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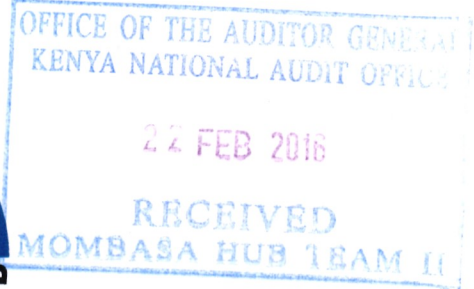
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
MALINDI WATER AND SEWERAGE
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2014**



MALINDI WATER & SEWERAGE COMPANY LIMITED

REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2014

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

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Malindi Water and Sewerage Company Key Information

Key Entity Information

The Company was incorporated on 25th August 2005. The Company is led by the Managing Director who is answerable to the board of directors. The Board of Directors is responsible for the strategic management and policy formulation of the Company.

Principal Activities

The principal activity of Malindi Water and Sewerage Company is the Supply of Water to the Residents of Malindi Sub County and the neighbouring sub county of Magarini.

Directors

The Directors who served the entity during the year / period were as follows:

1. Mrs Christine Karani	Chairman	Appointed on October 2010
2. Mr Isaac Chibule	Ag. Chief Executive	Appointed on October 2010
3. Mr Benjamin Shollo	Director	Appointed on October 2010
4. Mr Felix Charo	Director	Appointed on October 2010
5. Mr Stanley Chai	Director	Appointed on October 2010
6. Mr Ben Kai	Director	Appointed on October 2010
7. Mr Samuel Kombe	Director	Appointed on October 2010
8. Mr Philip Chai	Director	Left on September 2013
9. Mrs Grace Kazungu	Director	Left on September 2013
10. Mrs Agnes Unda	Director	Left on September 2013

Corporate Secretary

Mr.J.N. Nyakoe
P.O. Box 5236-80200
Malindi

Registered Office

Malindi Water and Sewerage Co.ltd
Next to County Assembly of Kilifi
P.O. Box 410-80200
Malindi, KENYA

Corporate Contacts

Telephone: (254) 4231037
E-mail: info@malindiwater.co.ke
Website: www.malindiwater.co.ke

Malindi Water and Sewerage Company Key information ... cont'd

Corporate Bankers

1. Kenya Commercial Bank
P.O. Box 9
80200
Malindi, Kenya
2. Equity Bank Limited
P. O. Box 1800-80200
Malindi, Kenya.

Independent Auditors

Auditor-General
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

Principal Legal Advisers

The Attorney-General
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

Board of Directors



Director Christine Karani, Chairperson board of Directors, was born on 5th April 1960; she has a Diploma in Business Management. She was the Electoral Commission of Kenya coordinator for Malindi and Magarini. She is the chairperson BOG Mbaraka Chembe Secondary School, a member of Green Town Movement and a life Member of Red Cross. She is the treasurer Mwera Women Group which she represents in the Board.



Mr Stanley Ndenge Chai, was born on 5th February 1968. He is a holder of a Master degree in Maritime affairs. He is the Managing Partner of Ultimate Maritime Consultants Limited, a director of Siekmann Kenya Limited, a Lecturer in Maritime studies at the Technical University of Mombasa and visiting Lecturer at Moi University Mombasa. He is currently pursuing a Phd in International Economics at Moi University. He represent the Business Community



Mr Felix Ngumbao Charo was born in 1971. He is a Pastor and Lecturer at the Kenya Baptist Theological College. He holds a Bachelor of arts degree in Religious studies. He represents Malindi Residents Association in the Board.

Board of Directors



Mr Benjamin Shollo was born on April 26th 1972. He holds a Bachelor's degree in Education from Egerton University and a Masters' degree in Project Management from The University of Nairobi. He is a Principal Garsen High School and represents professionals in the board.



Mr Ben Kai was born in November 1973. He is the County Government of Kilifi Chief Officer Finance. Appointed as a director in October 2010. He holds a Bachelors' Degree in Commerce and Certified Public Accountant



Mr Samuel Kombe Ngari. He is the County Government of Kilifi Chief Officer for Water. Appointed as a Director in October 2010. He holds a Bachelors of science degree in Agricultural Engineering.



Engineer Isaac Chibule is the Ag Managing Director. He holds a Bsc Water Engineering from Kenyatta University and is currently pursuing a Masters' degree in Project Planning and Management from University Of Nairobi. He is also the Technical Services Manager

Corporate Management Team



Engineer Isaac Chibule is the Ag Managing Director. He holds a Bsc Water Engineering from Kenyatta University and is currently pursuing a Masters' degree in Project Planning and Management from University Of Nairobi. He is also the Technical Services Manager



Mr Gerald Mwambire is the Commercial Services Manager. He holds a Bachelors' degree in Commerce from Kenyatta University.



Mr Charles Mapinga is the Finance Manager. He holds a Bachelor of Commerce degree from University Of Nairobi, he is a Certified Public Accountant, CPA (K) and is currently pursuing Masters in Business Administration.



Mr Seith Baya is the Internal Audit and Risk Manager. He holds a Bachelors' degree in Business Administration; he is a Certified Public Accountant CPA. (K) and a Certified Public Secretary CPS.



Mrs Fella Nawiri is the Human Resource Manager. She holds a Bachelors' degree in Business Administration (HRM) Human Resource.



Mrs Priscillah Oluoch is the deputy Technical Manager. She holds a post graduate Diploma in Land Management from Erasmus University Rotterdam, Netherlands, a graduate in Development Studies Mt Kenya University and a holder of a Diploma in Water Engineering from the Technical University of Kenya.

Chairperson Report

The Company made tremendous progress despite the trading challenges faced in the year under review. The Company increased its network coverage by more than 44 KM and increased customer base which is its core mandate.

There was a significant increase in turn over in the year compared to the previous years. However due to the decline in the tourism sector which is our main industry and biggest clientele, the increase in turnover did not meet the target as had been envisaged beside significant reduction in cost of operation.

As part of the strategic plan to provide water for all, the Company partnered with development partners like the World Bank, Water Services Trust Fund, CDF and the County Government of Kilifi to increase services to the residents in the area of jurisdiction. The main focus was covering up the underserved areas within the Malindi Township and that of Magarini constituency.

Finally, I would like to commend the partnership and support we have had from the County Government in making sure all Kilifians have access to clean water. God bless MAWASCO God bless Kilifi County.



Christine Karani,

Chairperson Board of Directors

Report of the Chief Executive Officer

OVERALL PERFORMANCE OF THE COMPANY AND ECONOMIC OUTLOOK

I am pleased to report that in the Performance Report of Kenya Water Service Sub-Sector issue No.7 by the Water Services Regulatory Board, the Company emerged the 8th best overall performing Company in Kenya among Sixty three (63) WSPs, and 6th best among Twenty two (22) in the Large WSPs category.

The Company's revenue is largely dependent on the tourism sector and any adverse effect on it directly affects the financial performance as was the case in the year under review. The effects of the travel advisories and the low tourism sector performance significantly affected the turnover in the year. Despite the

During the year under review the company recorded an upward growth of 8.1% in Turnover from KES 332,060,887 to KES.358,879,744 The Company also experienced a high cost of production that reduced the gross profits. As a result of the loss in high end clientele and the increase in production costs, the Company made a loss of KES 14.6m despite the optimal operating expenses incurred.

The collection efficiency average for the year under review was maintained at 92% and the average unaccounted for water was 30%.

MAJOR WATER PROJECTS UNDERTAKEN BY THE COMPANY

1. The completion and commissioning of the Kakuyuni Watamu pipeline which was funded by the WaSSIP programme (17km DN 350mm)
2. The implementation of the Malindi Informal Settlement project which was funded by the WaSSIP programme (14km DN 350mm)
3. The completion of Jimba-Jacaranda pipeline (final phase of 3.9km DN 150mm)
4. The completions and commissioning Mayungu extension (final phase of 1.2km DN 150mm).
5. The completion and commissioning of Milalani CDF funded project (1.5km of DN 63mm)
6. The completion and commissioning of Mongotini CDF funded project.(2.03km of DN 63mm)
7. The completion and commissioning of Kizingo and Mijomboni County Government funded project (6.5km of DN 90-63mm)

Report of the Chief Executive Officer

COMPANY'S STRATEGIC PLAN

The Company embarked on review of its Strategic plan for the next five years starting from 2014 to 2019 which is to embrace the aspirations of the County Government on its vision for provision of clean water to the people of Kilifi.

The World Bank through Coast Water Services Board has started financing some major water infrastructure development and capacity building Programmes for MAWASCO. The Company has started improving its Pipeline structure by rehabilitating the water system in Malindi and Watamu areas. The funding of WASSIP programme of the World Bank has mainly contributed in the implementation of the Company's Strategic Plan. With the completion of the Kakuyuni- Watamu pipeline, the company expects to reach more customers on the south of Watamu. The WaSSIP informal settlement programme for Kisumu Ndogo will address the perennial water shortage of Kisumu Ndogo and Majengo Mapya areas. The strategic plan also focuses on providing water to the North of Malindi mainly the Sabaki Gongoni Area with the partnership of the World Bank group. The designs have been finalized and the project is at an advanced stage.

CHALLENGES

The Company is currently faced with a challenge in provision of its mandate due to the high cost of power as it is mainly a pumping system. This has adversely contributed to the high cost of production per cubic meter of water compared to other water Companies that use gravity systems.

The Company is also faced with a challenge on dispensation of its mandate in managing Sewerage Services since Malindi has no established sewerage system. Studies have been made and some donors have indicated willingness to address the sewerage challenge but many are discouraged due to its initial high capital requirement.

The challenge for this Company since it was incorporated in 2005 has been to provide water to the hinterland of Magarini Constituency nearing 150,000 people. Plans are underway to partner with our Development Partners for the construction of the Sabaki-Gongoni Water Project.

Isaac Ghibule


Ag. Managing Director

Corporate Governance Statement

The role of the Board of Directors is to determine the Company's policy and strategy, to monitor the attainment of company objectives and ensure that the company meets its obligations to its customers, stakeholders and shareholders. The Board is also responsible for overseeing the company's internal control systems designed to safeguard the company's assets and to ensure the reliability of the financial information provided by the company.

The Board has 3 committees namely:

- (a) Finance and Administration Committee
- (b) Audit Committee.
- (c) Human Resource Committee

FINANCE PLANNING COMMITTEE

The Finance and Administration Committee whose main duties are to ensure that the Company's budget is prepared, approved and enforced, to ensure there is harmony within the staff members, to ensure there is human resource planning, there is policies on Human Resource and to review and set appropriate performance targets. The Committee is responsible for reviewing and setting medium and long term strategic directions and financial prudence. The Committee includes all aspects of projects planning as all projects will require Planning & Financing.

AUDIT AND RISK COMMITTEE

The main duties of the Internal Audit Committee are to ensure that the systems of internal controls are effectively administered. The committee defines the responsibilities of the Internal Auditors and to review and recommend to the Board the approval of interim financial results and annual financial statements. The Internal Audit is a department operating independently of other departments and sections of the Company.

HUMAN RESOURCE COMMITTEE

Due to an increase in the Company's activities, the Board however identified the need for introducing a Human Resource Committee which shall clearly define the Company's organizational structure within which individual responsibilities are defined in relation to the Company's mandate. The structure will be complemented by documented policies. The Committee will deal with appointments, dismissal, conflicts, dispute, promotion and demotion.

Corporate Social Responsibility Statement

The Company remained a social responsible corporate citizen by conducting its business in a socially acceptable and responsible manner. The company contributed and participated in various forums at the district level that include;

World AIDS Day

The Company was actively involved in the Campaign against spread of HIV AIDS in the society. During the year under review, the Company joined hands with other organisation in commemorating the World Aids Day held on 1st of December 2013

District Drama Competition,

The Company was involved in the search for young talent at the district level through the annual District Drama Competition.

Visit to a Children's home

The Company remained committed to channelling support to members of our society who are disadvantaged. During the year, the Company visited and donated to the Blessed Generation Children's Home and The Rainbow Orphanage

International Women's day

The Company participated in the International women's day which is celebrated to recognize the struggles women under in the society.

Town Cleaning up exercise

During the year, the Company partnered with the County Government of Kilifi for a clean-up exercise in the Malindi Township.

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 affairs of Malindi Water and Sewerage Company Ltd.

Principal activities

The principal activities of the entity are provision of portable water to the residents of Malindi Sub County and its environs

Results

The results of the entity for the year ended June 30, 2014 are set out on page 16 to 31

Directors

The members of the Board of Directors who served during the year are shown on page 4 to 5. In accordance with Regulation of Malindi Water and Sewerage Company 's Articles of Association, Mr Philip Chai, Mrs Grace Kazungu and Agnes Unda retired by rotation.

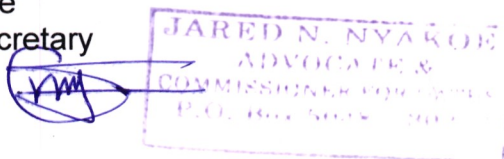
Auditors

The Auditor General is responsible for the statutory audit of the Malindi Water and Sewerage Company Ltd in accordance with the Section 15 (2) 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.

Kariru and Associates Certified Public Accountants were nominated by the Auditor-General to carry out the audit of Malindi Water and Sewerage Company Ltd for the year/period ended June 30, 2014.

By Order of the Board

Mr.J.N.Nyakoe
Corporate Secretary
Nairobi



Date:.....

Statement of Directors' Responsibilities

The Public Finance Management Act, 2012 and the State Corporations Act, require the Directors to prepare financial statements in respect of Malindi Water and Sewerage Company Ltd, which give a true and fair view of the state of affairs of Malindi Water and Sewerage Company Ltd at the end of the financial year ended 30th June 2014 and the operating results of Malindi Water and Sewerage Company for year ended 30th June 2014. The Directors are also required to ensure that Malindi Water and Sewerage Company Ltd keeps proper accounting records which disclose with reasonable accuracy the financial position of Malindi Water and Sewerage Company Ltd. The Directors are also responsible for safeguarding the assets of the Company.


The Directors are responsible for the preparation and presentation of Malindi Water and Sewerage 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 ended on June 30th, 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 entity; (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 MAWASCO'S financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements 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 MAWASCO'S financial statements give a true and fair view of the state of its transactions during the financial year ended June 30, 2014, and of the financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for MAWASCO, which have been relied upon in the preparation of the its 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 MAWASCO will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

Malindi Water and Sewerage Company's financial statements were approved by the Board on 20th December 2014 and signed on its behalf by:



Director



Director

REPUBLIC OF KENYA

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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 MALINDI WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

The financial statements of Malindi Water and Sewerage Company Limited set out on pages 16 to 31, 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 have been audited on my behalf by Kariru and Associates, auditors appointed under Section 39 of the Public Audit Act, 2003. The audit was carried out in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor-General's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of

Malindi Water and Sewerage Company Limited – Annual Report and Financial Statements for the year ended 30 June 2015

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 accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Unaccounted for Water

During the year under review, the Company produced a total of 6,586,577 cubic meters of water. However, out of this volume, only 4,600,052 were billed to customers. The balance of 1,986,525 or approximately 30.2% of the total water volume represents Unaccounted For Water (UFW). The UFW of 1,986,525 cubic meters may have resulted to a loss totalling Kshs.150,975,900. This significant level of UFW may negatively impact on the Company's profitability and long term sustainability

2. Delegated Works

As previously reported, included in total current assets figure of Kshs.218,063,429 as at 30 June 2014 is an amount of Kshs.18,313,353 in respect of delegated works carried out at various sites by the Company on behalf of Coast Water Services Board. However, records maintained by the Board have not recognized these debts. Any provision that would have been necessary in relation to this uncertainty has not been incorporated in these financial statements. Consequently, the accuracy and validity of Kshs.18,313,353 in respect of delegated works carried out as at 30 June 2014 could not be confirmed.

3. Trade and Other Payables

As previously reported, the trade and other payables balance of Kshs.261,833,005 as at 30 June 2014 includes an amount of Kshs.177,714,666 due to Coast Water Services Board. However, records maintained by the Board as at the same date showed a figure of Kshs.271,024,927, resulting in an unreconciled and unexplained difference of Kshs.93,310,261. Consequently, the completeness and accuracy of trade and other payables balance of Kshs.261,833,005 as at 30 June 2014 could not be ascertained.

4. Customer Deposit

The statement of financial position indicates that the total current liability balance of Kshs.287,894,318 as at 30 June 2014 which includes an amount of Kshs.14,078,286 relating to customers deposits-new and Kshs.8,443,600 relating to customers deposits-old, thus giving a total customer deposits of Kshs.22,521,886. This exceeds the corresponding bank account balance of Kshs.17,499,753 as at the same date. The management has not explained or reconciled the variance of Kshs.5,022,133. In addition, the current liabilities balance includes an amount of Kshs.8,443,600 in respect to inherited customer deposits-old whose relevant supporting documents were not availed for audit verification. As such, the accuracy and completeness of the customers' deposits totalling Kshs.22,521,886 as at 30 June 2014 could not be ascertained.

5. Share Capital Receivable

As previously reported and disclosed in note 13 to these financial statements the Company's authorized share capital stood at Kshs.5,000,000, divided into 5,000 shares of Kshs.1,000 each, all issued to the defunct County Council of Malindi and the defunct Municipal Council of Malindi, had not been paid for as at 30 June 2014. In the circumstances, it has not been possible to confirm whether or not the subscribers are desirous of having the Company meet its objectives as outlined in the Memorandum and Articles of Association.

6. Going Concern

During the year under review, the Company realized a deficit of Kshs.14,638,632 which brought the cumulative deficit to Kshs.54,801,511 as at 30 June 2014. In addition, the statement of financial position as at 30 June 2014 reflects total current liabilities of Kshs.287,894,318 which exceeds the total current assets balances of Kshs.218,063,429 by Kshs.69,830,889, an indication that the company may be experiencing financial difficulties in settling maturing obligations, as and when they fall due. The Company's financial statements have therefore been prepared on the going-concern basis which assumes continued financial support from the Government and suppliers of goods and services.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Malindi Water and Sewerage Company Limited as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with both the Water Act, 2002 and 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 the audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit,
- ii. In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and,
- iii. The Company's statement of financial position is in agreement with the books of account.



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

Nairobi

17 March 2016

Statement of Comprehensive Income For the period ended 30th June 2014

	Notes	2014 Kshs	2013 Kshs
REVENUES			
Sales	2	358,879,744	332,060,887
		358,879,744	332,060,887
Cost of sales	3	200,922,381	171,981,998
Net Sales		157,957,363	160,078,889
In-Kind Contribution	4	3,599,796	3,468,864
Other income	5	11,803,515	7,559,567
Total Revenues		173,360,674	171,107,320
OPERATING EXPENSES			
Administration Costs	6(a)	66,821,934	68,502,015
Staff Costs	6(b)	116,364,674	111,770,221
Depreciation of property, plant and equipment	7	4,812,698	4,756,883
TOTAL OPERATING EXPENSES		187,999,305	185,029,119
OPERATING PROFIT/(LOSS)	8	(14,638,632)	(13,921,800)
PROFIT/(LOSS) BEFORE TAXATION		(14,638,632)	(13,921,800)
INCOME TAX EXPENSE/(CREDIT)		-	-
PROFIT/(LOSS) AFTER TAXATION		(14,638,632)	(13,921,800)

The notes set out on pages 16 to 31 form an integral part of the financial statements

Statement of Changes in Equity for the period ended 30th June 2014

Particulars	Ordinary share capital	Revaluation reserve	Capital Reserve Fund	Retained earnings	Total
At July 1, 2012	5,000,000	-	39,534,996	(26,241,080)	18,293,916
Net Loss For the Year	-	-	-	(13,921,799)	(13,921,799)
At June 30, 2013	5,000,000	-	39,534,996	(40,162,879)	4,372,117
At July 1, 2013	5,000,000	-	39,534,996	(40,162,879)	4,372,117
Net Loss For The Year				(14,638,632)	(14,638,632)
Prior Year Adjustment					
At June 30, 2014	5,000,000	-	39,534,996	(54,801,511)	(10,266,515)

Malindi Water and Sewerage Company Limited
Annual Report and Financial Statements
For the year ended 30 June, 2014

Statement of Cash Flows for the period ended 30th June 2014

	Note	2014 Kshs	2013 Kshs
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	26	27,135,987	5,385,016
Net cash generated from/(used in) operating activities		27,135,987	5,385,016
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	(3,882,154)	(4,533,320)
Net cash generated from/(used in) investing activities		(3,882,154)	(4,533,320)
FINANCING ACTIVITIES			
Increase(Decrease) in Project Grant Reserve	19	(5,100,575)	(5,397,753)
Net cash generated from/(used in) financing activities		(5,100,575)	(5,397,753)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		18,153,258	(4,546,057)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		(102,563)	4,443,494
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	16	18,050,696	(102,563)

Summary of Significant Accounting Policies

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

a) **Statement of compliance and basis of preparation**

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their 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 judgement 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 Malindi Water and Sewerage Company and all values are rounded to the nearest thousand (Kshs'000).

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

b) **Revenue recognition**

Revenue is recognised 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 recognised 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 recognised 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 recognised in the year in which the Company actually receives such grants.
- iii) **Other income** is recognised as it accrues.

Summary of significant Accounting Policies (Continued)

c) **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 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.

d) **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 valuers.

Increases in the carrying amounts of assets arising from re-valuation 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 recognised in profit or loss in the income statement.

e) **Depreciation**

i) **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 ongoing but incomplete works on buildings and other civil works and installations. Depreciation on property, plant and equipment is recognised 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:

Buildings and civil works	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

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

Summary of significant Accounting Policies (Continued)

ii) Depreciation and impairment of property, plant and equipment (Continued)

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 recognised so that the asset is written down immediately to its estimated recoverable amount.

f) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

g) Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

h) 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.

i) Trade and other payables

Trade and other payables 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 any payments made to the suppliers.

Summary of significant Accounting Policies (Continued)

j) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2008. The scheme is administered by CPF (County Pension Fund) and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.400.00 per employee per month.

k) Provision for staff leave pay

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

l) 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.

Explanatory Notes to the Financial Statements

	Kshs	Kshs
2 SALES		
Water Sale	349,380,044	323,229,137
Meter Rent	9,499,700	8,831,750
	358,879,744	332,060,887
3 Cost Of Sales		
Cost of Water	164,729,425	139,980,270
9% Administrative Fees To CWSB	32,035,505	28,801,555
1% Administrative Fees To WASREB	4,157,451	3,200,173
	200,922,381	171,981,998
4 In-Kind Contribution		
Seconded Personnel	3,599,796	3,468,864
	3,599,796	3,468,864
<i>This is an amount paid to 5 ministry staff seconded to the Company. Their salary is now paid by the County Government</i>		
5 OTHER INCOME		
Sale of tender documents	2,850,500	3,000,000
Other miscellaneous receipts	8,953,015	4,559,567
	11,803,515	7,559,567

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Kshs	Kshs
6(a) ADMINISTRATION COSTS	2014	2013
	Kshs	Kshs
Directors' emoluments	4,320,585	6,004,200
Electricity and water	1,140,472	1,489,130
Communication services and supplies	6,741,233	6,010,316
Transportation, travelling and subsistence	12,687,115	12,003,590
Advertising, printing, stationery and photocopying	5,567,384	5,031,047
Staff training expenses	2,282,347	1,104,327
Hospitality supplies and services	3,644,468	3,302,882
Insurance costs	1,904,235	1,777,577
Bank charges and commissions	527,442	380,660
Office and general supplies and services	7,087,804	6,058,471
Auditors' remuneration	638,000	664,780
Legal fees	776,441	1,614,121
Consultancy fees	1,087,528	550,000
Repairs and maintenance	14,776,384	14,223,819
Provision for bad and doubtful debts	514,976	349,475
Other operating expenses(Wasca Games)	3,125,520	7,937,620
	66,821,933.72	68,502,015
6(b) STAFF COSTS	2014	2013
	Kshs	Kshs
Salaries and allowances of permanent employees	105,273,374	98,176,934
Wages of temporary employees	-	825,167
Compulsory national health insurance schemes	672,000	796,800
Compulsory national social security schemes	783,000	9,168,113
Other pension contributions	8,964,300	2,351,852
Leave pay and gratuity provisions	672,000	451,355
	116,364,674	111,770,221
The average number of employees at the end of the year was:		
Permanent employees – Management	6	7
Permanent employees – Unionisable	102	102
Temporary and contract employees	7	7
	115.00	116

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2,014	2,013
	Kshs	Kshs
7 Depreciation Expense		
Dep-Concrete Elements	80,032	90,869
Dep-Furnitue & Fittings	460,385	489,220
Dep-O & M Equipment	44,421	50,437
Dep-Office Equipment	231,142	225,900
Cold Water Meters	2,651,263	2,527,631
Dep-Buildings	195,182	199,982
Dep-Computers & Accessories	808,157	729,963
Dep-Motor Vehicle	342,114	442,880
	4,812,698	4,756,883
8 OPERATING PROFIT/(LOSS)		
	2,014	2,013
	Kshs	Kshs
The operating profit/(loss) is arrived at after charging:		
Staff costs	116,364,674	111,770,221
Depreciation of property, plant and equipment	4,812,698	4,756,883
Provision for bad and doubtful debts	-	349,475
Directors' emoluments - Honorarium	960,000	960,000
-others	3,360,585	5,044,200
Auditors' remuneration - current year fees	638,000	664,780

Malindi Water and Sewerage Company Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)

PROPERTY PLANT AND EQUIPMENT		Buildings & civil works	Plant and machinery	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Total
2014							
COST OR VALUATION							
At July 1, 2013		26,462,511	38,833,901	11,274,050	11,270,046	9,800,181	97,640,689
Additions		-	2,900,000	-	90,000	892,154	3,882,154
At June 30, 2014		26,462,511	41,733,901	11,274,050	11,360,046	10,692,335	101,522,843
DEPRECIATION							
At July 1, 2013		935,001	19,743,311	3,597,744	5,125,801	3,347,311	32,749,168
Charge for the year		195,182	2,651,263	342,114	808,157	815,981	4,812,698
At June 30, 2014		1,130,183	22,394,574	3,939,858	5,933,958	4,163,292	37,561,866
NET BOOK VALUE							
At June 30, 2014		25,332,328.40	19,339,327	7,334,192	5,426,088	6,529,043	63,960,977
2013							
At July 1, 2012		26,454,271	37,354,205	9,878,405	9,789,052	9,631,436	93,107,369
Additions		8,240	1,479,696	1,395,645	1,480,994	168,745	4,533,320
At June 30, 2013		26,462,511	38,833,901	11,274,050.00	11,270,046	9,800,181	97,640,689
DEPRECIATION							
At July 1, 2012		735,019	16,848,475	3,154,864	4,395,838	2,858,091	27,992,287
Charge for the year		199,982	2,894,836	442,880	729,963	489,220	4,756,881
At June 30, 2013		935,001	19,743,311.48	3,597,744	5,125,801	3,347,311	32,749,168
NET BOOK VALUE							
At June 30, 2013		25,527,510	19,090,590	7,676,306	6,144,245	6,452,870	64,891,521

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

	Cost or valuation	Normal annual depreciation charge
Plant and machinery	4,815,027	963,005
Motor vehicles, including motor cycles	5,289,584	1,322,396
Computers and related equipment	2,040,305	612,092
Office equipment, furniture and fittings	2,106,967	263,371
	14,251,883	3,160,864

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2014 Kshs	2013 Kshs
10 NON CURRENT RECEIVABLES	57,134,125	57,134,125
	57,134,125	57,134,125
<p>This represent debtors balances inherited from CWSB at the inception of the company. They are both receivable to the Company and payable to CWSB</p>		
11 INVENTORIES		
	2014 Kshs	2013 Kshs
Stationery and general stores	557,506	921,108
Computer Consumable parts	279,300	233,500
Office Equipment	35,238	95,503
Tools and Equipment	57,535	63,445
Pipes and Fittings	6,653,282	5,350,898
Motor vehicle spare parts	8,700	43,902
Appurtnances spares	115,774	127,449
Cleaning and Sanitation materials	-	5,000
Water Analysis Equipment	33,075	16,160
Uniform and Boots	6,000	6,000
Cold Water Meters accessories	1,220,423	839,100
Building Materials	54,130	133,700
	9,020,964	7,835,765
12 TRADE AND OTHER RECEIVABLES		
Trade receivables	163,021,427	141,327,633
Staff receivables	1,388,412	1,411,495
Gross trade and other receivables	164,409,839	142,739,128
Provision for bad and doubtful receivables	(5,175,024)	(4,660,047)
Net trade and other receivables	159,234,815	138,079,081
13 SHARE CAPITAL RECEIVABLE	5,000,000	5,000,000
	5,000,000	5,000,000
<p>This is an amount of share capital not paid up by the County Government of Kilifi.</p>		

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2014 Kshs	2013 Kshs
14 CUSTOMER DEPOSIT RECEIVABLE	8,443,600	8,443,600
15 DELEGATED WORKS		
Booster station and Watamu Junction project	3,250,906	3,250,906
Jimba Pipeline	1,691,040	1,691,040
Mayungu Pipeline	9,912,804	9,912,804
Watamu South Pipeline	3,458,604	3,458,604
	18,313,353	18,313,353
<p>These are projects which were done on behalf of Coast Water Services Board and the funds are to be refunded to the Company.</p>		
16 BANK AND CASH BALANCES		
Cash at bank	17,499,743	(102,564)
Cash in hand	550,953	-
	18,050,696	(102,564)
<p>The bulk of the cash at bank was held at Kenya Commercial Bank, the Company's main bankers.</p>		
17 ORDINARY SHARE CAPITAL		
Authorised:		
ordinary shares of Kshs.1,000.00par value each	5000000	5000000
Issued and fully paid:		
ordinary shares of Kshs.1,000. par value each		
County Government of Kilifi 4996 ordinary shares at kshs.1,000.00	4,996,000	4,996,000
County Secretary 2 ordinary shares at kshs.1,000.00	2,000	2,000
County executive member in charge of Water 1 ordinary share at kshs.1,000.00	1,000	1,000
County executive member in charge of Finance 1 ordinary share at kshs.1,000.00	1,000	1,000
	5,000,000	5,000,000

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Kshs	2013 Kshs
18 RETAINED EARNINGS		
The retained earnings represent amounts available for financing the company's business activities.	(54,801,511)	(40,162,879)
19 PROJECT GRANT FUND	4,396,603	9,497,178
These are fund from development partners for various Water reticulation projects	4,396,603	9,497,178
20 CAPITAL RESERVE FUND	39,534,996	39,534,996
	39,534,996	39,534,996
21 NON CURRENT PAYABLES	57,134,125	57,143,125
	57,134,125	57,143,125
22 TRADE AND OTHER PAYABLES		
Trade payables	258,098,143	203,874,162
Taxation Payable	3,734,863	3,734,863
	261,833,005	207,609,025
23 PROVISION FOR LEAVE PAY		
Balance at beginning of the year	1,788,449.00	1,399,711
Additional provision at end of year	1,750,978.00	388,737
Leave paid out or utilised during the year	-	-
Balance at end of the year	3,539,427.00	1,788,449
Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.		
24 CUSTOMER DEPOSIT OLD	8,443,600	8,443,600
This is an amount of Customer Deposit receivable the former National water corporation.	8,443,600	8,443,600
25 CUSTOMER DEPOSIT NEW	14,078,286	10,750,386
This is an amount of Customer Deposit from 2006 when the company was incorporated upto 30th June 2014.	14,078,286	10,750,386

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 NOTES TO THE STATEMENT OF CASH FLOWS

	2014 Kshs	2013 Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	(14,638,632)	(13,921,799)
Depreciation	4,812,698	4,756,883
Operating profit/(loss) before working capital changes	(9,825,934)	(9,164,916)
(b) (Increase)/decrease in inventories	(1,185,199)	(610,133)
(Increase)/decrease in trade and other receivables	(21,155,734)	(32,406,990)
Increase/(decrease) in trade and other payables	54,290,168	44,202,155
Increase/(decrease) in staff leave provision	1,684,786	-
Increase/(decrease) in customer Deposit	3,327,900	3,364,900
Cash generated from/(used in) operations	27,135,987	5,385,016
© Analysis of cash and cash equivalents		
Cash at bank	17,499,743	(102,564)
Cash in hand	550,953	-
Balance at end of the year	18,050,696	(102,564)

27 RELATED PARTY DISCLOSURES

The County Government of Kilifi

The County Government of Kilifi is the principal shareholder of the Company, holding 100% of the Company's equity interest.

There were not other Company transactions involving the County Government of Kilifi.

28 INCORPORATION

Malindi Water and Sewerage Company is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

29 Going Concern

Management is in consultation with the regulator for approval of a cost recovery tariff in order to recover on the deficit of current liabilities to current assets. The Management has currently instituted vigorous revenue collection on the current billing to improve on the revenue for operations

30 Legal Frame work

The Company is currently in the process of changing the memorandum and articles of association to reflect the current legal frame work with the devolved Government.

