

REPUBLIC OF KENYA



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REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
MURANG'A WATER AND SANITATION
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2013**





MURANG'A WATER & SANITATION CO. LTD.

**ANNUAL REPORT &
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30TH JUNE 2013**

MURANG'A WATER AND SANITATION COMPANY LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

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MURANG'A WATER AND SANITATION COMPANY LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

CORPORATE INFORMATION

Incorporation

The company is a limited company by guarantee established under the companies Act Cap 486 and licensed by Tana Water Services Board through Service Provision Agreement (SPA) signed on 2nd May 2006 and reviewed on 4th May 2012.

THE BOARD OF DIRECTORS

<u>NAME</u>	<u>DESIGNATION</u>
P.K. Munga	Chairman
D. Ng'ang'a	Managing Director
M.Kimwe	Member(retired on 4 th march 2013)
G. N. Njeru	Member
H. M. Mwithiga	Member
S.G. Njogu	Member
J. Ng'ang'a	Member (resigned on 29 th august 2012)
P.Kiguta	Member
J.Waweru	Member(retired 4 th march 2013)
C.E.O.	Tana Water Services Board
M. Wambui	District Water officer Murang'a East

REGISTERED OFFICE

Muwasco Building, Murang'a
Kangema Road
P. O. Box 1050 - 10200
MURANG'A.

BANKERS

Equity Bank Ltd.
P. O. BOX 1060 - 10200,
MURANG'A.

AUDITORS

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

MURANG'A WATER AND SANITATION COMPANY LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

Senior Management

The Company's senior management team is as follows:

- Daniel Ng'ang'a – Managing Director
- Joseph Maina – Commercial Manager
- Ephantus Maina– Technical Manager

Chairman's Statement

I am delighted to release our annual report and financial statements for the year ended 30th June 2013. Over the year, the company continued to make tremendous improvement in key performance areas which guarantee stakeholders' value.

Operating Environment

At the beginning of the financial year there was generally slowed economic growth in the country which affected all sectors of the economy and generally capital investment was lower than expected.

Despite this difficult operating environment, the demand for our services has continued to rise and we have positioned ourselves to meet the expectations of our customers.

We continue to listen to views of all our stakeholders and endeavor to develop, run and work in an environmentally sustainable and socially responsible manner. This includes a continued focus on operational efficiency, resources conservation efforts and responding to the needs of our customers.

Expansion Programmes

The company continues to focus on ensuring that we deliver a high level of service to our customers and provide them with reliable and sufficient water.

In this regard we initiated programmes to both increase the water supply and also expand our network to reach the un-served residents in our area of jurisdiction. The bulk water and sewerage projects funded by ADB are almost complete at a total cost of **ksh.689 million**. This will ensure that we have enough water for our customers beyond the year 2030.

In addition, during the year, our continued rapport with our development partners ensured that we received an exhauster at a cost of **ksh.14million** from Tana water services board. We also expanded our water networks and constructed sanitation facilities funded by Water Services Trust Fund at a total cost of **ksh.29million**.

Financial performance

I am delighted to report another year of continued progress for MUWASCO in which our financial performance showed improved growth. Revenues in the year rose to **ksh.97.7million** from **ksh.88.4million** reported in the year 2012.

The increased sales and prudent management of the available resources enabled us to deliver an investment of ksh.10.9million in fixed assets from internally generated funds.

I wish to report however that Kenya Revenue Authority is now charging corporate tax to all water companies which will lower funds available for investment.

Future Plans

The constitution 2010 gave the mandate of supply of water and sanitation to the county governments. We therefore expect changes as the water services are aligned with the new governance structure. It is our hope that the new legal framework will be put in place to enhance and secure the gains being achieved by the water sector since the beginning of the sector reforms.

With conducive operating environment, support from our stakeholders and financial partners, we expect to expand our water supply network to Maragua town and other un-served areas such as Kiangage, Ndikwe and Muchungucha. In

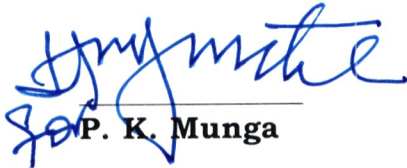
future we also intend to invest in sewerage project to serve Maragua town which is one of the key towns in development of our county.

This expansion programme will require an estimated investment of over **ksh. 1 billion** which calls for a lot of resource mobilization.

Tribute

I would like to thank all my fellow stakeholders, my Board, Tana Water Services Board, the Government, management team and all staff for their continued commitment to the business and our customers. I would like to see us continue to better the expectations others have on us and for these efforts to be recognized.

Thank you.



P. K. Munga

MURANG'A WATER AND SANITATION COMPANY LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

MANAGING DIRECTOR'S STATEMENT

General overview

MUWASCO is on a journey of becoming a market leader not only in the county but also in this region. We envision great opportunities ahead as the new bulk water project is near completion. This will enable us satisfy our customer demands now and in the near future. During the year 2012-2013 we made progress in our operations and we are satisfied that we have laid down a strong foundation which will propel our company to the future.

Company performance

The efficiency of the company has continued to improve despite many challenges facing it. The cost of operations went up compared to previous years due to inflation and high cost of inputs. This is depicted in the table below.

No.	ITEM	2010/2011	2011/2012	2012 /2013
1	Total Revenues (Kshs)Millions	80.2	88.4	97.7
2	Operating Exp (Kshs)Millions	81.4	87.7	99.2
3	Capital Exp (Kshs)Millions	11.5	31.3	35.7
4	Number of active Connections	5,400	5,900	6,500

The bulk water project is expected to relieve the company of the huge costs related to pumping and also the new water and sewerage tariffs are expected to enable the company break even and be able to recover the costs of production.

Through partners and donors, the following projects were completed during the year 2012-2013:

1. Completion and commissioning of meter testing bench funded by TWSB(Ksh,3million)
2. Completion and commissioning of the Kabuta water project funded by WSTF (ksh.20million).
3. Completion and commissioning of two Public sanitation facilities in Murang'a town funded by WSTF (ksh.9million).

The company has formed a good rapport with our external financiers and partners and we expect more support in the coming year in the following projects:-

1. Completion of Murang'a urban sewerage project funded by ADB through Tana Water Services Board (ksh.175million).
2. Finalize the funding agreement through public private partnership (PPP) for rehabilitation and extension of our water reticulation system

Geographical Information System (GIS)

The company initiated GIS development (asset mapping) and utilization which on completion will help in geographical data capturing in our infrastructure and provide a modern way of locating our consumer meters through the information system. This will enable us improve our efficiency in terms of improved communication system.

Bills Delivery

The company started bills delivery via SMS which will enable our customers receive their bills timely and reduce the cost of operations. We are also working on an integrated system which will enable our consumers query their balances.

Human resource

During the period under review we maintained a strong human resource base with skilled and competent workforce.

The company continued to value its human resource without which we could not have achieved much. During the year seven members of staff who were previously under ministry of water and irrigation were absorbed by the company and in addition a surveyor/GIS officer and the Technical Services Manager were engaged.

Ecosystem and hygiene

The company has continued to expand its services to the un-served areas where raw water has been used for domestic use. By providing clean, safe and affordable water to such areas, the company is playing a major role in improving the health of the residents.

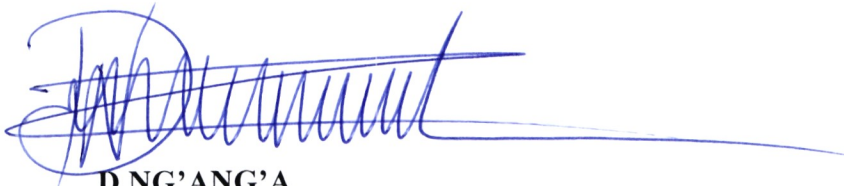
The company managed to complete two public sanitation facilities in Marigiti market and Mugoiri bus stop in Murang'a town. The modern facilities have considered people with disability. In addition exhauster services are now available at reasonable rates for our consumers who are not served by our sewer lines. Continuous laboratory tests and analysis of both treated water and wastewater discharged from our sewerage treatment works ensures that we comply with the stringent regulatory standards.

Conclusion

With increased economic growth resulting in higher demand for water and sanitation services, the future of MUWASCO can only be brighter. Although a challenge, it offers great opportunities.

We recognize the need for adequate, reasonable managerial and operational efficiency to facilitate achievement of MUWASCO goals for increasing access to safe water, improving quality of supply and satisfying demands of our customer in our area of supply.

Through devotion and dedication of our staff, the guidance of the board, support of the stakeholders and the County Government, we are confident that we shall not only satisfy our customers' expectations but also exceed them.



D.NG'ANG'A
MANAGING DIRECTOR

**MURANG'A WATER AND SANITATION COMPANY LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013**

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors have the pleasure in submitting their annual Report and Financial Statements for the Period ended 30 JUNE 2013.

PRINCIPAL ACTIVITY

The company's main activity is the provision of wholesome clean water and sanitation services to the residents of Murang'a municipality and its environs.

INCOME

The results of activities for the year show a deficit of **Ksh 1,512,632** as set out on page fourteen of the accounts.

THE BOARD OF DIRECTORS

The board members who held office during the year were as indicated on page three of the accounts.

AUDITORS

The Auditor General was appointed as auditor and has expressed willingness to continue in office in accordance with the public Audit Act 2003.

By order of the Board



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**D. NG'ANG'A
MANAGING DIRECTOR**

MURANG'A WATER AND SANITATION COMPANY LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

CORPORATE GOVERNANCE STATEMENT

Corporate governance is the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing stockholder's long term value.

The company conducts its operations in accordance with the principles of good corporate governance as provided in the Water services Regulatory Board (WASREB) guidelines and Water Act 2002 provisions.

Board of Directors

The composition of the Board is compliant with good corporate governance practices and WASREB regulations. The role of the chairman and the Managing Director are segregated. The Managing Director is in charge of the day to day running of the business of the company. A non-executive director acts as the chairman of the Board. The current Board is composed of Managing Director, the C.E.O Tana Water Services Board and nine other directors drawn from various stakeholders. The Board is therefore composed of committed individuals with diverse and complementary skills to ensure that there is sufficient wealth of experience at Board level.

Board meetings

Board Meetings are held every quarter and in exceptional circumstances as dictated by demand exigencies of company operations.

Board committees

The Board has approved the delegation of certain authorities to the Board sub committees where applicable, and to the management.

The Board has three committees which are guided by clear terms of reference. The committees are instrumental in monitoring the company operations, systems and internal controls. The committees are as follows:

Audit committee

The members of this committee are all non-executive directors. All the members meet minimum financial literacy standards. The committee meets four times in a year and the managing Director and the internal auditor attend most meetings of the committee.

The committee is responsible for ensuring that the Company's internal controls are adequate and that the assets at the disposal of the company are safe-guarded. It ensures that proper policies and internal control procedures are in place and also helps to ensure that the set policies and procedures are adhered to and advises on improvements and introduction of new control procedures.

**MURANG'A WATER AND SANITATION COMPANY LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013**

Finance and administration committee

The committee comprises of three non executive directors and C.E.O Tana water services Board. The committee is chaired by a non-executive director and meets four times a year.

The role of the committee is to monitor and review the operational and financial performance of the company against key performance indicators, identifying shortcomings and ensuring corrective measures and action are taken. The committee also reviews the company's investment plans in capital expenditure and recommends to the board for approval. The committee has also the responsibility of ensuring that the systems of financial controls are effectively administered.

This committee as well has the responsibility of ensuring the company has the right staff, at the right place and doing the right thing. More so, the committee will ensure that staff welfare is guaranteed.

Their terms of reference includes but not confined to human resource planning, employee welfare, recruitment, training, performance appraisal, discipline, health and safety and HIV/ AIDS.

Technical committee

The committee comprises of three non executive directors and C.E.O Tana water services Board. The committee is chaired by a non-executive director and meets four times a year.

This committee oversees planning, coordination and execution of development and rehabilitation projects to ensure expansion of reticulation system and to improve efficiency in water production and distribution including sewerage network

Directors' Remuneration

The remuneration of non-executive directors consists of sitting allowances in connection with Board and committee meetings.

Going concern

The directors confirm that the company has adequate resources to continue in business for the foreseeable future and therefore the continued use of the going concern as a basis when preparing financial statements.

SIGNED:



CHAIRMAN



MANAGING DIRECTOR

MURANG'A WATER AND SANITATION COMPANY LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

STATEMENT OF THE BOARD OF DIRECTORS' RESPONSIBILITY

The Companies Act Cap 486 requires the Board of Directors to prepare financial statements for each year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the results of the activities for that year. It also requires the Board to ensure that the Company maintains proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Board is also responsible for safeguarding the assets of the Company.

The Board of Directors accepts responsibility for the 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 and the requirements of the Companies Act.

The Board is of the opinion that the financial statements give a true and fair view of the state of affairs of the Company and of its income and expenditure. The Board of Directors further accepts responsibility for the maintenance of accounting records that may be relied upon in the preparation of the financial statements, as well as systems of control.

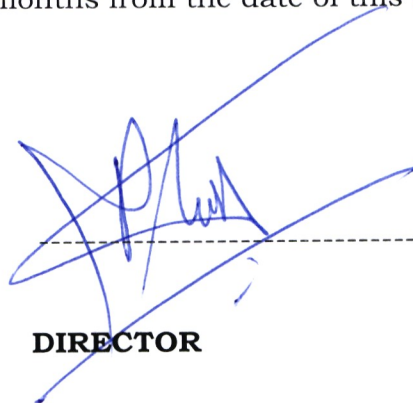
Nothing has come to the attention of the Board of Directors to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement.

SIGNED: _____



for

CHAIRMAN



DIRECTOR

Report of the External Auditor



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

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR GENERAL ON MURANG'A WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Murang'a Water and Sanitation Company Limited set out on pages 14 to 25, which comprise the statement of financial position as at 30 June 2013, 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.

Director's Responsibility for the Financial Statements

The Board of Director's 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 the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the

auditor's judgement, including the assessment of the risks of material 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 Board, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Unaccounted For Water

During the year under review, the Company produced a total of 1,595,757 cubic meters (m³) of water. However, and out of this volume, only 967,373 m³ were billed to customers. The balance of 628,379 m³ or approximately 39.4% of the total volume represented Unaccounted For water (UFW), which is 14.4% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines. The UFW of 39.4% may have resulted in loss of sales estimated at Kshs.37,094,127.

The significant level of UFW may negatively impact on the Company's profitability and its long term sustainability.

2. Receivables

The receivable balance of Kshs.29,030,627 includes trade receivables of Kshs.19,648,099 which have been outstanding for a considerable long period. Although the Company has made a specific provision for bad debts of Kshs.1,373,236, no general provision for bad and doubtful debts has been made during the year. Further, no major efforts have been put in place to recover the outstanding trade receivables.

Consequently, the recoverability of trade receivables balance Kshs.29,030,627 as at 30 June 2013 could not be confirmed.

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 the Company as at 30 June 2013, and of its financial

performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with both the Water Act, 2002, and the Company's 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; and
- (ii) In my opinion, proper books of account have been kept by the company, so far as appears from my examination of those books; and,
- (iii) The company's statement of financial position and statement of comprehensive income are in agreement with the books of account.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

10 July, 2014

MURANG'A WATER & SANITATION COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2013

INCOME	NOTES	2012/13 (Kshs)	RESTATED 2011/12 (Kshs)
Revenue Grants	2	15,422,345	15,335,365
Billings	3	79,880,854	70,255,025
Other incomes	4	2,358,505	2,788,563
		97,661,704	88,378,953
EXPENDITURE			
Personal emoluments	5	37,186,854	30,899,579
Administration expenses	6	20,608,032	17,461,650
Production and maintenance expenses	7	29,850,976	31,265,544
General office expenses	8	2,982,121	2,108,865
Audit fees	17	462,500	334,700
Depreciation	9	8,083,853	5,575,249
		99,174,336	87,645,587
SUPRLUS/DEFICIT FROM OPERATING ACTIVITIES		(1,512,632)	733,366
TOTAL(DEFICIT)/SURPLUS		(1,512,632)	733,366

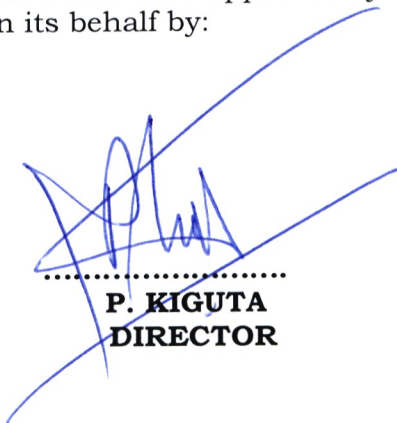
MURANG'A WATER & SANITATION COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2013

NON CURRENT ASSETS	NOTES	2012/2013 (Kshs)	RESTATED 2011/2012 (Kshs)
Property, plant and Equipments	9	93,867,046	65,140,952
CURRENT ASSETS			
Receivables	10	29,030,627	23,581,426
Other current assets	12	6,211,034	3,418,264
Cash and cash equivalent	11	2,610,568	2,664,625
TOTAL CURRENT ASSETS		37,852,229	29,664,315
CURRENT LIABILITIES	13	(26,898,920)	(19,386,161)
NET CURRENT ASSETS		10,953,309	10,278,154
TOTAL NET ASSET		104,820,355	75,419,106
FINANCED BY			
Revenue Reserves	14	15,762,471	17,275,103
Capital Reserves	15	33,275,181	33,275,181
G.O.K Capital Grants	16	55,782,703	24,868,822
		104,820,355	75,419,106

The financial statements on pages 14-25 were approved by the board of directors on 19/09/2013 and were signed on its behalf by:



P.K MUNGA
CHAIRMAN
DIRECTOR



P. KIGUTA
DIRECTOR



D.NG'ANG'A
MANAGING

MURANG'A WATER & SANITATION COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2013

	CAPITAL RESERVE S (KSHS)	G.O.K CAPITAL GRANT (KSHS)	REVENUE RESERVES (KSHS)	TOTALS KSHS)
Balance at 1 July 2011	33,275,181	3,711,557	16,541,737	53,528,475
Funds received during the year		21,157,265		21,157,265
Surplus for the year	-	-	733,366	733,366
Balance at 30th June 2012	33,275,181	24,868,822	17,275,103	75,419,106
Balance at 1st July 2012	33,275,181	24,868,822	17,275,103	75,419,106
Funds received during the year	-	30,913,881		30,913,881
Surplus for the year	-	-	(1,512,632)	(1,512,632)
Balance at 30th June 2013	33,275,181	55,782,703	15,762,471	104,820,355

MURANG'A WATER & SANITATION COMPANY LIMITED

STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30TH JUNE 2013

		2012/2013	RESTATED
			2011/2012
	Notes	(Kshs)	(Kshs)
Cash Flows from operating activities			
(Deficit)/ Surplus generated from operating activities		(1,512,632)	733,366
Adjustment for: Non cash items			
Depreciation	9	8,083,853	5,575,249
Provision for bad debts	6 & 10	(706,995)	333,908
Provision for audit fees	17	412,500	312,500
Amortization	16	(1,411,348)	(136,946)
Loss on Disposal	6	594,559	-
Adjusted Surplus From operating Activities Before Working Capital changes		5,459,937	6,818,077
Changes in working capital			
(Increase)/Decrease in receivables		(4,742,206)	(6,092,480)
Increase /(Decrease) in Current Liabilities		7,100,259	6,587,760
(Increase)/Decrease in other current asset		(4,790,747)	(2,038,099)
Net cash flows From Operating Activities		3,027,243	5,275,258
Cash flows from Investing Activities			
Purchase of P.P.E	9	(35,676,529)	(26,027,361)
Proceeds on Meter Disposal		270,000	-
Net Cash flows from investing activities		(35,406,529)	(26,027,361)
Cash flows from Financing Activities			
G.O.K Capital Grant	16	32,325,229	21,294,212
Net Cash flows from Financing Activities		32,325,229	21,294,212
Net Decrease/increase in cash & cash equivalents		(54,057)	542,109
Cash and Cash equivalent at start of year		2,664,625	2,122,516
Cash and Cash equivalents at end of year	11	2,610,568	2,664,625

MURANG'A WATER AND SANITATION COMPANY LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

NOTES

1) ACCOUNTING POLICIES

a. **Basis of preparation**

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention.

b. **Revenue Recognition**

The company adopts the accrual basis of accounting for revenue. Revenue is recognized when it is earned and represents the amount received from the billings of Water & sewerage and miscellaneous income received from the sale of tenders and new connections. Expenses are recognized when incurred.

c. **Property and Equipment**

The water Act 2002 recognizes Tana water services board as the asset holder of assets held by Company in the financial year 2011/2012. The company pays Tana water services board administration cost of 9% based on the company revenue collected.

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated on the reducing balance basis to write down the cost of each asset to its residual value over its estimated useful life as follows:

Per Annum	RATE %
-Buildings	2.5
-Motor Vehicles	25
-Computers and Photocopiers	30
-Pipes	2.5
-Equipments and Tools	12.5

-Depreciation is provided for the full year irrespective of the month of purchase but no depreciation charged in the year of disposal.

MURANG'A WATER AND SANITATION COMPANY LTD
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

d. **Receivables**

Trade receivables are recognized and carried at original amount less any unrecoverable amounts.

e. **Reserves**

Reserves of the company comprise revenue reserves which represents the excess of the income over recurrent expenditure.

Capital reserves represent net assets capitalized at the formation of the company

The water act 2002 and the company's Articles of association prohibit distribution of reserves to members and reserves are supposed to be ploughed back to the system in accordance with the water act.

f. **Incorporation**

The company is a limited company by guarantee established under the companies Act Cap 486 and licensed by Tana Water Services Board through SPA reviewed on 4th May 2012.

g. **Retirement benefits**

The company and employees contribute to Local Authority Provident Fund (LAPF) a statutory pension scheme. & Barclays Securities services which is a National water conservation & pipeline corporation staff Superannuation Scheme.

h. **Reporting currency**

These accounts are presented in Kenya Shillings (Kshs)

i. **Allowance for credit risk**

The company provides allowance for credit risk against outstanding specific water and sewerage debts.

j. **Corporate tax**

The company has been assessed for corporate tax amounting to Ksh 35.8 M by KRA for the period 2007-2011 and has appealed awaiting decision of the local committee.

2. GOK GRANTS

Accounting for Government grants

The amount of government grants comprises both capital and recurrent expenditure. The grants have been recognized and accounted for as per IAS N0.20.

<u>REVENUE GRANTS</u>	<u>2012/13</u>	<u>2011/12</u>
	<u>KSHs</u>	<u>KSHs</u>
CHEMICALS	1,288,250	715,000
AMOTIZATION-WATER METERS & OTHER CAPITAL GRANTS	1,411,348	455,823
ELECTRICITY	4,403,364	4,300,000
SALARIES PAID TO SECONDED STAFFS	8,319,383	9,864,542
TOTALS	15,422,345	15,335,365

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3. Revenue.

The principal activity of the company is provision of water and sewerage services through which the company generated revenue as follows

<u>BILLINGS</u>	2012/2013	2011/2012
	(KSHs)	(KSHs)
WATER	57,105,732	50,159,255
SEWERAGE	16,653,812	14,344,865
METER RENT	3,806,310	3,495,700
OTHER BILLINGS	458,000	780,705
RE- CONNECTION FEES	1,857,000	1,474,500
TOTALS	79,880,854	70,255,025

4) OTHER INCOMES

INCOME

WATER CONNECTION FEES	2,172,305	1,212,855
SEWER CONNECTION FEES	158,414	297,520
COMPENSATION (ROAD RE-ROUTING PIPES)	-	981,845
DISCOUNT & INTEREST RECEIVED	2,154	261,763
SURCHARGES	25,632	34,580
TOTALS	2,358,505	2,788,563

5) PERSONAL EMOLUMENTS

SALARIES	23,473,327	16,969,566
SALARIES (G.O.K GRANT)	8,319,383	9,864,542
LEAVE ALLOWANCES	265,828	256,559
NSSF COMPANY CONTRIBUTIONS	137,400	109,000
PENSION CONTRIBUTION	961,718	528,954
STAFF GRATUITY	1,234,698	1,198,223
CASUAL WAGES	2,794,500	1,972,735
TOTAL PERSONAL EMOLUMENTS	37,186,854	30,899,579

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6) ADMINISTRATION EXPENSES	2012/2013 KSHs	RESTATED 2011/2012 KSHs
TRAINING	532,486	691,350
ADVERTISING	605,310	431,125
BOARDS, COMMITTEES,	1,039,809	966,564
MOTOR VEHICLE EXPENSES	1,891,056	1,684,473
CONSULTANCY, & OTHER PROFESSIONAL FEES	565,320	549,400
SUNDRY EXPENSES	82,164	30,140
INSURANCES	1,211,909	543,563
MEMBERSHIP AND SUBSCRIPTIONS	225,220	489,577
COURIER & POSTAL SERVICES	1,066,333	58,835
TELEPHONE, E-MAIL, FACSIMILE & Communication	468,929	448,911
LICENCES & PERMITS	6,200	57,200
CATERING SERVICES	288,512	244,886
CONTRACTED GUARDS SERVICES	497,929	598,500
TWSB ADMINISTRATION COST	7,355,708	6,021,087
WASREB LEVY	817,302	669,009
BANK SERVICE COMMISSION & CHARGES	109,808	111,380
LEGAL FEES	106,333	8,000
MEETING COSTS ,CONFERENCES & SEMINARS	567,109	323,713
TRAVEL COST	219,571	140,675
INCREASE(DECREASE)FOR CREDIT RISK	(706,995)	333,908
SUBSISTENCE ALLOWANCES	3,063,460	3,059,354
LOSS ON DISPOSAL	594,559	-
	20,608,032	17,461,650
7) PRODUCTION & MAINTENANCE EXPENSES		
ELECTRICITY	17,246,564	19,794,808
OPERATING AND MAINTENANCE COST	8,704,390	7,158,037
CHEMICALS	3,580,871	3,991,330
WATER ABSTRACTION FEE-WARMA	319,151	321,369
	29,850,976	31,265,544
8) GENERAL OFFICE EXPENSES		
STAFF UNIFORMS	813,765	438,254
GENERAL OFFICE SUPPLIES	2,083,776	1,578,601
NEWSPAPERS, MAGAZINES & PERIODICALS	84,580	92,010
	2,982,121	2,108,865

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9) PROPERTY PLANT & EQUIPMENTS (KSHs)

COSTS	1)Buildings (KSHS)	2)pipes &fittings (KSHS)	3)EQUIPMENTS (KSHS)	4)motor vehicles & Cycles (KSHS)	5)computers &computer networking (KSHS)	6.Work In Progress (KSHS)	TOTALS (KSHS)
Cost as at 1st July 2012	10,238,734	13,871,809	42,864,023	4,811,000	3,518,750	12,753,020	88,057,336
Additions during the year	1,439,344	2,063,048	6,776,948	384,051	283,000	24,730,138	35,676,529
WIP Transferred To Equipment	-	-	17,536,915	-	-	(17,536,915)	-
Disposal-Meters			(1,685,600)				(1,685,600)
TOTAL as at 30th June 2013	11,678,078	15,939,857	65,492,286	5,195,051	3,801,750	19,946,243	122,048,265
DEPRECIATION							
As at 1st July 2012	886,466	793,383	13,763,275	3,453,934	2,021,349	-	20,918,407
charge for the year	269,790	378,537	6,466,127	435,279	534,120	-	8,083,853
Accumulated Depreciation on Disposal			(821,041)				(821,041)
Total accumulated depreciation	1,156,256	1,171,920	19,408,361	3,889,213	2,555,469	-	28,181,219
NET BOOK VALUE							
As at 30th June 2013	10,521,822	14,762,937	46,083,927	1,305,838	1,246,281	19,946,243	93,867,046
NET BOOK VALUE							
As at 30th June 2012-Restated	9,352,268	12,786,829	27,394,368	1,357,066	1,497,401	12,753,020	65,140,952

Class 3 Equipment comprises of meters accessories and other water networks
Office and lab equipments, furniture and fitting including sewer networks

W.I.P Class 6 comprises the on going construction works of Kabuta & Mugoiri, Marigiti projects

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	2012/2013	RESTATED 2011/2012
	KSHs	KSHs
10) RECEIVABLES		
Trade Receivables	19,648,099	20,802,307
Other receivables	10,755,764	4,859,350
TOTAL RECEIVABLES	30,403,863	25,661,657
Less allowance for credit risk	(1,373,236)	(2,080,231)
NET BOOK VALUE	29,030,627	23,581,426

11) CASH & CASH EQUIVALENT

The company held four bank accounts with Equity, three with Family Bank and M-Pesa, the accounts are to be used for revenue and Deposit purposes. The fixed deposit account had been used to obtain a bank guarantee in favour of Kenya Power and lightening company in lieu of Electricity Deposits for the two water treatment works electricity accounts. The cash and cash equivalent were as follows:-

BANK ACCOUNT 1-Savings	307,821	532,050
BANK ACCOUNT 2-Current	705,371	452,402
BANK ACCOUNT 3-W.S.T.F PROJECT	(130,328)	88,003
BANK ACCOUNT 4-Current	166,519	293,645
M-PESA	265,715	49,408
FIXED DEPOSIT ACCOUNT	1,200,000	1,200,000
CASH AT HAND	95,470	49,117
TOTALS	2,610,568	2,664,625

12) OTHER CURRENT ASSETS

Inventories	6,024,027	3,219,345
Prepayments & Deposits	187,007	198,919
TOTALS	6,211,034	3,418,264

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13) CURRENT LIABILITIES

	2012/2013	RESTATED 2011/2012
	<u>(KSHs)</u>	<u>(KSHs)</u>
Customers Prepayments	942,759	546,711
Suppliers Creditors	5,870,414	5,199,129
Other Creditors	1,394,883	664,424
Provision for audit fees 2011/12	725,000	312,500
Accrued bills (payables)	12,453,881	6,704,386
Customer Deposits	4,452,949	3,217,929
Gratuity Payable	1,059,034	1,548,522
V.A.T WHT Payable	-	1,192,560
	26,898,920	19,386,161

14) REVENUE RESERVES

Brought forward	17,275,103	16,541,737
Current period	(1,512,632)	733,366
Carried forward	15,762,471	17,275,103

15) CAPITAL RESERVES

Brought forward	33,275,181	33,275,181
Carried forward	33,275,181	33,275,181

16) G.O.K CAPITAL GRANT

Brought Forward	24,868,822	3,711,557
Current W.S.T.F Projects	27,322,338	17,536,915
Water Meters & Other Fittings	5,003,919	3,757,292
Transferred to Revenue 2012/13	(1,329,562)	(36,336)
Completed W.S.T.F Project	(1,028)	(16,727)
Amortization Ablution Block	(81,786)	(83,884)
TOTALS	55,782,703	24,868,822

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17) AUDIT FEE

	2012/2013	2011/2012
Current year Provision	362,500	312,500
V.A.T Audit	50,000	23,200
Over/under provision	50,000	(1,000)
Income and Expenditure	462,500	334,500