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REPORT

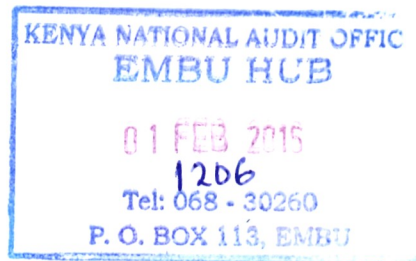
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

**FOR THE YEAR ENDED
30 JUNE 2015**



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30TH JUNE 2015

Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2015**

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**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

TRUST INFORMATION

FOR THE YEAR ENDED 30TH JUNE 2015

INCORPORATION

Meru Water & Sewerage Services Registered Trustees (MEWASS) is incorporated under The Trustees (Perpetual Succession) Act Cap 164, of the Laws of Kenya. An irrevocable declaration of Trust was made in April 2001 between Ministry of Environment and Natural Resources and Meru Municipal Council on the one hand and the Trustees of MEWASS on the other, effectively transferring the duty of water and sewerage provision from the Ministry and Council to MEWASS. The Constitution of Kenya 2010 under the Fourth Schedule placed water and sanitation services to the County governments. Consequently, the Transition Authority vide Gazette Notice no. 154 of 9th August 2013, transferred water service provision including water, sanitation and sewerage companies to the County Government of Meru.

PRINCIPAL ACTIVITIES

The principal activity of the Trust is to provide water and sanitation services within its area of jurisdiction

TRUSTEES

Mr. Gabriel Mwenda Miungi
Mr. Shaheed M. Iqbal
Bishop Jeremiah Anondo
Mr. Timothy Kibaki
Mr. Fredrick Kirima Mburugu
Mr. David Gitonga
Mr. Moses Muriangi Nabea
Mr. Kamanya Maeria
Mrs. Catherine K. Lilford
Mr. Stanley Mbae

Secretary to the Board

Trustees Secretary
Mr. Stanley Mbae
P.O. Box 859 60200
MERU

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

Situated along Nakumatt - Kinoru Stadium
P.O. Box 859 60200
MERU

TRUST CONTACTS

Tel: 064-3132591, 0717527707
Fax: 064-3132603
E-mail: info@mewass.or.ke
Website: www.mewass.or.ke

BANKERS

Standard Chartered Bank of Kenya
Meru Branch
P.O. Box 109 - 60200
MERU

ABC Bank
Meru Branch
P.O. Box 3100 - 60200
MERU

Equity Bank Ltd
Meru Branch
P.O. Box 400 - 60200
MERU

AUDITORS

Auditor-General
Kenya National Audit Office
P.O. Box 30084 - 00100
NAIROBI











ADVOCATES

Mithega and Kariuki Advocates
P.O. Box 612 - 60200
MERU



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

**THE BOARD OF TRUSTEES
AS OF THE YEAR ENDED 30TH JUNE 2015**

Photo	Trustee Name and Qualifications	Date of Birth and Experience
	Mr. Gabriel Miungi - Chairman A-level, CPA(K),	Date of Birth 18/09/1970 Managing director - Millenium Dealers Ltd, Former Auditor at Wachira Irungu & Associate, Chief Accountant at Orix Oil (K) Ltd.
	Mr. David Gitonga Bsc., Civil Engineering, Msc, Phd Fellow	Date of Birth 1976 Over 15 years experiences in water utility management and consultancy, Currently Chief Officer Environ, Water & Natural Resources Meru County Government
	Mr. Moses M. Nabea Bachelors degree in Accounting/Finance minor - HRM, pursuing MBA	Date of Birth 22/12/1972 CEO - Maua Methodist Hospital SACCO Ltd from 2000-2013, currently Chief Officer - Public Service and Administration Department - County Government of Meru
	Bishop Jeremiah Mbaya Anondo Diploma in Theology, Master of Divinity	Date of Birth 29/9/1943 Minister, former principal & lecturer Limuru Theological College, Bishop Methodist Church in Kenya, Director & Co-ordinator Christian Education Department, Teacher (1963-1968)
	Mrs. Catherine Kinoti Lilford S1 Teacher	Date of Birth 03/05/1951 Currently Chairperson Maendeleo ya Wanawake Organisation - Imenti North Sub County, Treasurer Family Options Kenya - Meru Branch, Chairperson Middle Kathita WRUA & Treasurer Ngakinya WRUA,
	Mr. Kamanja Maeria Bachelors' degree in education. Postgraduate Diploma in mass communication	Date of birth 12/12/1982 Former High School Teacher, Information officer for four years. National youth council chairman - Igembe Region
	Mr. Shaheed M. Iqbal Diploma in Insurance from Chartered Insurance Institute UK	Date of Birth 23rd February 1976 Managing director - MIK Insurance Brokers Ltd., Proprietor - Junior Motor Garage and Parts, Secretary - Lions Club of Meru. Secretary - Muslim Association Meru
	Mr. Fredrick Mburuga Certificate in Insurance, Co-op management, CPA 1, Diploma B/management, Bachelors Degree B/Management.	Date of Birth: 1968 Director Imenti Sacco, Board member kaaga deaf, Director Maccu motors Ltd, Director county coffee Millers, CEO Meru Central Coffee Union.
	Mr. Timothy W. Kibaki Bsc. Civil Engineering, PGD in Water and Waste Water Engineering	Date of Birth 19/02/1953 Over 36 years working experience in the water sector, planning and strategy manager Tana Water Services Board
	Mr. Stanley Mbae MBA, PGD, Bsc in water management	Date of Birth 06/09/1964 General Manager & Secretary to the Board of Trustees Over 26 years experience in water utility management



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

**THE MANAGEMENT TEAM
AS OF THE YEAR ENDED 30TH JUNE 2015**

Photo	Manager Name and Qualifications	Date of Birth and Experience
	<p>Mr. Stanley Mbae General Manager MBA, BSC,PGD in water management</p>	<p>Date of Birth 06/09/1964 Over 26 years experience in water utility management</p>
	<p>Mr. Matthew Nteere Finance Manager B. COM, CPA(K)</p>	<p>Date of Birth 07/02/1973 Over 13 years experience in accounting and commercial services</p>
	<p>Mr. Victor N.Njeru Technical Services Manager BSC Civil Engineering</p>	<p>Date of Birth 12/02/1968 Over 18 years experience in water utility management</p>
	<p>Ms. Ann Mercy Mwongera Human Resources Manager BML HRM, Dip.HRM</p>	<p>Date of Birth 20/09/1973 Over 16 years in administration</p>
	<p>Mr. Joses Muriuki Gitonga Internal Audit Manager BBA Acc & Fin, CPA(K)</p>	<p>Date of Birth 04/12/1972 Over 18 years experience in audit and accounting</p>
	<p>Mr. Meckson Kinyua Musyoka Procurement Manager BBM, Dip Supplies Management</p>	<p>Date of Birth 05/11/1984 Over 6 years experience in procurement management</p>



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

CHAIRMAN'S REPORT FOR THE YEAR ENDED 30TH JUNE 2015

The Trust has concluded another year of service provision as set out in its objective and service provision agreement. During the year then ended the Trust continued to supply quality water services to a population of 77,747 out of the targeted 137,022 representing service coverage of 57 percent of the population within its area of jurisdiction. The Trust had targeted to cover 66 percent and above within the strategic plan which was ending in June 2015. The non achievement of the target is attributed to the rapid population growth and the new additional supply area.

Infrastructure Investments

To achieve the high levels of service coverage means the Trust has to continually invest in the infrastructure as well as the operations and maintenance of the systems. In line with this commitment, I am happy to report that during the year 2014/15, the Trust completed the Thuura-Giaki and Gitoro-Kambakia water project at Kshs.22.2 million funded by the Water Services Trust Fund (WSTF). The cost of system maintenance and pipeline extensions amounting to Kshs.11.8 million was carried out. This was fully funded by the Trust's internally generated funds.

The expansion of Meru Water Supply Treatment works to increase the water production capacity estimated to cost Kshs.132 million is underway.

Future Prospects

Going forward the Trust envisions itself as a universal water service provider for quality water and sanitation for enriched livelihoods within its area of jurisdiction. We intend to mobilize resources and be able to reach more than 80 percent of the target population by the year 2020. The expected increase in water production capacity from the augmentation of water treatment works currently underway is expected to avail more water hence the problem of water shortages will be behind our back. We shall extend services to the other areas as it will be dictated by the licensing authorities as soon as the works are complete.

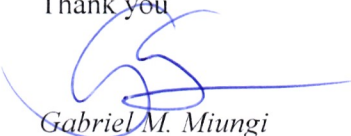
In Conclusion

The support and professional input of the MEWASS Board of Trustees in setting the strategies and overview of governance has played an important role in providing clarity and sound outcomes throughout the year. I appreciate the Board members for their commitment and work and the impetus they have continued to provide as we move into 2015/16 and beyond.

I wish to express my sincere gratitude to our loyal customers who have supported us throughout the years despite the many challenges. To all our stakeholders we are grateful for your unwavering support accorded to us especially WSTF and other donors working with them for our continued partnership.

The level of professionalism and commitment of all staff during 2014/15 should also be acknowledged as the Trust strives to deliver quality water services for better life.

Thank you


Gabriel M. Miungi
Chairman



MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

REPORT OF THE GENERAL MANAGER FOR THE YEAR ENDED JUNE 2015

The provision of water and sanitation services is important driver for social and economic development. As a water service provider responsible for providing water and sewerage services in the Meru township and its environs people of this county look upon us to deliver excellent services.

We are pleased to report that through the last twelve years, we have set ourselves ambitious performance goals and have consistently delivered against them. The year 2014/2015 was a challenging one in which the Trust strived to deliver excellent service to our consumers despite challenges of water production capacity.

In the year 2014/15, we considerably increased our customer base by continually investing in the expansion of infrastructure.

Financial Performance

On financial performance in the year 2014/15, the Trusts total operating income for the year was Kshs.154.3 million compared to the previous year of Kshs.135.7 million representing an increase of Kshs.18.6 million.

However, due to increased operational expenses and the provision for contingent liability, the Trust made an operating loss of Kshs18.4 million after taxation.

Water Quality

The Trust continued to provide safe, high quality drinking water that meets regulatory requirements. The water compliance with residual chlorine was 99 percent while compliance with bacteriological standards was 97 percent. Throughout the years the Trust has maintained above benchmark on water quality standards.

Sewerage

The sewerage infrastructure operated by the Trust is inadequate as it only serves about 0.8 square kilometre of the supply area. The sewer system was built many years back to serve a small town population. However, with the exponential growth of the town the Infrastructure has become overloaded. The Makutano sewerage system currently being funded by the Ministry of Lands, Housing and Urban Development is underway. It is expected the system will ease the problem of sanitation within Makutano Township while we await the major project for entire supply area. Trust has made funding proposals for the construction of major sewerage system and treatment plant at the lower part of the County as the sewer transmission solely relies on gravity.

Customer Service

MEWASS regards customer complaints as an opportunity to maintain customer confidence and trust as well as improve our customer service performance and efficiency. During the year we had a number of interactions via the phone and email and a few visited our offices. The number of complaints received in the year ending June 2015 was higher as compared to the previous year. In the year 2014/15 year we had 2264 customer complaints. Out of these we were able to resolve 2261 complaints within the stipulated period.

The most common complaint types related to water shortage, low pressure, burst pipes and a few were bills related. The Trust has a well defined complaints handling system which means that issues are dealt with when reported or through investigation.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

**REPORT OF THE GENERAL MANAGER FOR THE YEAR ENDED JUNE 2015
CONT'D**

Non Revenue Water (NRW)

The non-revenue water (NRW) is the difference between the volume of water supplied and billed authorised consumption. NRW is one of the major challenges facing the Trust but during the year, the management put in place measures to minimise water losses and as a result. As at June 2015, the overall NRW was below 25 percent as compared to 29 percent at the end of the year 2013/14. The Trust objective is to reduce the NRW to minimum so that more water is available for the ever increasing demand.

Collection Efficiency

Collection efficiency is the important indicator for prudent debt management. The total collections for the year 2014/15 amounted to Kshs147.8 million (inclusive arrears) compared to billings of Kshs.147.4 million. The collection efficiency was an average of 89 percent. The Trust challenge lies with the government institutions which rely on allocations from the National Treasury. We encourage these institutions to prioritise payments of water services to avoid crippling our operations.

Staffing

As at 30th June 2015, the Trust had 79 staff numbers and 32.9 percent of these were Women. This number excludes employees on temporary contractual terms. During the year, 3 staff members left and others joined. The staff increase in the year was mainly due additional line of activities including exhauster services and bottling water segment. The number of staff per thousand connections stood at eight which was within the sector benchmark.

Going forward

The Trust aim is to remain as a reliable and efficient water service provider within its area of jurisdiction to a growing population. We plan to achieve this through the continuous improvement and refinement of how we do things. Similarly, the challenge of water production capacity is expected to ease as soon as the new water treatment plant which is currently being augmented is completed.

Acknowledgments

We acknowledge the support we have received from all stakeholders who have stood by our side throughout the year. Special thanks go to our customers for being patient and responsive to our services. Secondly, I wish to thank the Board of Trustees for being objective, receptive to the challenges and always eager to provide workable solutions. The employees of the Trust did their best during the year to ensure the provision of quality services and for this I salute them.

Finally, I wish to thank the County Government of Meru for their continued support.

Thank you

*Matthew Nteere
Ag General Manager*



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED JUNE 2015

The corporate governance structure ensures that we act with high standards of corporate behaviour and in the best interests of our stakeholders. The Board of Trustees has the authority to perform the functions and determine the policies that control the Trust activities.

The Board is responsible for the overall corporate governance and approves strategic directions and budgets. On the other hand the management ensures that all statutory requirements are complied with, internal control systems are in place and operate effectively.

The management provides quarterly progress reports to the Board to enable it to monitor the Trust performance. The structure of the Board is as per the corporate governance guidelines issued by the Water Services Regulatory Board.

The Board of Trustees comprises of nine members nominated by respective stakeholder institutions. The General Manager sits in the board as ex-officio and as a secretary. The Trustees are appointed for terms of up to three years and are eligible for re-appointment for another final term of three years. The members have skills and experience to perform relevant functions as board members. The Board has three committees namely; Technical, Finance & Administration and Audit. Any issue(s) outside the above committees may be handled by specially constituted ad hoc- committee, made by a resolution of the Board of Trustees including its membership. The Board, in consultation with management, develops strategic direction for the Trust for the annual and long-term period.

At its regular meetings, the Board considerations include:

- Technical and financial progress reports
- Audit reviews and reports

The Board held 11 meetings during the financial year 2014/2015. The details of Trustees' attendance at these meeting are set out below;

NAME OF THE TRUSTEE	FULL BOARD MEETING		NAME OF THE COMMITTEE	COMMITTEE MEETING	
	ATTENDED	ELIGIBLE TO ATTEND		ATTENDED	ELIGIBLE TO ATTEND
Gabriel M. Mungi	4	4	Finance & Admin Technical Committee	3 1	3 1
Jeremiah Anondo	4	4	Technical Committee	1	1
David Gitonga	4	4	Technical Committee	1	1
Catherine K. Lilford	4	4	Finance & Admn	3	3
Shaheed Iqbal	3	4	Finance & Admn	2	3
Moses M. Nabea	4	4	Finance & Admn	3	3
Timothy W. Kibaki	3	4	Audit Committee	1	2
Kamanja Maeria	4	4	Audit Committee	2	2
Fredrick Mburugu	4	4	Audit Committee	2	2

In addition to the above the Board held 1 ad-hoc meeting during the year.



CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED JUNE 2015 CONT'D

Technical Committee

The committee is chaired by Bishop Jeremiah Anondo and includes Trustees Gabriel Miungi and Eng. David Gitonga. The committee secretary is the General Manager/Technical Manager.

Each member of the Committee has a general familiarity with the technical aspects of the water and sanitation industry necessary to undertake the committee's responsibilities to oversee the Trust's technical activities. The committee advises the Board of Trustees on technical matters involving the Trust's internal and external projects. It assists the Board of Trustees in monitoring and reviewing any project(s) development and major assets acquisition.

Finance & Administration Committee

The committee is chaired by Mr. Shaheed Iqbal and includes Trustees Mr Moses Nabea and Ms. Catherine Lilford. The committee secretary is the General Manager/Finance Manager. Each member has experience in management skills necessary for discharge of duties. The committee supports and assists the Board in the effective discharge of the Board's responsibilities in finance, human resource, information and communication and physical facilities. The committee receives and reviews reports on the financial performance, annual budget, changes to the water tariff. The committee ensures that adequate plans, policies and programmes are in place to promote the effectiveness, integrity and security of the Trust's information technology systems and their operations.

Audit Committee

The committee is chaired by Mr Fredrick Mburugu and includes Trustees Eng. Timothy Kibaki and Mr. Kamanja Maeria. The committee secretary is the Internal Auditor. Each member has experience and necessary skills to undertake the committee's responsibilities to oversee the Trust's financial reporting principles and policies, controls and procedures and its auditing activities. The audit committee meets and reviews report from the Auditor General and major findings on internal audit and investigations and considers the management response or actions thereto.

Annual General Meeting (AGM)

Every year the Trust holds AGM where all the stakeholders are invited to attend. The stakeholders are encouraged to attend the Trust's AGM at which they can meet and question the Trustees and management on the Trust activities. The report of the Auditor General is presented to the stakeholders including day's agenda, reports of the Chairman and General Manager and speeches from distinguished guests.



**CORPORATE SOCIAL RESPONSIBILITY STATEMENT FOR THE YEAR ENDED
JUNE 2015**

The Trust recognizes that it has responsibility to all stakeholders which includes the interests of customers, suppliers and employees and the community. There is need for the Trust to foster amicable relationship with all the stakeholders, taking into consideration the impact of the Trust's operations on the local communities and the surrounding environment where it operates.

The Environment

The Trust relies on the environment which provides water which is abstracted, treated and transmitted via pipeline to respective customers. Since its establishment the Trust has been advocating for water catchment protection. During the year 2013/14, the Trust partnered with the County Government of Meru in procuring tree seedling to be planted to protect the water catchment.

On sewer management, despite the system overload, the Trust prioritizes and minimises impact on the environment through environmentally responsible management and adherence to relevant statutory standards, most particularly with the sewerage treatment and disposal. The Trust encourages energy conservation through use of energy efficient lighting within our buildings and has installed power factoring systems in our water pumping system for power factor correction. The water treatment plant uses certified chemicals in dosing system. A well managed environment is the key to human kind survival and the Trust shall endeavour to play its role.

The Customer

The customer service is another area of high priority as the Trust is aware of the importance of the customer in the service delivery process and indeed to its overall performance. The Trust is therefore committed to effective communication with the customers and sensitising them on key issues in the management of water resources especially at the consumption point.

Efficient delivery of services to our customers is one of the crucial areas of the Trust with the aim of sustaining 24 hour service delivery with minimum interruptions to the flow of water. During the year this goal was achieved in most of the areas of our water supply.

The nature of the product that the Trust deals with renders the relationship with the customer very sensitive. To that end, the Trust strives at all times to involve the customer, even at those times when his/her water supply has to be disconnected for non payment. Customers have always been cooperative in the settlement of their dues, to the extent that less than 10 percent of them are disconnected per quarter. The Trust exhibits and educates customers on water saving tips during ASK shows held every year and on MEWASS website.



**CORPORATE SOCIAL RESPONSIBILITY STATEMENT FOR THE YEAR ENDED
JUNE 2015 CONT'D**

Human resource

The Trust recognises that health, safety and training, play a key role in ensuring our employees commitment to responsibility in the workplace and a working environment in which personal and employment rights are upheld. Effective policies and procedures are aligned with Trust needs and the encouragement of good communication processes, to assist in timely and consistent delivery of relevant information to employees.

The Trust provides equal opportunity to all employees and job applicants. It has in place policies covering issues such as performance management, training and family friendly policies. e.g. compassionate leave, paternity leave and so on. The employees of the Trust are active players of various teams which compete locally and nationally.

Community

During the course of its business activities the Trust seeks to make a positive impact on the community in which it operates. In the financial year 2014/15, the Trust participated to a variety of community programmes i.e. donation to Meru County Charity day to offer a smile to a very needy child in December 2014 festivities, food donation to the inmates at Meru GK prison, contribution towards Meru Hospice fundraising event, The Trust contributed towards Meru County International Investment Conference held in June 2015.

Stakeholders

The Trust actively encourages open communication with the stakeholders. Principally through the Board, the Trust endeavours to establish and maintain healthy relationships with its institutional stakeholders by holding regular consultations on issues requiring stakeholder participation as enshrined in the Constitution of Kenya 2010.

The Trust holds Annual General Meeting (AGM) once a year. During the AGM, the Trustees makes a full presentation to stakeholders to explain recent and future developments in the activities undertaken by the Trust, followed by an open question and answer session which provides stakeholders with the opportunity to ask Trustees and management relevant questions.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

REPORT OF THE TRUSTEES

FOR THE YEAR ENDED 30TH JUNE 2015

The Trustees submit their twelfth report and the audited financial statements for the year ended 30th June 2015 which show the state of the Trust's affairs.

1. PRINCIPAL ACTIVITIES

The principal activities of the Trust are the provision of water and sewerage services within the Meru Municipality and its environs.

2. RESULTS

The results for the year are set out on page 9.

3. TRUSTEES

Trustees who served during the year are shown on page 2.

4. AUDITORS

The Auditor General (Kenya National Audit Office) continues in office.

By order of the Board of Trustees:

Secretary

DATE: 29th January, 2016



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

STATEMENT OF TRUSTEES RESPONSIBILITIES

FOR THE YEAR ENDED 30TH JUNE 2015

The Trustees are required by the Meru Water and Sewerage Services Trust Deed clause 17 to prepare accounts for each financial year, which give a true and fair view of the state of affairs of the Trust as at the end of the financial year and of its operating results for the year. They are also required to ensure that the Trust keeps proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Trust. They are also responsible for safeguarding the assets of the Trust. The Trustees accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with generally accepted accounting practice. The Trustees are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Trust and of its operating results. The Trustees further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Approval of the financial statements

The Trust's financial statements were approved by the Board on **7th October, 2015** and signed on its behalf by :

MR. GABRIEL M. MIUNGI

TRUSTEE.....

)
)
)
)
)

DATE: 29th January, 2016

MR. MOSES M. NABEA

TRUSTEE.....

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Meru Water and Sewerage Services Registered Trustees set out on pages 9 to 26, which comprise the statement of financial position as at 30 June 2015, and the statement of comprehensive income, statement of changes in equity and, statement of cash flows for the year 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 is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable 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. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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 misstatement of the financial statements, whether due to fraud or error.

Meru Water and Sewerage Services Registered Trustees – Annual Report and Financial Statements for the year ended 30 June 2015

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 control. 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

1.0 Budget Control and Performance

During the year under review, Meru Water and Sewerage Services (MEWASS) Trustees had an approved revenue budget of Kshs.173,636,015 but only realized Kshs.157,860,343 resulting to an under collection of revenue of Kshs.15,775,672.

Further, the Trust had a budgeted expenditure allocation of Kshs.176,591,295 but only managed to spend Kshs.154,761,582 resulting to gross under expenditure of Kshs.21,829,713. In addition, the Trust overspent on legal and electricity by Kshs.2,996,474 and Kshs.5,730,751 respectively. (Annex I). No supplementary budget was prepared as required by the Public Finance Management Act, 2012 to reallocate the budget variances.

In the circumstances, the Meru Water and Sewerage Services (MEWASS) Trust did not contain its operations within the approved budget and it failed to supply its clients with goods and services equivalent to the under – spent amount of Kshs.21,829,713 as at 30 June 2015.

2.0 Loss of funds Gitoro Kambakia Water Project

As reported in the previous year, MEWASS awarded the above contract on 10th May 2013 to M/s Silverspread Hardware Limited, and an agreement was signed on 6th June 2013 between the Water Company and the firm at a contract sum of Kshs.126,455. According to the bill of quantities, the works included construction of a water kiosk at a cost of Kshs.563,065.

Examination of the project expenditure records and the status report produced for audit and a physical verification of the project revealed that the project was complete except for the water kiosk. Further, the construction of the water kiosk was stopped mid-way due to a dispute between the Trustees and a member of the community who had willingly given out the piece of land where the kiosk was erected, but changed his mind later forcing the works to be abandoned at 60% completion. A total of Kshs.404,280 was paid for the completed works. Although

the expenditure was written off as at 30 June 2015, the Company would have avoided this expenditure if it had approached the project with due diligence or even entered into a legally binding contract with the land owner.

In the circumstances, no value for money for the expenditure of Kshs.404,280 had been obtained in this project.

3.0 Financial Performance and Service Sustainability

The financial statements as at 30 June 2015 reflect a Kshs.26,292,214 reduction in net surplus from a surplus of Kshs.7,909,127 as at 30 June 2014 to a deficit of Kshs.18,383,087 as at 30 June 2015. Even though it was explained that the reduction in net surplus was due to a provision of contingent liability amounting to Kshs.17,853,494 for land dispute where water treatment works are situated, the Trust could still have reflected a deficit of Kshs. 529,593 even without the provision. Further, the working capital reduced by Kshs.24,525,189 from Kshs.102,344,703 as at 30 June 2014 to Kshs.77,819,514 as at 30 June 2015. In addition, the payables increased by Kshs.26,456,405 from Kshs.34,431,349 as at 30 June 2014 to Kshs.60,887,754 as at 30 June 2015. If this trend continues, the ability of the MEWASS to offer quality services to its clients in future cannot be guaranteed. In the circumstances, service sustainability of the company is in a precarious position.

Qualified Opinion

In my opinion, except for the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Meru Water and Sewerage Services Registered Trustees as at 30 June 2015 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Trustee (Perpetual Succession) Act, CAP 164 of the laws of Kenya, the Water Act, 2002 and the Companies Act, Cap 486 of the Laws of Kenya.

Other Matter

Procurement of Motor vehicles

During the year under review, the Trust purchased three (3) motor vehicles at a cost of Kshs.10,095,000 as shown below:

No.	Vehicle	Amount (Kshs)
1	KCC 643 U	2,400,000
2	KCC 990 X	4,820,000
3	KCC 458 V	<u>2,875,000</u>
	TOTAL	<u>10,095,000</u>

However, the procured vehicles were fitted with private number plates instead of the usual State Parastatal/Public Institutions (or County Government) blue or green number plates. Further, three (3) other vehicles and nineteen (19) Motor Cycles owned by the MEWASS Trust were registered in private number plates as analyzed below:-

NO.	Registration NO.	MAKE
1	KAS 464Q	Toyota
2	KAZ 061R	Nissan
3	KBL 706W	Nissan
4	KMCA 840L	Yamaha
5	KMCA 841L	Yamaha
6	KMCA 842L	Yamaha
7	KMCA 843L	Yamaha
8	KMCA 844L	Yamaha
9	KMCA 845L	Yamaha
10	KMCA 846L	Yamaha
11	KMCA 847L	Yamaha
12	KMCA 849L	Yamaha
13	KMCA 850L	Yamaha
14	KMCA 851L	Yamaha
15	KMCA 852L	Yamaha
16	KMCQ 701X	Suzuki
17	KMCQ 702X	Suzuki
18	KMCW 905 H	Yamaha
19	KMCW 907H	Yamaha
20	KMCW 908H	Yamaha
21	KMCW 910H	Yamaha
22	KTWA 502 C	Piaggio

In view of foregoing, it has not been possible to ascertain security and utilization of the motor vehicles and motor cycles for transacting MEWASS business only considering that the vehicles were not subject to government motor vehicle check units.

My opinion is not qualified in respect to this matter.

Report on Other Legal and Regulatory Requirements

As required by the Kenya Companies Act, I report based on the 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; and
- ii. In my opinion, proper books of account have been kept by the company, so far as appears from my examination of those books; and
- iii. The company's statement of financial position is in agreement with the books of account.



FCPA Edward R.O. Ouko, CBS
AUDITOR – GENERAL

Nairobi

16 May 2016

ANNEX I - BUDGET ANALYSIS

a) Income

Item	BUDGET (Kshs)	ACTUAL (Kshs)	VARIANCE (Kshs)	PERCENTAGE
Water revenue	123,137,752	109,919,459	13,218,293	89.27%
Sewer revenue	28,687,984	19,103,480	9,584,504	66.59%
Other revenues	1,525,661	4,372,282	(2,846,621)	286.58%
Bottled water revenue	2,340,000	603,098	1,736,902	25.77%
Materials and labour charges	7,958,453	9,822,387	(1,863,934)	123.42%
Sale of tender forms	-	13,000	(13,000)	
Interest income	1,953,765	6,938,948	(4,985,183)	355.16%
Miscellaneous income	-	97,949	(97,949)	
Revenue grant	4,861,952	3,494,870	1,367,082	71.88%
Exhauster revenue	3,170,448	3,494,870	(324,422)	110.23%
Total Income	173,636,015	157,860,343	15,775,672	90.91%

b) EXPENDITURE

Item	BUDGET (Kshs)	ACTUAL (Kshs)	VARIANCE (Kshs)	PERCENTAGE
Salaries, wages and allowances	59,899,655	56,542,050	3,357,605	94.39%
Staff welfare	2,350,000	2,571,830	(221,830)	109.44%
Repairs and maintenance	7,661,908	3,203,182	4,458,726	41.81%
Cash collection charges	583,824	661,170	(77,346)	113.25%
Office supplies	3,465,855	2,530,312	935,543	73.01%
Training	4,680,031	1,714,795	2,965,236	36.64%
Motor vehicle running expenses	7,945,855	4,902,374	3,043,481	61.70%
Telephone and Email	836,315	611,946	224,369	73.17%
Audit Fees	464,000	464,000	-	100.00%
Travelling and Subsistence	1,844,491	1,716,533	127,958	93.06%
Trustees' Fees and Allowances	3,415,600	2,251,351	1,164,249	65.91%
Annual General Meeting expenses	303,000	349,910	(46,910)	115.48%
Meetings and Conferences	290,459	466,270	(175,811)	160.53%
Electricity and Generator expenses	487,090	401,466	85,624	82.42%

Advertising and Public Relations	1,509,795	762,772	747,023	50.52%
Donations and Subscriptions	334,075	350,000	(15,925)	104.77%
Social activities expenses	500,000	193,950	306,050	38.79%
Entertainment expenses	154,264	153,361	903	99.41%
Legal, Professional Fees & Levies	5,159,489	8,155,963	(2,996,474)	158.08%
Security	2,483,450	1,975,330	508,120	79.54%
Uniforms	916,288	638,899	277,389	69.73%
Insurances	1,234,069	571,666	662,403	46.32%
ASK Show	400,000	310,967	89,033	77.74%
Postage	3,352,075	2,924,481	427,594	87.24%
Increase in provision for doubtful debts	491,008	(277,881)	768,889	-56.59%
Provision for Staff Accrued Leave	-	484,978	(484,978)	
Games & Sports-Wasca	914,850	820,085	94,765	89.64%
General Office Expenses	175,032	69,043	105,989	39.45%
Assorted Tools	247,181	140,129	107,052	56.69%
Depreciation	9,079,475	13,374,443	(4,294,968)	147.30%
Amortization of intangible assets	191,491	676,300	(484,809)	353.18%
Licence fee	15,817,319	15,511,697	305,622	98.07%
Rehabilitation-sewer system	1,854,415	1,230,562	623,853	66.36%
Revenue stamps	216,114	(26,146)	242,260	-12.10%
Excise Duty	50,000	112,823	(62,823)	225.65%
Pipes and Fittings	22,494,410	11,826,083	10,668,327	52.57%
Electricity	2,569,836	8,300,587	(5,730,751)	323.00%
Chemicals and laboratory expenses	3,783,637	2,397,827	1,385,810	63.37%
Bottling Plant Expenses	1,503,374	729,166	774,208	48.50%
Minor works	3,747,000	1,564,458	2,182,542	41.75%
Night flow measurements	768,000	242,000	526,000	31.51%
Exhauster Expenses	1,747,765	2,771,869	(1,024,104)	158.60%
Water Analysis	668,800	388,981	279,819	58.16%
Total Expenditure	176,591,295	154,761,582	21,829,713	87.64%



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30TH JUNE 2015

	Notes	2015 <u>Kshs</u>	2014 <u>Kshs</u>
Turnover	4	133,998,320	119,622,871
Other Income	5	<u>20,367,154</u>	<u>16,085,048</u>
Total Operating Income		154,365,474	135,707,919
EXPENSES:			
Administration and Establishment	6a	(64,867,712)	(51,176,532)
Selling and Distribution	7	<u>(75,843,128)</u>	<u>(65,161,291)</u>
Depreciation of property, plant and equipment	6b	<u>(13,374,443)</u>	<u>(7,125,652)</u>
Amortisation of intangible assets	6c	<u>(676,300)</u>	<u>(966,143)</u>
Contingent Liabilities	24	<u>(17,853,494)</u>	<u>0</u>
		<u>(172,615,078)</u>	<u>(124,429,618)</u>
Surplus/(Deficit) from Operating Activities		(18,249,604)	11,278,301
Net Finance Costs	8	<u>(133,483)</u>	<u>(296,795)</u>
Surplus/(Deficit) Before Taxation	9	(18,383,087)	10,981,506
Taxation	10	<u>0</u>	<u>(3,072,378)</u>
Surplus/(Deficit) after Taxation		(18,383,087)	<u>7,909,127</u>



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2015

	Notes	2015 <u>Kshs</u>	2014 <u>Kshs</u>
ASSETS			
NON-CURRENT ASSETS			
Property, plant & equipment	11	77,920,102	67,891,350
Intangible assets	12	<u>1,578,034</u>	<u>2,254,335</u>
		<u>79,498,136</u>	<u>70,145,685</u>
CURRENT ASSETS			
Inventory	13	4,683,728	1,822,874
Receivables and prepayments	14	46,649,414	48,656,638
Tax asset	18	12,688,721	8,268,263
Cash and cash equivalents	15	<u>100,955,641</u>	<u>100,421,647</u>
		<u>164,977,503</u>	<u>159,169,422</u>
CURRENT LIABILITIES			
Consumer deposits	17	26,270,235	<u>22,393,370</u>
Payables and accruals	19	<u>60,887,754</u>	<u>34,431,349</u>
		<u>87,157,989</u>	<u>56,824,719</u>
WORKING CAPITAL		<u>77,819,514</u>	<u>102,344,703</u>
NET ASSETS		<u>157,317,650</u>	<u>172,490,388</u>
FINANCED BY			
Grants	16	5,659,005	<u>2,689,066</u>
Revenue reserves		<u>123,805,825</u>	<u>137,648,752</u>
		<u>129,464,830</u>	<u>140,337,818</u>
NON-CURRENT LIABILITY			
Deferred grant income	22	27,852,821	32,152,570
TOTAL		<u>157,317,650</u>	<u>172,490,388</u>

The financial statements were approved by the Board of Trustees on **7th October, 2015** and signed on its behalf by;

MR. GABRIEL M. MIUNGI
TRUSTEE

)
)
) **DATE: 29th January, 2016**
)

MR. MOSES M. NABEA
TRUSTEE



MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30TH JUNE 2015

	Notes	Grants <u>Kshs</u>	Revenue Reserves <u>Kshs</u>	Total <u>Kshs</u>
At 01.07.2013		3,388,381	128,177,909	131,566,290
Transfer from Grant Account	1 (n) & 16	(699,315)	699,315	-
Capitalized grant income	23	-	862,401	862,401
Surplus for the year		-	7,909,127	7,909,127
At 30.06.2014		2,689,066	137,648,752	140,337,818
At 1st July 2014		2,689,066	137,648,752	140,337,818
Transfer from Grant Account	1 (n) & 16	(630,061)	630,061	-
Consultancy Grant		3,600,000	-	3,600,000
Capitalized grant income	23	-	3,910,099	3,910,099
Surplus/(Deficit) for the year		-	(18,383,087)	(18,383,087)
At 30.06.2015		<u>5,659,005</u>	<u>123,805,825</u>	<u>129,464,830</u>



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 30TH JUNE 2015

	2015	2014
	<u>Kshs</u>	<u>Kshs</u>
Operating Activities		
Surplus/(Deficit) before taxation	(18,383,087)	10,981,506
Adjustments for:		
Depreciation	13,374,443	7,125,652
Amortisation of intangible assets	676,300	966,143
Interest Income	<u>(6,938,948)</u>	<u>(4,457,859)</u>
	<u>7,111,795</u>	<u>3,633,936</u>
Surplus/Deficit before changes in working capital	(11,271,292)	14,615,442
Changes in Working Capital		
Increase/Decrease in Inventory	(2,860,853)	701,559
Increase/Decrease in Receivables and prepayments	2,007,224	8,082,628
Increase in Consumer deposits	3,876,865	4,132,053
Increase in Payables and accruals	<u>26,456,405</u>	<u>20,257,439</u>
	<u>29,479,640</u>	<u>33,173,680</u>
Cash Generated from Operations	<u>18,208,349</u>	<u>47,789,122</u>
Taxation Paid	(4,420,457)	(4,424,130)
Net cash generated from operations	<u>13,787,892</u>	<u>43,364,992</u>
Investing Activities		
Interest received	6,938,948	4,457,859
Purchase of Intangible assets	-	(2,959,828)
Purchase of fixed assets	<u>(23,403,196)</u>	<u>(29,005,026)</u>
Net cash used in investing activities	<u>(16,464,248)</u>	<u>(27,506,995)</u>
Financing Activities		
Deferred grant income	(389,650)	26,115,760
Consultancy grant	3,600,000	-
Net cash generated from financing activities	<u>3,210,350</u>	<u>26,115,760</u>
Increase in cash and cash equivalents	<u>533,994</u>	<u>41,973,757</u>
Cash and cash equivalents:		
At the start of the year	<u>100,421,647</u>	<u>58,447,890</u>
At the end of the year	<u>100,955,641</u>	<u>100,421,647</u>



MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 30TH JUNE 2015

	Original budget		Final budget	Actual on	Performance
	Adjustments			comparable	difference
	2014/15	2014/15	2014/15	2014/15	2014/15
	Kshs	Kshs	Kshs	Kshs	Kshs
TURNOVER					
Water Revenue	123,137,752	0	123,137,752	109,919,459	(13,218,293)
Sewer Revenue	28,687,984	0	28,687,984	19,103,480	(9,584,504)
Other Revenues	1,525,661	0	1,525,661	4,372,282	2,846,621
Bottled Water Revenue	2,340,000	0	2,340,000	603,098	(1,736,902)
	155,691,397	0	155,691,397	133,998,320	(21,693,077)
OTHER INCOME					
Materials and labour charges	7,958,453	0	7,958,453	9,822,387	1,863,934
Sale of tender forms	0	0	0	13,000	13,000
Interest income	1,953,765	0	1,953,765	6,938,948	4,985,183
Miscellaneous income	0	0	0	97,949	97,949
Revenue Grant	4,861,951	1	4,861,952	3,494,870	(1,367,082)
Exhauster Revenue	3,170,448	0	3,170,448	3,494,870	324,422
	17,944,617	0	17,944,617	23,862,024	5,917,407
ADMINISTRATION AND ESTABLISHMENT EXPENSES					
Salaries, Wages and Allowances	35,139,318		35,139,318	31,109,319	4,029,999
Staff Welfare	850,000	1,500,000	2,350,000	2,571,830	(221,830)
Repairs and Maintenance	3,627,142		3,627,142	2,058,625	1,568,517
Cash Collection Charges	583,824		583,824	661,170	(77,346)
Office Supplies	2,737,406		2,737,406	2,019,870	717,536
Training	4,680,031		4,680,031	1,714,795	2,965,236
Motor Vehicle Running Expenses	3,339,753		3,339,753	1,837,659	1,502,094
Telephone and Email	836,315		836,315	611,946	224,369
Audit Fees	464,000		464,000	464,000	0
Travelling and Subsistence	1,210,495		1,210,495	1,179,787	30,708
Trustees' Fees and Allowances	3,415,600		3,415,600	2,251,351	1,164,249
Annual General Meeting expenses	303,000		303,000	349,910	(46,910)
Meetings and Conferences	290,459		290,459	466,270	(175,811)
Electricity and Generator expenses	487,090		487,090	401,466	85,624
Advertising and Public Relations	1,509,795		1,509,795	762,772	747,023
Donations and Subscriptions	334,075		334,075	350,000	(15,925)
Social activities expenses	500,000		500,000	193,950	306,050
Entertainment expenses	154,264		154,264	153,361	903
Legal, Professional Fees & Levies	5,159,489		5,159,489	8,155,963	(2,996,474)
Security	2,483,450		2,483,450	1,975,330	508,120
Uniforms	916,288		916,288	638,899	277,389
Insurances	1,234,069		1,234,069	571,666	662,403
ASK Show	400,000		400,000	310,967	89,033
Postage	3,352,075		3,352,075	2,924,481	427,594
Increase in provision for doubtful debts	491,008		491,008	(277,881)	768,889
Provision for Staff Accrued Leave	0		0	484,978	(484,978)
Games & Sports - Wasca	914,850		914,850	820,085	94,765
General Office Expenses	175,032		175,032	69,043	105,989
Assorted Tools	16,000		16,000	36,099	(20,099)
Total Administration & Establishment Expenses	75,604,828	1,500,000	77,104,828	64,867,712	12,237,116
Depreciation	9,079,475		9,079,475	13,374,443	(4,294,968)
Amortisation of intangible assets	191,491		191,491	676,300	(484,809)
	84,875,794	1,500,000	86,375,794	78,918,455	7,457,339
SELLING AND DISTRIBUTION EXPENSES					
Salaries, Wages and Allowances	24,760,337		24,760,337	25,432,731	(672,394)
License fee	15,817,319		15,817,319	15,511,697	305,622
Repairs and Maintenance	4,034,766		4,034,766	1,144,557	2,890,209
Rehabilitation-sewer system	1,854,415		1,854,415	1,230,562	623,853
Assorted Tools	231,181		231,181	104,030	127,151
Travel and subsistence	633,996		633,996	536,746	97,250
Revenue Stamps	216,114		216,114	(26,146)	242,260
Excise Duty	50,000		50,000	112,823	(62,823)
Office supplies	728,449		728,449	510,442	218,007
Pipes and Fittings	22,494,410		22,494,410	11,826,083	10,668,327
Electricity	1,089,836	1,480,000	2,569,836	8,300,587	(5,730,751)
Chemicals and laboratory expenses	3,783,637		3,783,637	2,397,827	1,385,810
Motor Vehicle Running Expenses	4,606,102		4,606,102	3,064,715	1,541,387
Bottling Plant Expenses	1,503,374		1,503,374	729,166	774,208
Minor works	3,747,000		3,747,000	1,564,458	2,182,542
Night flow measurements	768,000		768,000	242,000	526,000
Exhauster Expenses	1,747,765		1,747,765	2,771,869	(1,024,104)
Water Analysis	668,800		668,800	388,981	279,819
	88,735,501	1,480,000	90,215,501	75,843,128	14,372,373



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2015

1. Statement of compliance and basis of preparation

The Trust's financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Trust. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The financial statements are prepared on accrual basis. The Cashflow statement is prepared using indirect method.

Adoption of new and revised International Financial Reporting Standards (IFRSs)

i) Standards and interpretations affecting amounts reported in the current period (and/or prior periods)

Several new and revised standards and interpretations became effective during the year. The Trustees have evaluated the impact of these new standards and interpretations and none of them had a significant impact on the Trust's financial statements.

ii) Standards and interpretations issued but not yet effective

At the date of authorization of these financial statements, several other new and revised standards and interpretations were in issue but not yet effective. The adoption of these standards and interpretations, when effective, are not expected to have a material impact on the financial statements of the Trust.

iii) Early adoption

The Trust did not early adopt any new standards and/or interpretation that are in issue but not yet effective.

2. Summary of significant accounting policies

a) Revenue from non-exchange transactions

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Trust and can be measured reliably.

Revenue from exchange transactions

Rendering of services

The Trust recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Trust.

Interest income

Interest income is accrued using the effective yield method. The effective yield interest estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

b) Taxes

Income tax

Income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in Kenya



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2015

FOR THE YEAR ENDED 30TH JUNE 2015 (CONT'D)

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit.

Deferred tax items are recognized in correlation to the underlying transaction in net assets.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Expenses and assets are recognized inclusive of the amount of sales tax, including:

- > When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- > When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

c) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Depreciation policy

Freehold land	Nil	Water meters	20.0%
Buildings	2.5%	Computers and typewriters	30.0%
Furniture and equipment	12.5%	Workshop equipment	33.3%
Motor vehicles	25.0%	Pipes and fittings	12.5%



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2015 (CONT'D)

d) Leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

e) Research and development costs

The Trust expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

f) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed over their estimated useful lives.

g) Financial instruments

Financial assets

Initial recognition and measurement

Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Trust determines the classification of its financial assets at initial recognition.

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 measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.



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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2015 (CONT'D)

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Trust has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Trust assesses at each reporting date whether there is objective evidence that a financial asset or a Trust of financial assets is impaired. A financial asset or a Trust of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Trust of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a Trust of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Trust determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

h Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Trust.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2015 (CONT'D)

i) Provisions

Provisions are recognized when the Trust 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 or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Trust expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Trust recognize a contingent liability, i.e by providing details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

The Trust does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Trust in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

j) Nature and purpose of reserves

The Trust creates and maintains reserves in terms of specific requirements.

k) Changes in accounting policies and estimates

The Trust recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

l) Employee benefits

Retirement benefit plans

The Trust provides retirement benefits for its employees. Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

m) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

n) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

o) Related parties

The Trust regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Trust, or vice versa. Members of Board of Trustee and key management are regarded as related parties.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2015 (CONT'D)

p) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or water bills collection agents.

q) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

r) Significant judgments and sources of estimation uncertainty

The preparation of the Trust's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Trust based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Trust. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Trust
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

The estimates are discounted at a pre-tax discount rate that reflect current market assessments of the time value of money.

Offsetting Financial Assets and Financial Liabilities

The Trust did not have any offsetting arrangements in place during the reporting period.

s) Financial Risk Management

The Trust's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Trust's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Trust does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Trust's financial risk management objectives and policies are detailed below:

i) Credit risk

The Trust has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2015 (CONT'D)

The management 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 assessment in accordance with limits set by the Trustees. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Trust's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the Trust's maximum exposure to credit risk is made up as follows:

	Fully performing Kshs.	Impaired Kshs.	Total Kshs.
At 30 June 2015			
Trade receivables	38,121,978	18,808,218	56,930,196
Bank balances	100,955,641	-	100,955,641
	=====	=====	=====
At 30 June 2014			
Trade receivables	39,793,934	19,086,098	58,880,033
Bank balances	100,421,647	-	100,421,647

The customers under the fully performing category are paying their debts as they continue consuming water services. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the Trust has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts

ii) Liquidity risk

The responsibility for liquidity risk management rests with the Trustees. The Trust manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the Trust under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table 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 Kshs.	Between 1-3 Kshs.	Over 4 months Kshs.	Total Kshs.
At 30 June 2015				
Trade payables	5,421,583	8,193,511	20,544,604	34,159,698
	=====	=====	=====	=====
At 30 June 2014				
Trade payables	4,027,645	7,174,226	10,467,472	21,669,342

iii) Market risk

a) Foreign currency risk

The Trust does not have transactional currency exposures

b) Interest rate risk

Interest rate risk is the risk that the Trust's financial condition may be adversely affected as a result of changes in interest rate levels. The Trust's interest rate risk arises from bank deposits. This exposes the Trust to cash flow interest rate risk.

The interest rate risk exposure arises mainly from interest rate movements on the Trust's deposits

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

iv) Capital Management

The primary objective of the Trust's capital management is to ensure that it maintains healthy capital ratio in order to support its core mandate.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR

ENDED 30TH JUNE 2015 (CONT'D)

3. THE WATER SECTOR REFORMS

Pursuant to the requirements of the Water Act 2002, the Government of Kenya (GoK) has placed all the water assets and liabilities in the whole country under the management of Regional Water Services Boards.

In line with these countrywide reforms, the Meru Water & Sewerage Services (MEWASS) has signed a service provision agreement with the Tana Water Services Board, Water services provision being a devolved function to the County Government, the status is expected to changed during transition period of the Constitution of Kenya 2010

	2015	2014
	<u>Kshs</u>	<u>Kshs</u>
4 TURNOVER		
Water Revenue	109,919,459	91,580,767
Sewer Revenue	19,103,480	22,777,078
Other Revenues	4,372,282	4,824,222
Bottled Water Revenue	603,098	440,804
	<u>133,998,320</u>	<u>119,622,871</u>
5 OTHER INCOME		
Materials and labour charges	9,822,387	8,992,600
Sale of tender forms	13,000	64,000
Interest income	6,938,948	4,457,859
Miscellaneous income	97,949	68,884
Exhauster Revenue	3,494,870	2,501,705
	<u>20,367,154</u>	<u>16,085,048</u>
6. ADMINISTRATION AND ESTABLISHMENT EXPENSES		
Salaries, Wages and Allowances	31,109,319	25,571,469
Staff Welfare	2,571,830	1,187,459
Repairs and Maintenance	2,058,625	1,963,998
Cash Collection Charges	661,170	403,470
Office Supplies	2,019,870	1,742,879
Training	1,714,795	1,448,670
Motor Vehicle Running Expenses	1,837,659	1,886,428
Telephone and Email	611,946	595,528
Audit Fees	464,000	464,000
Travelling and Subsistence	1,179,787	1,269,901
Trustees' Fees and Allowances	2,251,351	3,055,900
Annual General Meeting expenses	349,910	272,100
Meetings and Conferences	466,270	331,330
Electricity and Generator expenses	401,466	482,389
Advertising and Public Relations	762,772	833,616
Donations and Subscriptions	350,000	154,500
Social activities expenses	193,950	273,725
Entertainment expenses	153,361	128,860
Legal, Professional Fees & Levies	8,155,963	1,590,887
Security	1,975,330	2,062,228
Uniforms	638,899	826,949
Insurances	571,666	632,516
ASK Show	310,967	527,680
Postage	2,924,481	2,917,602
Increase in provision for doubtful debts	(277,881)	(1,325,187)
Provision for Staff Accrued Leave	484,978	300,938
Games & Sports - Wasca	820,085	750,876
General Office Expenses	69,043	824,512
Assorted Tools	36,099	1,310
a Total Administration & Establishment Expenses	<u>64,867,712</u>	<u>51,176,532</u>
b Depreciation	13,374,443	7,125,652
c Amortisation of intangible assets	676,300	966,143
	<u>78,918,455</u>	<u>59,268,327</u>



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR
ENDED 30TH JUNE 2015 (CONT'D)**

	2015	2014
	<u>Kshs</u>	<u>Kshs</u>
7. SELLING AND DISTRIBUTION EXPENSES		
Salaries, Wages and Allowances	25,432,731	20,960,046
License fee	15,511,697	14,851,414
Repairs and Maintenance	1,144,557	848,940
Rehabilitation-sewer system	1,230,562	1,121,007
Assorted Tools	104,030	105,620
Travel and subsistence	536,746	903,415
Revenue Stamps	(26,146)	131,098
Excise Duty	112,823	71,616
Office supplies	510,442	484,488
Pipes and Fittings	11,826,083	10,856,926
Electricity	8,300,587	2,128,714
Chemicals and laboratory expenses	2,397,827	2,378,446
Motor Vehicle Running Expenses	3,064,715	3,939,431
Bottling Plant Expenses	729,166	631,592
Minor works	1,564,458	2,951,637
Night flow measurements	242,000	254,000
Exhauster Expenses	2,771,869	2,013,282
Water Analysis	388,981	529,620
	<u>75,843,128</u>	<u>65,161,291</u>
8. NET FINANCE COSTS		
Bank charges	<u>133,483</u>	<u>296,795</u>
9. SURPLUS BEFORE TAXATION		
The surplus/(deficit) before taxation is stated after charging:		
Depreciation	13,374,443	7,125,652
Board of Trustees' emoluments	2,251,351	3,055,900
Auditor's remuneration	464,000	464,000
Net finance costs	133,483	296,795
And after crediting:		
Interest income	<u>6,938,948</u>	<u>4,457,859</u>
10. TAXATION		
a) Withholding Tax	<u>1,040,842</u>	<u>668,687</u>
The withholding tax was deducted by the paying institutions from interest income earned on fixed deposits.		
b) Corporate Tax		
The Trust's current tax charge is computed in accordance with income tax rules applicable on surplus generated during the year.		
Surpluses as per the accounts	(18,383,087)	10,981,506
Add: Non allowable expenses	<u>15,182,437</u>	<u>7,676,401</u>
	(3,200,650)	18,657,907
Less: Allowable expenses	<u>(14,344,627)</u>	<u>(8,416,646)</u>
Add: Contingent Liabilities	<u>17,853,494</u>	<u>-</u>
Taxable income	308,217	10,241,261
Corporate Tax at 30%	92,465	3,072,378



**MERU WATER AND SEWERAGE SERVICES
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2015 (CONTD)

PROPERTY, PLANT AND EQUIPMENT

	Free Hold Land	Buildings	Office Computers	Motor Vehicles	WTP Equipment & Tools	Water Meters & Equipment	Office Furniture & Equipment	Pipes & Fittings	Work in Progress	Total
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
COST/VALUATION										
At 1st July 2013	1,606,980	9,148,557	12,670,448	13,906,486	2,854,468	31,730,917	7,434,248	30,733,311	707,033	110,792,447
Additions	3,640,000	0	684,133	0	0	3,045,000	60,515	0	21,575,378	29,005,026
Disposal	0	0	0	0	0	0	0	0	0	0
At 30th June 2014	<u>5,246,980</u>	<u>9,148,557</u>	<u>13,354,581</u>	<u>13,906,486</u>	<u>2,854,468</u>	<u>34,775,917</u>	<u>7,494,763</u>	<u>30,733,311</u>	<u>22,282,411</u>	<u>139,797,473</u>
At 1st July 2014	5,246,980	9,148,557	13,354,581	13,906,486	2,854,468	34,775,917	7,494,763	30,733,311	22,282,411	139,797,473
Additions	0	0	767,463	10,689,000	70,000	5,460,000	889,495	27,809,649	(22,282,411)	23,403,196
Disposal	0	0	0	0	0	0	0	0	0	0
At 30th June 2015	<u>5,246,980</u>	<u>9,148,557</u>	<u>14,122,044</u>	<u>24,595,486</u>	<u>2,924,468</u>	<u>40,235,917</u>	<u>8,384,258</u>	<u>58,542,960</u>	<u>(9)</u>	<u>163,200,669</u>
DEPRECIATION										
At 1st July 2013	0	1,217,941	9,518,918	11,341,172	2,644,416	22,147,018	4,372,579	13,538,429	0	64,780,472
Acc. Dep On Disposal	0	0	0	0	0	0	0	0	0	0
Charge for the year	0	198,265	1,150,699	641,328	69,947	2,525,780	390,273	2,149,360	0	7,125,653
At 30th June 2014	<u>0</u>	<u>1,416,207</u>	<u>10,669,617</u>	<u>11,982,500</u>	<u>2,714,363</u>	<u>24,672,798</u>	<u>4,762,852</u>	<u>15,687,789</u>	<u>0</u>	<u>71,906,125</u>
At 1st July 2014	0	1,416,207	10,669,617	11,982,500	2,714,363	24,672,798	4,762,852	15,687,789	0	71,906,126
Charge for the year	0	193,309	1,035,728	3,153,246	69,965	3,112,624	452,676	5,356,896	0	13,374,443
At 30th June 2015	<u>0</u>	<u>1,609,515</u>	<u>11,705,345</u>	<u>15,135,746</u>	<u>2,784,328</u>	<u>27,785,421</u>	<u>5,215,528</u>	<u>21,044,686</u>	<u>0</u>	<u>85,280,569</u>
NET BOOK VALUE										
At 30th June 2015	5,246,980	7,539,042	2,416,699	9,459,740	140,140	12,450,495	3,168,730	37,498,275	(9)	77,920,102
At 30th June 2014	5,246,980	7,732,351	2,684,964	1,923,986	140,105	10,103,119	2,731,911	15,045,523	22,282,411	67,891,350

Property, plant and equipment worth Kshs 19,269,448 donated to Meru Water and Sewerage Services at inception by the Government of Kenya and the Government of Japan are included in these financial statements. These include computers, furniture and fittings, laboratory equipment, motor vehicles and motor cycles, office and workshop equipment and water meters

Assets of an undetermined value which were originally under the Meru Municipal Council and the then Ministry of Environment and Natural Resources are not included in these accounts. These include all distribution and storage tanks, structures and works at the water treatment plant, buildings, water pipes network, master meters, structures and works at the sewer treatment, sewerage conduit pipes networks, and all the land on which these items are constructed. The Trust utilises all these assets to provide water and sewerage services to the residents of Meru Municipality its environs

The Tana Water Services Board is in the process of surveying these assets to determine their value. The management of these assets forms an integral part of the service provision agreement referred to in note 3



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2015 (CONT'D)**

	2015	2014
12. INTANGIBLE ASSETS		
COST		
At July 1	6,954,199	3,994,371
Additions	<u>-</u>	<u>2,959,828</u>
At June 30	6,954,199	6,954,199
AMORTISATION		
At July 1	4,699,864	3,733,722
Charge for the year	<u>676,300</u>	<u>966,143</u>
At June 30	5,376,165	4,699,864
NET BOOK VALUE		
At June 30	<u>1,578,034</u>	<u>2,254,335</u>
13. INVENTORIES		
Pipes and fittings	3,874,499	1,457,852
Electrical fittings	12,539	12,539
Chemicals	379,244	245,272
Motor spare parts	156,567	76,093
Other items	<u>260,879</u>	<u>31,118</u>
	<u>4,683,728</u>	<u>1,822,874</u>
14. RECEIVABLES AND PREPAYMENTS		
Trade receivables	56,930,196	58,880,033
Provision for doubtful debts	-	-
- Dormant accounts	(14,572,443)	(14,664,550)
- General	<u>(4,235,775)</u>	<u>(4,421,548)</u>
	38,121,978	39,793,934
Other receivables, deposits and prepayments	<u>8,527,434</u>	<u>8,862,703</u>
	<u>46,649,414</u>	<u>48,656,638</u>
15. CASH AND CASH EQUIVALENTS		
Cash in Hand	892,133	48,805
Cash at Bank		
Standard Chartered bank	29,114,594	18,854,701
Equity Collection account	10,630,436	13,651,484
Uchumi Collection account	-	1,155,552
Mpesa Collection account	2,107,770	1,625,349
Fixed Deposits		
Standard Chartered bank	30,000,000	15,031,972
ABC Bank	16,210,709	50,053,784
Equity bank	12,000,000	-
	<u>100,955,641</u>	<u>100,421,647</u>

The funds in the fixed deposit will be used to finance the capital projects lined up for the year (see note 25)

16. GRANT

Balance as at 1st July	2,689,066	3,388,381
Grant from related parties	-	-
Less: Transfer to Revenue Reserves	(630,061)	(699,315)
Balance at 30th June	2,059,005	2,689,066

The capital grant represents assets donated to MEWASS by the Japanese Government and Tana Water Services Board



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2015 (CONT'D)

	2015	2014
	<u>Kshs</u>	<u>Kshs</u>
17. CONSUMER DEPOSITS		
These are refundable deposits paid by customers. The deposits are refunded when water services to a customer are terminated:	<u>26,270,235</u>	<u>22,393,370</u>
18. TAX		
This represents Tax advance payments to Kenya Revenue Authority as at the end of the financial year. The Trust has recognised principal Taxes and no interest and penalties. The application for waiver of interest and penalties is pending with the KRA	<u>(12,688,721)</u>	<u>(8,268,263)</u>
19. PAYABLES AND ACCRUALS		
Trade payables	34,159,698	21,669,342
Other payables and accruals	23,819,575	10,338,504
Provision for staff leave entitlement	2,908,481	2,423,503
	<u>60,887,754</u>	<u>34,431,349</u>
20. STAFF COSTS		
Staff costs include:		
Provision for staff leave entitlement	<u>2,908,481</u>	<u>2,423,503</u>
Others		
Contribution to retirement benefit scheme	4,128,890	3,976,507
Contribution to statutory pension scheme	294,832	296,227
Contribution to benevolent fund	91,200	76,700
Other salaries, wages and allowances	52,027,128	42,182,081
	<u>56,542,050</u>	<u>46,531,515</u>
21. COMPENSATION OF KEY MANAGEMENT PERSONNEL		
Basic salary	4,846,146.00	4,393,344.00
Other allowances	4,016,312.00	3,245,886.00
Retirement benefits	887,719.00	829,170.00
	<u>9,750,177.00</u>	<u>8,468,400.00</u>
22. NUMBER OF EMPLOYEES		
The number of employees as at 30th June 2015 was 79 (2014: 74)		
23. DEFERRED GRANT INCOME		
Balance b/w	32,152,570	6,899,211
Grants from WSTF	(389,650)	26,115,760
Capitalized grants	(3,910,099)	(862,401)
	<u>27,852,821</u>	<u>32,152,570</u>
This relates to grants received from Water Services Trust Fund (WSTF)		
24. CONTINGENT LIABILITIES		
Value of award against MEWASS	17,853,494	-
The Trust has a Kshs.17,853,494.00 claim in respect of a Land ownership dispute where Water Treatment /Storage Tanks are located. The Trust is vigorously defending itself through the court. The Trust lawyers are defending the Trust. A provision has been made in these accounts for this claim.		



MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2015 (CONT'D)

	2015	2014
	<u>Kshs</u>	<u>Kshs</u>
25. CAPITAL COMMITMENTS		
Authorized and contracted:	124,238,603	1,091,900
Authorized but not contracted:	<u>18,055,475</u>	<u>20,601,600</u>
	<u>142,294,078</u>	<u>21,693,500</u>

26. CURRENCY RISK

The Trust operates wholly within Kenya and its assets and liabilities are reported in the local currency. The Trust held no foreign currency as at 30th June 2015

27. CURRENCY

The financial statements are presented in Kenya Shillings (Kshs).

