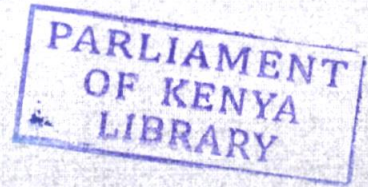




REPUBLIC OF KENYA



**KENYA NATIONAL AUDIT OFFICE**

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
KENYA FERRY SERVICES LIMITED**

**FOR THE YEAR ENDED  
30 JUNE 2014**

**KENYA FERRY SERVICES LTD**

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "*

A FERRY SERVICE OF  
CHOICE



**REPORT AND FINANCIAL  
STATEMENTS FOR THE YEAR ENDED  
JUNE 30, 2014**



**KENYA FERRY SERVICES LIMITED**

# KENYA FERRY SERVICES LTD

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "*

## CONTENTS

Key company information	3 - 5
The board of directors	6 - 8
Management team	9 - 10
Chairman's statement	11- 12
Report of the managing director	13 - 15
Corporate governance statement	16 - 20
Corporate social responsibility statement	21 - 22
Risk Management	23 - 24
Report of the directors	25
Statement of director's responsibilities	26- 27
Report of the independent auditors	28
Statement of comprehensive income	29
Statement of Comparison of actual to budgeted amount (recurrent)	30
Statement of Comparison of actual to budgeted amount (development)	31
Statement of financial position	32
Statement of changes in equity	33
Statement of cash flows	34
Summary of significant accounting policies	35 - 40
Notes to the financial statements	41 - 64

## **KENYA FERRY SERVICES LTD**

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "*

### **KEY COMPANY INFORMATION (Continued)**

Website: [www.kenyaferry.co.ke](http://www.kenyaferry.co.ke)

#### **Corporate bankers**

National Bank (K) Ltd

Portway House Branch

P.O. Box 87770 – 80100

Mombasa- Kenya

#### **Independent auditors**

Auditor General

Kenya National Audit Office

Anniversary Tower, University Way

P. O. Box 30084 –

GPO 00100

Nairobi, Kenya

#### **Principal Legal Advisors**

1. The Attorney General

State Law Office

Harambee Avenue

P.O Box 4112

City Square 00200

Nairobi, Kenya

2. Company Secretary, (Elijah Kitur)

Kenya Ferry Services Ltd

Peleeza Likoni

P. O. Box 96242 – 80110 Likoni, Mombasa

# KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

## THE BOARD OF DIRECTORS


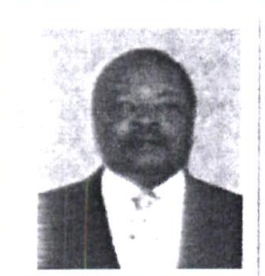

## THE BOARD OF DIRECTORS

	<p><b>Chairman</b></p> <p>James was born on the 23<sup>rd</sup> November 1950 and is happily married. Mr. James Kitsao Fondo holds a bachelor's degree in Commerce (Accounting option) from the University of Nairobi earned in 1977. Has extensive experience as a Professional Accountant in large Corporations having worked for Kenya Power &amp; Lighting Company Ltd and Kenya Seed Company Ltd rising through the ranks to become Group Financial Accountant.</p>
	<p><b>Managing Director</b></p> <p>Mr. Musa Hassan Musa was born on 23<sup>rd</sup> July 1970. He holds a bachelor degree in Education in Technology (Electrical Option) from Moi University, and he has a Master of Science degree in Marine Education and Training (Marine Engineering) from world Maritime University (Sweden) and Executive Master's degree in Business Administration from Jomo Kenyatta University.</p> <p>He is a member of the Institute of Engineering and Technology (MIET) and the Institute of Marine Engineering Science and Technology (MIMAREST). He has sixteen years' experience in marine sector and quality management systems.</p>
	<p><b>Director</b></p> <p>Mr. Nduva Muli was born on 29<sup>th</sup> November 1969. He is the Principal Secretary of the State Department for Transport in the Ministry of Transport and Infrastructure. He holds an Executive Master of Business Administration in Global Strategic Marketing from Moi University and a Bachelor of Land Economics from University of Aberdeen in Scotland. Prior to becoming the Managing Director of Kenya Railways, he served as the General Manager Corporate Planning and Business development at the same organization from 2006 to 2007. He was also a Communication &amp; Fund raising manager in AMREF from 2004 to 2006, Manager of E-Business &amp; Distribution in Kenya Airways from 2001 to 2004. He has been bestowed with the honor of Elder of the Burning Spear (EBS).</p>

## KENYA FERRY SERVICES LTD




Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### THE BOARD OF DIRECTORS (Continued)

	<p><b>Director</b></p> <p>Mr. Henry K. Rotich was born in 1969. He is the Cabinet Secretary, The National Treasury and holds a Master's degree in Public Administration (MPA) from Harvard University USA, Master's degree in Economics and a Bachelor's degree in Economics both from University of Nairobi, Kenya. Prior to his elevation as Cabinet Secretary, Mr. Rotich was Head of Macroeconomics at the Ministry of Finance since March 2006. He also worked at Research Department of Central Bank of Kenya since 2004. Besides, Mr. Rotich has served in as director of several boards of state corporations such as Insurance Regulatory Authority, Industrial Development Bank, Communications Authority of Kenya and Kenya National Bureau of Statistics.</p>
	<p><b>Director</b></p> <p>Mr. Gichiri Ndua is the Managing Director of Kenya Ports Authority. He holds a Master of Arts in Economics from the University of Nairobi. He is also a Board of Director of Kenya Railways, IAPH, Cruise Indian Ocean Association (CIOA) and Port Management Association of Eastern and Southern Africa (PMAESA) and a Trustee, Kenya Ports Authority Pension Fund.</p> <p>He has a wide experience in Management of Institutions acquired since 1984 when he joined Kenya Ports Authority.</p>
	<p><b>Director</b></p> <p>Mariam was born on the 18<sup>th</sup> August 1950 and is married. She has O level of education and a trained primary school teacher. Mrs. Mariam Mahero, a retired Teacher by Profession, has more than 30 years' experience as a teacher. She also has vast experience in Public Administration, Charing Committee Meetings and in Community projects. She is also actively engaged in Christian Charity work.</p>

## KENYA FERRY SERVICES LTD






Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

	<p><b>Director</b> Nelson was born in April 1954 and is happily married. Mr. Nelson C. Mwanzanje holds a diploma in Radio Telecommunications and other technical courses in Telecommunication from RTTI, Mbagathi. He has extensive Managerial experience in Technical areas and rose through the ranks to become a Regional Manager with Telkom Kenya Ltd.</p>
	<p><b>Director</b> Khamis was born on the 5<sup>th</sup> December 1951. He holds O level certificate of education and a certificate from Utalii College in Front Office Management. He trained as a Food and beverage Controller in Germany. Mr. Khamis S. Khamis has extensive experience and training in the hospitality industry having worked as Hotel Manager at Castle Hotel Mombasa and a food and beverage controller at Alliance Hotels in South Coast. He has wide experience in politics after serving as a Councilor with the then Municipal Council of Mombasa for two terms</p>
	<p><b>Director</b> Eunice was born in 22<sup>nd</sup> August 1966. She is a holder of LLB from University of Nairobi and a diploma from the school of law Nairobi. She is a corporate lawyer for over 20 years. she is the current Chair of the Audit and Risk Committee of the company</p>

## KENYA FERRY SERVICES LTD



Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### MANAGEMENT TEAM

	<p><b>Managing Director</b></p> <p>Mr. Musa Hassan Musa holds a bachelor degree in Education in Technology (Electrical Option) from Moi University, and he has a Master of Science degree in Marine Education and Training (Marine Engineering) from world Maritime University (Sweden) and Executive Master's degree in Business Administration from Jomo Kenyatta University.</p> <p>He is a member of the Institute of Engineering and Technology (MIET) and the institute of Marine Engineering Science and Technology (MIMAREST). He has sixteen years' experience in marine sector and quality management systems.</p>
	<p><b>Human resources and development manager</b></p> <p>Mr. Paniel Nyaga holds a master degree of Business Administration, has fellowship in Certified Public Secretary. He is a member of CPS (K) and MKIN. He has twenty one years' experience, seventeen as head of a department.</p>
	<p><b>Company secretary and head of legal services</b></p> <p>Mr. Elijah Kitur holds an LLB (Hons), is an advocate and a certified public secretary CPS (K). He has eighteen years' experience and is a member of the Law society of Kenya and Institute of Certified public Secretaries of Kenya.</p>
	<p><b>Operations manager</b></p> <p>Mr. Antony Dosho Madzungu holds a Bachelor of Arts in Sociology and Geography; advanced management course offered by Kenya Institute of Management, he has twenty two years of experience and thirteen years as a head of department</p>
	<p><b>Finance manager</b></p> <p>Mr. Bakari Hamisi Gowa holds a Bachelor degree in Education; he is a qualified Accountant with CPA (K), a qualified secretary with CPS (K), holds a diploma in CIPS, a diploma in IMIS and is currently pursuing MBA. He has ten years' experience in financial management.</p>

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

	<p><b>Chief engineer</b></p> <p>Major (rtd) George Amos Nyadero holds higher diploma in Mechanical engineering(Kenya), diploma in Marine Survey(UK), diploma in Marine engineering. He also holds bachelor of science in mechanical Engineering(USA) and a masters in marine surveying(UK). He is a member of IACS (International Association of Class Surveyors) and IMAREST (Institute of Engineering, Science and Technology). He has thirty seven years working experience in marine environment</p>
	<p><b>Procurement and supplies manager</b></p> <p>MS Jennifer Cirindi holds a Bachelor degree in Education. She is a qualified procurement professional with MCIPS(UK) and holds a post graduate diploma in CIPS. She is a member of KISM and is currently pursuing MBA at Nairobi University in Operations Management. She has over 10 years experience in supply chain management</p>

## **KENYA FERRY SERVICES LTD**

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 “kshs 000 “*

### **CHAIRMAN'S STATEMENT**

#### **Results/performance**

I am pleased to present the annual report and financial statements for the company for the year ended 30<sup>th</sup> June 2014. The company registered a deficit of Kshs 91 million against a deficit of Kshs 117million realized in the previous year 2012/2013. This is a significant improvement and it is in line with our aspirations as an organization to post surpluses in the near future. The main contributing factors to this improved position was an increase of 25% total revenue from Kshs 762 million in 2012/2013 to Kshs 949 million in 2013/2014. On the same vein, the company made provisions of Kshs 41 million and 39 million for debtors and obsolete stock respectively and as a result, the company's overall expenditure grew by 17% from Kshs 890 million in 2012/2013 to Kshs 1,042 million in 2013/2014. On the other hand the asset base of the company improved from Kshs 2.8 billion in the year 2012/2013 to Kshs 3.1 billion in 2013/2014 financial period.

The government has a commitment to provide for ferry services for pedestrians accessing the company facilities. This comes in the form of grants to the company and its level (how much is allocated) affects the company's performance. For the last five years this has been erratic and this scenario cannot guarantee a sustained improvement of service delivery and always make the company appear inefficient. In the last financial year 2012/2013, the company submitted a proposal to charge pedestrians who access ferry services at a minimum rate of Kshs 10 per one ferry trip. It is envisaged that this arrangement would ease the company's tendencies to over rely on the government to provide its services and at the same time improve on the levels of such services. The company will push for charge of pedestrians so as to boost sustainability of the company.

#### **Strategic issues**

With only one year left in the current strategic plan, the company has prepared its strategic plan for years 2014-2019. This was to align it to the changing business environment and also the new constitutional dispensation. Key amongst these is the Government's vision on restructuring and modernizing the ferry and inland water vessel services in Kenya and create linkages to main ports and road networks. The successful implementation of this master plan shall among other things modernize water transport sector in Kenya and the region hence promote an efficient movement for people and cargo. Further to this, the company is in the

## KENYA FERRY SERVICES LTD

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "*

### **CHAIRMAN'S STATEMENT (Continued)**

process of acquiring two new ferry vessels staggered over the next two financial years. This shall supplement the existing fleet which is ageing and MV Pwani that has been disposed.

In order to facilitate smooth conveyance of ferry passengers, the company has made a proposal for development of a multi-level ferry terminus at the Island side through Public Private Partnership. The feasibility study has been concluded by Infrastructure Investment Facilitation Company (IIFC) and is awaiting approval by Treasury.

The company also received an unsolicited bid from an investor to develop and operate a cable car across the Likoni channel. This project's concept paper has since been approved by Treasury and the proposal is currently being scrutinized by the PPP Secretariat of the Treasury before commencement of construction works. This shall be the first project of its kind in East & Central Africa and shall not only supplement the existing ferry service but shall also be a major tourist attraction.

## **KENYA FERRY SERVICES LTD**

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "*

### **REPORT OF THE MANAGING DIRECTOR**

#### **Financial Performance for the year**

The company realized a deficit of Kshs 91 million in the current year compared to a deficit of Kshs 117 million in the year 2012/2013. This is higher compared to a budgeted deficit of Kshs 26 million.

KFSL depends on two streams of financing to manage its business – its own internally generated revenue which encompasses both ferry and non-ferry components and government subventions. The National Government disburses funds in two forms i.e. development funds for capital projects and compensation for free passage of pedestrians (recurrent funds).

Government compensation has always been unpredictable over the years and this has been an impediment to the planning process by the company. However, there was an increase in the Government compensation by 30% during the year 2013/2014 whereby the company received a total of Kshs 364million compared to Kshs 280million in 2012/2013 whereas the capital component was Kshs 376 million compared to Kshs 342 million in 2012/2013. These funds are usually evenly disbursed throughout the year. However, due to uncertainty in regard to the company's legal position in the new constitutional dispensation, these funds were included in the County Government of Mombasa budget as opposed to MOTI and as a result, we could not access the funds. However, after clarification by the Transitional Authority this scenario was reversed and the company belatedly received the 1<sup>st</sup> and 2<sup>nd</sup> quarter disbursements in late November 2013. This negatively affected the financing and commencement of certain activities for the first six months of the year under review.

#### **Information Communication Technology**

The company developed an ICT Strategy to guide in implementation of appropriate ICT applications and infrastructure. Appropriate ICT applications and adoptions have the potential to bring improvements to financial and administrative processes, reduce costs and strengthen relationships. The ICT strategy that has been developed will enable the company to have the systems and information it requires to provide responsive and proactive services. It will also enable managers and staff to make informed and effective decisions in a timely, efficient and effective manner.

## **KENYA FERRY SERVICES LTD**

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "*

### **REPORT OF THE MANAGING DIRECTOR (Continued)**

During the year 2013/2014, the company, in line with its strategic plan, managed to install the weighbridge and billing system on the mainland and island sides of the channel. Once operationalized, the motorists shall be billed based on both weight and length of their vehicles thus accuracy and value for money for the company's services. Besides, the company expanded and upgraded its computer network infrastructure and established a Wide Area Network (WAN). This is expected to increase connectivity through remote linkage by extending resources available resulting in wider coverage.

Kenya Ferry Services Ltd intends to purchase and implement an Enterprise Resource Planning System (ERP) which is a strategic tool aimed at helping an organization to gain a competitive edge by integrating key business operations, synchronizing, planning and optimizing the use of resources available in the existing extremely competitive environment. Despite budgetary constraints, the company has managed to purchase a few computers, laptops and scanners during the year 2013/2014 to kick-start the actualization of this cause. It is envisaged that in 2014/2015 financial year the company shall fully implement this project in which it shall acquire additional computers, laptops and peripherals to enable its staff to have relevant equipment to discharge their duties efficiently and effectively as well as increasing staff computer ratio. Besides, the existing network infrastructure shall be strengthened by installing a wireless network.

#### **Customer service delivery**

In order to promote its corporate image, the company engaged in a number of customer related activities. In 2013/ 2014, 62 written complaints were received, recorded and addressed. 80% of the complaints touched on customers' dissatisfaction level on ferry delays, inadequate security, and ferry cleanliness. Accordingly an independent customer satisfaction survey conducted in 2013 reflected 63% satisfaction level index against a target of 62% and the management has addressed 90% of the 35 recommendations. Quarterly reports to Commission on Administrative Justice continue being submitted as per regulations and procedures governing the same.

In order to engage customers and stakeholders on issues related to service delivery, the company organized a Customer Service Week from 7<sup>th</sup> October – 11<sup>th</sup> October 2013 where over 200 customers accessed information about the company service. The company also successfully showcased these services/products in its exhibition at the ASK Mombasa show in August, 2013 with over 1300 show goers visiting our stand.

## **KENYA FERRY SERVICES LTD**

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 “kshs 000 “*

### **REPORT OF THE MANAGING DIRECTOR (Continued)**

#### **Projects implementation progress**

During the year under review, the company completed the rehabilitation of Mtongwe Gangway and Pontoon Project. It is worthwhile to note that this was a collapsed facility and the construction works began in the last financial year. The same has been handed over to Kenya Ferry Services Limited and is now under the defect liability period. The company at the moment does not have a vessel that can enable it to commence operations at this facility. However, arrangements are being made to procure new vessels in the subsequent financial years and services resumed. On the same vein, the expansion of Likoni mainland ramp (40m wide) was completed in October 2013 and is currently in use whereby it can accommodate two ferries landing simultaneously. The Peleleza Mooring Jetty is being undertaken to replace the condemned existing jetty at Likoni Mainland and is expected to be completed in 2014/2015 financial year. All these projects are in line with the company's strategic plan 2014-2019 i.e. modernization of ferry services and government's Medium Term Plan (MTP) 2013-2017 of the Vision 2030.

Provision of ferry services calls for enhanced security for both motorists and passengers. Our facility requires high security surveillance and it is on this basis that the company received Kshs 100 million from the National Government as support to the Integrated Security Solution Project at the Likoni Mainland and Island whose objective is to mitigate against terrorism threats and enhance safety & security to ferry users and equipment. In addition to this, the company in conjunction with Ministry of Interior Coordination and National Security has set up a Ferry Police unit headed by an OCS and 23 officers. In regard to repair of the OCS offices at the Kenya Ferry Services Limited Island offices; the project has already been approved and the construction is expected to commence in the first quarter of the next financial year.

## **KENYA FERRY SERVICES LTD**

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 “kshs 000 “*

### **CORPORATE GOVERNANCE STATEMENT**

Corporate governance refers to the principles, processes and practices by which a company is operated, regulated and controlled so that it can set and fulfill its goals and objectives in a manner that adds value for the benefit of all stakeholders and is sustainable. It is concerned with systems and practices and procedures that govern the company. Good corporate governance entails provision of structures that establish relationships among company's board, shareholders, management and other stakeholders to ensure the company business remains viable and sustainable.

The Company regards good corporate governance as crucial to the success of the business and is steadfastly committed to practice it so that the Company remains a sustainable and viable business of global stature. This Statement sets out the main corporate governance practices and structures in the Company.

#### **Corporate governance guidelines**

The following Corporate governance guidelines and principles are applied in the Company to govern directors and staff: (i) the Provisions of the Companies Act on Duties of Directors; (ii) specified best corporate governance principles adopted from other jurisdictions as contained in the Company's Board Manual, Charter and Code of Conduct that the company ascribes to; and (iii) the Public Officer Ethics Act, 2003 that applies to public officers.

Directors exercise independent judgment and professional competencies for effective governance of the Company as set out in the Board Manual which clearly spells out important governance arrangements covering: (i) appointment of directors; (ii) articulation of and commitment to respect the rights of shareholders; (iii) respective roles and functions of the Board, the Chairman, Managing Director and Company Secretary; (iv) conduct of Board meetings; (v) directors' induction and development; (vi) directors' duties, liabilities and code of conduct; (vii) terms of reference for all Board Committees; and (viii) disclosure of material information to the public.

The Directors' Code of Conduct sets out rules that govern the conduct of individual directors in order to enable the Board to operate effectively and in the best interests of the Company. The Code of Conduct sets out rules for directors to among others: act honestly, in good faith and for the best interest of the Company; exercise duty with care and diligence; avoidance and

## **KENYA FERRY SERVICES LTD**

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 “kshs 000 “*

### **CORPORATE GOVERNANCE STATEMENT (Continued)**

management of conflict of interest; maintain confidentiality of information about the Company; show commitment to and attend to Company business; and respect to fellow directors.

#### **Composition of the board of directors**

The composition of the board of directors is as outlined to the key company information on page 3 to 4 and 6 to 8 of this report.

#### **Role and responsibilities of the board**

The Board provides leadership and strategic direction to the Company. The main responsibilities of the Board are: (i) establishing the short and long-term goals of the Company and strategic plans to achieve those goals; (ii) ensuring preparation of the annual financial statements; (iii) approval and review of the annual budgets; (iv) setting and periodically reviewing key performance indicators and management performance; (v) ensuring that the Company has adequate systems of internal controls; and (vi) ensuring that the Company has adequate risk management plans for business continuity.

The Board of Directors has full access to the advice and services of the Company Secretary. They are also empowered to seek independent professional advice from the Attorney General of the Republic of Kenya where necessary.

#### **Role of Chairman of the Board of Directors**

The Chairman is primarily responsible for providing leadership to the Board, Chairing Board meetings and general meetings of members. The chairman also ensures that the Board is supplied with timely and sufficient information to enable it to discharge its duties effectively.

#### **Managing Director & Chief Executive Officer**

The Managing Director is the chief executive of the company responsible for the day to day management of the Company.

#### **Directors' training and development**

The Company recognizes the importance of having a well informed and fully empowered Board of Directors. In this regard, relevant training and capacity development opportunities are organized to equip directors with skills and knowledge necessary to effectively perform their responsibilities.

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### CORPORATE GOVERNANCE STATEMENT (Continued)

During the year, the Board members attended training programmes, seminars and conferences locally

#### Board work plan and meetings

A work plan and schedule of meetings is prepared annually in advance. The Board meets at least once a quarter or more depending on the requirements of the business. Directors receive adequate notice for meetings and detailed papers on issues to be discussed before the meetings.

The Board and its Committees held the following meetings during the year, which were well attended as detailed below:

Types of meetings	Main board	Finance and establishment	Audit and risk
<b>Board members</b>			
Mr. James K. Fondo	4		
Mr. Nelson Mwanjane	4		4
Mr. Khamis S. Khamis	4	4	1
Mrs. Eunice Wanja Kibe	4		4
The PS for Transport	4	4	4
Mr. Gichiri Ndua	2	1	
The Cabinet Secretary, The National Treasury	4	4	4
Mrs. Mariam N. Mahero	4	4	
Mr. Musa H. Musa	4	4	
No. of Meetings	4	4	4

## **KENYA FERRY SERVICES LTD**

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "*

### **CORPORATE GOVERNANCE STATEMENT (Continued)**

#### **Directors' remuneration**

In accordance with guidelines by the Government to all state corporations, directors' fees are within the limits approved by the Government.

Details of directors' remuneration are set out in the report on page 43 to this document

#### **Internal controls**

The Board is obligated to maintain a sound system of internal controls to safeguard shareholders' investments and assets. These include taking reasonable steps to ensure that the control and regulatory systems are continuously maintained and monitored. Internal control systems are designed to meet the particular needs of the Company, and the risks to which it is exposed with procedures intended to provide effective internal financial control. It is desired that the systems in place provide reasonable controls but absolute assurance cannot be guaranteed.

#### **Ethical standards**

The Board and Management recognize that a strong ethical culture is important for the realization of our corporate goals. In this regard, the Company carries out integrity awareness, training, risk assessments and enforcement of corruption prevention measures. The Company works towards ensuring that Directors and staff conduct themselves with integrity and professionalism and uphold the Company's Code of Ethics.

The Company also has a mechanism of receiving complaints from staff and members of the public on cases of unethical conduct. Reported cases are analyzed and appropriate action taken to control and mitigate the risk.

#### **Risk management**

Risk Management is fundamental for the long term viability and sustainability of our business. The Company is in the process of implementing an integrated approach to risk management, also called Enterprise Risk Management (ERM), with the objective of managing identified business and operational risks in a structured manner. The ERM policy will address the following areas: (i) identify threats that affect the achievement of the Company's Vision,

## KENYA FERRY SERVICES LTD

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 “kshs 000 “*

### **CORPORATE GOVERNANCE STATEMENT (Continued)**

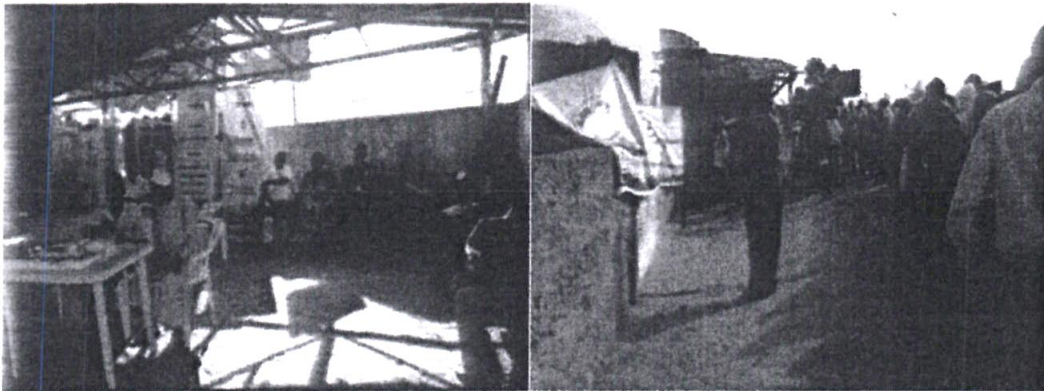
Mission and Values; (ii) take advantage of opportunities in order to create value to all stakeholders; and (iii) establish appropriate mitigation measures to counter negative effects of the risks. The Board of Directors has initiated the implementation of the ERM policy and procedures.

## KENYA FERRY SERVICES LTD

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "*

### CORPORATE SOCIAL RESPONSIBILITY STATEMENT

In line with her CSR policies, the company was involved in support of various social initiatives. It is worth noting that the company has maintained its flagship CSR activity (eye screening) to ferry users every last Saturday of the month in conjunction with Kwale Eye Clinic. This has gained popularity and is an event which our ferry users look up to. This is explained by the high turnout of people during the function. The year 2013/2014 recorded 1700 patients screened on eye related ailment of which some have been referred for surgeries.



**Collaboration between KFSL and Kwale District Eye Clinic**



**Donations to Shimo la Tewa Women Prison, 14<sup>th</sup> February, 2014**

Likoni School for the Visually Impaired has been given a vehicle VIP pass worth Kshs 332,000 per year as donation to facilitate movement across the channel. This is in recognition to the

## KENYA FERRY SERVICES LTD

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "*

### **CORPORATE SOCIAL RESPONSIBILITY STATEMENT (continued)**

noble work they are carrying out of ensuring that the children with visual impairment are given equal opportunities. The same passes are also issued to other deserving cases in our society.

Vehicles belonging to Police, Military, Government ambulances, county and government fire brigades are crossed free of charge as a compliment in response to safety and security emergencies.

## **KENYA FERRY SERVICES LTD**

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 “kshs 000 “*

### **RISK MANAGEMENT**

The board recognizes risk management as an important tool to safe guard the interest of the organization business. To manage risk effectively the board at its audit and risk committee meeting approved a risk management policy which will be forwarded to the first Board meeting of the financial year 2012-2013 for deliberation and adoption. The following risk categories have been high - lighted and corresponding strategies formulated for implementation;

#### **Strategic risk**

These are risks whose occurrence would significantly reduce the ability of the company to realize its mandate and affect the business as a whole. They include among others strategic plan implementation and the Dongo Kundu bypass as briefly explained below;

#### **Strategic plan implementation**

As stated in the chairman’s statement the company has a new strategic plan for the five years 2014-2019. The implementation of the document requires an estimated budget of kshs.3.2 billion spread over the five years. Among the forecast risk on this item is delayed disbursement and underfunding.

The company to a large extent depends on the government to fund its development projects .Key to the strategic plan is the acquisition of two new ferries, rehabilitation and expansion of the mooring and landing facilities, extension of the ferry services to the larger Mombasa, Lamu and Kisumu regions.

The landing and mooring projects is part of the investment associated with the strategic plan. The company is in the process of procuring two additional ferries as a way to enhance efficiency and deal with the ever increasing demand of ferry services

#### **Dongo Kundu bypass**

Dongo Kundu bypass is a road that will be constructed to connect south coast to the Mombasa west mainland. The purpose of the bypass is to provide a quicker route and also help decongest the Likoni Ferry channel as well as the Mombasa island for motorist heading to south coast from Mombasa west mainland and vice versa. When completed it is envisaged that most of the tourists and to a big extent the long distance haulers may opt to use the bypass instead of the Likoni channel to cross to and from Mombasa. It is projected that the company may lose business for saloon cars and station wagon, pick up, and kombis and trailers at least at a rate of 20%,20% and 80% respectively. This will definitely deplete the revenue base of the company and may affect sustainability of its operations.

## KENYA FERRY SERVICES LTD

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "*

On this regard the company is planning to extend the ferry operations to the larger Mombasa, Lake Victoria and Lamu. The strategic plan provides for diversification into property management to supplement the revenue generation. Already proposals are being developed for the island plots and consultations with the parent Ministry and Treasury is ongoing.

### Operation risks

The Kilindini harbor is serving the Northern transport corridor covering Uganda, Rwanda, Burundi, Congo and Southern Sudan. The operation of the harbor lies at the centre of the Likoni and Mtongwe ferry operations that handles heavy vehicular and pedestrian traffic. The numerous inbound and outbound ships pose high collision risks save for the effective communication systems in place between the ferry operators and the harbor master control rooms. Ship to ship, ferry to ferry and ferry to ship collisions are as well as possible hence endangering lives and loss of property. To enhance on safety, ferries are required to give way to all inbound and outbound ships and this causes delays on our operations. This trend is expected to worsen as port operations increase especially with the ongoing dredging of the channel and plans to accommodate bigger capacity vessels at the port.

## **KENYA FERRY SERVICES LTD**

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 “kshs 000 “*

### **REPORT OF THE DIRECTORS**

The directors submit their report together with the audited financial statements for the year ended June 30, 2014 which show the state of the company's affairs.

#### **Principal activities**

The principal activity of the company is offering ferry services to motorists and pedestrians at the Likoni and Mtongwe Channels

#### **Results**

The results of the company for the year ended June 30, 2014 are set out on page 26 to this document

#### **Dividends**

The company is a non- commercial state corporation

#### **Directors**

The members of the Board of Directors who served during the year are as shown on page 3. In accordance with Regulations of the company's articles of Association, none of the directors is retiring.

#### **Auditors**

The Auditor General is responsible for the statutory audit of the company in accordance with section 11(2) (c) Of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

Elijah Kitur

Corporate Secretary

Mombasa

Date .....

## KENYA FERRY SERVICES LTD

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 “kshs 000 “*

### STATEMENT OF DIRECTORS RESPONSIBILITIES

Section 81(1) of the Public Finance Management Act, 2012 and section 14(1-2) of the State Corporations Act, require the Directors to prepare financial statements in respect of that *company*, which give a true and fair view of the state of affairs of the *company* at the end of the financial year/period and the operating results of the *company* for that year/period. The Directors are also required to ensure that the *company* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *company*. The Directors are also responsible for safeguarding the assets of the *company*.

The Directors are responsible for the preparation and presentation of the *company's* financial statements, which give a true and fair view of the state of affairs of the *company* for and as at the end of the financial year (period) ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the *company*; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *company*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *company's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the *company's* financial statements give a true and fair view of the state of *company's* transactions during the financial year ended June 30, 2014, and of the *company's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *company*, which have been relied upon in the preparation of the *company's* financial statements as well as the adequacy of the systems of internal financial control.

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

# KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

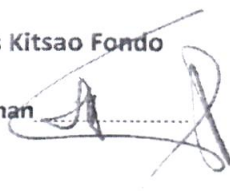
## STATEMENT OF DIRECTORS RESPONSIBILITIES (continued)

### Approval of the financial statements

The *company's* financial statements were approved by the Board on 26<sup>th</sup> Aug 2014 and signed on its behalf by:

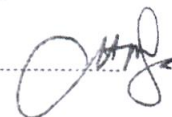
**James Kitsao Fando**

Chairman



**Musa Hassan Musa**

Managing Director



# 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 KENYA FERRY SERVICES LIMITED FOR THE YEAR ENDED 30 JUNE 2014

---

#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Ferry Services Limited set out on pages 29 to 64, which comprise the statement of financial position as at 30 June 2014, 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 Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards 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 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 Section 15 of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229 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 risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the accounting policies used and the reasonableness of accounting estimates made by 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 a qualified audit opinion.

### **Basis for Qualified Opinion**

#### **1. Other Income**

##### **1.1 Hire of Ferries**

Included in other income figure of Ksh.57,133,000 is an amount of Ksh.17,362,000 from hiring out ferries. Out of the total income for hire of ferries, Ksh.17,280,000 was in respect of hiring out MV Pwani to a contractor for nine (9) months at an hourly rate of Ksh.10,000. However, information available indicate that the minimum approved hourly rate at the time of negotiating for the hiring out was Ksh.25,000 which was enhanced to Ksh.60,000 per hour within twenty three (23) days of signing the agreement. No evidence was availed for audit to show authority to vary the approved ferry hire charges. The agreement made available indicates that MV Pwani was to be hired with effect from 8 July, 2013 to the end of the month. Agreement to support hiring out of the ferry for the other eight (8) months was not made available. In addition, the contract between KFS and the contractor was approved by an adhoc committee, named negotiation committee, which did not have any official mandate from the board charged with governance at KFS. A balance of Ksh.82,000 out of the total hire of ferry income was in respect of hire of ferries by two (2) other entities for social events. These entities would have paid Ksh.220,000 had the correct rates been used. The hire of ferries at the established rates would have earned KFS an estimated total income amounting to Ksh.103,900,000 during the period under review. As a result of not using the correct rates KFS may have lost revenue estimated at Ksh.86,538,000. KFS fuel control sheet for the period under review indicates that MV Pwani drew 4,509 litres of fuel whose estimated cost was Ksh.427,543. This among other incidental expenses relating to such hire including crew salary, repairs and maintenance should have been borne by the contractor. No explanation has been provided for the anomalies noted in the hire of ferries.

##### **1.2 Infrastructure Rent Income**

Included in other income figure of Ksh.57,133,000 is an amount of Ksh.15,876,000 in respect of infrastructure rent and other charges for use of the KFS facilities whose management was contracted out for three (3) years to a private firm. Records availed for audit indicated that the contracted service provider owed KFS a total of Ksh.11,527,000 as at 30 June, 2014, an increase of Ksh.5,544,000 from the balance outstanding of Ksh.5,983,000 as at 30 June, 2013. The contract document required that the contracted service provider remit payment in advance not later than the tenth (10) day of the first quarter of the month. An explanation of the action being taken to recover the outstanding amount has not been provided. In addition, although the contract with the facility manager expired on 30 September, 2013 the extension of the contract was not done in line with the provisions of Public Procurement and Disposal Act, 2005 which required the service to have been tendered afresh. Consequently, the management has contravened the Procurement Law and further, it has not been possible to ascertain whether KFS received value for money from its facilities.

### **1.3 Commercial Advertisements**

Included in other income figure of Ksh.57,133,000 is an amount of Ksh.18,870,000 in respect of commercial advertisements, a service that was contracted out to a private entity as per a five (5) year agreement signed on 12 November, 2010 ref no. CKFS-P006 and which came into effect on 1 January, 2011. As at 30 June 2014, the service provider owed KFS a total of Ksh.39,894,360, an increase of Ksh.15,180,758 from the Ksh.24,713,602 that was outstanding as at 30 June 2013. It's not clear and the management has no justified continued accumulation of debts while at the same time offering the contractor services and access to the site.

### **1.4 Disposal of Ferries and Other Assets**

Also included in other income of Ksh.57,133,000 is gain on disposal of five (5) motor vehicles at Ksh.2,412,000. However, KFS disposed off MV Pwani at Ksh.5,500,000 at a loss of Ksh.900,000 based on the valuation of the ferry vessel by a contracted private valuer. The company valued MV Pwani and MV Mvita at Ksh.6,400,000 and Ksh.3,599,500 respectively. It was noted that the company had paid an insurance premium of Kshs 20,604,962 for among others the two ferry vessels. According to the insurance documents, MV Pwani and MV Mvita were valued at Ksh.45,037,599 and Ksh.29,890,891 respectively. The huge disparity between the two valuations of the vessels has not been explained.

In addition the tender for the valuation of the ferries was awarded to the company at a cost of Ksh.2,556,400 through request for quotation procurement method, contrary to the provisions of Public Procurement and Disposal Act, 2005 and Regulations, 2006 which set a threshold of Ksh.1,000,000 beyond which this method of procurement cannot be used by class A procuring entities, of which KFS belongs. The approval of this disposal by the Minister was conditional on KFS adhering to all Government regulations especially Public Procurement and Disposal Act, 2005 and Regulations, 2006. Further, valuation by relevant Government Agencies for all assets identified for disposal was not made available. In the circumstances, the propriety in the valuation process and disposal of the ferries and motor vehicles has not been ascertained.

## **2. Advances – Kenya Ports Authority**

As reported in previous years, the statement of financial position as at 30 June 2014 reflects a balance of Ksh.336,010,000 described as Advances – KPA. The company received these advances from Kenya Ports Authority (KPA) during the initial years of operations. It is not clear why the company has not cleared this amount owing to KPA and strategies being put in place to clear this long outstanding amount from the books of KFS were not discussed.

## **3. Repair and Upgrading of Mtongwe Gangways and Pontoons**

Note 12 to the financial statement is additions to capital work in progress balance of Kshs.484,284,000 which include an amount of Ksh.179,822,383 spent during the year for the repairs and upgrading of Mtongwe gangways and pontoons. The total certified payments as at 30 June, 2014 amounted to Ksh.312,790,571. Physical verification established that the project was complete. However the project was not in use for lack of a ferry vessel to operate in the area. The disuse of this facility has led to serious deterioration of the facility.

Consequently, the propriety and value for money for these repairs and upgrades totaling Ksh.312,790,571 could not be ascertained.

#### **4. Withholding Tax Obligation**

During the year under review, KFS effected deductions totalling Ksh.13,809,672 in respect of withholding tax against various contract sums paid. According to information available, total deductions should have been Ksh.21,496,359 in respect of withholding taxes. The Management of KFS remitted a total of Ksh.13,742,731 on 10 June, 2014. The total outstanding withholding tax obligation against KFS therefore amounted to Ksh.7,753,629 as at 30 June 2014. Consequently, failure to deduct and remit withholding tax is against the tax law and makes KFS prone to penalties and interest.

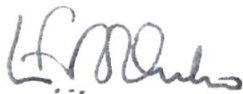
#### **Qualified Opinion**

In my opinion, except for effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respect, the financial position of the company as at 30 June 2014, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting standards and comply with the Companies Act, Cap. 486 of the Laws of Kenya.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

As required by the Kenya 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 it appears from my examination of those books; and
- iii. The Company's statement of financial position is in agreement with the books of account.



**Edward. R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**30 July 2015**

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### STATEMENT OF COMPREHENSIVE INCOME

	Notes	2013/2014	2012/2013
		Kshs	Kshs
<b>REVENUE</b>			
Income from operations	1	411,046	341,031
Government compensation	2	364,000	280,000
Other income	3	57,133	37,073
Transferred from deferred income	4	116,614	103,366
<b>TOTAL REVENUE</b>		<b>948,793</b>	<b>761,470</b>
<b>OPERATING EXPENSES</b>			
Staff costs	5	452,475	398,994
Administration costs	6	133,825	98,540
Operation costs	7	193,722	183,906
Board costs	8	9,631	8,964
Repairs and maintenance costs	9	130,119	67,129
Depreciation	12	122,691	132,187
Amortization	13	333	333
<b>TOTAL OPERATING EXPENSES</b>		<b>1,042,796</b>	<b>890,054</b>
<b>OPERATING SURPLUS/DEFICIT</b>		<b>(94,003)</b>	<b>(128,584)</b>
Finance Income	11	3,366	11,317
<b>Surplus/(Deficit)</b>		<b>(90,637)</b>	<b>(117,267)</b>

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### STATEMENT OF COMPARISON OF ACTUAL TO BUDGETED AMOUNTS (RECURRENT)

	2013/2014 Actual	2013/2014 Budget
	Kshs	Kshs
<b>REVENUE</b>		
Income from operations	411,046	412,554
Government compensation	364,000	364,000
Other income	57,133	33,325
Transferred from deferred income	116,614	74,180
<b>TOTAL REVENUE</b>	<b>948,793</b>	<b>884,059</b>
<b>OPERATING EXPENSES</b>		
Staff costs	452,475	443,488
Administration costs	133,825	140,697
Operation costs	193,722	204,556
Board costs	9,631	11,139
Repairs and maintenance costs	130,119	113,175
Depreciation	122,691	147,329
Amortization	333	333
<b>TOTAL OPERATING EXPENSES</b>	<b>1,042,796</b>	<b>1,060,717</b>
<b>OPERATING SURPLUS/DEFICIT</b>	<b>(94,003)</b>	<b>(176,658)</b>
Finance Income	3,366	-
<b>Surplus/(Deficit)</b>	<b>(90,637)</b>	<b>(176,658)</b>

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### STATEMENT OF COMPARISON OF ACTUAL TO BUDGETED AMOUNTS (DEVELOPMENT)

	2013/2014 Actual	2013/2014 Budget
	Kshs	Kshs
Supply of safety equipment	10,262	75,000
Consultancy services for design tender documentation and supervision of works	4,563	4,000
Supply installation and commissioning of steering system	30,767	31,000
Construction of ferry ramps	56,354	100,000
Supply of rescue boat	8,100	8,000
Repair and upgrading of Mtongwe gangways pontoons and walkways	179,822	336,512
Repair and upgrading of Peleleza mooring jetty	186,946	320,000
<b>Total</b>	<b>476,814</b>	<b>874,512</b>

# KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

## STATEMENT OF FINANCIAL POSITION

	Notes	2013/2014	2012/2013
		Kshs	Kshs
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Property, plant & equipment	12	2,580,091	2,260,526
Prepaid operating lease	13	3,725	4,058
<b>Total Non-current assets</b>		<b>2,583,816</b>	<b>2,264,584</b>
<b>Current Assets</b>			
Inventories	14	74,415	124,265
Trade & other receivables	15	137,768	180,100
Bank & cash balances	16	286,170	266,719
<b>Total current assets</b>		<b>498,354</b>	<b>571,084</b>
<b>TOTAL ASSETS</b>		<b>3,082,170</b>	<b>2,835,668</b>
<b>EQUITY &amp; LIABILITIES</b>			
<b>Capital and Reserves</b>			
Ordinary share capital	17	499,904	499,904
Revaluation reserves	18	547,874	636,265
Accumulated deficits	19	(732,621)	(648,887)
Deferred income	20	2,237,359	1,877,973
<b>Total Capital and Reserves</b>		<b>2,552,516</b>	<b>2,365,255</b>
<b>Non-current liabilities</b>			
Advances - KPA	21	336,010	336,010
<b>Current Liabilities</b>			
Trade & other payables	22	193,644	134,403
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>3,082,170</b>	<b>2,835,668</b>

The financial statements on pages 29 to 57 were approved by the board of directors on the 26<sup>th</sup> August 2014 were signed on its behalf by

James Kitsao Fondo

Chairman

Musa Hassan Musa

Managing Director

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital	Revaluation Reserve	Retained Earnings	Deferred income	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
<b>As at July 1, 2012</b>	<b>499,904</b>	<b>346,472</b>	<b>(531,621)</b>	<b>1,639,339</b>	<b>1,954,094</b>
Transfer in excess depreciation				342,000	342,000
Total comprehensive income				(103,366)	(103,366)
Additions to deferred income			(117,267)		(117,267)
Additions to revaluation reserves		289,793	-		289,793
<b>As at June 30, 2013</b>	<b>499,904</b>	<b>636,265</b>	<b>(648,888)</b>	<b>1,877,973</b>	<b>2,365,255</b>
<b>As at July 1, 2013</b>	<b>499,904</b>	<b>636,265</b>	<b>(648,888)</b>	<b>1,877,973</b>	<b>2,365,255</b>
Addition to deferred income				476,000	476,000
Transfer to income statement				(116,614)	(116,614)
Surplus/Deficit for the year			(90,637)		(90,637)
<b>Additions to revaluation reserve</b>		<b>(81,487)</b>			<b>(81,487)</b>
Surplus/Deficit for the year		(6,904)			(6,904)
Disposal on revalued assets			6,904		6,904
<b>As at June 30, 2014</b>	<b>499,904</b>	<b>547,874</b>	<b>(732,621)</b>	<b>2,237,359</b>	<b>2,552,516</b>

# KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

## STATEMENT OF CASH FLOWS

	Notes	2013/2014	2012/2013
		Kshs	Kshs
<b>OPERATING ACTIVITIES</b>			
Cash used for operating activities	23(a)	141,831	(71,203)
Interest received	11	3,366	11,317
Obsolete stock expense(provision)	14	(38,611)	-
Bad & doubtful debts(provision)	6	(40,903)	-
		65,683	(59,886)
<b>INVESTMENT ACTIVITIES</b>			
Purchase of property, plant & equipment	12	(530,144)	(328,160)
Proceeds from disposal of assets	12	7,912	-
Net cash used in investing activities		(522,232)	(328,160)
<b>FINANCING ACTIVITIES</b>			
Government funds	20	476,000	342,000
Net cash from financing activities		476,000	342,000
Increase in cash and cash equivalent		19,452	(46,046)
Cash and cash equivalent at the start of the year	23(b)	266,719	312,765
Cash and cash equivalent at the end of the year	23(b)	286,170	266,719

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

#### 1. Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurements at re-valued amounts of certain items of property, plants and equipment's, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at the present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the *company's* accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the company and all the values are rounded to the nearest thousands (Kshs'000).

The financial statements have been prepared in accordance with the PFM Act, the State Corporation Act, and the International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented

#### 2. Revenue recognition

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the company and the revenue can be reliably measured. Revenue is recognized at the fair value of consideration received or expected to be received in the ordinary course of the *company's* activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the *company's* activities as described below.

- i). **Revenue from the sale of goods and services** is recognized in the year in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii). **Grants from National Government** are recognized in the year in which the company actually receives such grants. Grants for development projects are treated as deferred income as per IAS 20.

## KENYA FERRY SERVICES LTD

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "*

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- iii). **Finance Income** comprises interest receivable from the bank deposits and investments in securities, and is recognized in the profit and loss on a time proportion basis using the effectiveness interest rate method.
- iv). **Dividend income** is recognized in the income statement in the year in which the right to receive the payment is established.
- v). **Rental income** is recognized in the income statement as it accrues using the effective lease agreements.
- vi). **Other income** is recognized as it accrues.

#### 3. In-kind contributions

In-kind contributions are donations that are made to the company in the form of actual goods and/or services rather than in a money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the company includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

#### 4. Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external values.

Increases in the carrying amounts of assets arising from revaluation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items and are recognized in profit or loss in the income statement.

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 5. Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of on-going but incomplete works on building and other civil works and installations.

Depreciation on property, plant and equipment is recognized in the income statement on a straight line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Building and civil works	40 years or the unexpired lease period	2%
Plant and machinery	10 years	12.5%
Motor vehicle including motorcycles	4 years	25%
Computers and related equipment	3 years	30%
Office equipment, furniture and fittings	8 years	12.5%
Ferry crafts	20 years	5%

A full year's depreciation charge is recognized both in the year of asset purchase and in the year of assets disposal.

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

#### 6. Inventories

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

# KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 7. Finance and operating leases

Leases which confer substantially all the risks and ownership to the *company* are classified as finance leases. Upon initial recognition, the leased assets is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is substantially accounted for in accordance with the accounting policy applicable to the assets.

All other leases (including prepaid operating lease) are treated as operating leases and the leased assets are recognized in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Amortization of prepaid operating lease rentals is charged to the statement of comprehensive income on a straight line basis over the lease term of 33 years. Lease incentives are recognized as an integral part of the total lease expense over the term of the lease.

### 8. Trade and other payables

Trade and other payable are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the company or not, less ant payments made to the suppliers.

### 9. Retirement benefit obligation

The Company operates a defined contribution scheme for all its employees. The scheme is determined by Insurance Company of East Africa and is funded by both the Company and the employees. Company contribution is charged to the income and expenditure statement in the year in which it relates.

The company also contributes to a defined scheme, the National Social Security Fund (NSSF). Contributions are determined by the legal statute and are currently at kshs. 200 per month. The company contributions are charged to the income and expenditure statement in the year in which it relates.

### 10. Provision for staff leaves pay

## **KENYA FERRY SERVICES LTD**

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000"*

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Employees' entitlements to annual leave are recognised as they accrue to the employees. A provision is made for the estimated liability for annual leave at the reporting date.

#### **11. 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 central bank of Kenya and at various commercial banks in Kenya at the end of the financial year. For the purposes of these financial statements, cash and cash equivalent also include short term cash impress and advances to

#### **12. Exchange rates differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the company operates Kenya shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transaction or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

#### **13. Financial Instruments-Recognition and measurement**

Financial assets are initially recognized at fair value. The company's financial assets which include cash and cash equivalents and receivables fall into the following categories:

**Cash and cash equivalents:** For the purposes of the statement of cash flows, cash and cash equivalents

Comprise cash in hand and short term marketable securities.

**Receivables:** Receivables are carried at original invoiced amount less an estimate made for impairment based on a review of all outstanding amounts at the year-end. Bad debts are written off in the year in which they are identified. Subsequent recoveries of amounts previously written off are credited to income in the year of their recovery.

#### **Financial liabilities**

Financial liabilities including trade and other payables are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest rate method.

## KENYA FERRY SERVICES LTD

*Reports and financial statements for the year ended ~~30<sup>th</sup>~~ June 2014 "kshs 000 "*

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **14. Comparative figures**

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

#### **15. Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS

#### 1. Income from operation

	2013/2014	2012/2013
	Kshs	Kshs
Toll collections	393,556	326,735
Ferry passes	17,490	14,297
Total	411,046	341,031

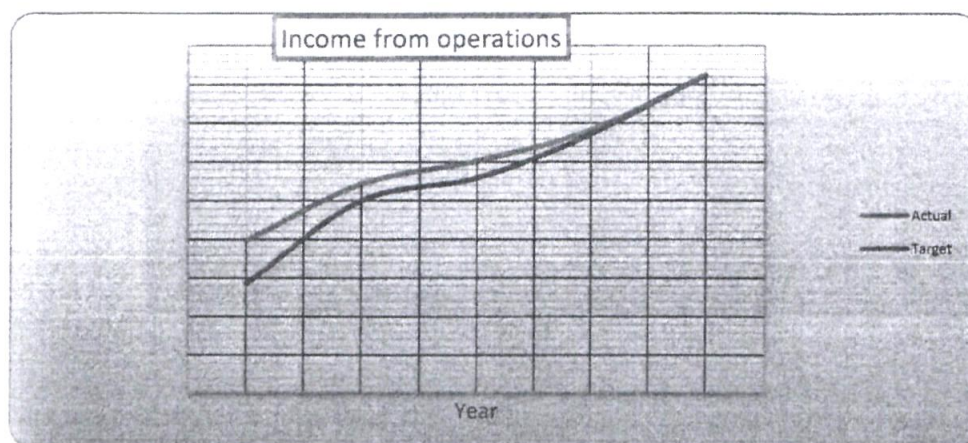
This is the main source of internally generated revenue the company collects. It is made up of toll charges levied to motorists as they access the services of the company. In addition to the toll charges, the company operates ferry passes which allows its customers to prepay for ferry services either in the form of priority pass holders or concession pass holders. The former allows customers (motorists) to queue jump and board the available ferry on the ramp. The other pass category entails the holder to use the ferry services as many times as may be necessary but without queue jumping.

The company's income for the year was Kshs 411 million which represents an increase of 21% compared to the year 2012/2013 earnings of Kshs 341 million. The above trend is an improvement compared to a 13% increase experienced in the previous year. In general, earnings from internally generated source have been registering a positive trend for the last five years as shown below. The increase during the year is attributed to enhanced controls on revenue collection and implementation of toll tariff review.

# KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

## NOTES TO THE FINANCIAL STATEMENTS (continued)



The company realized Kshs 411 million from operations but failed to meet the set target of Kshs 412 million by 0.04%. The major contributing factor to this performance is the deteriorating security situation in the region during the year under review. This led issuance of travel advisories by key western countries especially during the tourism boom period thereby negatively affecting trade activities. Overall traffic levels dropping by 3% from a figure of 1,954,370 in 2012/2013 to a figure of 1,887,897

### 2. Government compensation

	2013/2014	2012/2013
	Kshs	Kshs
Recurrent grants received	364,000	280,000

The company receives recurrent grants from the government each financial year in lieu of charging pedestrians. This form of compensation was estimated at ration of 65:35 whereas the pedestrian usage was at 65% and vehicular usage at 35% of the ferry services offered.

During the year that ended the company received a total of Kshs 364million. This was an increase of 30% compared to what the company earned in the previous year of Kshs 280 million and this greatly improved the smooth operations of the company. However, the existing

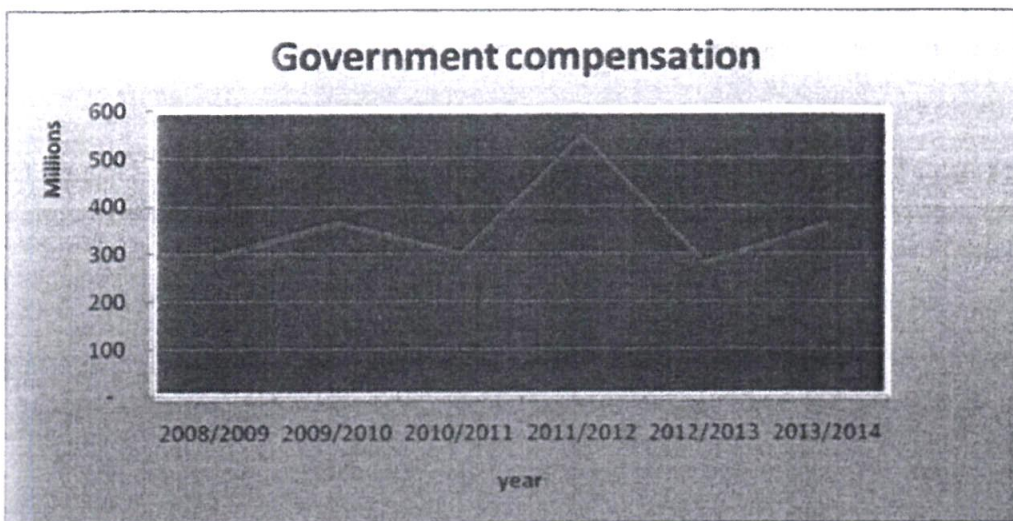
# KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

## NOTES TO THE FINANCIAL STATEMENTS (continued)

financing arrangement is not sustainable in that whereas the company's revenue generation has steadily increased over the years, the government subventions are quite erratic and unpredictable.

Below is summary of the amount of funds the company received from the government for the last five years.



### 3. Other income

	2013/2014	2012/2013
	Kshs	Kshs
Infrastructure rent income	15,876	15,687
Commercial adverts	18,870	17,722
Tender documents, prequalification forms	1,544	566
Used oil, drums, insurance commission	1,069	2,974
Hire of ferries	17,362	125
Gain on disposal	2,412	-
<b>Total</b>	<b>57,133</b>	<b>37,073</b>

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 “kshs 000 “

### NOTES TO THE FINANCIAL STATEMENTS (continued)

This category of income encompasses all non-ferry related sources. It includes rental income, commercial advertising, and sale of tender documents and disposal of company assets. As highlighted above, other income increased by Kshs 20 million or by 55% compared to last financial year. The biggest contributor to this increase was hire of ferries where Kshs 17 million was collected. Infrastructure rent income collection and commercial advertisement is outsourced by the company to private entities.

The company disposed MV Pwani in the month May 2014. This ferry had served the company for 40 years. Apart from MV Pwani, five motor vehicles were also disposed.

#### 4. Deferred income

Deferred income was earned from the use of the following assets whose costs were financed by funds received from the Government in the form of grants. The following is the amount of benefit apportioned from various assets in the financial year

	2013/2014	2012/2013
	Kshs	Kshs
Buildings ( Bus terminus)	63,867	63,867
Ferries( MV Kwale and MV Likoni)	7,869	7,869
Office Administration block	1,235	1,235
Car shed	9	9
Ferry dry docking	30,385	30,385
ferry generators	698	
Ferry engines	2,735	
Safety equipment	9,816	
<b>Total</b>	<b>116,614</b>	<b>103,366</b>

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 5. Staff expenses

	2013/2014	2012/2013
	Kshs	Kshs
Salaries and allowances of permanent employees	388,476	338,018
NSSF	702	702
Pension and provident	14,889	12,644
Gratuity	6,400	5,205
Staff Welfare	42,008	42,425
<b>Total</b>	<b>452,475</b>	<b>398,994</b>

The company harmonized salaries and other benefits of management staff following a job evaluation review conducted during the year. At the same time a provision has been made to unionisable employees at a rate of 5% of basic salaries as it awaits completion of the CBA negotiations.

The average number of employees at the end of the year was

	2013/2014	2012/2013
	Number	Number
Permanent employees – management	116	117
Permanent employees - unionisable	123	122
Temporary and contract employees	51	51
<b>Total</b>	<b>290</b>	<b>290</b>

Two members of staff retired from the company at management level, while one was appointed. One union staff was also employed during the year.

Staff cost include all forms of remunerations paid to employees for services rendered to the company.

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 6. Administration expenses

The following is a summary of the administration costs incurred during the year.

	2013/2014	2012/2013
	Kshs	Kshs
Electricity and Sewerage charges	8,943	9,461
Telephone, Telex, Facsimile and mobile phone	3,809	3,910
Accommodation – Domestic and Foreign Travel	7,516	9,245
Printing, Advertising and Information Supplies & Services	3,957	5,184
Subscriptions to Newspaper, Magazines	710	526
Trade Shows and Exhibitions	1,885	1,358
Sports and Recreation	4,948	4,578
Rent and Rates - Non Residential	742	898
Training Expenses	9,184	11,835
Hospitality Supplies and Services	366	386
IT Implementation and Training	2,737	2,406
Gifts, Food and Drinks	2,267	2,745
Purchase of Uniforms and clothing - Staff	4,950	7,961
Office and General Supplies and Services	4,714	4,382
General Office Supplies	1,500	1,822
Sanitary and Cleaning Materials	879	912
General Insurances	7,071	5,280
Legal Dues/Fees, Arbitration and Compensation	12,000	3,060
Contracted Professional Services	11,202	5,298
HIV & AIDS	1,361	1,413
Bad & doubtful debts	40,903	6,865
Transport for funeral	216	613
Fungicides, Insecticides & sprays	441	281
Loss on disposal	900	7,852
Bank charges	624	269
<b>Total</b>	<b>133,825</b>	<b>98,540</b>

## **KENYA FERRY SERVICES LTD**

*Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "*

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

Administration costs are all forms of expenses which the company incurs in order to run its business other than staff, operating and repairs as well as maintenance cost. During the year it accounted for about 9.8% of the total expenditure. Total administrative costs decreased by 3% in the current year compared to last financial year's decrease of 4%

Significant decrease was registered on domestic and foreign travels, training, staff uniforms, printing, advertising and information supplies and loss on disposal of assets. In order to improve on the company's image and have its presence felt within the ministry, the company increased its participation on more sporting disciplines as opposed to previous editions. The annual KECOSO games were held in Kisumu.

The company spent more funds on contracted professional services during the year which registered a 143% increase compared to last financial year. This was a result of a job evaluation process and an installation of a performance management system during the year. The company is at an advanced stage in ISO (International Standardization Organization) 9001 -2008 certification and has successfully been audited for stage 1 QMS audit by Kenya Bureau of Standards (KEBS). It is anticipated that the stage 2 audit, which is a precursor to the certification, shall be conducted in the first month of the next financial year 2014/2015. To this end the company systems and processes shall be clear and well refined towards attainment of the company goals and strategic objectives and in turn greater customer satisfaction.

The company also experienced an increase in legal fees, arbitration and compensation in respect of various pending court cases especially the Mtongwe accident victim's compensation. The company was also involved in the negotiations of the CBA for the unionisable staff for the years 2013/2014 to 2014/2015. This took longer than expected and resulted in stalemate and the matter is currently at the Industrial Court for determination and award.

A number of firms were also engaged in provision of various professional services such as customer satisfaction, employee satisfaction surveys, sea diving in an attempt to improve on service delivery. During the year, staff was adequately provided with protective clothing as well as uniforms in compliance with minimum safety standards.

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 7. Ferry operating costs

Below is a summary operating cost incurred during the year

	2013/2014	2012/2013
	Kshs	Kshs
Fuel Oil and Lubricants (ferry vessels)	89,208	72,632
Ferry vessels insurances	59,490	80,234
Planning Research and Development	2,140	-
Money In Transit Services	1,298	1,123
Security Services	41,586	29,917
Total	193,722	183,906

Operating costs are all forms of costs associated with the core business of the company which ensures provision of ferry services. In the previous financial years such costs used to be included among administration costs. Total operating costs for the year was Kshs 194 million representing an increase of 5% compared to a total of Kshs 184 million incurred in the previous year. It is also 5% lower than the budget estimates for the year largely contributed by a 19 million variance on security services.

The company had to beef up security during the year. This included engaging services of both regular and administration units of the Kenya Police Service to reinforce security operations and also mitigate risks associated with terrorism. The Company had to increase security provision and installed CCTV system even to supplement the existing security service provider

#### 8. Board costs

	2013/2014	2012/2013
	Kshs	Kshs
Board allowances, conferences & seminars	9,631	8,964

These are expenses incurred to cater for all forms of board activities ranging from sitting allowances, duty travel and accommodation

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 9. Repairs and maintenance

	2013/2014	2012/2013
	Kshs	Kshs
Ferries	54,172	34,426
Vehicles	678	1,241
Ferry dry docking	35,553	30,535
Safety equipment	1,105	369
Office furniture and equipment	-	558
Provision for obsolete stock	38,611	-
Total	130,119	67,129

The cost of repairs and maintenance increased by Kshs 24 million in the year compared to previous financial year representing a 36% with overall budget variance was 19% . Substantial decrease was experienced in motor vehicles maintenance at 45% attributable to the fact that the company had grounded all her vehicles unserviceable cars and acquired a new fleet whose maintenance cost is low. These vehicles were later disposed during the year. However, workshop tools and spares cost increased by 57% due to constant repairs on breakdown on the three old ferries (MV Nyayo, MV Kilindini and MV Harambee). These are already past their useful period after they were acquired in 1990

Maritime Safety Standards require a ferry to be dry docked after every two years and in compliance with these standards the company has now refurbished all its ferry fleet. Cost incurred on dry docking of a ferry is apportioned for a period of two years corresponding to the expected benefit accruing from such a benefit.

There was substantial decrease in maintenance of office furniture and equipment cost by Kshs 557,710 or 100% attributable to the fact that the company replaced old furniture towards the end of the previous year.

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 10. Operating surplus/(deficit)

The operating surplus/(deficit) is arrived at after charging/(crediting)

	2013/2014	2012/2013
	Kshs	Kshs
Depreciation of property, plant and equipment	122,691	132,187
Amortization of intangible assets	333	333
Provision for bad debts	-	6,865
Directors emoluments –fees	2,449	2,235
- others	6,245	6,729
Auditors fees- current years	500	500
- prior year under provision	-	-
Loss on disposal of property, plant and equipment	900	7,852
Gain on disposal of property, plant and equipment	2,412	-
	<b>135,530</b>	<b>156,702</b>

#### 11. Finance income

This is income earned from investment on short term deposits held in fixed deposit account at the National Bank of Kenya Ltd. The company realized substantial revenue from this investment on a case by case basis for funds which are temporary available. Interest income decreased by Kshs 7,951,592 during the year representing 70% decrease. This is attributable to the fact that the company did not have enough funds at its disposal on a case by case basis for investment during the year

	2013/2014	2012/2013
	Kshs	Kshs
Interest on short- term deposits	3,366	11,317

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 12. Property, plant and equipment

Restated	Ferry vessels	Freehold Land	Freehold Buildings	Guard Rails	Computers & LED Screens	Motor Vehicles	Generators , Plant Tools, Crane, CCTV & Equipment	Driveway, Watchtower , Sheds, Roads, Boat & Garden	Capital work in progress	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	kshs
<b>COST</b>										
As at 1, July 2013	1,811,727	16,537	460,356	7,366	118,188	28,185	314,960	60,978	251,143	3,069,441
Additions	-	-	410	-	1,400	-	35,949	8,100	484,284	530,144
Transfers	-	-	-	-	-	-	-	-	-	-
Disposal/impairment	(227,092)	-	-	-	-	(11,935)	-	-	-	(239,027)
<b>Total</b>	<b>1,584,635</b>	<b>16,537</b>	<b>460,766</b>	<b>7,366</b>	<b>119,589</b>	<b>16,250</b>	<b>350,909</b>	<b>69,079</b>	<b>735,427</b>	<b>3,360,558</b>
<b>DEPRECIATION</b>										
As at 1, July 2013	357,077	-	42,681	7,366	114,405	18,839	224,874	43,673	-	808,915
Charge for the period	79,232	-	9,215	-	3,108	3,115	22,877	5,144	-	122,691
Disposal/impairment	(139,205)	-	-	-	-	-	-	-	-	(139,205)
Eliminated on disposal	-	-	-	-	-	(11,935)	-	-	-	(11,935)
<b>Total</b>	<b>297,104</b>	<b>-</b>	<b>51,897</b>	<b>7,366</b>	<b>117,513</b>	<b>10,019</b>	<b>247,751</b>	<b>48,817</b>	<b>-</b>	<b>780,467</b>
<b>NET BOOK VALUE</b>										
As at June 30, 2014	1,287,530	16,537	408,870	-	2,076	6,231	103,158	20,262	735,427	2,580,091
As at June 30, 2013	1,454,650	16,537	417,675	-	3,784	9,346	90,086	17,305	251,143	2,260,526

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

Property, plant and equipment include the following items that are fully depreciated:

	2013/2014	2012/2013
		Normal annual depreciation
	Kshs	Kshs
Guard rails	7,366	737
Computers and LEDs	109,229	32,769
Office equipment, furniture and fittings	4,631	469
Motor vehicles	3,789	947
	<b>125,015</b>	<b>34,922</b>

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 12. Property, plant and equipment

Restated	Ferry vessels	Freehold Land	Freehold Buildings	Guard Rails	Computers & LED Screens	Motor Vehicles	Generators, Plant Tools, Crane, CCTV & Equipment	Driveway, Watchtower, Sheds, Roads, Boat & Garden	Capital work in progress	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	kshs
<b>COST</b>										
As at 1, July 2012	2,468,758	16,537	456,121	7,366	117,015	15,724	238,991	60,088	9,258	3,389,859
Additions	33,885	-	4,235	-	1,173	12,461	84,886	890	241,886	379,416
Transfers	-	-	-	-	-	-	-	-	-	-
Disposal/impairment	(690,917)	-	-	-	-	-	(8,917)	-	-	(699,834)
<b>Total</b>	<b>1,811,727</b>	<b>16,537</b>	<b>460,356</b>	<b>7,366</b>	<b>118,188</b>	<b>28,185</b>	<b>314,960</b>	<b>60,978</b>	<b>251,143</b>	<b>3,069,441</b>
<b>DEPRECIATION</b>										
As at 1, July 2012	1,248,895	-	33,474	7,366	111,783	15,562	203,102	38,371	-	1,658,552
Charge for the period	88,892	-	9,207	-	2,622	3,277	22,887	5,302	-	132,187
Disposal/impairment	(980,709)	-	-	-	-	-	(1,115)	-	-	(981,824)
Eliminated on disposal	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>357,077</b>	<b>-</b>	<b>42,681</b>	<b>7,366</b>	<b>114,405</b>	<b>18,839</b>	<b>224,874</b>	<b>43,673</b>	<b>-</b>	<b>808,915</b>
<b>NET BOOK VALUE</b>										
As at June 30, 2013	1,454,650	16,537	417,675	-	3,784	9,346	90,086	17,305	251,143	2,260,526
As at June 30, 2012	1,219,864	16,537	422,647	-	5,233	162	35,889	21,717	9,258	1,731,307

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs'000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

Property, plant and equipment include the following items that are fully depreciated

	2013/2014	2012/2013
		Normal annual depreciation
	Kshs	Kshs
Guard rails	7,366	737
Computers and LEDs	109,229	32,769
Office equipment, furniture and fittings	136,493	13,649
Motor vehicles	14,042	3,510
<b>Total</b>	<b>267,130</b>	<b>50,665</b>

Capital works in progress comprises of all ongoing construction projects being undertaken by the company such as Peleleza Jetty, Mainland landing ramps and Mtongwe landing facility. These are recorded at cost (including direct costs) as they are incurred and accumulated until the project is completed and capitalized thereafter. In the meantime the funding component which is purely from Government development funds is treated as deferred income.

#### 13. Prepaid operating lease rental

	Land	Buildings	Total
	Kshs	Kshs	Kshs
<b>COST</b>			
At July 1, 2013	8,000	2,000	10,000
Additions			
At June 30 <sup>th</sup> , 2014	<b>8,000</b>	<b>2,000</b>	<b>10,000</b>
<b>DEPRECIATION</b>			
At July 1, 2013	4,406	1,536	5,942
Charge for the year	267	67	333
	<b>4,672</b>	<b>1,603</b>	<b>6,275</b>
At June 30 <sup>th</sup> , 2014	<b>3,328</b>	<b>397</b>	<b>3,725</b>

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

The land and buildings were leased from KPA for 33 years.

	2013/2014	2012/2013
<b>Cost</b>	<b>Kshs</b>	<b>Kshs</b>
Land	8,000	8,000
Buildings	2,000	2,000
<b>Total</b>	<b>10,000</b>	<b>10,000</b>
<b>Depreciation/amortization</b>		
Balance b/d down	5,942	5,609
Charge for the year	333	333
<b>Total</b>	<b>6,275</b>	<b>5,942</b>
<b>Net Book Value</b>	<b>3,725</b>	<b>4,058</b>

#### 14. Inventories

The following is a summary of inventory held by the company by the end of the financial year. Non-moving that are critical especially those associated with the disposed ferries which are no longer in the market have been earmarked for disposal.

Stock levels of Kshs 113 million maintained are equivalent to two years' operating requirement for the company. Included in the spare parts for engineering stores are major replacement parts for the ferries which has to be on standby just in case of major breakdowns. The movement of such parts is slow but their inclusion is very critical for uninterrupted ferry service delivery. A major component of this stock is for the purpose of ferry maintenance as indicated below

##### a) Total inventories

	2013/2014	2012/2013
	<b>Kshs</b>	<b>Kshs</b>
Fuel & Oil	1,115	1,921
Stationery	1,568	2,943
Spare parts	71,732	119,402
<b>Total</b>	<b>74,415</b>	<b>124,266</b>

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### b) ) Spares stocks

	2013/2014	2012/2013
	Kshs	Kshs
Gross Spare parts	110,343	119,402
Obsolete Stock Accumulation	38,611	-
<b>Total</b>	<b>71,732</b>	<b>119,402</b>

The above ferry stock has items which were being held for the purpose of maintaining MV Pwani and MV Mvita. Their entire amounts have been provided for obsolescence.

#### 15. Trade and other receivables

	2013/2014	2012/2013
	Kshs	Kshs
Trade receivables	55,955	35,879
Deposits and prepayments	72,084	107,119
VAT recoverable	35,843	21,852
Staff receivables	14,789	18,752
<b>Gross trade and other receivables</b>	<b>178,671</b>	<b>183,602</b>
Provision for bad and doubtful debts	40,903	3,502
<b>Net trade and other receivables</b>	<b>137,768</b>	<b>180,100</b>

The company advances funds to its staff to enable it cater for various personal effects including school fees for staff pursuing further education, medical expenses for those who may have exhausted their medical cover ceiling as well as acquisition motor vehicles

The prepayments reflected above constitutes marine insurance (Kshs 39,633,117), general insurance (1,191,756), group life insurance (Kshs 322,974), ferry dry-docking (Kshs 10,163,040) and medical insurance (Kshs 20,955,742). Private sector debts mainly comprises of companies that have been contracted by Kenya Ferry Services to offer services at a fee such as property rent management, and commercial advertising. These debtors have in the past failed to

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

perform as per the spirit of the contract and the matter has been handed to the Company Secretary for action.

#### a) Trade receivables

	2013/2014	2012/2013
	Kshs	Kshs
Gross trade receivables	55,955	35,879
Provision for doubtful receivables	40,903	-
<b>Net trade receivables</b>	<b>15,052</b>	<b>35,879</b>

Provision for bad and doubtful debts reflected above relates to amount considered uncollectible from advertisement services, infrastructure income among other suppliers

As at June 30<sup>th</sup>, the ageing analysis of the gross trade receivables was as follows

	2013/2014	2012/2013
	Kshs	Kshs
Less than 30 days	5,626	4,091
Between 30 and 60 days	1,323	2,941
Between 61 and 90 days	3,054	3,086
Between 91 and 120days	4,635	2,005
Over 120 days	414	23,756
<b>Total</b>	<b>15,052</b>	<b>35,879</b>

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### b) Staff receivables

	2013/2014	2012/2013
	Kshs	Kshs
Gross staff receivables	18,291	18,752
Provision for doubtful receivables	3,502	3,502
	14,789	15,250
Amount due within one year	7,632	6,542
Amount due after one year	7,157	8,708

The company retains the same level of provisions for bad debt to take into account of advances made to staffs who have since been dismissed before full settlement had been made. The outstanding amounts due is however being pursued through the legal process to ensure full recovery.

#### 16. Cash and bank

	2013/2014	2012/2013 restated
	Kshs	Kshs
Cash at bank	282,737	266,669
Cash in hand	3,433	50
	286,170	266,719

The entire amount of cash at bank is held with National Bank of Kenya, the company's main bankers. Held in development account of Kshs 104 million are funds earmarked for infrastructure development. This includes completion of the expansion of the mainland landing facility, expansion of the island landing facility and construction of the Mtongwe pontoon. Improvement on revenue collection (21%) coupled with sound financial discipline was also key to the above boosted cash position.

The comparative figures for cash and bank has been restated to include amount kept in the company's special account at National Bank Ltd. The account which to be formerly disclosed separately as short term deposits does not earn any interest and is now included among other balances under cash at bank

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

Included in cash in hand is cash held by the Likoni cashier relating to unbanked revenue collected by the service provider G4S of Kshs 3,383,404 for the last three days of the financial year running from 28<sup>th</sup>, 29<sup>th</sup> to 30<sup>th</sup> June 2014. The balance of kshs 50,000 is held at the toll booths for cashiering purposes

#### 17. Ordinary share capital

	2013/2014	2012/2013
	Kshs	Kshs
Authorized		
5,000,000 ordinary shares of Kshs 100 each	500,000	500,000
Issued and fully paid		
4,999,040 ordinary shares of Kshs 100 each	499,904	499,904

The company's shareholding is held by the Government of the republic of Kenya, at 80% interest and by the Kenya Ports Authority at 20%

#### 18. Revaluation reserves

	2013/2014	2012/2013
	Kshs	Kshs
Balance as at July 1, 2013	636,265	346,472
Additions/(impairments )	(81,487)	289,793
Disposal of revalued assets	(6,904)	-
Balance bas at June 30, 2014	547,874	636,265

The company assets were revalued in October 1996 by Tyson's limited. A further valuation for the ferry vessels (MV Kilindini, MV Harambee and MV Nyayo) was done in July 2012 after reaching a nil book value, by Bonriz Marine Surveyors Ltd, resulting in the above revaluation surplus of 290 million above. In the current year MV Mvita and MV Pwani were also valued at Kshs 3,599,500 and 6,400,000 respectively. Relevant cost and accumulated depreciation were Kshs 104,263,425 and Kshs 68,829,444 for MV Mvita and Kshs 116,428,809 and Kshs 70,375,355 for MV Pwani.

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

MV Pwani was disposed of in the month of June 2014. This ferry had initially been revalued at Kshs 52,957,075 in the year 1996 by Tyson's limited. Excess of revaluation in the first and subsequent period of Kshs 6.9 million is transferred to revenue reserves as shown above.

#### 19. Accumulated deficit

	2013/2014	2012/2013 Restated
	Kshs	Kshs
At start of year	(648,888)	(531,621)
Revaluation reserves	6,904	-
Surplus/Deficit for the year	(90,637)	(117,267)
<b>Total</b>	<b>(732,621)</b>	<b>(648,887)</b>

The company recorded a deficit of Kshs 91 million compared to a deficit of Kshs 117 million in the previous financial year. In the year 2011/2012 the company made a surplus of Kshs 213million. Comparative figures of 2012/2013 have been restated to take into account of accrued interested expenses on KPA advances that the company had written off. The company had initially requested KPA to write off these expenses which it declined but this was not affected in the books of accounts. These figures were arrived in full consultation and discussion with KPA.

Contributing to the huge deficit are various provisions for both bad debts and obsolete stock.

#### 20. Deferred income

	2013/2014	2012/2013
	Kshs	Kshs
Opening balance	1,877,973	1,639,339
Additions	476,000	342,000
Transfer to income statement	(116,614)	(103,366)
<b>Closing balance</b>	<b>2,237,359</b>	<b>1,877,973</b>

Deferred income reflects on capital grants that the company receives from the government for its development projects. For completed projects the company apportions the respective costs over their useful life to statement of comprehensive income as deferred income.

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

During the year the company received capital grants from the government for dry docking of the ferry vessels and rehabilitation of buildings.

#### 21. KPA Advances

	2013/2014	2012/2013 Restated
	Kshs	Kshs
Balance as at beginning of the year	336,010	325,508
Additions ( interest accrued)		10,502
Balance as at June 30, 2014	336,010	336,010
Less amount due within one year		
Amount due after one year	336,010	336,010

The company received some advances from Kenya Ports Authority during the initial years of operations. The comparative figures above have been restated as indicated in note 20 above.

#### 22. Trade and other payables

	2013/2014	2012/2013
	Kshs	Kshs
Creditors	148,387	108,827
Other payables( payroll deductions & accruals)	45,257	25,576
Total	193,644	134,403

The company received most invoices from suppliers towards the end of June and in effect the company was unable to pay most creditors at the close of the financial year. Adequate amount of funds were available to pay the above obligations as they fall due. Creditors and other payables are paid as they fall due.

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 23. Notes to the cash flow statement

- a) Reconciliation of operating surplus/(deficit) to cash generated from/(used in) operations

	2013/2014	2012/2013
	Kshs	Kshs
Operating surplus/(Deficit)	(90,637)	(128,584)
Adjustment for depreciation	122,691	132,187
Amortization	333	333
Transfer from deferred income	(116,614)	(103,366)
Loss on disposal of Assets	900	7,802
Gain on disposal	(2,412)	-
Finance Income	(3,366)	-
Obsolete Stock Expense( provision)	38,611	-
Bad & doubtful debts( provisions)	40,903	-
<b>Operating surplus/deficit before working capital changes</b>	<b>(9,591)</b>	<b>(91,627)</b>
Receivables	42,332	(38,457)
Inventories	49,850	(30,479)
Payables & change in bank overdraft	59,240	89,360
<b>Cash generated from operations</b>	<b>141,831</b>	<b>(71,203)</b>

- b) Analysis of cash and cash equivalents

	2013/2014	2012/2013
	Kshs	Kshs
Cash at bank	282,737	266,669
Cash in hand	3,433	50
<b>Total cash and cash equivalent</b>	<b>286,170</b>	<b>266,719</b>

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 24. Related party transactions

##### a) Government of Kenya

The Government of Kenya owns 80% of the company's equity interest. There were related party transactions involving the Government of Kenya and KFSL as summarized below:

	2013/2014	2012/2013
	Kshs	Kshs
Recurrent Funds	364,000	280,000
Development Funds	476,000	342,000
<b>Total</b>	<b>840,000</b>	<b>622,000</b>

##### b) Kenya Ports Authority (KPA)

KPA owns 20% of the company's equity interest. There was no other transaction that occurred with KPA during the year. KPA advanced funds to the company during its initial stages. The balance outstanding as at the end of the year was Kshs 336,010,264.

	2013/2014	2012/2013
	Kshs	Kshs
<b>Advances</b>	<b>336,010</b>	<b>336,010</b>

##### c) Employees

The company provides for all employees qualifying with development advances on terms more favorable than available in the market. The benefit obtained is subject to income tax as required under the Income Tax Act. The table below shows earnings for the company's top management during the year under review

	2013/2014	2012/2013
	Kshs	Kshs
<b>Total earnings</b>	<b>31,615</b>	<b>29,775</b>

## KENYA FERRY SERVICES LTD

Reports and financial statements for the year ended 30<sup>th</sup> June 2014 "kshs 000 "

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### d) National Bank of Kenya

National Bank of Kenya is the banker for the company

#### 25. Contingent liabilities

In the year 1994 a ferry accident occurred at Mtongwe channel which caused loss of life and property both to the company and to its customers as a result of which litigation proceedings were brought against the company. A total of 257 fatal and 103 injury cases were registered. Further 3 cases were filed in 2009 and were time barred while 18 cases were never filed.

Based on the previous experience of settled cases the following provisions are made

	2013/2014	2012/2013
	Kshs	Kshs
Estimated gross claims fatal and non-fatal	213,795	213,795
Claims paid	66,295	66,295
Estimated liabilities	147,500	147,500

The estimated contingent liability is composed of fatal and injury cases of Kshs 85.7 and 60 million respectively. None of these two categories have been paid for the last three years

#### 26. Incorporation

The company is incorporated in Kenyan Companies Act and is domiciled in Kenya.

#### 27. Taxation

Kenya Ferry Services Ltd is a non-commercial state corporation and is not eligible to pay income tax.