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WATER SERVICES TRUST FUND ANNUAL REPORT 2007

WSTF

WSTF

WATER SERVICES TRUST FUND
ANNUAL REPORT 2007

Vision, Mission and Core Values

VISION

To become the dynamic and innovative leader locally and in the region in the financing of the water sector.

MISSION

To substantially contribute towards facilitating targeted communities in areas of Kenya that are underserved to successfully apply for financing, implement and sustainably manage their quality water and sanitation services through capacity building and wide stakeholder partnership with coordinated resource mobilization.

CORE VALUES

- 1. Adopt business fundamentals that will ensure sustainability of the fund*
- 2. Mainstream performance-based management in all aspects of the Fund's operations*
- 3. Promote accountability and good governance in all aspects of the Fund's business*
- 4. Develop an institutional synergy to promote teamwork, equity and fairness*

Table of Contents

Corporate Information	4
Board of Trustees	5
Management Team	9
Chairman's Report	10
Statement of the Chief Executive Officer	11
Corporate Social Responsibility Report	14
Corporate Governance Statement	15
Statement of Trustees Responsibilities	18
Kenya National Audit Office	20
Income and Expenditure Statement	22
Balance Sheet	23
Statement of Changes in Equity	24
Cash Flow Statement	25
Notes to the Financial Statements	26



Corporate Information

Incorporation

Water Services Trust Fund is a body corporate established under the provisions of the Water Act, 2002 of the laws of Kenya and it is domiciled in Kenya.

Offices

CIC Plaza

Mara Road, Upper Hill
P.O. Box 49699
Nairobi, Kenya
Tel: +254-20-2720696/9017/9018/9019
Fax: +254-20-2724357
E-mail: info@wstfkenya.org
Website: www.wstfkenya.org

Auditors

Controller and Auditor – General

Kenya National Audit Office,
Anniversary Towers,
P.O. Box 30084,
Nairobi, Kenya.

Bankers

National Bank of Kenya

Hill Plaza Branch
P.O. Box 45219-00100,
Nairobi, Kenya

Kenya Commercial Bank,

Capital Hill Branch,
P.O. Box 69695,
Nairobi, Kenya



Board of Trustees



Prof. Charles Nzioka - Board Chairman

Prof. Charles Nzioka was appointed to the Board in November 2007. He is a professor of Sociology at the University of Nairobi. He has consulted for local NGOs, national and international institutions. He has worked as a Senior Program Specialist for UNESCO. Previously he served as a board member of the Water Services Regulatory Board. He has researched and published widely in the area of poverty and development and sits in a number of international editorial boards.

Mr. John Munuve, BA (Social Dev & Admin) - Former Board Chairman

Mr. John Munuve was appointed the chairman of the board in April 2006. He has wide knowledge in the water sector. He has worked in various international bodies, NGOs and local institutions. He left the Board on November 2007.



Eng. Japheth Mutai, BEng (Civil) -Chief Executive Officer

Eng. Japheth Mutai was appointed the Chief Executive Officer in December 2007. He joined the Fund in 2004. He has a wealth of technical and managerial experience acquired in the water sector, having worked in senior management positions in National Water Conservation and Pipeline Corporation and the Ministry of Water and Irrigation. He currently chairs the audit committee of the Ministry of Water and Irrigation.

Eng. Mahboub M Maalim, BSc (Eng.) Civil, MSc. (Eng) Civil

Eng. Mahboub M. Maalim is the Permanent Secretary in the Ministry of Water and Irrigation. Previously he was the PS in the Office of the President (Special Programmes). Eng. Maalim has previously served as National Coordinator Arid Lands Resource Management Project (ALRMP).



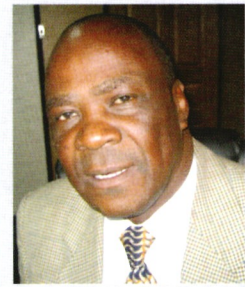


Mr. Joseph Kinyua, BSc (Econ), MA (Econ)

Mr. Joseph Kinyua is the Permanent Secretary to the Treasury. He has wide experience in financial and public sector management, having worked in senior positions with the International Monetary Fund, the Central Bank of Kenya and in Government.

Mr. Peter Lucas Hainja

Mr. Peter Lucas Hainja joined the Board in August 2006. He is a businessman and is a trained engineer. He has worked with Ekemmy Electrical, Hilton Hotel, African Tours and Hotels, among others, rising to senior management positions. He is currently retired and runs his own engineering firm.



Mrs. Theresa Chepkwony, BEd (Arts)

Mrs. Theresa Chepkwony was appointed to the board in April 2006. She is the Principal of St. Theresa of Avila Girls. She has teaching experience spanning many years, is a member of various local charitable organizations.

Ms. Ummie Mavumba

Ms. Ummie Mavumba was appointed to the board in April 2006. She worked as an administrator and in the government in various capacities, Bata Shoe Company, SITA and is a coordinator of various community initiatives.





Mr. Davis Muoki Nyamu

Mr. Nyamu was appointed to the board in April 2006. Mr. Nyamu has trained as a marketing and business management professional. He has worked with the Nairobi Hides and Skins as the Factory Manager. He has been a director of Damos Office Supplies and Dazzle Creations.

Eng. Kariuki Muchemi, BSc Eng. (Civil), MSc Eng., MIEK

Eng. Kariuki was appointed to the board in February 2007. He is an engineer by training. He is the principal partner with Interconsult Engineers. He is a council member of Institute of Engineers of Kenya, Association of Consulting Engineers of Kenya, Kenya Institute of Management. He is also a member of the Council of Kenyatta University.



Mr. Augustine Lomongin - Alternate Trustee to PS, MWI

Mr. Augustine Lomongin joined the Fund in January 2007. He is a senior officer in the Ministry of Water and Irrigation, having served for many years in the Office of the President headquarters and field services and in other ministry headquarters.

Mr. Daniel Mutua, BEd, MBA - Alternate Trustee to PS, Ministry of Finance

Mr. Daniel Mutua joined the Board in December 2006. He is a senior officer in the Ministry of Finance and has a wealth of experience in the management of public affairs.

Prof Jacob Kaimenyi

Prof. Jacob Kaimenyi was appointed to the Board in March 2004. He is a professor of periodontology and is currently the Deputy Vice Chancellor (Academic Affairs) at the University of Nairobi. He has worked at Kenyatta National Hospital and the University of Nairobi, holding various senior positions. Prof Kaimenyi is a widely published researcher in his area of specialization and is an external examiner in three foreign universities. Prof. Kaimenyi left the Board in January 2007 on appointment as Chairman of the Governing Council of Kenya Water Institute.

Mr. Gunnar Schultzberg

Mr. Gunnar Schultzberg was appointed to the Board in March 2004. Mr. Schultzberg is an engineer by training and has worked for a long period with the World Bank. He has wide experience in the water and sanitation sector.

Mr. Gunnar left the Board during the year.



Management Team



Chief Executive Officer

Japheth Mutai
BEng (Civil), R. Eng., MIEK



Finance Manager

Kennedy Ochuka,
BCom (Accounting), MBA, CPA (K)



Technical Manager

David Njue
BSc Eng (Civil), R. Eng., MIEK



Internal Audit Manager

Elizabeth Waruingi
BA (Economics & Business
Studies), MBA, CPA (K), CISA, CIA



**Senior Assistant Field
Coordination Manager**

Phanel Matseshe
BSc, R. Geo, MGSK



**Programme Planning
Officer**

Josephat Muiruri
BA (Economics & Sociology)

Chairman's Report

It is my great pleasure to present this annual report of the Water Services Trust Fund for the financial year 2006/2007. Though, the Fund faced many challenges during the year, it was still able to live up to its mandate of providing water to areas of Kenya which are without adequate water services.

Performance Review

The Fund financed more pro-poor projects in the rural areas. An additional 103,000 people were reached and provided with water. The Fund disbursed Kshs 154,593,067 to various projects. This translates to a per capita cost of Kshs 1,500. The impressive performance is attributed to improvement in operational efficiency, cost reduction strategies and commitment of staff.

The Fund expanded its activities to cover the urban poor. To this end, the Fund entered into partnership with the GTZ to fund pilot urban projects in three towns. However, financing to rural poor remained the Funds major area of operation. Increased expansion of the operations will result in more consumers being covered in line with the millennium development goals.

Future Prospects

The Fund's performance has improved steadily over the years. Better systems and means of delivering funds to communities have been developed and are continually being improved. The Fund's future strategies will focus on enhancing the value of the services offered to communities and to meet the expectations of our financiers.

The Fund will focus more on the expansion of its services to cover more communities in the rural areas, expand the provision of water to the urban poor; and finance the protection of water resources for communities who collect their water from the river sources.

These initiatives will be supported by among others, the 10.375 ACP-EU Water Facility for Africa, the KfW, Sida, Danida and the Government of Kenya.

Tribute

I wish to thank my fellow Trustees, management and staff of the Fund for their hard work, commitment, dedication and valuable contribution to the Fund and to the water sector at large. I also thank the Government of Kenya, the development partners and our stakeholders for their steadfast support.

Prof. Charles K Nzioka
CHAIRMAN

Statement of the Chief Executive Officer

The year 2006/2007 was marked by a significant expansion in the activities of the Water Services Trust Fund aimed at alleviating the water needs in areas of the country without adequate water and sanitation. Our main strategies and operations were centered on expanding our beneficiary base, developing systems for channeling finances to communities, reduction of the turnaround time for subsequent disbursements and improvement of operational efficiency.

The Fund undertook the following major activities during the financial year:

Resources Mobilization

The Fund increased its resources mobilizations activities during the year in order to raise sufficient funds to meet the existing and ever growing need for water. Many development partners showed their willingness to partner with the Fund in this course.

During the year, the European Union approved funding of €10.375 million through its EU-ACP Water Facility. KfW is the co-financier in the EU-ACP Water Facility. This will be used to address the water needs of the poor communities living in urban centers around the country.

Additional funding was discussed with the KfW Banking Group. KfW carries out financial cooperation on behalf of the German Federal Ministry of Economic Cooperation and Development and supports investment in economic and social infrastructure around the world including in sub-Saharan Africa. KfW signed an MOU with the Fund to provide €5 million for the urban programme.

The GTZ collaborated with the Fund in financing pilot urban poor projects in three water service provider's areas. The Fund signed a Local Subsidy Contract of Kshs 16 million for this pilot projects.

Discussions with the Swedish government were started to address the perennial flooding problem in the country. The Flood and Drought Mitigation Programme is expected to realize Kshs 500 million to be used in the protection of water catchment areas.

The Fund signed an MOU with the Water Resources Management Authority (WRMA) for the protection of water cathment areas. WRMA will provide the funds, while the Fund will manage the channel flow of the funds.

The Community Project Cycle (CPC)

The Fund finally rolled out the Community Project Cycle (CPC) as the sole vehicle for funding to its rural projects. This was developed in consultation with the water service boards and other key stakeholders in

the sector. Under the CPC, projects are developed and appraised for communities by support organizations under the guidance of the water service boards. These are then forwarded to the Water Services Trust Fund for financing. The implementation is done by the communities with active support of the support organizations. The quality control agents are then deployed by the water service boards to ensure that the projects meet the highest quality standards.

The first projects under this arrangement will be financed in the next financial year.

Urban Poor Concept (UPC)

The Water Services Trust Fund formulated a new window for fulfilling its demanding mandate of providing water and sanitation to the underserved. The Fund has since its inception concentrated its service in the rural parts of Kenya. The realization that there are many underserved communities in urban areas led the Fund to apply for funding from the European Union (EU) and the KfW. The Fund is currently in the process of fulfilling the requirements for the release of these funds.

The Urban Programme is expected bring more underserved people under coverage as it is rolled out over four years. The vehicle for doing this will be the Urban Poor Concept (UPC).

The initial three projects will be piloted under this programme with the funding from the GTZ. After the pilot programme is complete, it is expected that KfW will start implementing the urban programme first in the Lake Victoria North Water Services Board, and then the rest of the country.

Water Resources Users Association Development Cycle (WDC)

The Fund developed this window to address the water needs of those who collect their water from its natural source. The Fund entered into an MOU with the Water Resources Management Authority (WRMA), who is the regulator of water resources in the country.

Human Resources

As at 30th June 2007, the Fund had recruited most of the staff approved in its organization structure. The Fund had a workforce of a total of 15 employees, including 5 seconded from other water sector institutions.

The Fund continues to invest in its human capital through comprehensive staff training and development programme. Most of the staff attended relevant training programmes, both overseas and locally.

Information Communication and Technology

During the year, the Fund implemented major projects to automate its operations. The financial function was

completely automated, with the implementation of the SAP accounting software. The Fund also implemented the PROMIS software. This will be used for Monitoring and Evaluation in the projects being implemented by the Fund. The Fund improved its electronic communication, and e-mail became the major means of written communication in the Fund.

Appreciation

With the commitment of the Water Services Trust Fund team, I am optimistic that the Fund's good performance will be maintained. I am most grateful to the government and development partners for their sustained support to the Fund. I would like to express my appreciation to the Board of Trustees, the management and the staff of the Fund.

Eng Japheth Mutai
CHIEF EXECUTIVE OFFICER



Corporate Social Responsibility Report

The Fund is fully committed to developing and adhering to principles that guide our actions in business and social conduct. The Fund believes in the creation of responsible and sustainable solutions.

Communities

Water is a basic human need. The Fund has developed systems that involve the participation of communities and organizations to enable the sharing of knowledge and technologies for positive social and environmental impact.

We operate only in the poor areas of Kenya. In this regard, the Fund's financing policies have been improved to make it cheaper and easier for the target communities to apply and receive funds.

The Environment

We are an active and committed partner in the communities where we finance the various water projects. We recognize that environmental sustainability is an effort that requires prudent use of and preservation of our natural resources. We take steps to minimize environmental impact in all our activities. We are committed to operating in an environmentally responsible manner. All our projects have an environmental conservation component to ensure the preservation of the natural resource. These involve the frugal use of water resources, planting of trees and water catchment areas among others.

Society

The Fund supports the welfare of the less privileged in our society. During the year, the Fund visited Jehovah Jireh Children's Home in Karagita, Embakasi Division and donated foodstuffs and other items worth Kshs 50,000

The Fund offers free attachments to students in learning institutions as a way of preparing them for life in the future.

We also strive to ensure that the Fund is always in full compliance with all legal requirements.



Our employees

At the Water Services Trust Fund, we have worked hard to build a corporate culture based on trust between our employees and the Fund. We have also employed the highest ethical standards in the recruitment of staff, resulting in efficient, competent and motivated staff being employed by the Fund.

We recognize that human capital is the most important asset in the Fund. The Fund has invested significantly in the training and developing the skills of its employees. The Fund has attractive remuneration and welfare policies for its staff.

We are in the process of implementing the government directive on gender balance in the workplace. This will ensure that we will have a workforce comprising of at least 30% women.

We encourage open door policy in our interaction with our employees.

Corporate Governance Statement

The Water Services Trust Fund is committed to the values and principles of good corporate governance. Corporate governance is an important part of who we are and how we conduct ourselves every day. The directors and management of the Fund regard corporate governance as pivotal to the success of the Fund and are unreservedly committed to ensuring that good corporate governance is practiced so that the Fund remains a sustainable and viable vehicle for financing water and sanitation in areas of Kenya which are underserved..

As a public service organization, the Fund's decisions are guided by the core tenets prescribed in the Public Officers Ethics Act.

We continually strive to strengthen and sustain the trust that the government, the water sector, employees and the public have placed in us. Accordingly, the Board and its Committees regularly evaluate the latest national and international standards in responsible, transparent and efficient management with the objective of enhancing corporate governance at the Fund and consistently delivering on our statutory mandates.

We outline our corporate governance for the year under review.

Board of Trustees

The Board of Trustees consists of nine members. Seven are appointed by the Minister for Water and Irrigation, and in accordance with the Trust Deed that formed the Fund, while two are Permanent Secretaries of both the Ministry of Water Irrigation and the Ministry of Finance. The Board is appointed for a three year term.

The composition of the Board changed twice during the year.

The composition as at 30th June 2007 was as follows:

Mr. John Munuve	-	Chairman
Eng. Mahboub Maalim	-	PS, Water and Irrigation
Mr. Augustine Lomongin	-	Alternate to PS, Water and Irrigation
Mr. Joseph Kinyua	-	PS, Treasury
Mr. Daniel Mutua	-	Alternate to PS, Treasury
Mr. Lucas Hainja	-	Member
Mr. Davis Nyamu	-	Member
Mrs. Theresa Chepkwony	-	Member
Ms. Ummie Mavumba	-	Member
Eng. Kariuki Muchemi	-	Member

The Inspectorate of State Corporations was entitled to attend the meetings of the Board. It was represented by Mr. Davidson Sifuma.

During the year, two board members left, one was replaced while the other is yet to be replaced.

The Board has a representation of skills mix appropriate to its role and function.

Board Work Plan and Meetings

The Board work plan and calendar is prepared annually in advance. Adequate notice is given for each meeting and directors receive detailed papers on issues to be discussed in good time before the meeting. During the financial year ended June 2007, the Board's meetings were well attended.

Committees of the Board

Most of the analytical work of the Board is done through board committees. A number of standing committees exist in order to assist the Board and management fulfill their responsibilities. Adhoc committees are constituted to deal with pertinent issues as they arise. Each committee operates within the ambit of defined terms of reference assigned to it by the Board. During the year, the Board had the following standing committees.

- Finance and General Purposes
- Audit
- Technical
- Resources Mobilization

The Board determines the structure and composition of the committees. All committees report to the board.

Finance and General Purposes Committee

The Board has in place a functional Finance and General Purposes committee whose mandate includes recommending to the Board on the following:

- The financial operations of the Fund
- The Annual Budget of the Fund
- The Financial Reports of the Fund
- Recruitment of Staff
- Terms and conditions of service and remuneration of the staff
- Other general duties as may be assigned by the Board from time to time.

The Committee also recommends to the Board, adoption of human resources policies and corporate organizational structure efficient for the operations of the Fund.

The members who served in the Committee were as follows:

- Mr. Lucas Hainja - **Chairman**
- Mr. Augustine Lomongin
- Mr. Daniel Mutua
- Mr. Davis Nyamu

Audit Committee

The purpose of the committee is to assist the Water Services Trust Fund (WSTF) Board of Trustees in fulfilling its oversight responsibilities for the financial reporting process, the system of risk management and internal control, the audit process, and the WSTF's process for monitoring compliance with laws and regulations and the code of conduct.

The Committee comprises of the following members:

- Eng. Kariuki Muchemi - **Chairman**
- Mr. Lucas Hainja
- Mr. Daniel Mutua

Technical Committee

The Technical committee was formed to recommend to the Board on the projects it was approving for financing. The Committee comprised of:

- Mrs. Theresa Chepkwony - **Chairperson**
- Mr. Davis Nyamu
- Eng. Kariuki Muchemi
- Ms. Ummie Mavumba

Resources Mobilization Committee

The resources mobilization committee is tasked with looking for resources to fund the operations of the organization. The Committee was composed of:

- Ms. Ummie Mavumba - **Chairperson**
- Mr. Augustine Lomongin
- Mrs. Theresa Chepkwony
- Mr. Daniel Mutua



Statement of Trustees Responsibilities

The Board of Trustees are required to prepare financial statements which give a true and fair view of the state of affairs of the Fund as at the end of each financial year, and of its surplus or deficit for that year. The Board of Trustees are required to ensure that the Fund maintains proper accounting records which disclose, with reasonable accuracy, the financial position of the Fund. They are also responsible for safeguarding the assets of the Fund.

The Board of Trustees accept responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, consistent with previous years, and in conformity with International Financial Reporting Standards. The Board of Trustees is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Fund as at 30th June 2007. The Board of Trustees further confirm the accuracy and completeness of the accounting records maintained by the Fund which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the internal financial controls.

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

This statement is approved by the Board of Trustees and it is signed on their behalf by:

Signed

Prof. Charles Nzioka

Eng Japheth Mutai

Board Chairman

Chief Executive Officer

WSTF

WATER SERVICES TRUST FUND
ANNUAL REPORT 2007

FINANCIAL STATEMENTS

Kenya National Audit Office

Report of the Controller and Auditor General on the Financial Statements of Water Services Trust Fund For The Year Ended 30 June 2007

I have audited the financial statements of Water Services Trust Fund as set out on pages 22 to 37 which comprise the Balance Sheet as at 30 June 2007, Income Statement, Statement of Changes in Equity, Cash Flow Statement for the year then ended, together with a summary of significant accounting policies and other explanatory notes in accordance with the provisions of 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.

Board of Trustees' Responsibility for the Financial Statements

The Board of Trustees is responsible for the preparation of financial statements which give a true and fair view of the Fund's state of affairs and its operating results in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance that 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 controls 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 Fund's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Trustees, as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

Manguva Community Water and Sanitation Project

On 1 August 2005, the Fund signed a funding agreement with an international water and sanitation Non-Governmental Organization as the implementing agency to finance a water project situated in Mwingi District which falls within Tana Water Services Board area of jurisdiction. The implementing agency was to undertake

and supervise the physical works for dam construction from 23 March to 23 September 2006. Records held by the Fund indicate that the project was expected to cost Kshs. 28,905,520 out of which Kshs. 27,327,520 was to be financed by the Fund and the balance of Kshs. 1,578,000 by the local community. As at 30 June 2007, a total of Kshs. 19,585,543 had been disbursed by the Fund as part of the financing cost. However, a site visit to the project on 10 October 2007 established that the dam did not physically exist despite the Fund having disbursed Kshs. 19,585,843 towards the project. It was explained that the dam was, on 11 November 2006, washed away by heavy rains due to the poor workmanship. A dam expert commissioned to determine the cause of dam failure recommended that the dam be redesigned and reconstructed and be supervised by licensed experienced dam contractors and designers. The Fund thereafter terminated the funding agreement and demanded a refund of Kshs. 9,163,479 which had not been utilized in the project. The implementing agency has not refunded the unaccounted funds amounting to Kshs. 9,163,479 and the matter has been referred to a lawyer for necessary action. In the circumstances it is not possible to confirm that the Fund obtained value for its money in this project.

Opinion

Except for the foregoing reservation, in my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the state of the financial affairs of the Fund as at 30 June 2007 and of its surplus and cash flows for the year then ended in accordance with the International Financial Reporting Standards and the Water Act, 2002.

P. N. KOMORA, C. B. S.
CONTROLLER AND AUDITOR GENERAL

Nairobi
19 February 2008

Income and Expenditure Statement

For the Year Ended 30th June 2007

		2006/2007	2005/2006
INCOME	NOTES	KSHS	KSHS
Government of Kenya Grants	2	88,529,920	49,390,000
Donor Funds	3	172,999,000	85,000,000
Miscellaneous Income	4	274,000	245,281
Other Income	5	3,509,900	0
Total Income		265,312,820	134,635,281
EXPENDITURE			
Administration Expenses	6	55,728,004	37,686,774
Project Expenses		154,593,067	317,816,000
		210,321,071	355,502,774
Deferred Income/(Loss)		54,991,749	(220,867,493)

Balance Sheet

As At 30th June 2007

ASSETS	NOTES	2006\2007 KSHS	2005\2006 KSHS
Non Current Assets			
Property and Equipment	8	16,031,937	18,486,271
Intangible Assets	9	4,976,580	-
Total Non Current Assets		21,008,517	18,486,271
Current Assets			
Deposits	10	766,427	766,427
Inventories	11	662,200	386,258
Prepayments	12	58,642	140,144
Staff Debtors	13	389,057	293,703
Cash and Cash Equivalents	14	86,175,634	34,806,899
		88,051,960	36,393,431
Current Liabilities			
Deferred Income	15	103,931,514	48,939,765
Trade and other Payables	16	252,900	854,266
Accruals	17	132,000	85,000
Total Current Liabilities		104,316,414	49,879,031
Net Current Assets/(Liabilities)		(16,264,454)	(13,485,600)
Net Assets		4,744,063	5,000,671
FINANCED BY			
Capital Reserve	18	4,744,063	5,000,671
		4,744,063	5,000,671

Signed

Prof. Charles Nzioka

Eng Japheth Mutai

Chairman

Chief Executive Officer

Statement of Changes in Equity

For the Year Ended 30th June 2007

	Capital - GoK Grants KSHS	Revenue Reserves KSHS	Capital Reserve KSHS	Total KSHS
As at 1st July 2005	52,010,000	153,448,094	0.00	205,458,094
Transfer to Comply with IAS 20	(52,010,000)	52,010,000		0
Donations Capitalized			5,000,671	5,000,671
Funds Committed to Project		64,349,164		64,349,164
Deficit for the Year		(220,867,493)		(220,867,493)
As at 30 June 2006	-	48,939,765	5,000,671	53,940,436
As at 1st July 2006	-	48,939,765	5,000,671	53,940,436
Transfer to Deferred Income		(48,939,765)		(48,939,765)
Additions in Grants			3,253,292	3,253,292
Transfer to Other Income			(3,509,900)	(3,509,900)
As at 30 June 2007	0	0	4,744,063	4,744,063

Cash Flow Statement

For the Year Ended 30th June 2007

	NOTES	2006\2007 KSHS	2005\2006 KSHS
OPERATING ACTIVITIES			
Cash generated from operations	19	57,163,690	(217,602,565)
NET CASH GENERATED FROM OPERATING ACTIVITIES		57,163,690	(217,602,565)
INVESTING ACTIVITIES			
Purchase of Property Plant and Equipment	20	(2,547,519)	(16,140,602)
Purchase of Intangible Assets	9	(3,247,436)	
NET CASH FLOW FROM INVESTING ACTIVITIES		(5,794,955)	(16,140,602)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		51,368,735	(233,743,167)
MOVEMENT IN CASH AND CASH EQUIVALENTS			
Cash and Cash Equivalents At End of The Year		86,175,634	34,806,899
At start of year		34,806,899	268,550,066
Increase/ (Decrease)		51,368,735	(233,743,167)
At Year End		86,175,634	34,806,899

Notes to the Financial Statements

For the Year Ended 30th June 2007

1) Accounting Policies

a) Basis of Accounting

The Financial Statements are prepared in accordance with the International Financial Reporting Standards (IFRS).

The Financial Statements have been prepared under the historical cost convention.

b) Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognized.

- (i) Government grants are recognized as income when there is reasonable assurance that the grants will be received. The grants are recognized as income on a systematic and rational basis over the period necessary to match them with the related costs.
- (ii) Grants from donors are recognized as income when there is reasonable assurance that the grants will be received. The grants are recognized as income on a systematic and rational basis over the period necessary to match them with the related costs.
- (iii) Grants related to depreciable assets are recognized as income over the periods and in the proportions in which depreciation on those assets is charged.

c) Expenditure

Expenditure comprises expenses incurred directly for programme activities. These are recognized on an accrual basis.

d) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs selling the item.

Notes to the Financial Statements

For the Year Ended 30th June 2007

e) Property and Equipment

Property and equipment is stated at historical cost less depreciation.

Depreciation is calculated on the straight-line basis to write down the cost of each asset to its residual value over its estimated useful life as follows:

Assets held under leases are depreciated over their expected useful lives or where shorter, over the term of the relevant lease. This applies to Fixtures and Fittings.

		% per Annum
Furniture	-	20
Motor Vehicles	-	25
Computer Equipment	-	30
Office Equipment	-	25
Field Equipment	-	25
Fittings and Fixtures	-	20

f) Intangible Assets

During the year, the Fund implemented an accounting software, SAP Business One. The software and the costs of its implementation were donated by the Kenya Water and Sanitation Programme. The software is recognized at the purchase price. This has been accounted for as indicated in (b) above.

The Fund also incurred the costs of developing a monitoring and evaluation software, PROMIS. The costs are capitalized and will be amortized when the system is handed over to the Fund.

It is estimated that the SAP software will have a useful accounting life of five years. Amortization charge for each period is on a straight line basis at 20% over a period of five years. It is charged to the Income and Expenditure Statement under the expenditure line, Amortization of Intangible Assets.

g) Leave Accrual

Employees' entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave at the balance sheet date.

Notes to the Financial Statements

For the Year Ended 30th June 2007

h) Impairment of Tangible and Intangible Assets

At each balance sheet date, the Fund reviews the carrying amounts of its financial assets, tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

In management's judgment, the carrying values of the assets are not impaired as of the date of these financial statements.

i) Employee Entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognized as an expense accrual.

2) Government of Kenya Grants

The Fund as currently set up, receives grants from the Government of Kenya for two purposes:

- (i) Disbursements to various community water projects throughout the country.
- (ii) To meet its operational (recurrent) needs.

During the year, the split for the two functions was as follows:

	2006\2007 KSHS	2005\2006 KSHS
Development	82,529,920	43,390,000
Recurrent	6,000,000	6,000,000
Total	88,529,920	49,390,000

Notes to the Financial Statements

For the Year Ended 30th June 2007

3) Donor Funds

The Fund received funding from two donors as shown below. The Funds are disbursed to various projects both in the rural and urban areas of Kenya. The Kenya Water and Sanitation Programme is a donor arrangement bringing together the Government of Kenya, Swedish International Development Agency (SIDA) and the Danish International Development Agency (DANIDA)

	2006\2007 KSHS	2005\2006 KSHS
KWSP - GoK	30,000,000	-
KWSP - Sida	69,500,000	85,000,000
KWSP - Danida	69,499,000	-
GTZ	4,000,000	-
Total	172,999,000	85,000,000

4) Miscellaneous Income

	2006\2007 KSHS	2005\2006 KSHS
Sale of Tender Documents	274,000	245,000
Interest from Bank deposits	-	281
Total	274,000	245,281

5) Other Income

The Fund recognizes grants related to depreciable assets as income over the periods and in the proportions in which depreciation on those assets is charged. This refers to the amounts of the grants expensed during the year.

Notes to the Financial Statements

For the Year Ended 30th June 2007

6) Administration Expenses

	2006\2007 KSHS	2005\2006 KSHS
Personnel Expenses	15,701,989	15,185,620
Staff Expenses	457,095	530,132
Communications Expenses	1,525,412	1,255,682
Printing and Stationery	498,800	578,828
Staff Training Expenses	1,171,760	361,900
Resource Centre Expenses	90,105	66,072
Traveling and Accommodation	1,883,744	1,061,238
Motor Vehicle Expenses	1,851,380	2,048,839
Computer Expenses	501,543	606,912
Consultancy & Professional Fees	2,349,056	1,616,739
Advocacy	2,826,888	2,758,827
Board Expenses	15,066,339	5,479,210
Office Running Expenses	1,080,675	395,172
Insurance	1,461,090	-
Office Rent & Land Rates	2,155,052	1,690,484
Utilities	478,901	116,805
Maintenance and Repairs	135,590	98,476
Bank Charges	98,584	24,713
Depreciation Expense	6,008,073	3,811,125
Amortization of Intangible Assets	385,928	
	55,728,004	37,686,774

Notes to the Financial Statements

For the Year Ended 30th June 2007

Personnel Emoluments

	2006\2007 KSHS	2005\2006 KSHS
Salaries and Wages	15,515,613	14,680,395
Pension Payments	54,378	420,225
Total	15,569,991	15,100,620
Contracted Employees	10	5
Seconded Employees	6	10

The Fund had on its workforce a total of 16 employees. 10 were contracted by the Water Services Trust Fund while 6 were seconded from the Ministry of Water and Irrigation and from the National Water Conservation and Pipeline Corporation. The Fund met the salaries of the contracted employees, the National Water Conservation and Pipeline Corporation Staff, while the Ministry and Irrigation staff were paid top up allowances.

7) Amortization of Intangible Assets

This refers to the amortization of the SAP accounting software at the rate of 20% over a five year period.

Notes to the Financial Statements

For the Year Ended 30th June 2007

8) Property and Equipment

	Furniture KSHS	Motor Vehicles KSHS	Computer Equipment KSHS	Office Equipment KSHS	Field Equipment KSHS	Fixtures and Fittings KSHS	Total KSHS
COST							
As at 1 July 2006	1,419,213	11,407,574	3,559,473	426,022	174,800	5,347,352	22,334,434
Additions	1,591,730	-	1,480,181	61,371	67,500	352,957	3,553,739
Disposals	-	-	-	-	-	-	-
As at 30 June 2007	3,010,943	11,407,574	5,039,654	487,393	242,300	5,700,309	25,888,173
DEPRECIATION							
As at 1st July 2006	232,613	2,445,667	907,881	64,132	26,348	171,522	3,848,163
Charge for the Year	491,910	2,851,894	1,352,125	114,559	57,523	1,140,062	6,008,073
As at 30 June 2007	724,523	5,297,561	2,260,006	178,691	83,871	1,311,584	9,856,236
Net Book Value as at 30 June 2007	2,286,420	6,110,013	2,779,648	308,702	158,429	4,388,725	16,031,937
Net Book Value as at 30 June 2006	1,186,600	8,961,907	2,651,592	361,890	148,452	5,175,830	18,486,271

Notes to the Financial Statements

For the Year Ended 30th June 2007

The Fund has in its possession two motor vehicles which were donated to the Fund by the old Sida Programme in the Ministry of Water and Irrigation. Because the same have not been transferred to the Fund, they do not form part of the assets disclosed above.

9) Intangible Assets

	SAP KSHS	PROMIS KSHS	Total KSHS
COST			
As at 1 July 2006	-	-	-
Additions	2,115,072	3,247,436	5,362,508
Disposals	-	-	-
As at 30 June 2007	2,115,072	3,247,436	5,362,508
Amortization			
As at 1st July 2006	-	-	-
Charge for the Year	385,928	-	385,928
Carrying Amount as at 30 June 2007	1,729,144	3,247,436	4,976,580

10) Deposits

The Fund paid one quarter's rent as deposit to the Cooperative Insurance Company, who are the owners of the office space let to the Fund.

Notes to the Financial Statements

For the Year Ended 30th June 2007

11) Inventories

The Fund had purchased various stationery items during the year. As at the end of the year the balance of stock at hand was recognized as inventories.

	2006\2007 KSHS	2005\2006 KSHS
Office Stationery	362,100	188,782
Computer Stationery	300,100	197,476
Total	662,200	386,258

12) Prepayments

The Fund uses prepaid fuel cards. As at the end of the financial year, the amount loaded in the cards but not yet used amounted to Kshs 58,642

13) Staff Debtors

The amount disclosed refers to money given to staff as imprest, for which they are yet to account for.

14) Cash and Cash Equivalents

Cash and Cash Equivalents comprise of:

	2006\2007 KSHS	2005\2006 KSHS
National Bank of Kenya	35,127,908	34,765,892
Kenya Commercial Bank-ADB	4,074	7,739
Kenya Commercial Bank-Recurrent	6,393,366	-
Kenya Commercial Bank-KWSP	40,640,831	-
Kenya Commercial Bank-GTZ	3,998,900	-
Cash on Hand	10,555	33,268
Total	86,175,634	34,806,899

Notes to the Financial Statements

For the Year Ended 30th June 2007

15) Deferred Income

The Fund reviewed its accounting policies concerning accounting for grants. Grants are matched against the expense to which they relate for any particular year. Any surpluses arising are carried forward as deferred income. As a result of this change in policy, the Fund does not declare any surpluses or deficits in its Income Statement.

16) Trade and other Payables

These are creditors for goods and services, payroll deductions and taxes payable

	2006\2007 KSHS	2005\2006 KSHS
Trade Payables	-	175,376
Payroll Deductions	-	122,453
Tax Payable	252,900	556,437
Total	252,900	854,266

17) Accruals

This refers to the estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date.

18) Capital Reserve

This represents the balance of donated items not yet matched to their corresponding expenses.

	2006\2007 KSHS	2005\2006 KSHS
KWSP	2,514,622	2,065,817
Ministry of water and Irrigation	1,467,427	2,934,854
GTZ	762,014	
Total	4,744,063	5,000,671

Notes to the Financial Statements

For the Year Ended 30th June 2007

19) Cash Generated from Operations

Reconciliation of cash generated from operations

	2006\2007 KSHS	2005\2006 KSHS
Deferred Income/(Loss)	54,991,749	(220,867,493)
Adjustments for Non Cash Items		
Depreciation	6,008,073	3,811,125
Amortization of Intangible Assets	385,928	-
Non Cash Expenses	132,000	261,589
Non Cash Income	(3,509,900)	-
Deferred Income/(Loss) before working capital changes	58,007,850	(216,794,779)
(Increase) Decrease in Deposits	-	(766,427)
(Increase) Decrease in Inventories	(275,942)	(386,258)
(Increase) Decrease in Prepayments	81,502	(65,510)
(Increase) Decrease in Staff Debtors	(95,354)	97,959
Increase (Decrease) in Trade and other Payables	(601,366)	685,937
Increase (Decrease) in Accruals	47,000	(373,487)
Cash generated from operations	57,163,690	(217,602,565)

20) Purchase of Plant and Property

	2006\2007 KSHS	2005\2006 KSHS
Additions in Fixed Assets	3,553,739	20,879,684
Less: Donated Assets	1,006,220	4,739,082
	2,547,519	16,140,602

Notes to the Financial Statements

For the Year Ended 30th June 2007

21) Contingencies

The Fund has committed to fund projects to the tune of Kshs 146,101,742. This amount becomes due on the submission of acceptable reports. As at the end of the financial year, the projects were at different stages of implementation. This amount is expected to fall due in the course of the next financial year.

22) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparative figures have been adjusted to take into account the effect of the prior year adjustments.

23) Incorporation

The Fund is incorporated in Kenya vide Trust Deed executed by the Minister for Water.

24) Currency

These financial statements are presented in Kenya Shillings (KSHS).

