Company, Mr Githinji has previously worked with M/s Kariru & Associates (Certified Public Accountants), Kenya Wildlife Service (KWS) (Ag. Manager Internal Audit and Mombasa Water (Internal Audit Manager). He has a rich experience in Accounting spanning for a period of 15 years Mr Githinji holds a degree in International Business Administration (Finance) from United States International University (USIU). He has CPA (K) and is a Member of the ICPAK.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, it is with great honour that I present to you an overview of the annual report and financial statements of the Company for the year ended 30th June 2014. The strong foundation that we have laid over time by embracing our vision to be the leading Water Utility in Kenya; supported by a robust governance structure; continue to drive growth in NAWASSCO, providing momentum for a secure future.

operating environment
During the period the Kenyan economy recorded growth rate of 4.4% compared to 5.3 % in 2012/13. This was due to inflation of 7% which was experienced during the year. The rise in inflation caused the weakening of our currency (Ksh) and pushed bank interest rate to up. In the water industry, the cost of inputs went to an all time high particularly electricity cost due to the fuel cost component in the tariff structure.

Financial overview
The performance during the period was not good due unfavourable economic environment. The Company recorded a pre-tax loss was Ksh47.7million compared to a profit of Kshs. 43.1M of the previous year. The negative performance is mainly attributed to the cost of electricity which increased from a monthly average of Kshs.16million to Kshs 26million as well as a general increase in prices of other inputs without an increase in our water tariff which had expired in May 2012 and took long to be approved by the Regulator, WASREB. The new tariff was approved in May 2014 and it is expected to bring in more revenue and better results in the next period. The cost of electricity has also come down due to intervention by the Government.

Business development
During the period, the company continued to solidify its partnership with Water Services Trust Fund by qualifying for funds to improve services in low income areas. The works of distribution network in Mzee Wanyama and Barut areas were completed during the year. In addition, WSTF funded Urban Basic Sanitation, a project where Sanitation coverage is increased through construction of toilets at a subsidy.

Through the Rift Valley Services Board and National Government a grant has been obtained to fund the Itare Dam Project which will produce over 100,000 m^3 of water per day.

The Company grew its revenue base by connecting new customers, attending to leaks and bursts and removing illegal connections.

Corporate social responsibility
The Company is more than a business that has served the community since 2004. We are a family of people who care about the staff, customers, the community and environment in which we live, work, and serve. Our employees are blessed with a wealth of talents and a volunteer spirit that allows the company to improve the lives of customers, neighbours, and employees.

During the period, the Company was involved in a number of initiatives that have benefited the community around us. The initiatives are in line with the right to water and sanitation enshrined in Chapter 4 (41 & 43) Kenyan Constitution – The Bill of Rights. Our initiatives are focused on the environment, philanthropy and ethical labour practices.

Our focus on the environment saw a number of people in the low income areas of Nakuru benefit from various projects in water and sanitation. Access to water, sanitation and improved hygiene frees up people's time to more productive activities. With the help of partners i.e. WSTF, Vitens Evides, EU, SNV, Umande Trust, WSUP and Nakuru County government residents of Lumumba, Paul Machanga and KaloleniA&B, Bondeni, Githima, Mithonge and Barut had their pipelines extended enabling them to have clean, potable water.With the support of Water and Sanitation for the Urban Poor (WSUP) pipeline rehabilitation was done and 80 Pre-paid meters were also installed in Mwariki A. NAWASSCO with the support of WSTF also constructed water kiosks and yard taps that help the communities' access clean potable water.

The Company is also implementing two sanitation projects; Up scaling Sanitation for the Urban Poor (UBSUP) and Nakuru County Sanitation Programme (NCSP). The projects are being implemented in the 42 Low Income Areas mapped out by Water Services Trust Fund. The NCSP which begun in 2013 supported the construction of over 500 toilets and also reached over 20,000 People with hygiene promotion messages. The UBSUP project supported the construction of 300 toilets and reached over 1,500 people with improved sanitation in Free Area and Kiratina. Under the Football for WaSH project (F4W), 10 public primary schools benefitted from the construction of toilets which ensured that 9,078 pupils have improved sanitation.

The Company staff visited our next door neighbours – Arap Moi children's home whereby the staff had an opportunity to mix, mingle and play with the children. The Company donated food stuffs and clothing.
On staff, the Company continued to ensure that her staff works in favourable conducive environment. The Company has in place a medical and a retirement benefit scheme.

Future outlook
The company has continued to implement its 2013-2018 business plan. The plan details various investment plans that will ensure NAWASSCO's growth. This includes the completion of Itare Dam Project (by RVWSB). The project is due for implementation in the year 2015 is projected to be completed by 2018.

The company enjoys donor confidence due to its good corporate image. This is evidenced by the success in implementation of minor projects and partnership with the EU.

However, the successful implementation of the business plan is dependent on the review of tariffs which was approved in May 2014 and implanted in July 2014.

Finally the future of NAWASSCO looks bright. The company has positioned itself to expand water coverage to underserved areas and prepared to stretch water production to the maximum capacity of existing facilities.

Appreciation
I would like to appreciate all our stakeholders, more so the County Government of Nakuru and Development partners for the solid commitment and support during the year 2013/14. To our esteemed Customers, thank you for your loyalty and support. It is through the hard work and dedicated effort of the Board of Directors and Management that we are now able to celebrate together our achievements for 2013/14. Therefore to the management and staff at NAWASSCO, let us practice our core values of Customer focus, Professionalism, Teamwork, Integrity, Innovation and Creativity so as to make a difference in our country.

We hope for continued cooperation from all the stakeholders in the coming years.

Thank you and May God Bless You all

IBRAHIM OSMAN
CHAIRMAN, BOARD OF DIRECTORS

MANAGING DIRECTOR'S REPORT

I am pleased to present the Annual Report and Financial Statements of NAWASSCO for the year ended 30th June 2014. This is the eleventh annual report and financial statements for the Company and demonstrates how far we have come.

NAWASSCO has continued to gain momentum over the short period since inception. During the year under review, the Company reviewed its Strategic Plan 2013-2018. This will undoubtedly improve service delivery and ensure achievement of set targets by emphasizing on areas of priority in provision of water and sanitation services.

Financial review

During the year the Company made a deficit of Kshs 47.6 million. This mainly attributed to low cost recovery water tariff and high electricity cost.The tariff that was in use during the year had expired in May 2012 and an application for a review was done to the Regulator but it took too long (2 years) to be approved until May 2014. The new tariff has started bringing good revenue which will make a positive impact during the coming years.
High cost of electricity during the period affected the business as a result of the monthly cost moving from an average of Kshs16M to a high of Kshs26M. This has also come down after the Government intervention.

Service delivery

During the year, as envisaged in one of core values of customer focus, the company continued to maintain satisfactory levels in service delivery. The water produced was distributed to customers equitably through a rationing programme. The average supply hours remained at 18hrs/day and the amount of water provided was an average of 32,520m3/day. The Non Revenue Water remained at 44%. Generally there was a remarkable improvement in service delivery and the following activities were carried out:-

I. Installation of District and Territory meters in Central and Western Zone to help curb Non Revenue Water.
II. Renewal of distribution pipelines in Mzee Wanyama and Barut using funds provided by WSTF for low income areas.
III. Installation of pre-paid meters and water kiosks at the low income areas
IV. Improvement of sanitation at the low income areas
V. Installation of customer complaint tracking module

Staff development

It is exciting to note that during the period, the company continued to improve staff competence in an effort to maintain good service delivery. The managers who are members of various professional bodies attended seminars and workshops. Other soft programs included the launch and training of peer educators on HIV and Environmental Health & Safety activities were also carried out. All these were carried out to ensure a healthy, motivated and satisfied workforce who will in turn contribute immensely to the growth of the company.

Future plans

The Company has however faced many challenges that include infrastructure and facilities support due to low funding. However, other mechanisms that include partnerships with County Government, National Government and other Development Partners are being sought. Through the Rift Valley Services Board and National Government a grant has been obtained to fund the Itare Dam Project which will produce over 100,000 m^3 of water per day. The company will continue partnering with WSTF, Vitens Evides and WSUP for funding projects in the low income areas. We will also attract other development partners to come on board to develop water and sewer infrastructure.

Appreciation

I take this opportunity to thank the County Government, Shareholders, Board of Directors, Management, Staff, and other stakeholders for their mutual cooperation, trust and continued support.

Thank you and best wishes to you

JAMES N. GACHATHI
MANAGING DIRECTOR

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of NAWASSCO is responsible for the overall management of the Company and is committed to ensuring that its business and operations are conducted with integrity, professionalism, and in compliance with the law, internationally accepted principles and best practices in corporate governance.
In the recent years various recommendations have been made in several legal and professional publications in an attempt to determine the most appropriate way for companies to be structured to achieve the highest standards of corporate governance. The Board is committed to full compliance of all the relevant laws including the Guidelines on Corporate Governance issued by the Regulator, WASREB

The Corporate Governance of NAWASSCO takes place within a framework which exists to regulate and/or guide the conduct of Board members, staff, customers and members of public assessing the Company's facilities and services. The objective of the framework is to provide for the effective, ethical and accountable governance and management of the Company. The key instruments within the governance framework are:

- The Kenya Constitution
- The Water Act 2002
- The Public Financial Management Act (2012)
- The Public Procurement and Disposal Act (2005)
- The Public Procurement and Disposal Regulations (2006)
- The NAWASSCO Service Charter
- Company approved policies and procedures

For the sake of coherence and legitimacy, it was in the best interest of the Company that its conduct be regulated by the most appropriate type of governance instrument. During the year under review, we report on key moments of governance where this framework was adhered to.

The Board of Directors
The Company Board of Directors are appointed in accordance with section 69 of the Company's Articles of Association
The Board of Directors are responsible for the following:-

- Implementation of Memorandum and Articles of Association
- Provision of guidelines and control function of the Company
- Approval of the organisation structure and maintenance of staff terms and conditions of service
- Approval of business plans and budgets
- Provision of management guidelines
- Approval of major contracts/projects
- Approval of tariff adjustment
- Prudent investment of funds to ensure continuity of service
- Appointment of Corporate Management Team

The Board is responsible for drawing and implementing strategies for the long term success of the company as well as carrying out the fiduciary duty of monitoring and overseeing the activities of management. The Board meets regularly and has a formal schedule of meetings to discuss matters reserved for its decision with a view of determining and reviewing the strategies of the Company and overseeing the Companies compliance with statutory and regulatory obligations.
Notices and agenda for all Board meetings are circulated to all Directors on a timely basis together with the respective documents for discussion.

Composition of the Board

The Board is composed of 8 non-executive Directors including an independent Chairman and one executive director who is also the Managing Director. The Directors represent various stake holding. They have a wide range of skills and experience and each contributes independent judgement and knowledge to the Board's discussions.

On appointment, each Director is provided with a comprehensive and tailored induction process covering the Company's business and operations and also provided with information relating to their legal and regulatory obligations.

All the Directors except the Managing Directors and representatives of the County Government are required to submit themselves for re-election in accordance with the Company's Articles of Association.

Board Meetings

The Board meets 6 times in one financial year.

Board Committees

The Board has constituted 3 sub-committees chaired by one director in each, namely Finance and Staff, Technical and Social; and Audit and Governance. Each committee meets 4 times in one financial year.

The Board appoints other committees as and when necessary.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Company's Corporate Social Responsibility (CSR) policy sets out the guiding principles by which the organization is run in order to fulfil its core mission. This policy brings together the ways in which the Company ensures, at corporate level, that its activities are carried out ethically, sustainably and for the public benefit.

The CSR Policy is made up of three central pillars:

- People and Community
- Finance and Economic Activity
- Environmental Sustainability

1. People and Community

The Company as an employer
The Company is committed to being a good employer, and to contribute positively to the creation of employment in the Country and County. As an employer the Company is committed to ensuring that all staff are fully supported in their work, have a decent working environment, are fairly rewarded, and maintain a good work-life balance. During the year, the Company engaged with recognized staff trade unions that represent and protect the interests of its staff. The Company now offers competitive terms and conditions of service to its staff. The Company has in place two retirement benefits schemes for its staff which will provide earnings during the retirement period. In addition the Company has a medical and accident cover for is staff

The Company also carries out a staff satisfaction survey every year with a view of improving the conditions and working environment of its staff and keep in touch with emerging staff issues.

Local Community
The Company has always ensured that the water available is distributed equitably and sewer systems are maintained.

The Company is a major stimulus for economic growth in Nakuru region. Rapid housing development has occurred in Nakuru Town making it one of the fastest growing Towns. Land values in town have increased as a result of the Company. In addition the Company pays the monthly water bills for Arap Moi Children's Home and visit the home every year with foodstuffs and presents
The Company has also partnered with donors in the area of sanitation by funding the construction of toilets at public schools and low income settlement areas of Nakuru Town

The Customers
To the Customers who are the pillar of the Company's existence, great concern is put to ensure their satisfaction. Annually the company conducts a customer satisfaction survey to ascertain whether the efforts put by the Company are felt by the customers and issues raised are addressed promptly.

The Company is committed to service delivery to its customers by creating a customer friendly environment. The Company does this activity by use of customer voice and choice system which records all customer complaints and provision of feedback once the complaints are resolved.

The Company also in an effort to improve service delivery has done the following:-

- Conducts open days twice a year to intact with its customers.

- Holds meetings with Water Action Groups, a team appointed by the Regulator, WASREB to voice the complaints of customers.

2. Finance and Economic Activity

The Company recognizes that the way in which it conducts its activities financially has a bearing on those with an interest in its work. The Company's Financial Regulations reinforce our core values in informing policy, practice and guidance to staff of the Company to ensure fair and ethical financial practice.
The Company's financial activity is undertaken with reference to the following guidance and policies:

- Directors and staff code of conduct
- A suggestion box

As part of their conditions of employment, all staff are required to follow such policies to ensure the Company conducts its activity in an appropriate manner.
The Company also commits to the following as a good organizational citizen:

- providing clear information where required to organizations with whom we engage financially
- incorporating CSR considerations in tender submission reviews from potential suppliers in line with Government policy on women , youth and the disabled
- furthering the use electronic data to reduce paper use and environmental degradation

3. Environmental Sustainability

The Company is located within touching distance of Mau&Aberdare Forests and the Lake Nakuru National Park. The Company recognizes environmental sustainability as the greatest challenge of the 21st century and commits to ensuring that all of its major strategies and operations consider their environmental and ecological aspects and impacts. The Company also participates in the conservation of the environment by planting trees at Aberdare forest. The Company also ensures that discharge to Lake Nakuru National Park meets the required standards.

REPORT OF THE DIRECTORS

The Board of Directors submit their Annual Report together with the Financial Statements for the year ended 30th June , 2014 which show the state of the Company's affairs financial position.

VISION, MISSION AND CORE VALUES

Vision
"To be the Leading Water Utility in Kenya"

Mission
"To provide Quality, Reliable, Adequate, sustainable water and Sanitation Services to the delight of our customers"

Core values
Customer Focus, Professionalism, Integrity, Team Work and Innovation & Creativity

Principal activities
The principal activities of the company are providing water and sewerage services.

Results and dividend
The results of the Company for the Year ended 30th June, 2014 are set out on page 16 to 35. The net loss for the period of Kshs (47,674,699) has been added to retained earnings. The directors do not recommend the payment of dividend.

Directors
The Directors who held office during the year and to the date of this report are shown on page 4. In accordance with Company Memorandum and Articles of Association Directors serve for a term not exceeding 3 years renewable for another one term.

Auditors
The Company Auditor is the Auditor General, KENAO of P.O BOX 30084 Nairobi as provided for by the Public Audit Act 2003.

Registered office
NAWASSCO Plaza
Government Road
P.O Box 16314
NAKURU

Main bankers
Co-operative Bank of Kenya
Nakuru Branch
P.O. Box 2982
NAKURU

By Order of the Council

By order of the Board

SECRETARY

20-07-**2015**

Statement of Directors' Responsibilities

The Kenyan Companies Act requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss. It also requires the Directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The Directors are of the opinion that the Financial Statements give a true and fair view of the state of the financial affairs of the company and of its profit or loss in accordance with International Financial Reporting Standards. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material mis-statement.

Nothing has come to the attention of the Directors to indicate that the company will not remain a going concern for at least twelve months from the date of this statement.

Chairman	**Managing Director**
20-07-**2015**	20-07-**2015**

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www. kenao.go.ke

P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NAKURU WATER AND SANITATION SERVICES COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Nakuru Water and Sanitation Services Company Limited set out on pages 16 to 23, which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity, statement of cash flows for the period then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management of Nakuru Water and Sanitation Services Company Limited is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1. Property, Plant and Equipment

As previously reported, the Property, Plant and Equipment balance of Kshs.112,991,523 as at 30 June, 2014 includes Network Extension amounting to Kshs.2,003,287. However, as per the Service Provision Agreement, the ownership of development and water distribution assets vests in Rift Valley Water Service Board. The Company can therefore only incur capital expenditure in relation to assets development with prior approval from the Board and thereafter put in a reimbursement claim for the expenditure incurred. Under the circumstances, the Ksh.2,003,287 used in the net work extension should have been treated as operational expenses as opposed to capital expenditure.

2. Non-Current Accounts Payables

The balance of payables stood at Kshs.180,197,815 as at 30 June 2014. The balance comprise of Kshs.168,490,370 and Kshs.11,707,446 due to National Water Corporation and Employees Statutory Deductions respectively. These liabilities were allocated to the Company at the time of its inception in 2004 from the then Ministry of Water Development. Although, the company had sought to have the liabilities taken over by the National Treasury through the Rift Valley Water Services Board, no evidence was provided for audit to show the request was granted. Consequently, the accuracy of non-current account payables balance of Kshs180,197,815 as at 30 June 2014 could not be ascertained.

3. Receivables and Prepayments

The statement of financial position as at 30 June, 2014 reflected receivables and prepayments balance of Kshs.431,586,702 which include trade debtors' balance of Kshs.228,566,929 inherited from the defunct Municipal Council of Nakuru (MCN) in year 2004 when the Water Company was incorporated. The recoverability of the balance is doubtful as it has not been acknowledged and factored in the books of the County Government.

4. Un-remitted LAP –TRUST Deductions

Included in the payables and accrued expenses balance of Kshs.254,351,609 is an amount due to LAPTRUST dues amounting to Kshs.20,427,820 which were inherited from the defunct Municipal Council of Nakuru in 2004. Although, the Board of directors passed a resolution on 17 September, 2010 to pay the outstanding dues, the resolution had not been effected as at 30 June, 2014.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion Paragraph, the financial statements present fairly, in all material respects the financial position for the Company as at 30 June 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial

Reporting Standards and comply with both the Water Act, 2002 and the Companies Act, Cap 486 of the Laws of Kenya.

Other Matter

1. Financial Position

During the year under review, the Company recorded a deficit of Kshs.47,674,699 from a surplus of Kshs.43,151,093 reported in 2012/2013. This resulted to an increase in accumulated losses from Kshs.98,840,976 in the previous year to Kshs.146,515,675 as at 30 June 2014. In view of this trend, the Company sustainability as a going concern is in doubt.

2. Unaccounted for Water

The Company realized revenue of Kshs.619,378,923 from the sale of 7,090,823 m^3 of water which was approximately 52% of the total quantity of 13,694,944 m^3 produced during the year. The remaining balance of 48% of the total volume represented unaccounted for water (UFW) which is 23% over and above the allowable loss of 25% as set out in Schedule E of the Service Provision Agreement (SPA) between Rift Valley Water Service Board and NAWASSCO. The UFW may have resulted to a loss of water sales estimated at Kshs.576,865,810. The significant level of UFW has negatively impacted on the company's profitability and long term sustainability.

My opinion is not qualified in respect of these matters.

REPORTING ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, I report based on my audit that;

(i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

(ii) In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books.

(iii) The Company's statement of financial position is in agreement with the books of account

Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

21 September 2015

Statement of Comprehensive Income

	Notes	30th June 2014	30th June 2013
		Kshs	Kshs
Revenue	5	**624,404,143**	**603,851,211**
Cost of sales	6	218,758,072	163,987,081
Gross profit		**405,646,071**	**439,864,130**
Administrative expenses	8(b)	238,879,707	199,729,141
Operating expenses	8(c)	211,667,483	191,607,162
Provision for impairment losses	16	2,773,580	5,376,734
Operating profit/(loss) before income tax		**(47,674,699)**	**43,151,093**
Income tax expense	9	-	-
Profit/(loss) for the year		**(47,674,699)**	**43,151,093**

Statement of Financial Position

	Notes	30th June 2014 Kshs	30th June 2013 Kshs
CAPITAL EMPLOYED			
Share capital	10	100,000	100,000
Accumulated losses		(146,515,675)	(98,840,976)
Reserve – Assets transferred	22(v)	262,893,991	217,785,976
Asset revaluation reserve	13	37,922,895	37,922,895
Grants from SUWASA	23	10,170,657	10,170,657
Grants from Vitens Evides	23	5,001,951	
Grants from WSTF	23	84,945,143	72,439,114
Shareholders' Surplus/(deficit)		254,518,962	239,577,666
Non Current Liabilities			
Non – current accounts payable	22(v)	180,197,815	225,305,830
		434,716,777	**464,883,496**
REPRESENTED BY			
Non-current assets			
Properties, Plant and Equipment	11	112,991,523	105,274,048
Intangible assets	12	476,676	456,099
Prepaid operating lease rentals and Buildings	13	124,062,338	124,338,603
		237,530,537	230,068,750
Current assets			
Inventories	15	10,289,934	8,008,447
Receivables and prepayments	16	431,586,702	396,523,252
Cash and cash equivalents	17	12,994,546	30,451,061
Investments	25	-	1,000,000
		454,871,182	435,982,760
Current liabilities			
Payables and accrued expenses	18	254,351,609	187,403,790
Bank Borrowing	24	3,333,333	13,764,224
		257,684,942	201,168,014
Net current assets/(liabilities)		197,186,240	234,814,746
		434,716,777	**464,883,496**

The Financial Statements on pages 16 to 35 were approved by the Full Board in a meeting held on 25th September 2014 and signed on its behalf by:-

Chairman 20-07-2015

Managing Director 20-07-2015

Statement of Changes in Equity

	Notes	Share Capital	Accumulated losses	Reserves	Total
		Kshs	Kshs	Kshs	Kshs
At 1 July 2010		100,000	(185,702,796)	229,254,895	43,652,099
Grant From WSTF	23	-	-	27,899,121	27,899,121
Profit for the year		-	27,980,847	-	27,980,847
At 30th June 2011		**100,000**	**(157,721,949)**	**257,154,016**	**99,532,067**
At 1July 2011		**100,000**	**(157,721,949)**	**257,154,016**	**99,532,067**
Grant From WSTF	23	-	-	22,828,666	22,828,666
Asset Revaluation reserve	13	-	-	37,922,895	37,922,895
Profit for the year		-	15,729,880	-	15,729,880
At 30th June 2012		**100,000**	**(141,992,069)**	**317,905,577**	**176,013,508**
At 1July 2012		**100,000**	**(141,992,069)**	**317,905,577**	**176,013,508**
Grant From WSTF	23	-	-	10,242,408	10,242,408
Grant from USAID/SUWAZA	23	-	-	10,170,657	10,170,657
Profit for the year		-	43,151,093	-	43,151,093
At 30th June 2013		**100,000**	**(98,840,976)**	**338,318,642**	**239,577,666**
At 1July 2013		**100,000**	**(98,840,976)**	**338,318,642**	**239,577,666**
Grant From WSTF	23	-	-	12,506,030	12,506,030
Grant from Vitens Evides	23	-	-	5,001,951	5,001,951
Non-current liability –KPLC	22(V)			45,108,015	45,108,015
Loss for the year		-	(47,674,699)	-	(47,674,699)
At 30th June 2014		**100,000**	**(146,515,675)**	**355,826,623**	254,518,962

Statement of Cash Flows

	Notes	30th June 2014 Kshs	30th June 2013 Kshs
Operating activities			
Cash generated from operations	21	(140,352)	58,551,532
Investing activities			
Purchase of Property, Plant & Equipment,	11	(22,392,100)	(37,547,356)
Acquisition of intangible assets	12	(372,241)	(683,807)
Fixed deposit at Family Bank	25	-	(1,000,000)
Construction of Office block and WSTF projects	13	(2,628,883)	(15,044,852)
Net cash used in investing activities		(25,393,224)	(54,276,015)
Financing activities			
Maturity of Fixed deposit	25	1,000,000	-
Loan from Family Bank	24	-	1,000,000
Loan repayment (Co-op bank & Family)	24	(10,430,891)	(10,569,109)
Grant from WSTF	23	12,506,030	20,413,065
Grant from Vltens Evides	23	5,001,951	-
Net cash from financing activities		8,077,090	10,843,956
(Decrease)/increase in cash and cash equivalents		(17,456,515)	15,119,473
Movement in cash and cash equivalents			
At start of year as at 1st July 2013	17	30,451,061	15,331,588
Increase/(Decrease) in cash		(17,456,515)	15,119,473
At end of year as at 30th June 2014	17	**12,994,546**	**30,451,061**

Notes to the Financial Statements

1. General information

The Water Act, 2002 was enacted by Parliament and part of it came into operation on 18th March 2003. The Act provides for the formation of the following:

- Water Supply Regulatory Board (WSRB) to be responsible for the regulation of water and sewerage services including maintenance of quality standards and issuance of licenses for service provision.
- Water Services Boards (WSBs) on regional basis which have the legal responsibility for provision of water and sewerage services within the areas of jurisdiction under licenses from WSRB.
- Water Service providers through which the WSBs will provide water and sewerage services under appropriate agreements entered into with WSRB.

Pursuant to the provisions of the Water Act 2002, Rift Valley Water Services Board was licensed by the Water Services Regulatory Board to provide water and sanitation services within the Municipality of Nakuru and appointed Nakuru Water and Sanitation Services Company Limited (NAWASSCO) to carry out its functions of providing water and sanitation services within the Municipality of Nakuru through a Service Provision Agreement (SPA).

It is in accordance with the provisions of the Water Act, 2002 that NAWASSCO was registered on 8th September 2003 as a private limited liability company fully owned by the defunct Municipal Council of Nakuru and now fully owned by the County Government of Nakuru. The company assumed responsibility of providing water and sanitation services in the area of jurisdiction of Nakuru Municipal Council with effect from 1st June 2004.

Nakuru Water and Sanitation Services Company Limited is incorporated in Kenya under the Companies Act CAP 486 as a private limited liability company, and is domiciled in Kenya. The address of its registered office is:

**NAWASSCO PLAZA
GOVERNMENT ROAD
PO Box 16314-20100
NAKURU**

2. Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Kshs).

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Standards, improvements and amendments issued but not yet effective

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation- Effective prospectively for annual periods beginning on or after 1st January 2016,

IAS 19 Employee Benefits: Discount rate: regional market issue- Effective for annual periods beginning on or after 1 July 2014

IAS 1 Disclosure Initiative – Amendments to IAS 1- Effective for annual periods beginning on or after 1s January 2016

IFRS 9 Financial Instruments- Effective for annual periods beginning on or after 1st January 2018

(b) Revenue recognition

Revenue from supply of water represents amounts actually billed to customers for water consumption.

Revenue of other goods are recognised in the period in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Revenue represents the fair value of the consideration receivable for sales of goods and services, and is stated net of value-added tax (VAT), rebates and discounts

(c) Property, Plant, Equipment and Depreciation

Motor vehicles and equipment are stated at historical cost less depreciation.

Subsequent costs are included in the asset's carrying amount 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 company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to write down the cost of assets to their residual values over their estimated useful lives, as follows:

Leasehold Land and Buildings	Over the remaining period of the lease
Pumps and Motors	5 years
Motor Vehicles and Cycles	4 years
Furniture, Fittings and Office Equipment	8 years
Computers	3 years
Water Meters	7 years
Prepaid Water Meter	5 years
Office Block	50years
Software	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date

Notes (continued)

Motor vehicles and equipment 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 asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of motor vehicles and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

d) Intangible assets

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over three years.

(e) Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(g) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of expected cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(h) Grants

Government or Donors grants are not recognised until there is reasonable assurance that the company will comply with the conditions attaching to them and that the grants will be received. Government or Donors grants are recognised in profit or loss on a systematic basis over the periods in which the company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the company should purchase, constructor otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government or Donor grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the company with no future related costs are recognised in profit or loss in the period in which they become receivable.

Notes (continued)

(i) Provisions

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

(j) Related parties

Transaction between related parties has been disclosed as the nature of its relationship as well as information above the transactions and outstanding balances.

(k) Employee Benefits

(i) Retirement benefit obligations

The company operates a defined contribution retirement benefit scheme for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the company and employees. The company and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

The company's contributions to the defined contribution schemes are charged to the profit and loss account in the year to which they relate.

(ii) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(l) Income Tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Notes (continued)

3. Financial Risk Management Objectives and Policies

The company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance, but the company does not hedge any risks.

Risk management is carried out by the finance department under policies approved by the Board of Directors.

Notes (continued)

Market risk

(i) Foreign exchange risk

The company does not have any foreign currency dealings and has no foreign currency denominated assets or liabilities. Accordingly, the company is not exposed to any foreign exchange risk.

(ii) Price risk

The company does not hold any financial instruments subject to price risk.

(iii) Cash flow and fair value interest rate risk

The company has no interest bearing financial liabilities.

(iv) Credit risk

Credit risk is managed by the finance department. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables. The company sells all its water and other services mainly on cash basis. Water bills raised are payable within 14 days. The company does not have any significant concentrations of credit risk. The finance department assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

The amount that best represents the company's maximum exposure to credit risk at 30th June 2014 is made up as follows:

	2014	2013
	Kshs	Kshs
Cash and cash equivalents	12,994,246	15,545,055
Trade receivables	431,586,702	374,565,390
Receivables from related companies	39,962,666	50,736,803
Loans to directors	-	-
Other receivables	33,536,773	21,957,862
	518,090,387	**462,805,110**

Notes (continued)

3. Financial risk management objectives and policies

No collateral is held for any of the above assets. The company does not grade the credit quality of receivables. All receivables that are neither past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

(v) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the finance department maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the company's liquidity reserve on the basis of expected cash flow.

The table below analyses the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	Between 1 and 2 month	Between 2 and 3 month	Above 3 months	Over 1 year
	Kshs	Kshs	Kshs		Kshs
At 1st July 2013					
- Trade and other payables	45,107,450	11,451,685	63,610,582	-	52,652,243,
At 30th June 2014					
- Trade and other payables	57,934,609	6,280,592	3,824,792	36,235,235	91,607,244,

Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may limit the amount of dividends paid to shareholders.

The company monitors capital on the basis of debt to capital ratio. Capital comprises of all components of equity i.e. share capital 2014-Kshs 100,000 (2013 Kshs100, 000) accumulated losses 2014 Kshs (146,515,675) (2013 Kshs (98,840,976)) and reserve-assets transferred 2014 Kshs 262,893,991 (2013 Kshs217, 785,976). The company's strategy remained unchanged for the year.

In the Financial year 2013/2014 the Company had no borrowings

Notes (continued)

4. Critical accounting estimates and judgements

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

(i) Critical accounting estimates and assumptions

Receivables

Critical estimates are made by the directors in determining the recoverable amount of impaired receivables.

Motor vehicles and equipment

Critical estimates are made by the directors in determining depreciation rates for motor vehicles and equipment. The rates used are set out in Note 2(c) above.

(ii) Critical judgements in applying the entity's accounting policies

In the process of applying the company's accounting policies, management has made judgements in determining:

- The classification of financial assets and leases
- Whether assets are impaired.

5. Analysis of revenue by category

	2014 Kshs	2013 Kshs
Water sales	619,378,923	597,975,687
Other sales	5,025,220	5,875,524
	624,404,143	**603,851,211**

- Water sales include sewerage and water charge
- Other sales include among others reconnection fees, connection fees, penalties, bulk water sales, laboratory charges, and sewer unblocking fees.

The above figure represents a small portion of the potential revenue of the company because of the following reasons:

The company can only account for 56% (56.7%:2012/13) of the water it produces. The 44% loss is due to technical and commercial losses.

6 Cost of sales

	2014 Kshs.	2013 Kshs.
Cost of sales is analyzed as follows:		
Bulk water purchase	39,181,080	44,584,797
Electricity	174,999,497	113,832,620
Chemicals	4,577,495	5,569,664
	218,758,072	**163,987,081**

Notes (continued

7 Operating profit

The following items have been charged in arriving at operating profit:

	2014 Kshs	2013 Kshs
Depreciation on property, plant and equipment **(Note 11)**	12,828,240	13,646,098
Amortization of intangible assets (**Note 12**)	351,664	227,708
Amortization of prepaid operating lease rentals and Building (Note13)	2,905,144	2,851,474
Operating lease	94,616,460	83,326,934
Provision for impairment losses (bad debts)	2,773,580	5,376,734
Employee benefits expense (**Note 8 b)**	205,256,678	170,045,153
Auditors' remuneration	382,800	382,800

8 (a) Employees benefits scheme expense

The following items are included within employee benefits expense:	2014 Kshs	2013 Kshs
Retirement benefits costs:		
- Defined contribution scheme	34,925,671	30,603,837
- National Social Security Fund	1,136,800	1,132,000

(b) Administrative Expenses

	2014 Kshs	2013 Kshs
These expenses comprises of :-		
Personnel costs	205,256,678	170,045,153
Board Expenses	7,789,021	10,008,211
Other Administrative Expenses	25,834,008	19,675,777
Total	**238,879,707**	**199,729,141**

(c) Operating Expenses

	2014	2013
These includes:	**Kshs**	**Kshs**
Depreciation	17,931,436	16,725,280
Lease Fees	94,616,460	83,326,934
Water Fittings	9,184,803	7,638,993
Professional Fees	6,437,830	6,868,929
Abstraction and permit Fees	8,105,512	4,102,904
Motor Vehicles	5,380,402	4,110,335
Insurance	1,602,954	2,063,984

Notes (continued

Printing and stationary	6,112,897	5,903,442
Telephone	3,123,507	1,984,640
Security	10,527,543	11,069,127
Postage	8,809,492	7,097,911
Fuel and Lubricants	9,810,468	7,746,158
Rent	487,862	1,901,657
Others	29,536,317	31,066,867
Total	**211,667,483**	**191,607,162**

9. Income Tax Expense

	2014 Kshs	2013 Kshs
Profit before Tax	(47,674,699)	43,151,093
Add: Expenses not deductable for tax purposes	24,238,862	22,532,383
Less: Expenses deductable for tax purposes	17,293,575	79,812,409
Adjusted loss for tax purposes	(40,729,412)	(14,128,933)
Tax Losses brought forward	(64,565,250)	(50,436,317)
Add: Fully amortised losses years 2010 and years before	50,436,317	-
Tax Losses carried forward	**(54,858,346)**	**(64,565,250)**
Income Tax Expense	-	-

The company incurred a huge loss of Kshs 374,137,289 at inception in the year 2004 which has not been recouped to enable the company provide for corporation tax. However, according to section 4 of the Income tax Act Cap 470, losses are supposed to be carried forward for 4 years therefore only the losses relating to year 2011 and after have been carried forward. Since the computed tax profit is negative there is not tax liability

10. Share Capital

	Number of shares	Ordinary shares (Kshs)
Balance as at 30th June 2014	5,000	100,000

The total authorised number of ordinary shares is 5, 000 with a par value of Kshs.20 per share. All the shares are fully paid

11. Property, Plant and Equipment

	Motor vehicles	Computers	Pumps and motors	Furniture and fittings	Water Meters	Network Extensions	CWIP	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Cost or valuation								
At 30June 2012	10,426,285	6,034,858	16,439,392	3,453,343	23,381,087	9,386,435	**52,234,352**	121,355,752
Additions	-	2,318,400	4,744,125	1,226,295	18,058,648	-	11,199,888	37,547,356
At 30June 2013	**10,426,285**	**8,353,258**	**21,183,517**	**4,679,638**	**41,439,735**	**9,386,435**	**63,434,240**	**158,903,108**
Depreciation								
At 1st July 2012	**(9,106,914)**	**(5,520,621)**	**(12,173,632)**	**(1,922,944)**	**(7,567,276)**	**(3,691,574)**	-	**(39,982,961)**

Notes (continued

Charge for the year	(1,134,104)	(1,182,343)	(2,416,464)	(511,033)	(6,556,368)	(1,845,787)	-	(13,646,099)
At 30 June 2013	**(10,241,018)**	**(6,702,964)**	**(14,590,096)**	**(2,433,977)**	**(14,123,644)**	**(5,537,361)**	-	**(53,629,060)**
Cost or valuation								
At 30 June 2013	10,426,285	8,353,258	21,183,517	4,679,638	41,439,735	9,386,435	63,434,240	158,903,108
Additions	190,000	583,800	6,464,937	1,199,330	5,233,123	-	8,820,909	22,392,100
At 30 June 2014	**10,616,285**	**8,937,058**	**27,648,454**	**5,878,969**	**46,672,858**	**9,386,435**	**72,155,149**	181,295,208
Depreciation								
At 1st July 2013	**(10,241,018)**	**(6,702,964)**	**(14,590,095)**	**(2,433,977)**	**(14,123,644)**	**(5,537,361)**	-	**(53,629,060)**
Charge for the year	(232,770)	(1,069,738)	(3,607,101)	(615,275)	(7,303,957)	(1,845,787)	-	(14,674,628)
At 30 June 2014	**(10,473,788)**	**(7,772,701)**	**(18,197,196)**	**(3,049,251)**	**(21,427,601)**	**(7,383,148)**	-	**(68,303,686)**
Net book value								
30th June 2014	**142,498**	**1,164,357**	**9,451,258**	**2,829,717**	**25,245,257**	**2,003,287**	**72,155,149**	**112,991,523**
30th June 2013	**185,267**	**1,650,294**	**6,593,421**	**2,245,661**	**27,316,091**	**3,849,074**	**63,434,240**	**105,274,048**

Capital Works in Progress (CWIP) includes WSTF projects; Rhonda Kshs.12,420,242, Kaptembwa Kshs11,828,799, London/Manyani Kshs 10,907,440, Free Area/Kiratina Kshs.13,141,851 Mzee Wa Nyama Kshs 13,261,978 , Pre Paid water Meter Kshs 3,199,218,Barut Kshs 5,261,672, Githima , Bondeni & Misonge Kshs 2,133,949.

12. Intangible Assets

	2014 Kshs	2013 Kshs
These relates to software development costs		
At start of the year	456,099	-
Additions	372,241	683,807
Amortisation	(351,664)	(227,708)
At end of the year	**476,676**	**456,099**

Software development costs comprise internally generated expenditure directly associated with the production of identifiable and unique software products controlled by the company that will probably generate economic benefits exceeding costs beyond one year. During the year the company procured Mobile meter Reading software and Developed NAWASSCO website.

Notes (continued

13 Prepaid operating lease rentals and Buildings

	Lease hold Land	Buildings	Total
At 1st July 2010	12,382,855	-	12,382,855
Less: Amortization for the year	(305,750)	-	(305,750)
At 30th June 2011	**12,077,105**	**-**	**12,077,105**
At 1st July 2011	12,077,105	63,427,275	75,504,380
Revaluation during the year	37,922,895	-	37,922,895
Less: Amortization for the year	(1,282,051)	-	(1,282,051)
At 30th June 2012	**48,717,949**	**63,427,275**	**112,145,224**
At 1st July 2012	48,717,949	63,427,275	112,145,224
Additions		15,044,852	15,044,852
Less: Amortization for the year	(1,282,051)	(1,569,426)	(2,851,474)
At 30th June 2013	**47,435,898**	**76,902,705**	**124,338,603**
At 1st July 2013	47,435,898	76,902,705	124,338,603
Additions	-	2,628,883	2,628,883
Less: Amortization for the year	(1,282,051)	(1,623,093)	(2,905,144)
At 30th June 2014	**46,153,847**	**77,908,491**	**124,062,338**

The company land, Nakuru Municipality Block 4/27 along government road was on 25th August 2011 re-valued to Kshs 50,000,000 by professional valuers, messrs Hectare & Associates of P.O Box 4170-20100 Nakuru.

The resultant incremental value of Kshs 37,922,895 has been incorporated in the Financial Statements. The NAWASSCO PLAZA was completed at a cost of Kshs 81,101,010

The Buildings relates to the Company Head office block and central Zone office along Government Road Nakuru Municipality Block 4/27.

14 Non-current receivables and prepayments

	2014 Kshs	2013 Kshs
Trade receivables	258,571,839	317,611,017
Impairment for the period (Note 16)	(2,773,580)	(5,376,704)
Write Offs	-	(53,662,447)
Total Provisions for impairment losses (bad debts)	(255,798,259)	(258,571,839)

Except for receivables due from related parties, all the non current trade receivables arose from customer accounts transferred to the Company from the defunct Municipal Council of Nakuru. It was not possible to estimate when they would be repaid from the balance sheet date since the repayment history of the customers could not be determined from the company's records.

Notes (continued)

15 Inventories

	2014 Kshs	2013 Kshs
Technical stocks and stationery	10,289,934	8,008,447

These relates to water chemicals, water fittings, materials for WSTF projects and office stationery.

16 Receivables and prepayments

	2014 Kshs	2013 Kshs
Trade receivables	640,105,391	621,995,925
Less: Accumulated Provision for impairment losses(bad debts)	(239,474,232)	(242,053,801)
Provision for impairment losses(bad debts)	(2,773,580)	(5,376,734)
	397,857,579	**374,565,390**
Prepayments	192,350	157,162
Other receivables	33,536,773	21,800,700
	431,586,702	**396,523,252**

Trade receivables relates to amounts owed to the Company by water consumers .In a Board meeting held on 15th August 2013, the Directors recommended write off of uncollectable debts amounting to Kshs 53.6 million against accumulated general provisions.

The provision for impairment losses (bad debts) is based on the debt age. The provision is a 10% of the uncollected billing for the current Financial year.

Pre-payments relate to outstanding staff advances.

Other receivables include Electricity deposits Kshs 7, 348, 500, Telephone deposits Kshs 100,000, and VAT input claims Kshs.24,380,587, water deposit for NAWASSCO facilities Kshs 29,700, unspent impressts Kshs 31,986,and Mpesa Receivable from Safaricom Kshs 1,366,486 , cash collected by Posta Kshs 117,018 and Equity 162,496 .

17 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and in bank
and cash grant from Water Services Trust Fund to finance capital projects in Rhonda, Kaptembwa , Free Area /Kiratina, London /Manyani and NAWASSCO Office block. This is analysis as under :-

Bank Account	Bank account Name	2014 Kshs	2013 Kshs
01136087648601	Revenue Account	20,076,667	14,922,990
01100087648600	Saving Account	3,246,597	16,535,168
01136087648600	Expenditure Account	(12,050,374)	(2,522,184)
01136087648602	WSTF-Barut Account	166,220	9,700
01136087648607	WSTF-Pre-paid water meters	-	-
01136087648606	Office Block Account	180,730	1,371,726
	Cash at hand	54,480	-
01136087648609	WSTF-Githima,Bondeni & Misonge	478,146	9,700

Notes (continued)

01136087648603	WSTF-UBSUP	-	9,700
018000046253	Family Bank	850,501	224
0113608764868	WSTF –Mzee Wanyama	-	114,037
1143757653	Kenya Commercial Bank	(8,420)	-
		12,994,546	**30,451,061**

18 **Payables and accrued expenses**

	2014 Kshs	2013 Kshs
These includes:		
Trade payables	125,039,403	103,093,483
Accrued expenses	382,800	382,800
Other payables	128,929,406	83,927,507
	254,351,609	187,403,790

Traded payables are suppliers' outstanding balances, accrued expenses relate to audit fees while other payable include the deposits paid by customer Kshs 53,919,084 since the company inception, un paid June 2014 Salaries Kshs 15,767,905,MCN rent deduction 362,497 and LAPTRUST deductions Kshs 54,692,288,Pre paid Vitens allowances and salary subsidy Kshs 2,993,457, tender bid bond Kshs 20,000,unkown bank credits Kshs588,273,un identified customer deposits Kshs 551,881, and Family Bank cash collecting agents Kshs 34,021

19 Contingent liabilities

The company has no contingent liabilities in respect of bank , guarantees and other matters arising in the course of business.

20 Operating lease commitments

The Rift Valley Water Services Board and Nakuru Water and Sanitation Services Company Limited (The Service Provider) have entered into a Services Provision Agreement (SPA) dated 31 May 2004 under which the Water Services Board agreed to provide to the Service Provider with infrastructure, fixed assets and facilities associated with the management and administration of the services, abstraction and collection of raw water. During the period of the SPA the Service provider is required to pay the Water Services Board 16% of the collected revenue for the use of the asset. In the current period, Kshs 94,616,460 (2013: Kshs 83,326,934) was charged as operating lease fees.

21 Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations

	2014	**2013**
Profit/(Loss) before income tax	(47,674,699)	43,151,093
Adjustments for:		
Depreciation (Note 11)	14,674,628	13,646,098

Notes (continued)

Amortization of software (Note 12)	351,664	227,708
Amortization of prepaid operating lease rentals (Note 13)	2,905,144	2,581,474
Changes in working capital:		
-Increase in Receivables and prepayments	(35,063,420)	(50,231,584)
-Increase in Payables and accrued expenses	66,947,819	48,337,096
-Decrease /(Increase) in Inventories	(2,281,487)	569,647
Cash generated from operations	**(140,352)**	**58,281,532**

22 Related party transactions

The company was previously owned by the Municipal Council of Nakuru and currently owned by the County Government of Nakuru. There are no other companies that are related to Nakuru Water and Sanitation Services Company Limited through common Shareholdings or common Directorships.
The following transactions were carried out with related parties:

i) Sale of goods and services	**2014**	**2013**
	Kshs	**Kshs**
Municipal Council of Nakuru	39,962,666	50,736,803
ii) Key management compensation	**2014** **Kshs**	**2013** **Kshs**
Salaries and other short-term employment benefits	16,451,696	14,835,048
iii) Directors' remuneration	**Kshs**	**Kshs**
Fees for services as a director	6,230,720	9,082,976
iv) Outstanding balances arising from sale and purchase of goods/services		
	2014	**2013**
	Kshs	**Kshs**
Non-current receivables from Municipal Council of Nakuru	218,875,734	247,117,878

In the opinion of the Board, amounts receivable from the Municipal Council of Nakuru and other related parties are deemed to be impaired and have been fully provided as part of the provision for impairment losses up to 2007 as the Municipal Council of Nakuru entered into an agreement with the company that the lease fee be used to offset amount outstanding.