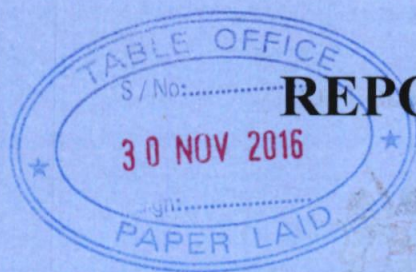


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



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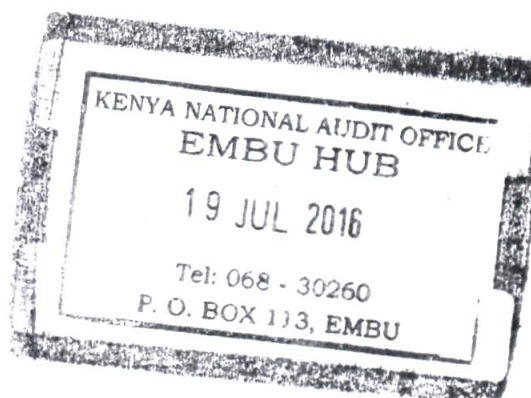
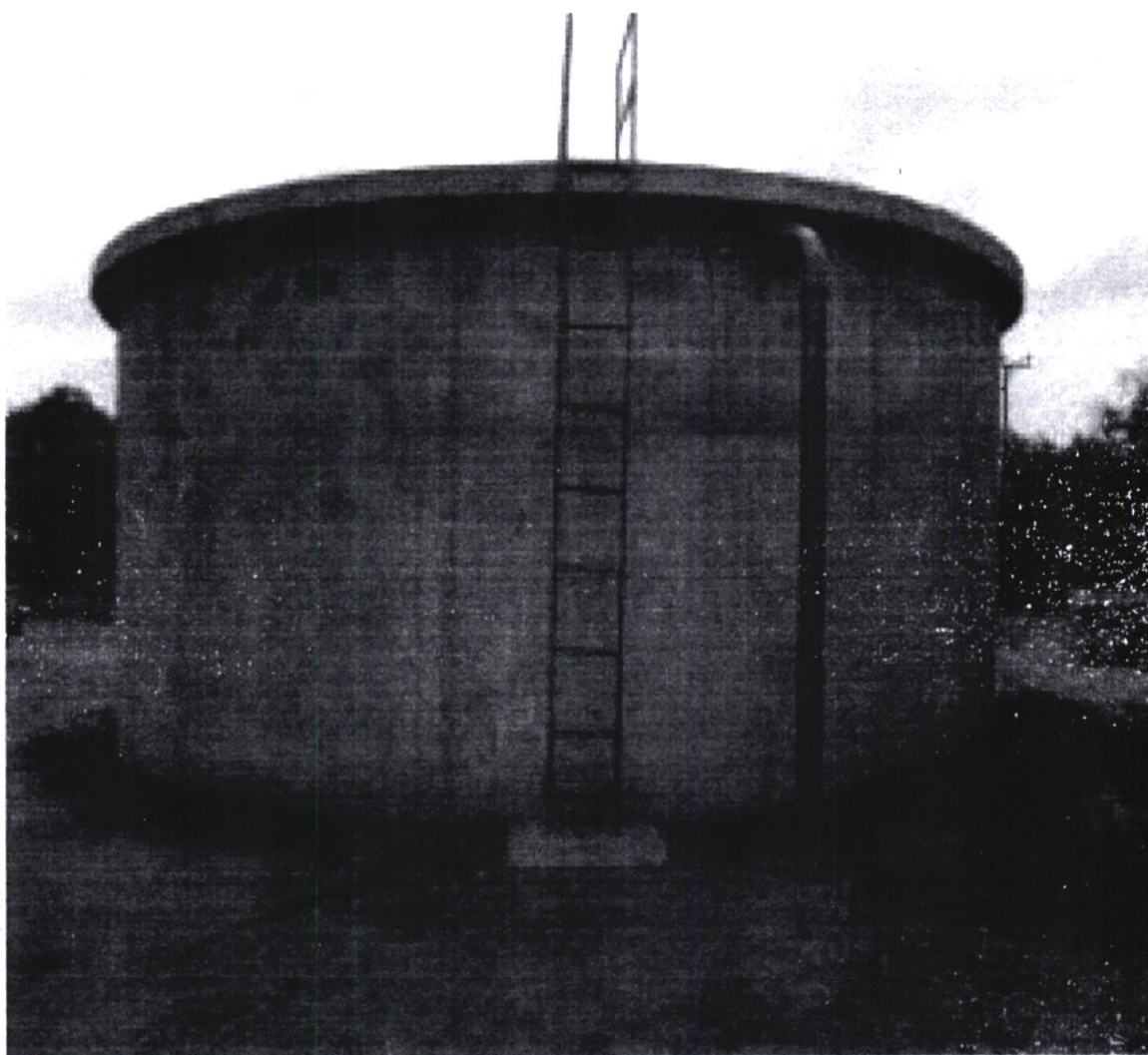
**THE FINANCIAL STATEMENTS OF
KIBWEZI-MAKINDU WATER AND
SANITATION COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2014**



KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
REPORTS AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE 2014

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



KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
Reports and Financial Statements
For the year ended June 30, 2014 (Kshs'000)

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KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED

Reports and Financial Statements For the year ended June 30, 2014

KEY ENTITY INFORMATION

Background information

The *company* was established by the Company's Act cap 486

Principal Activities

The principal activity of the *company* is to provide water and Sanitation services.

Directors

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

	<u>Name of Director</u>	<u>Position</u>	<u>Appointed on</u>
1.	Samuel Nzuki Muindi	- Chairman	- 14 th Jan 2011
2.	Dr. Peter Nduulu	- Director	- 14 th Jan 2011
3.	Job Mulani Maingi	- Director	- 14 th Jan 2011
4.	Jane Wausi Mutua	- Director	- 14 th Jan 2011
5.	Monica Mwikali Maithya	- Director	- 14 th Jan 2011
6.	Jacob Mutuku Moenga	- Director	- 14 th Jan 2011
7.	Bishop Benard Mutuku	- Director	- 14 th Jan 2011
8.	Albert Nzise Masua	- Director	- 14 th Jan 2011
9.	Lucia Roberts	- Director	- 14 th Jan 2011
10.	Augustus K Nduundu	- chief Executive	

Registered Office

Dc,s Compound
Off Nairobi – Mombasa Road
P.O. Box 104-90137
Kibwezi

Corporate Contacts

Telephone: (254) 020 2121713
E-mail: kibwezi_mtutowaco@yahoo.com

KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED

**Reports and Financial Statements
For the year ended June 30, 2014**

Corporate Bankers

1. Kenya Commercial Bank
Kibwezi Branch
P.O. Box 288-90137
Kibwezi, Kenya

2. Kenya Post Office Savings Bank
Kibwezi Branch
P.O 30311-00100
Nairobi.

Independent Auditors

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

KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED

Reports and Financial Statements For the year ended June 30, 2014

KEY MANAGEMENT TEAM

1. A. K Ndundu Managing Director	<u>Main responsibility:</u> <ul style="list-style-type: none">❖ Develop and recommend to the organization long term strategies, business plans and annual operating budgets and establishment of proper internal monitoring and control systems.❖ Identify financial requirements for the functions and activities of KIMAWASCO.❖ Attend to all matters related to the functions and policy's of the organization
2. Elijah Mzungu Technical Manager	<u>Main responsibility:</u> <ul style="list-style-type: none">❖ To oversee the company's Technical operations❖ Provide strategic and technical leadership in the Technical department to ensure provision of high quality services.
3. Bensley Kyengo Commercial Manager	<u>Main responsibility:</u> <ul style="list-style-type: none">❖ To ensure that the strategy for service delivery and revenue generation of Kimawasco is carried out in accordance with laid down procedures in a more efficient and effective manner.
4. Johnson Musembi Finance Manager	<u>Main responsibility:</u> <ul style="list-style-type: none">❖ To ensure that all financial resources of the company are acquired, disbursed, prudently invested, fully accounted and reported for a financially sound company.

KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED

**Reports and Financial Statements
For the year ended June 30, 2014**

CHAIRMAN'S STATEMENT

I am very optimistic as I present this Annual report and financial statements of the company for the financial year 2013/2014. The Board of Directors and Management team were faced with very many challenges as outlined below:-

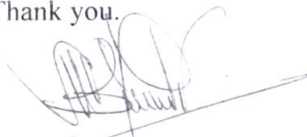
- (a) Reduction of water levels at both Umani springs and Makindu intake leading to rationing of water to our customers.
- (b) Dilapidated pipeline distribution network leading to high water losses
- (c) High cost of repair materials, electricity, fuels and water treatment chemicals.
- (d) High water demand exceeding our combined water capacity production.

I wish to thank all our Development partners, Regulators, Consumers for their enormous support. I wish to thank my fellow Directors, Management team and the entire staff support and commitment to the affairs of the company.

I further wish to thank the Water services Trust Fund for their continued support. We were funded the Kibwezi-Kefri- Mjini mtoni Ngumbe water project.

God bless you all.

Thank you.



Samuel N Mwindi
Board of Directors Chairman

Date 30/9/2014.....

KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED

**Reports and Financial Statements
For the year ended June 30, 2014**

REPORT OF THE CHIEF EXECUTIVE OFFICER

2013/2014 financial year has been very difficult in terms of operation and maintenance due to the changes brought about by the new constitution; Subsidy for Electricity and water treatment chemicals has been minimal and the company is struggling to meet all its obligations. Support by the County government on operation and maintenance has been minimal despite the earlier correspondences by the National Government delegating subsidy to the County government.

This has made our operations difficult since we also don't have a regular Tariff application which was contested in water appeals Board and up to date not completed. Extra ordinary tariff cannot meet all the costs of operations hence the need for operational subsidy.

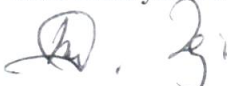
Our other major development partner is Water Service Trust Fund (WSTF) which has funded 4.7km of Distribution network. This implementation has been the main source of increased water connections and hours of supply. The project also purchased 150 No. Water meters for new connections.

Lastly I take this opportunity to thank the County government of Makueni and WSTF for their tireless support of developing new sources and providing reticulation water networks for the people of Makueni, and would wish them to continue with the same spirit ..

I also thank the Board of Directors for their support and direction on all matters pertaining to the success of this company and would wish them well.

Lastly, I thank the entire Management team/ Company staff for their efforts which have seen the company succeed in its objectives and would wish them to double their efforts in order to meet our consumers / customers expectations.

God bless you all



Bensley M Kyengo
For Managing Director

Date..30/9/2014.....

KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED

Reports and Financial Statements For the year ended June 30, 2014

CORPORATE GOVERNANCE STATEMENT

The Board of directors of Kibwezi-Makindu water and sanitation Company Ltd established under the State Corporations and Water Act 2002.

The board fully appreciates its responsibilities in meeting its strategic objectives and mandate.

In order to meet these objectives the board is striving to ensure it embraces good corporate governance and this has had positive impact on the board's performance.

The Board is responsible for formulating the company's policies and strategies and ensuring that business objectives, aimed at promoting and protecting shareholders value, are achieved. The Board also retains the overall responsibility for effective control of the company and implements corporate governance policies of the company. In carrying out the above responsibilities, the Board delegates its authority to the Managing Director to oversee the day to day business operations of the company.

The Board comprises ten members, nine non-executive Directors and one executive Director (Managing Director). The Directors have diverse skills and are drawn from various sectors/Institutions of the residents' community in the company area of jurisdiction.

A timetable of calendar dates for Board meetings to be held in the following year is fixed in advance by the Board. The notice of Board meetings is given in advance in accordance with the company's Articles of Association and is distributed together with the agenda and board papers to all the Directors beforehand. The Board meets regularly and at least three times annually, in accordance with the company's practice.

The company operates within the requirements of the Kenyan Companies Act, among other laws, and adopts certain universally accepted principles in the areas of human rights, labour standards and environment in its commitment to best practice. Additionally, the company prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act.



Bensley M Kyengo
For Secretary to the Board

Date: 30/9/2014

KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED

Reports and Financial Statements For the year ended June 30, 2014

Report of the Directors on the Financial Statement For the period ended 30th June, 2014

The Directors submit their report together with the financial statements for the period ended 30th June, 2014, which disclose the state of affairs of the company.

Incorporation.

The Company is incorporated in Kenya under the Companies Act and is domiciled in Kenya. The address of the registered office is set out on page 1 above.

Principal Activity.

The Principal activity of the company is the provision of water and Sanitation services.

Results of Operations.

The net loss for the year under review is Kshs. **3,002,546**

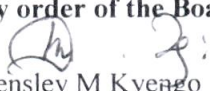
Directors.

The Directors who held office during the year and to the date of this report are listed on page 1

Auditors

The company is audited by the Kenya National Audit Office.

By order of the Board


Bensley M Kyengo
For Managing Director

Date: 30.6.2014.....

KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED

Reports and Financial Statements For the year ended June 30, 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2013 and section 14 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.

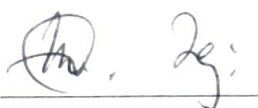
The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year (period) ended on June 30, 2014. This responsibility includes: (i) maintaining adequate 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 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 the company'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 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.

Approval of the financial statements

The company's financial statements were approved by the Board on ^{30th}.....Sept..... 2014 and signed on its behalf by:



Bensley M Kyengo
For Managing Director



Samuel N Muindi
Chair person BOD

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 KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kibwezi-Makindu Water and Sanitation Company Limited set out on pages 11 to 27, 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 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 the provisions of Section 15 (2) of the Public Audit Act, 2003 and submit the audit report in compliance with article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion

on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Adverse Opinion

1.0 Going Concern

As reported in the previous year, the Company made a net loss of Kshs.3,002,546 which reduced the retained earnings from Kshs.(2,660,235) as at 30 June 2013 to Kshs.(5,662,741) as at 30 June 2014. Further the statement of financial position as at 30 June 2014 reflected a current liabilities balance of Kshs.24,903,281 which exceeds the current assets balance of Kshs.16,036,521 resulting to a negative working capital of Kshs.8,866,760 as at 30 June 2014. This is an indication that the Company may be experiencing financial difficulties in settling maturing obligations, as and when they fall due. The Company's liquidity issue may have been the cause of the Kshs.5,223,820 increase in trade and other payables from Kshs.12,214,900 as at 30 June 2013 to Kshs.17,438,720 as at 30 June 2014.

Consequently, the Company's financial position is therefore precarious and its continued existence as a going concern is dependent upon continued support from the government and creditors.

2.0 Late Submission of Financial Statements

As reported in the previous year, the 2013/2014 financial statements were submitted for audit on 17 November 2014, 10 weeks after the statutory deadline of 30 September, 2014. Section 13 (1) of the Public Audit Act, 2003, requires the Company to submit its accounts within three (3) months after the end of the financial year to which the accounts relates.

In the circumstances, the Company was in breach of the law and no proper explanation was given for the delay.

3.0 Inaccuracies in the Financial Statements

The financial statements balances as at 30 June 2014 had differences with the supporting schedule balance as follows:-

Item	Financial statement balance (Kshs)	Schedule balance (Kshs)	Variance (Kshs)
Other income	1,061,876	1,048,352	(13,526)
Sales	42,980,326	43,398,966	418,640
Trade and other receivables	11,680,741	13,430,292	1,749,551
Trade and other payables	17,438,720	16,819,615	619,105
Staff costs	27,215,613	27,668,250	452,637
Motor Vehicle fuel and	7,116,317	7,334,736	218,419

maintenance			
Motor Vehicle insurance	735,623	517,204	(218,419)
Bank & Cash Balances	3,502,863	3,528,562	25,699

In the circumstances, the accuracy and reliability of the financial statements balances for year ended 30 June 2014 could not be confirmed.

4.0 Trade and Other Receivables

Included in the trade and other receivables balance of Kshs.11,680,741 was Kshs.68,900 for staff car loans and advances which has remained outstanding for a considerably long period of time.

In the circumstances, the recoverability of the staff car loan of Kshs.68,900 could not be confirmed as at June 2014.

5.0 Customer Deposits

The customer deposits balance of Kshs.6,429,300 as at 30 June 2014 was at variance with corresponding bank account balance of Kshs.1,053,322 by unexplained and unreconciled difference of Kshs.5,375,978. Under the circumstances, it has not been possible to confirm that the customer deposits balance of Kshs.6,429,300 as at 30 June 2014 was fairly stated.

6.0 Unaccounted for Water (UFW)

During the year under review, the Company produced 1,136,213 cubic meters (m³) of water. However, only 832,129 cubic meters of water was billed to customers. The balance of 304,084m³ or approximately 26.8% of the total volume represented Unaccounted for Water (UFW) which is 1.8% over and above the allowable loss of 25% in accordance with Water Services Regulatory Board guidelines. The UFW may have resulted in loss of revenue estimated at Kshs15,921,838 which negatively impacts on the Company's profitability and long term sustainability.

7.0 Budget analysis

During the year under review, Kibwezi-Makindu Water and Sanitation Company Limited (KIMAWASCO) had a budgeted income of Kshs.62,275,757. However, the actual income was Kshs.54,169,101 leading to an under-collection of Kshs.8,106,656. Further, the Company's expenditure budget was Kshs.70,782,464 while the actual expenditure was Kshs.57,171,647 leading to an under-expenditure of Kshs.13,610,817 as follows;

Item	Expenditure (Kshs.)	Budget (Kshs.)	OVER/(UNDER) EXPENDITURE (Kshs.)
Revenue			
Sales	42,989,326	61,479,901.00	(18,913,382)
Grants from National & County Government	10,126,899	-	10,126,899
Other Income	1,430,249.00	795,856.00	(634,393)
Revenue	54,169,101.00	62,275,757.00	(8,106,656)
Expenditure	27,215,613		(2,620,375)
Other administrative expenses	28,018,068	38,775,776	10,757,708

Other operating expenses	1,937,966	2,170,700.00	(232,734)
Sub Total	57,171,647.00	70,782,464	(13,610,817)

The under-collection and under-expenditure of Kshs.8,106,656 and Kshs.13,610,517 respectively renders the entire budget unrealistic.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of Kibwezi-Makindu Water and Sanitation 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 does not comply with the Water Act, 2002 and the Kenyan Companies Act.

Other Matter

Internal Audit

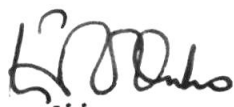
During the year ended 30 June 2014, the Company did not have a functional internal audit department contrary to the requirements of the Public Finance Management Act, 2012. In the circumstances, the Company was in breach of the law.

My opinion is not qualified in respect of this matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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



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

Nairobi

21 September 2016

KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED**Reports and Financial Statements
For the year ended June 30, 2014****STATEMENT OF COMPREHENSIVE INCOME**

	Note	2014 <u>Kshs</u>	2013 <u>Kshs</u>
REVENUES			
Sales	1	42,980,326	50,237,989
Grants from National and county Government	2	10,126,899	5,301,570
Other Income	3	1,048,352	691,391
TOTAL REVENUES		<u>54,169,101</u>	<u>56,230,950</u>
OPERATING EXPENSES			
Administration Costs	4	56,279,046	65,296,646
Depreciation of property, plant and equipment	5	806,348	1,016,977
Amortisation of Intangible Assets		-	-
TOTAL OPERATING EXPENSES		<u>57,085,394</u>	<u>66,313,623</u>
OPERATING PROFIT/ (LOSS)	15	(2,929,817)	(10,194,817)
Finance income		13,524	-
Finance Costs		(86,253)	(112,144)
PROFIT/ (LOSS) BEFORE TAX		(3,002,546)	(10,194,817)
INCOME TAX EXPENSE/ (CREDIT)		<u>-</u>	<u>-</u>
PROFIT/ (LOSS) AFTER TAX		<u>(3,002,546)</u>	<u>(10,194,817)</u>

KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED

**Reports and Financial Statements
For the year ended June 30, 2014**


STATEMENT OF FINANCIAL POSITION

	Note	2014 <u>Kshs</u>	2013 <u>Kshs</u>
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	3,163,952	3,636,448
Intangible assets	5	40,107	43,359
Total Non-Current Assets		<u>3,204,060</u>	<u>3,679,808</u>
Inventories		852,917	782,628
Trade and other receivables	6(a)	11,680,741	7,961,760
Bank and cash balances	7(a)	3,502,863	2,559,281
Total Current Assets		<u>16,036,521</u>	<u>11,303,669</u>
Total assets		<u>19,240,581</u>	<u>14,983,477</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital		40	40
Retained earnings		(5,662,741)	(2,660,235)
Capital and Reserves		<u>(5,662,701)</u>	<u>(2,660,195)</u>
Trade and other payables	13(a)	17,438,720	12,214,900
Customer deposits	16	6,429,300	5,425,300
Project funds	11	1,035,261	3,471
Total Current Liabilities		<u>24,903,281</u>	<u>17,643,671</u>
TOTAL EQUITY AND LIABILITIES		<u>19,240,581</u>	<u>14,983,477</u>

The financial statements were approved by the Board on _____ 2014 and signed on its behalf by:



Chairman



For Managing Director

KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
Reports and Financial Statements
For the year ended June 30, 2014 (Kshs'000)

STATEMENT OF CHANGES IN EQUITY

Period ended 30 June 2014	Ordinary share capital	Capital Reserve	Revenue Reserve	Total
As at July 1, 2013	40	2,498,835	(5,159,070)	(2,660,195)
Prior year adjustments	-	-	-	-
Total comprehensive income	40	2,498,835	(5,159,070)	(2,660,195)
Total comprehensive loss for the year	-	-	(3,002,546)	(3,002,546)
As at June 30, 2014	40	2,498,835	(8,161,616)	(5,662,741)

The notes on pages 18 to 28 form an integral part of these financial statements

KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED**Reports and Financial Statements
For the year ended June 30, 2014**

STATEMENT OF CASH FLOWS

	Note	2014 Kshs	2013 Kshs
OPERATING ACTIVITIES			
Cash generated from/ (used in) operations	15	242,352	2,297,846
Taxation paid		<u>(-)</u>	<u>(-)</u>
Net cash generated from/ (used in) operating activities		<u>242,352</u>	<u>2,062,158</u>
INVESTING ACTIVITIES			
Projects expenditure		(6,183,370)	(7,007,515)
Purchase of property, plant and equipment	5	(330,600)	(3,760,900)
Proceeds from disposal of property, plant and equipment		-	-
Purchase of intangible assets		<u>(-)</u>	<u>(-)</u>
Net cash generated from/ (used in) investing activities		<u>(6,513,790)</u>	<u>(10,768,415)</u>
FINANCING ACTIVITIES			
Projects grant-wstf		7,215,160	6,040,852
Proceeds from issues of new share capital		40	(40)
Proceeds from borrowings		-	-
Repayment of borrowings		<u>(-)</u>	<u>(-)</u>
Net cash generated from/ (used in) financing activities		<u>7,215,200</u>	<u>6,040,812</u>
INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		943,582	(2,429,757)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7 (a)	<u>2,559,281</u>	<u>4,989,038</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	7 (a)	<u>3,502,863</u>	<u>2,559,281</u>

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 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 the *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.

2. **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, and when specific criteria have been met for each of the company's activities as described below.

- i) **Revenue from water sales** 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) **Finance income** comprises interest receivable from bank deposits securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.

3. **Property, plant and equipment**

The tools, furniture and computer accessories acquired by the company are stated at cost less depreciation.

All other property, plant and equipment are leased to the company by Tanathi Water Services Board and are not included in the figures shown in the financial statements.

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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 cost 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 reducing balance basis to write down the cost of each asset to its residual value over its estimated unrecognised in profit or loss in the income statement.

4. 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	2.5%
Plant and machinery	10%
Motor vehicles, including motor cycles	25%
Computers and related equipment	33%
Office equipment, furniture and fittings	10%

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

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.

Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectable 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.

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.

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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.

Retirement benefit obligations

The company enabled its contracted employees contribute to the National Social Security Fund (NSSF), which is a defined contribution scheme. Contributions are determined by local statute and are currently limited to Kshs 200/= per month per employee as a similar amount by the company to the contracted employees.

The company's contributions to NSSF are charged to the income statement in the year to which they relate.

Comparative figures

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

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.

Financial risk management objectives and policies

The company's overall activities expose to a variety of financial risks including credit and liquidity risks.

The company's overall risk management programme focuses on an unpredictability of changes in the business environment by setting acceptable level of risks.

KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED

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For the year ended June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS

	2014	2013
	<u>Kshs</u>	<u>Kshs</u>
1. SALES		
Gross sales of water (Billing)	42,980,326	50,237,989
Gross sales of services	-	-
Less: Value added tax on gross sales	-	-
	<u>42,980,326</u>	<u>50,237,989</u>
<i>[The company has eleven seconded staff to the company and whose salaries are directly paid by the GoK</i>		
2. GRANTS FROM NATIONAL AND COUNTY GOVERNMENTS		
Salaries for GOK staff on secondment	5,301,570	5,301,570
Electricity paid to KPLC by the Makueni County government	<u>4,825,329</u>	<u> </u>
	<u>10,126,899</u>	<u>5,301,570</u>
3. OTHER MISCELLANEOUS RECEIPTS/INCOME		
New connection fees	402,877	680,491
Decrease in provision for doubtful debts		-
By-pass surcharge	65,000	-
Cut-off owner's request	5,800	-
Surcharge for water misuse	222,495	-
Change of name	8,500	-
Reconnection fees	314,500	-
Bounced cheque charges	550	-
Sale of tender	<u>28,000</u>	<u> </u>
	<u>1,048,352</u>	<u>680,491</u>

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Reports and Financial Statements For the year ended June 30, 2014

4. (a) ADMINISTRATION COSTS

Staff costs (note 4b)	27,210,613	32,641,506
Electricity and water	70,468	92,280
Communication services and supplies	208,395	263,250
Transportation, travelling and subsistence	1,141,600	1,671,970
Advertising, printing, stationery and photocopying	400,086	655,155
Rent expenses	300,000	375,000
Shared billing services	-	29,355
Performance guarantee	-	293,175
Hospitality supplies and services	134,480	278,345
Insurance costs (motor vehicles)	735,623	177,073
Office and general supplies and services	122,649	128,830
Auditors' remuneration	315,000	378,000
Legal fees	30,000	23,200
Consultancy fees	-	754,000
Repairs and maintenance of water infrastructures	2,843,730	2,147,683
Electricity operating cost	9,935,177	10,089,722
Water abstraction fees	793,764	793,861
Bulk Water purchases	1,514,320	1,232,615
Water quality testing	58,690	85,240
Hire of transport and equipment	101,100	785,556
Contracted guarding services	170,400	234,300
Computer and printer supplies	16,850	19,040
ICT support services	12,000	80,000
Revenue collection fees	710,952	877,393
Motor vehicle fuel and maintenance	7,116,317	5,929,995
Other operating expenses (note 4c)	1,131,618	935,585
Licensee remuneration fees to TAWSB	3,962,581	4,597,431
Regulatory levy to WASREB	440,287	510,714
Provision for bad and doubtful debts	(2,349,737)	-
Less closing stock	(852,917)	(782,628)
	<u>56,279,046</u>	<u>66,064,616</u>

KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED

Reports and Financial Statements For the year ended June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014	2013
	<u>Kshs</u>	<u>Kshs</u>
4. (b) STAFF COSTS		
Salaries and allowances of permanent employees	20,539,557	23,602,307
GoK staff salaries paid directly by the GoK	5,301,570	5,301,570
Wages of temporary employees	403,535	543,900
Compulsory national social security schemes	98,800	-
Other pension contributions	55,800	-
Leave pay and gratuity provisions	307,365	826,254
Staff lunches	503,986	2,367,475
	<u>27,215,613</u>	<u>32,641,506</u>

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

Permanent employees – Management	4	4
Permanent employees – Unionisable	-	-
Temporary and contract employees	<u>52</u>	<u>52</u>
	<u>56</u>	<u>56</u>

4.(c) Other Operating Expenses

Maintenance of Plant and Equipment	8,200	1,900
Office Tea	136,184	159,822
Maintenance of Buildings and Stations	105,533	19,250
Periodicals	80,790	85,905
Board of Directors' allowances	620,923	605,178
Maintenance of office furniture and equipment	179,988	1,500
Staff welfare	<u>5,000</u>	<u>20,000</u>
	<u>1,131,618</u>	<u>935,585</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. PROPERTY, PLANT AND EQUIPMENT

2013/2014	Intangible assets	Office Equipment	Plant and machinery	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Total
COST OR VALUATION							
At July 1, 2013	75,000	13,500	752,301	3,243,000	1,086,149	830,287	6,000,237
Additions	-	-	330,600	-	-	-	330,600
Transfers	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
At June 30, 2014	75,000	13,500	1,082,901	3,243,000	1,086,149	830,287	6,330,837
DEPRECIATION							
At July 1, 2013	31,641	8,940	146,486	810,750	910,040	412,573	2,320,429
Charge for the year	3,252	1,505	93,642	608,063	58,116	41,771	806,348
Impairment loss	-	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	-	-
At June 30, 2014	34,893	10,445	240,127	1,418,813	968,156	454,344	3,126,777
NET BOOK VALUE At June 30, 2014	40,107	3,055	842,774	1,824,188	117,993	375,943	3,204,060

KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED

Reports and Financial Statements

For the year ended June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

PROPERTY, PLANT AND EQUIPMENT (Continued)

2012/2013	Intangible assets	Office Equipment	Plant and machinery	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Total
COST OR VALUATION							
At July 1, 2012	75,000	13,500	287,301	-	1,063,249	800,287	2,239,337
Additions			465,000	3,243,000	22,900	30,000	3,760,900
Transfers	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
At June 30, 2013	75,000	13,500	752,301	3,243,000	1,086,149	830,287	6,000,237
DEPRECIATION							
At July 1, 2012	28,125	6,694	79,173		823,300	366,160	1,303,452
Charge for the year	3,516	2,246	67,313	810,750	86,740	46,413	1,016,977
Impairment loss	-	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	-	-
At June 30, 2013	31,641	8,940	146,486	810,750	910,040	412,573	2,320,429
NET BOOK VALUE							
At June 30, 2013	43,359	4,560	605,815	2,432,250	176,109	417,714	3,679,808

KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
Reports and Financial Statements
For the year ended June 30, 2014 (Kshs'000)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. (a) TRADE AND OTHER RECEIVABLES

Trade receivables (note 6 (b))	11,576,801	7,857,800
Deposits and prepayments	35,000	35,000
VAT recoverable	-	-
Staff receivables (note 6 (c))	68,900	68,900
Other receivables	40	40
Net trade and other receivables	<u>11,680,741</u>	<u>7,961,740</u>

6. (b) TRADE RECEIVABLES

Gross trade receivables	12,863,112	11,493,848
Provision for doubtful receivables	(1,286,311)	(3,636,048)
	<u>11,576,801</u>	<u>7,857,800</u>

6. (c) STAFF RECEIVABLES

Gross staff loans and advances	68,900	68,900
Provision for impairment loss		
	<u>68,900</u>	<u>68,900</u>
Less: Amounts due within one year	-	-
Amounts due after one year	<u>68,900</u>	<u>68,900</u>

7. (a) BANK AND CASH BALANCES

Cash at bank (note 7(b))	3,422,361	2,268,748
Cash in hand	80,502	182,804
	<u>3,502,863</u>	<u>2,451,552</u>

The bulk of the cash at bank was held at Kenya Commercial Bank, Kibwezi branch, the *entity's* main Bankers.

7. (b) Cash at bank

i. KCB – Revenue Account	656,993	331,515
ii. KCB – Expenditure Account	557,705	3,449
iii. KCB – Deposit Account	1,053,323	1,815,813
iv. Post Bank	40,295	115,371
v. Kibwezi Kefri Mjini Mtoni wp	1,035,302	2,601
vi. Safaricom (M-Pesa) utility Account	78,743	-
	<u>3,422,361</u>	<u>2,268,748</u>

8. ORDINARY SHARE CAPITAL

Authorised:

5,000 ordinary shares of Kshs.20 par value each	<u>100,000</u>	<u>100,000</u>
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Issued and but Not fully paid:

2 ordinary shares of Kshs. 20 par value each	<u>40</u>	<u>40</u>
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KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED

Reports and Financial Statements For the year ended June 30, 2014

9. REVALUATION RESERVE

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

10. FAIR VALUE ADJUSTMENT RESERVE

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

11. WATER SERVICES TRUST FUND (WSTF) INFRASTRUCTURE PROJECT FUNDING

These are projects funded by WSTF under UPC calls for proposals for construction of extension water systems on behalf of the Tanathi Water Services Board which are finally handed over and transferred to the Water Board.

Opening Balance	3,471	970,135
Amount received during the year	7,215,160	6,040,851
Amount paid	(6,183,370)	(7,007,515)
Balance carried forward	<u>1,035,261</u>	<u>3,471</u>

12. INCORPORATION

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

	2014	2013
	<u>Kshs</u>	<u>Kshs</u>
13 (a) TRADE AND OTHER PAYABLES		
Trade payables (Note 13b)	2,328,081	1,034,632
Accrued expenses (Note 13c)	14,232,557	10,096,243
Other payables (Note 13d)	<u>878,082</u>	<u>21,084,025</u>
	<u>17,438,720</u>	<u>12,214,900</u>

KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED

Reports and Financial Statements For the year ended June 30, 2014

13 (b) TRADE PAYABLES

NHIF Penalty	117,000	117,000
Mumbe Hardware - Maintenance of Water Systems	109,840	40,550
WRMA - Water Abstraction Fees	1,289,086	695,322
Kari kiboko - Bulk Water Supply	386,000	181,760
Samana enterprises ltd - Transport Operations (MV Fuel)	42,520	-
Nairobi Ironmongers Ltd - Maintenance of water systems	120,000	-
Kinetics-Maintenance of water systems	101,200	-
Basala Hardware - Maintenance of water systems	52,135	-
Henaque collections - Office stationery	19,100	-
Nolturesh Water Company Ltd	91,200	-
	<u>2,328,081</u>	<u>1,034,632</u>

13 (c) ACCRUED EXPENSES

Accrued staff Leave	457,635	415,000
Licencee Remuneration Fee Payable	6,875,620	3,213,039
Accrued Staff Salaries	1,179,333	753,291
NHIF deductions	14,720	-
WASPA	125,000	125,000
Staff Lunches	567,400	567,400
Contracted Security Services	42,600	28,400
KRA - PAYE	284,303	-
Regulatory Levy	95,947	160,660
NSSF Employer's Contribution	16,800	-
KPLC - Electricity Operations	3,192,200	4,833,453
Accrued Pension	62,772	-
Pioneer insurance - staff insurance	90,880	-
Ukulima deductions	1,227,347	-
	<u>14,232,57</u>	<u>10,096,243</u>

13 (d) OTHER PAYABLES

Water Sales payable	328,929	423,296
Provisions for Audit and Supervision Fees	325,000	570,776
Miscellaneous Receipts	89,953	89,953
KIMAWASCO SHG	134,200	-
	<u>878,082</u>	<u>1,084,025</u>

14. PROVISION FOR LEAVE PAY

Balance at beginning of the year	415,000	1,241,254
Additional provision at end of year	350,000	-
Leave paid out or utilised during the year	(307,365)	(826,254)
Balance at end of the year	<u>457,635</u>	<u>415,000</u>

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED

Reports and Financial Statements For the year ended June 30, 2014

15. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit/ (loss) to Cash generated from/ (used in) operations

Operating profit/ (loss)	(3,002,546)	(10,194,817)
Depreciation	806,348	1,016,977
Amortisation	-	-
(Gain)/loss on disposal of property, plant and equipment	-	-
Operating profit/ (loss) before working capital changes	<u>(2,196,198)</u>	<u>(9,177,840)</u>
(Increase)/decrease in inventories	(70,289)	(421,421)
(Increase)/decrease in trade and other receivables	(3,718,981)	3,465,816
Increase/ (decrease) in trade and other payables	5,223,820	6,899,291
Increase/ (decrease) in retirement benefit obligations	-	-
Increase in customers deposit	1,004,000	1,532,000
Net cash outflow from working capital changes	<u>2,438,550</u>	<u>11,475,686</u>
Cash generated from/ (used in) operations	<u>242,352</u>	<u>2,297,846</u>

16. CUSTOMER DEPOSITS

Balance brought forward	5,425,300	3,893,300
Receipts during the year	1,009,000	1,532,000
Less: Refunds during the year	(5,000)	-
Balance carried forward	<u>6,429,300</u>	<u>5,425,300</u>

KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED

Reports and Financial Statements For the year ended June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. RELATED PARTY DISCLOSURES

(a) Government of Kenya

The Government of Kenya is the principal shareholder of the *entity*, holding 100% of the *entity*'s equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the *entity*, both domestic and external.

There were no other *entity* transactions involving the Government of Kenya.

(b) Employees

The *entity* provides certain qualifying employees with car and housing loans on terms more favourable than available in the market. The benefit obtained by staff is subjected to income tax as required under the Kenya Income Tax Act.

18. CONTINGENT LIABILITIES

Bank guarantees	-	293,175
Legal claims against the <i>entity</i>	-	-
	-	<u>293,175</u>

19. INCORPORATION

The *entity* is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.