

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

PARLIAMENT
OF KENYA
LIBRARY

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
MOMBASA WATER SUPPLY AND
SANITATION COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2014**

MOMBASA WATER SUPPLY & SANITATION CO. LTD



OFFICE OF THE AUDITOR GENERAL
KENYA NATIONAL AUDIT OFFICE
03 MAY 2015
RECEIVED
MOMBASA HUB TEAM II

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

MOMBASA WATER SUPPLY & SANITATION CO. LTD
Report and Financial Statements
FOR THE YEAR ENDED 30TH JUNE 2014

CONTENTS

| | PAGES |
|--|--------------|
| Corporate Information | 1 - 5 |
| Report of the Directors | 6 |
| Report of the Managing Director | 7 |
| Statement of Directors' responsibilities | 8 |
| Independent auditor's report | 9 |
| | |
| Financial statements | |
| Statement of Profit or loss and other comprehensive income | 10 |
| Statement of Financial Position | 11 |
| Statement of Cashflows | 12 |
| Statement of Changes in Equity | 13 |
| Notes to the Financial Statements | 14-21 |

CORPORATE INFORMATION

Background Information

Mombasa Water Supply and Sanitation Company Limited was established under the Water Act of 2002 and is licensed by CWSB to distribute water to and provide sanitation services to residents of Mombasa County. The company was incorporated in Kenya on 18th March, 2011. At cabinet level, the company is represented by the Cabinet Secretary for Environment, Water & Natural Resources who is responsible for the general policy and strategic direction.

| | |
|-----------------------------|--|
| Company Vision | To be a Water Service Provider of repute |
| Company Mission | To provide safe, reliable, affordable water and sewerage services in an efficient and viable manner to the residents of Mombasa County |
| Registered office | Mikindani Street, Off Nkrumah Road P.O Box 1100 - 80100 Mombasa Kenya |
| Independent Auditors | Auditor- General Anniversary Towers, University Way P.O Box 30084 - 00100, GPO |
| Principal bankers | Equity Bank Limited P.O.Box 84618 - 80100 Mombasa Housing Finance Corporation P.O. BOX 84839-80100 Moi Avenue Branch Mombasa |

Directors

The directors who served the company during this period of audit (July-13 to June-14) were:

| | | |
|-----------------------|----------------|----------------------------|
| 1. Rhodah Mwashigadi | Chairlady | Appointed in July 2011 |
| 2. Mrs. Alome Achayo | MD | Appointed in October 2012 |
| 3. James Mureu | | Appointed in July 2011 |
| 4. Rajab Babu | | Appointed in July 2011 |
| 5. Fatma Awale | Formerly Chair | Resigned on 01 August 2013 |
| 6. Sylvester Mbadi | | Appointed in July 2011 |
| 7. Robert Waiganjo | | Resigned on 01 August 2013 |
| 8. Mohammed Rashid | | Appointed in July 2011 |
| 9. Mohamed Hamisi | | Appointed in July 2011 |
| 10. Albert Keno | | Resigned in August 2014 |
| 11. Abdulwahab Mbarak | | Appointed in May 2014 |
| 12. Hudson Muhembere | | Resigned on 01 August 2013 |
| 13. Tubman Otieno | | Resigned in April 2013 |

Principal Legal Advisers

1. The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

2. Otieno Okeyo & Co. Advocates
Old Mutual Building,
4th floor, Kimathi Street
P. O. Box 9684-00100,
NAIROBI







Corporate Headquarters

Mombasa Water Supply & Sanitation Co Ltd
P.O. Box 1100-80100
Mikindani Street Off Nkrumah Rd
MOMBASA, KENYA



Corporate Contacts

Telephone: (254) 041-2222700
E-mail: info@mombasawater.co.ke
Website: www.mombasawater.co.ke






BOARD OF DIRECTORS

| | | |
|---|--|--|
| 1 |  <p>Ms. Rhoda Mwashigadi</p> | <p>Madam Rhodah and the Chairperson has over 20 years work experience in the Banking Industry. She holds a Bachelors Degree in Business Administration & is currently pursuing a Masters Degree in Strategic Management at JKUAT. She is also a holder of a Diploma in Co-operative Audit from the Cooperative University of Kenya and CPA II. She sits on the CPSB in Taita Taveta County and is also the Treasurer, Rotary Club of Mombasa</p> |
| 2 |  <p>Alome K. Achayo (Mrs)</p> | <p>Alome K. Achayo (Mrs) holds an MBA Strategic Management from University of Nairobi, Bachelor of Science and a Member Kenya Institute of Management (KIM). She has over 21 years of work experience in middle and senior management both locally and internationally.</p> |
| 3 |  <p>Mr. Sylvester Mbandi</p> | <p>Director Mbandi is a National Higher diploma in Hotel Management holder. He represents the Hotel Industry and boasts of over 10 years of work experience in Hotel Services Management.</p> |
| |  <p>Robert Waiganjo</p> | <p>Director Waiganjo is a Professional Human Resources Specialist. He has practised Human Resources Consultancy and Management for period over 15 years</p> |
| |  <p>Mohammed Rashid</p> | <p>Director Rashid was born in 1972 . He holds a Bachelor of Commerce Degree from Toronto University. He has over 15 years work experience and is currently the Executive Vice-Chairman of Milly Group comprising Milly Glass Works Ltd, Milly Fruit Processors and Milly Grain Millers.</p> |
| |  <p>Mohamed Hamisi</p> | <p>Director Hamisi was born in 1972. He has a Diploma in Business Management from University of Cambridge and a Certificate in Sales and Marketing. He is a former Business Development Manager for Skydesign Ltd and a Volunteer AMKA Community Development Initiative promoting awareness against AIDS/ Drug Abuse</p> |

DIRECTORS cotinued

| | |
|--|--|
|  <p>Mr. James Mureu</p> | <p>Director Mureu holds a degree in Business Administration and is currently pursuing MBA (Marketing). Mr. Mureu is the current Chairman of National Chamber of Commerce, Coast Region</p> |
|  <p>Mr: Albert Keno</p> | <p>Director Keno has a Degree in Engineering, (Civil Engineering) and is a Member IEK and boasts of more than 20 yrs of work experience in the Public Sector</p> |

MANAGEMENT

| | | |
|---|---|--|
| 1 |  | <p>Alome K. Achayo (Mrs), holds a Masters Business Administration In Strategic Management from University of Nairobi. She has a Bachelor of Science and a Member Kenya Institute of Management (KIM). Over 20 years experience in middle and senior management both locally and internationally.</p> |
| 2 |  | <p>Mr. Kombo R. Kombo holds a Bachelors degree in Commerce (Accounting). He is a Certified Public Accountant (CPA - K) and a holder of Masters Business Administration with Eastern & Southern Africa Management Institute(E.S.A.M.I). He has over 12 years experience in Financial Management.</p> |
| 3 |  | <p>Mr. Stephen Oluoch holds a Masters In Civil Engineering Hydraulics. He is a member of the Engineers Registration Board. He holds a certificate in Project Management from Kenya Institute of Administration. Mr. Oluoch has 19 years experience in design and construction, supervision, operation and maintenance of water supply systems. Outof the years of experience, he spent 15 years in O & M of large water supply schemes under National Water Conservation and Pipeline Corporation across the entire country at senior management level. Mr. Oluoch has also served as an Assistant Resident Engineer and supervised projects such as Masinga - Kitui Pipeline, Sabaki Water.</p> |
| 4 |  | <p>Mr. Jamal A. Ahmed holds a Bachelors degree in Arts specialising in Economics from University of Nairobi. He is a Member of Institute of Certified Information System Auditors. He has 8 years of accounting experience. Currently, he is pursuing a Masters Business Administration degree at the University of Nairobi.</p> |
| 5 |  | <p>Mr. Mathangani Muya holds a Bachelors degree in Government and Sociology from the University of Nairobi, a Postgraduate Diploma in Public Administration and Management from Glasgow College of Technology. He has over 25 years experience in management with focus in human resources management gained in large and medium sized local and international companies at middle and senior management . Member of IHRM (K), Kenya Institute of Management, Professional Association of Resume Writers (and Career Coaches (PARWCC) and International Coach Federation.</p> |
| | <p>Alome K. Achayo (Mrs) - Managing Director</p> <p>Mr. Kombo Rajab Kombo - General Manager Finance</p> <p>Mr. Stephen O. Oluoch - General Manager engineering & Strategy</p> <p>Mr. Jamal A. Ahmed - General Manager Business and Customer Service</p> <p>Mr. Mathangani Muya - General Manager Human Capital and Administration</p> | |

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of the company for the year ended 30th June-2014 which show the state of affairs of Mombasa Water Supply and Sanitation Company Limited

PRINCIPAL ACTIVITIES

The principal activity of the company is that of distributing water and sanitation services to the residents of Mombasa County

FINANCIAL RESULTS

| | Ksh. |
|--|---------------|
| Loss before taxation | (161,686,497) |
| Taxation charge | Nil |
| Loss for the year transferred to retained earnings | (161,686,497) |

DIVIDENDS

The directors do not recommend the payment of a final dividend in respect of the year 2014.

DIRECTORS

The current members of the Board are as shown on page 2.

AUDITORS

The Auditor General is responsible for the statutory audit of the company's financial statements in accordance with section 14 of the Public Audit Act, 2003. Section 39(1) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf. Accordingly, M/S Kariru and Associates were appointed to carry out the audit for the year ended 30 June 2014.

BY ORDER OF THE BOARD


Director

The Directors submit their report together with the audited financial statements for the year ended 30th June 2014 which show the state of affairs of the company.

Incorporation

The Company is Incorporated in Kenya under the Kenyan Company's Act, and is domiciled in Kenya. The address of the registered workplace is as set out on page 1.

Principal activities

The principal activity of the Company is distribution of water and sewerage services to the residents of Mombasa County.

Results and dividends

The net loss for the year of Shs.169Million has been added to retained earnings. The Directors did not recommend payment of dividends.

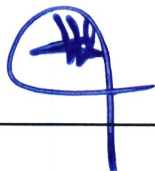
Directors

The members of the Board of Directors who held office during the year and to the date of this report are set out on pages 3-4.

Auditors

The Auditor General is responsible for the statutory audit of the company's financial statements in accordance with section 14 of the Public Audit Act, 2003. Section 39(1) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf. Accordingly, M/S Kariru and Associates were appointed to carry out the audit for the year ended 30 June 2014.

By the order of the board



Chairman - Board of Directors



Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act and Water Act 2002 require the Directors to prepare Financial Statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its operating results for that year. It also requires the Directors to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company.

The Directors accept responsibility for the preparation and fair presentation of Financial Statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

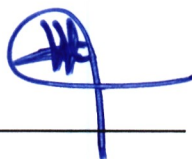
- i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the Financial Statements;
- ii) selecting and applying appropriate accounting policies; and
- iii) making accounting estimates and judgements that are reasonable in the circumstances.

The Directors accept responsibility for the Financial Statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The Directors are of the opinion that the Financial Statements give a true and fair view of the state of the financial affairs of the Company as at 30th June 2014 and of its operating results for the year then ended. The Directors further accept responsibility for the maintenance of accounting records which have been relied upon in the preparation of the Financial Statements, as well as on the adequacy of the systems of internal financial controls.

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 Mombasa Water Supply and Sanitation Company Ltd financial statements were approved by the Board on _____ 2014 and signed on its behalf by:



Chairman - Board of Directors



Director

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON MOMBASA WATER SUPPLY AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

The financial statements of Mombasa Water and Sanitation Company Limited set out on pages 10 to 21, which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by M/s Kariru and Associates, auditors appointed under Section 39 of the Public Audit Act, 2003. The audit was carried out in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

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

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

Mombasa Water Supply and Sanitation Company Limited – Annual Report and Financial Statements for the year ended 30 June 2014

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 qualified audit opinion.

Basis for Qualified Opinion

1. Unaccounted for Water.

During the year under review, the company produced 15,737,886m³ of water out of which only 7,996,040m³ was billed to customers. The difference of 7,741,846m³ or approximately 49.2% of the total volume represented Unaccounted For Water (UFW) which is 24.2% over and above the allowable loss of 25% as recommended by the Water Services Regulatory Board guidelines. This has negatively impacted on the Company's profitability and its long term sustainability.

Consequently, the completeness and validity of sales income of Kshs.885,375,519 as reflected in note 11 to the financial statements could not be ascertained.

2. Expenditure

Included in Administration Expenses of Kshs.97,925,233 is an amount of Kshs.78,580,868, being a 9% administration fees and Kshs.8,731,208 which is a 1% levy fees to Water Services Regulatory Board (WASREB). However, these amounts have not been supported by any documentary evidence.

Consequently, it was not possible to confirm the accuracy and the basis of these expenses in the absence of supporting evidence and therefore the expense amounting to Kshs.87,312,076 for the year ended 30 June 2014 could not be ascertained.

3. Going Concern

During the year under review, the company incurred a loss of Kshs.161,686,497 which brought its accumulated loss to Kshs.633,326,913 as at 30 June 2014. Further, its current liabilities of Kshs.786,472,622.15 exceed current assets of Kshs.590,788,997 by Kshs.195,683,625.15, an indication that the Company may not meet its financial obligations as and when they fall due. The Company's financial statements have, therefore, been prepared on the going-concern basis which assumes continued support from the Government, Development partners and creditors.

4. Property, Plant and Equipment

As previously reported and as disclosed in note 5 to the financial statements, the company is using assets inherited from Coast Water Services Board for which lease fees are charged. These assets have not been incorporated in these financial statements. In the absence of a fixed assets register and non-availability of supporting documentation, the assets could not be verified and assigned to specific asset classes. It was therefore not possible to confirm whether the carrying values of Kshs.64,214,211.96 as stated in these financial statements reflect the fair values of property, plant and equipment as at 30 June 2014.

5. Trade and Other Receivables

As previously reported, included in trade and other receivables balance of Kshs.572,622,739.48 as at 30 June 2014 is an amount of Kshs.102,785,927 that is not supported with debtors' listing and other documentary evidence. Included also is an unpaid share capital figure of Kshs.5,000,240. Consequently, the existence and validity of the total debtors of Kshs.572,622,739.48 included in the financial statements as at 30 June 2014 could not be ascertained.

6. Unsupported Balances

The financial statements under note 8 reflect water debtors totalling Kshs.809,525,884.62 as at 30 June 2014. However, supporting schedules availed for audit review indicated a balance of Kshs.815,149,712, resulting to unexplained difference of Kshs.5,623,827. Further, the financial statements at note 10 indicates an amount of payables to Coast Water Services Board of Kshs.589,332,366.30 which is in variance with the supporting schedule figure of Kshs.565,417,005, hence giving a difference of Kshs.23,915,361.30.

In the circumstances, the accuracy of trade and other receivables balance of Kshs.572,622,739.48 and trade and other payables balance of Kshs.786,472,622.15 reflected in these financial statements as at 30 June 2014 could not be confirmed.

7. Share Capital

As previously reported, Mombasa Water Supply and Sanitation Company Limited was incorporated on 18 March, 2011 to take over services of the defunct Mombasa Water & Sewerage Company Limited which had an authorized share capital of Kshs.5,000,000. This company has not been liquidated and no shares were transferred to the new company as at 30 June 2014. Further, out of the new company's authorized share capital of 5,000 shares of Kshs.1,000 each, only 12 shares totalling Kshs.12,000 were allotted but not paid leaving a balance of 4,988 shares un-allotted.

The financial statements reflect issued but not paid share capital of Kshs.5,000,240 in respect of ordinary shares of par value 1,000 each and 12 of par value of Kshs.20 each, which is above the authorized share capital of Kshs.5,000,000. Further, the issued but not paid share capital of Kshs.5000,240 is

also reflected in the receivables as unpaid share capital. Consequently, the ownership of the company cannot be ascertained.

In the circumstances, the accuracy and authenticity of the share capital balance of Kshs.5,000,240 as at 30 June 2014 could not be confirmed.

8. Presentation of Financial Statements

The statement of financial position as at 30 June 2014 reflect note 8 as both trade and other receivables and trade and other payables. However, while note 8 to the financial statements is reflected as trade and other receivables, trade and other payable is reflected as note 10.

As such, the financial statements during the year under review did not fully adhere to the International Financial Reporting Standards No.1 which require clear identification of notes to the financial statements.

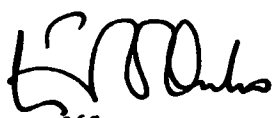
Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with both the Water Act, 2002 and Companies Act, Cap 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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



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

Nairobi

3 March 2016

MOMBASA WATER SUPPLY & SANITATION CO. LTD
 Reports and Financial Statements
 FOR THE YEAR ENDED 30TH JUNE 2014

STATEMENT OF COMPREHENSIVE INCOME

| | Appendix | 2014 Shs | 2013 Shs |
|-----------------------------|----------|---------------|---------------|
| Water Sales | 11 | 743,750,048 | 774,937,894 |
| Sewerage Sales | 11 | 141,625,471 | 153,442,795 |
| Cost of sales | 12 | (393,447,150) | (412,795,705) |
| Gross Profit (Loss) | | 491,928,369 | 515,584,984 |
| Other Income | 13 | 24,015,513 | 5,108,286 |
| | | 515,943,882 | 520,693,271 |
| Operation and Maintenance | 14 | 38,986,048 | 31,124,778 |
| Administration Costs | 15 | 97,925,233 | 95,758,580 |
| Staff Costs | 16 | 383,130,574 | 352,572,727 |
| Legal and Professional | 17 | 5,679,908 | 3,947,416 |
| Transport & Travelling | 18 | 20,000,022 | 19,466,313 |
| Directors Expenses | 19 | 3,968,029 | 2,950,178 |
| Advertising & Publicity | 20 | 4,706,222 | 2,351,994 |
| Other Operating Expenses | 21 | 123,234,342 | 20,219,813 |
| Total Operating Expenses | | 677,630,380 | 528,391,799 |
| Operating (Loss)/ Profit | 22 | (161,686,497) | (7,698,529) |
| Profit/(Loss) before tax | | (161,686,497) | (7,698,529) |
| Balance Brought Forward | | (471,640,416) | (463,771,993) |
| Loss Carried Forward | | (633,326,913) | (471,640,416) |

MOMBASA WATER SUPPLY & SANITATION CO. LTD

Reports and Financial Statements

FOR THE YEAR ENDED 30TH JUNE 2014

STATEMENT OF FINANCIAL POSITION

| | Note | Kshs | 2014 | Kshs | 2013 |
|--------------------------------------|------|------|-------------------------|------|-----------------------|
| ASSETS | | | | | |
| Non-Current Assets | | | | | |
| Property, plant and equipment | 5 | | 64,214,211.96 | | 46,430,358.00 |
| Amount due from shareholders | 7 | | 5,000,240.00 | | 5,000,240.00 |
| Total Non-Current Assets | | | 69,214,451.96 | | 51,430,598.00 |
| Current Assets | | | | | |
| Trade and other receivables | 8 | | 572,622,739.48 | | 593,795,279.32 |
| Bank and cash balances | 6 | | 18,166,257.52 | | 38,437,889.38 |
| Total Current Assets | | | 590,788,997.00 | | 632,233,168.70 |
| TOTAL ASSETS | | | 660,003,448.96 | | 683,663,766.70 |
| EQUITY AND LIABILITIES | | | | | |
| Capital and Reserves | | | | | |
| Ordinary share capital | 2 | | 5,000,240.00 | | 5,000,240.00 |
| Capital reserve | 4 | | 485,003,469.00 | | 485,003,469.00 |
| Retained earnings | 3 | | (633,326,913.18) | | (471,640,416.00) |
| Capital and Reserves | | | (143,323,204.18) | | 18,363,293.00 |
| Non-Current Liabilities | | | | | |
| Sevice gratuity | 9 | | 16,854,030.55 | | 14,298,863.58 |
| Total Non-Current Liabilities | | | 16,854,030.55 | | 14,298,863.58 |
| Current Liabilities | | | | | |
| Trade and other payables | 10 | | 786,472,622.15 | | 651,001,609.79 |
| Total Current Liabilities | | | 786,472,622.15 | | 651,001,609.79 |
| TOTAL EQUITY AND LIABILITIES | | | 660,003,448.52 | | 683,663,766.37 |

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

Chairman

(0)

Director

MOMBASA WATER SUPPLY & SANITATION CO. LTD
 Reports and Financial Statements
 FOR THE YEAR ENDED 30TH JUNE 2014

STATEMENT OF CASH FLOWS

| | Note | 2014 Shs | 2013 Shs |
|--|------|----------------------|---------------------|
| Cash flows from operating activities | | | |
| (Loss) before income tax | | <u>(161,686,497)</u> | <u>(7,698,529)</u> |
| Adjustments for: | | | |
| Prior year Adjustments | | - | 4,242,103.00 |
| Armotisation and Depreciation on property, plant ar | 5 | 10,755,215 | 8,088,741 |
| Operating loss before working capital changes | | <u>(150,931,282)</u> | <u>4,632,315</u> |
| (Increase) / decrease in: | | | |
| Trade and other receivables | 8 | 21,172,540 | (165,268,174) |
| Increase / (decrease) in: | | | |
| Trade and other payables | 9 | 135,471,012 | 199,970,868 |
| Service gratuity payable | | 2,555,167 | 0 |
| Cash generated from operations | | <u>8,267,437</u> | <u>39,335,009</u> |
| Tax Paid | | - | - |
| Net cash (used in) operating activities | | <u>8,267,437</u> | <u>39,155,010</u> |
| Cash flows from investing activities | | | |
| Purchase of PPE | 5 | <u>(28,539,069)</u> | <u>(12,174,499)</u> |
| Net cash (used in) investing activities | | <u>(28,539,069)</u> | <u>(12,174,499)</u> |
| Cash flows from financing activities | | | |
| Share Capital | | | |
| Net cash (used in) financing activities | | <u>-</u> | <u>-</u> |
| Net (decrease) in cash and cash equivalents | | (20,271,632) | 26,980,511 |
| Cash and cash equivalents at 1st July | | 38,437,889 | 11,627,272 |
| Cash and cash equivalents at 30th June | 6 | <u>18,166,257</u> | <u>38,437,889</u> |

.AOMBASA WATER SUPPLY & SANITATION CO. LTD

Reports and Financial Statements

FOR THE YEAR ENDED 30TH JUNE 2014

STATEMENT OF CHANGES IN EQUITY

| | Share Capital Shs | Retained Earnings Shs | Capital Reserve | Total Shs |
|-------------------------|----------------------------------|--------------------------------------|----------------------------|----------------------|
| At 1st July 2013 | 5,000,240 | (471,640,416) | 485,003,469 | 18,363,293 |
| Net profit for the year | | (161,686,497) | | (161,686,497) |
| At 30th June 2014 | <u>5,000,240</u> | <u>(633,326,913)</u> | <u>485,003,469</u> | <u>(143,323,204)</u> |
| | Share Capital Shs | Retained Earnings Shs | Capital Reserve | Total Shs |
| At 1st July 2012 | 5,000,240 | (463,602,099) | 485,003,469 | 26,401,610 |
| Net profit for the year | | (7,698,529) | - | (7,698,529) |
| At 30th June 2013 | <u>5,000,240</u> | <u>(471,640,416)</u> | <u>485,003,469</u> | <u>18,363,293</u> |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2014

1 Accounting policies

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

a) Statement of compliance

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). For the Kenya Companies Act reporting purposes in these financial statements the balance sheet is equivalent to the statement of financial position and the profit and loss account is included in the statement of profit or loss and other comprehensive income

Adoption of new and revised International Financial Reporting Standards (IFRS) and interpretations

In 2007 new and revised standards and interpretations became effective for the first time and have been

Sales are the aggregate invoiced value of the residential rental services rendered

IFRS 7 Financial Instruments : Disclosures

This standard requires disclosures that enable users of the Financial Statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the Financial Statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements

This amendment requires the Company to make new disclosures to enable users of the Financial Statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosures are shown in note 1 (a)

The following amendment to an existing standard will be mandatory for the Company's accounting periods beginning on or after 1 January 2008, but which the Company has not early adopted:

IFRIC 11 - Group and Treasury Share Transactions - from 01 January 2008

IFRIC 12 - Service Concession Arrangements - from 01 January 2008

IFRS 8 - Operating Segments - from 01 January 2009

IAS 23 - Borrowing costs (revised) - from 01 January 2009

b Revenue Recognition

Sale of goods are recognised in the period in which the Company delivers products to the customer, the customer has accepted the products and the collectability of the related receivables are reasonably assured.

Sale of services are recognised in the period in which the services are rendered, by reference to completion of the specific transaction asses on the basis of the actual service provided as apportion of the total services provided.

Revenue represents the fair value of the consideration received or receivable for the sales of goods and services and is stated net of adjustments.

c Trade Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate. A provision for impairment is recognised in the profit and loss account in the year when the recovery of the amount due as per the original terms is doubtful. The provision is based on the difference between the carrying amount and the present value of the expected cash flows, discounted at effective interest rate. Receivables not collectable are written off against the related provision. Subsequent recoveries of amounts previously written off are credited to the profit and loss account in the year of recovery.

NOTES

d) Provision for liabilities and charges

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

g) Retirement benefit obligations

The company and the employees contribute to the National Social Security Fund, a national defined contribution scheme. Contributions are determined by local statute and the partnership's contributions are charged to the profit and loss account in the year to which they relate.

h) Taxation

Current tax is provided on the basis of the results for the year in accordance with the fiscal laws of Kenya.

i) Financial Liabilities

All financial liabilities including borrowings are recognised initially at fair value.

j) Cash and cash equivalent

other short term highly liquid investments in money market instruments with maturities of three months or

MOMBASA WATER SUPPLY & SANITATION CO. LTD
Reports and Financial Statements
FOR THE YEAR ENDED 30TH JUNE 2014

Notes to Financial Statements (Cont'd)

| | 2014 | 2013 |
|--|----------------------|----------------------|
| | Shs | Shs |
| 2 Share Capital | | |
| Authorised number of ordinary shares 5,000 per value of Kshs 1,000 each and 12 number of ordinary shares per value of Kshs 20. | 5,000,240 | 5,000,240 |
| Issued but not paid up 5,012 Ordinary Shares | <u>5,000,240</u> | <u>5,000,240</u> |
| 3 Retained Earnings | | |
| As at 1st July | (471,640,416) | (468,014,096) |
| Prior year adjustment | - | 4,242,103 |
| Net Profit / (Loss) as at 30th June | <u>(161,686,497)</u> | <u>(7,868,423)</u> |
| | <u>(633,326,913)</u> | <u>(471,640,416)</u> |
| 4 Capital Reserves | | |
| As at 30th June | <u>485,003,469</u> | <u>485,003,469</u> |
| | <u>485,003,469</u> | <u>485,003,469</u> |

Notes to Financial Statements (Cont'd)

5 Property, Plant & Equipment

| | Plant and Equipment | Motor Vehicles | Furniture & Fittings | Computer & Accessories | Office Equipment |
|-----------------------|------------------------|-------------------|-------------------------|---------------------------|---------------------|
| Cost | Shs | Shs | Shs | Shs | Shs |
| As at 1st July 2013 | 5,627,598 | 26,509,979 | 4,542,358 | 16,948,423 | 7,615,319 |
| Additions | 135,400 | 3,608,800 | 906,803 | 1,785,742 | 741,828 |
| As at 30th June 2014 | <u>5,762,998</u> | <u>30,118,779</u> | <u>5,449,161</u> | <u>18,734,165</u> | <u>8,357,146</u> |
| Depreciation | | | | | |
| As at 1st July 2013 | 3,488,775 | 17,191,917 | 2,543,124 | 11,279,300 | 7,558,724 |
| Charge for the year | 264,785 | 2,807,834 | 314,576 | 1,768,129 | 57,878 |
| As at 30th June 2014 | <u>3,753,560</u> | <u>19,999,751</u> | <u>2,857,699</u> | <u>13,047,429</u> | <u>7,616,602</u> |
| Net Book Value | | | | | |
| As at 30th June 2014 | <u>2,009,437</u> | <u>10,119,027</u> | <u>2,591,462</u> | <u>5,686,736</u> | <u>740,544</u> |
| As at 01st July 2013 | <u>2,138,823</u> | <u>9,318,062</u> | <u>1,999,234</u> | <u>5,669,123</u> | <u>56,595</u> # |

| | Water Meters | Computer Software | Bicycles | Total |
|-----------------------|-------------------|----------------------|---------------|--------------------|
| Cost | Shs | Shs | Shs | Shs |
| As at 1st July 2013 | 52,655,341 | 21,666,891 | 12,241 | 135,578,149 |
| Additions | 21,210,495 | 150,000 | 0 | 28,539,069 |
| As at 30th June 2014 | <u>73,865,836</u> | <u>21,816,891</u> | <u>12,241</u> | <u>164,117,218</u> |
| Depreciation | | | | |
| As at 1st July 2013 | 27,870,340 | 19,207,664 | 7,949 | 89,147,791 |
| Charge for the year | 4,839,766 | 701,293 | 952 | 10,755,215 |
| As at 30th June 2014 | <u>32,710,106</u> | <u>19,908,957</u> | <u>8,901</u> | <u>99,903,006</u> |
| Net Book Value | | | | |
| As at 30th June 2014 | <u>41,155,730</u> | <u>1,907,934</u> | <u>3,341</u> | <u>64,214,212</u> |
| As at 01st July 2013 | <u>24,785,001</u> | <u>2,459,227</u> | <u>4,293</u> | <u>46,430,358</u> |

The Company is using assets inherited from Coast Water Services Board for which administration fees are charged. Coast Water Services Board charges 9% as Licence Fees and Water Services Regulatory Board 1% .

NOTES

| | 2014 Shs | 2013 Shs |
|---|-----------------------|-----------------------|
| 6 Cash and cash equivalents | | |
| For the purpose of the cash flow statement, cash and cash equivalent comprise the following: | | |
| Cash at Bank | 16,242,015.72 | 36,805,090.58 |
| Cash in hand | 1,170,002.80 | 1,110,312.80 |
| Posta Pay | 137,445.00 | - |
| Mpesa | 616,794.00 | 522,486.00 |
| Cash and cash equivalent | <u>18,166,257.52</u> | <u>38,437,889.38</u> |
| 7 Amount due from shareholders | <u>5,000,240.00</u> | <u>5,000,240.00</u> |
| 8 Trade and other Receivables | | |
| Water Debtors | 809,525,884.62 | 836,152,188.87 |
| Prepayments | 5,355,239.00 | 24,446,499.37 |
| Provision for Bad Debts | (282,369,053.12) | (278,148,954.40) |
| Other Receivables | - | (14,483,983.52) |
| VAT | 30,765,284.32 | 16,481,811.10 |
| Prepaid Salary-advance | 747,666.76 | - |
| Training Fees Receivable | 8,097,717.90 | 8,847,717.90 |
| Deposit & Sundries | 500,000.00 | 500,000.00 |
| | <u>572,622,739.48</u> | <u>593,795,279.32</u> |
| Included in water debtors is an amount of 108,259,028.44 being bad debts written off, approved by the board on 10.12.2014 | | |
| 9 Gratuity | <u>16,854,030.55</u> | <u>14,298,863.58</u> |
| 10 Trade and other payables | | |
| Trade Payables | 589,332,366.30 | 496,894,506.64 |
| Receipts Refundable | 15,497,015.30 | - |
| Audit Fees Accrual | 1,494,431.38 | 1,049,520.00 |
| Refundable Deposits | 64,809,530.20 | 59,150,911.60 |
| Other Payables (Payroll Payables) | 112,815,886.07 | 84,529,599.21 |
| MWI Funding | - | 5,268,774.75 |
| MCM - Bin/Refuse | 2,523,392.90 | 2,523,392.90 |
| Grant - Mtongwe Project | - | 1,584,904.69 |
| | <u>786,472,622.15</u> | <u>651,001,609.79</u> |

MOMBASA WATER SUPPLY & SANITATION CO. LTD
 Reports and Financial Statements
 FOR THE YEAR ENDED 30TH JUNE 2014

Notes to Financial Statements (Cont'd)

| | 2014 Shs | 2013 Shs |
|---|--------------------|--------------------|
| 11 Revenues | | |
| Water Sales | 743,750,048 | 928,380,689 |
| Sewerage Sales | 141,625,471 | |
| | <u>885,375,519</u> | <u>928,380,689</u> |
| 12 Cost of sales: | | |
| Purchase of Bulk Water | 393,447,150 | 412,795,705 |
| | <u>393,447,150</u> | <u>412,795,705</u> |
| <p>This comprises of bulky water supplies by Coast Water Services Board to the Company at a cost of Kshs 25 per cubic meter. No rebates have been granted for unaccounted water as Coast Water Services Board charges are based on actual sales by the Company.</p> | | |
| 13 Other Incomes | | |
| Tender Income | 217,000 | 636,250 |
| Grant Income | 22,372,408 | 4,302,142 |
| Commission on employees' insurance premiums | 183,052 | 169,894 |
| Interest income | 1,213,053 | |
| Entry fee-Kipevu | 30,000 | |
| | <u>24,015,513</u> | <u>5,108,286</u> |
| 14 Operation and Maintenance | | |
| Electricity , Water & Conservation | 12,237,119 | 6,547,622 |
| Pipes & Fittings (Maintenance of water supply) | 10,667,148 | 9,131,463 |
| Maintenance - Sewerage | 633,058 | 1,101,821 |
| Repair and Maintenance - Others | 509,710 | 732,585 |
| Repair and Maintenance - Buildings | 1,414,690 | 1,110,710 |
| Security & Surveillance | 13,009,647 | 11,697,289 |
| Computer Maintenance | 78,590 | 433,297 |
| Laboratory Expenses | 436,087 | 369,991 |
| | <u>38,986,048</u> | <u>31,124,778</u> |
| 15 Administration expenses: | | |
| Postal and Telegrams | 7,120 | 8,971,214 |
| Internet Connection | 2,781,263 | 1,587,152 |
| Telephone Expenses | 1,852,937 | 1,855,901 |
| Licences | 657,144 | |
| Bank Charges | 693,600 | 824,092 |
| Mpesa Transfer chrges | 293,111 | 0 |
| 9% Administration fees | 78,580,868 | 69,651,139 |
| 1% Levy Fees - WASREB | 8,731,208 | 7,307,626 |
| Cleaning Costs | 595,015 | 775,238 |
| Newspapers & Periodicals | 203,085 | 84,371 |
| Subscription fees | 265,561 | 527,680 |
| Printing & Stationery | 3,001,862 | 3,698,057 |
| Donations | 180,000 | 281,679 |
| Courier Expenses | 82,460 | 168,052 |
| Hire of Conference Facility | 0 | 26,379 |
| | <u>97,925,233</u> | <u>95,758,580</u> |

MOMBASA WATER SUPPLY & SANITATION CO. LTD

Reports and Financial Statements

FOR THE YEAR ENDED 30TH JUNE 2014

Notes to Financial Statements (Cont'd)

| | 2014 Shs | 2013 Shs |
|---------------------------------------|--------------------|--------------------|
| 16 Staff Costs | | |
| Acting Allowance | 1,762,923 | 2,897,176 |
| Basic Salaries | 175,167,424 | 164,231,856 |
| Leave Allowance | 7,162,122 | 7,082,840 |
| Overtime | 0 | 37,690 |
| Leave-days Equivalent Pay | 24,478,166 | 0 |
| Casual Wages | 3,103,933 | 3,428,567 |
| Pension - Employers Contribution | 20,650,312 | 20,286,404 |
| House Allowances | 69,006,500 | 67,641,500 |
| Uniform and Protective Clothing | 401,987 | 209,971 |
| Performance Bonus | 124,766 | 15,200 |
| Staff Welfare Expenses | 3,997,077 | 4,528,134 |
| Workmen Compensation Insurance | 3,828,719 | 1,975,409 |
| Medical Expenses | 34,000,731 | 35,218,424 |
| Training | 2,390,773 | 11,388,011 |
| Gratuity | 11,917,106 | 10,734,875 |
| Special Allowances | 4,492,633 | 3,621,000 |
| Commute Allowance | 10,683,200 | 10,689,800 |
| Group Life Insurance | 2,646,680 | 2,242,309 |
| Daily Subsistence Allowance | 5,458,133 | 5,114,464 |
| Insurance - General | 410,557 | 480,296 |
| Sports Expenses | 1,446,833 | 748,800 |
| | <u>383,130,574</u> | <u>352,572,727</u> |
| 17 Legal and Professional | | |
| Audit Fees - Current | 1,614,116 | 1,141,164 |
| Contracted Professional Services | 1,131,585 | 1,171,751 |
| Legal Costs | 2,934,208 | 1,634,501 |
| | <u>5,679,908</u> | <u>3,947,416</u> |
| 18 Transport & Travelling | | |
| Fuels & Oils | 9,065,274 | 10,920,669 |
| Tyres & Tubes | 1,007,150 | 327,763 |
| Insurance - Motor Vehicle | 2,324,221 | 3,310,675 |
| Air Travel | 2,222,678 | 1,300,161 |
| Repair & Maintenance Motor Vehicle | 4,052,900 | 2,751,220 |
| Bus Fares , Taxi | 1,281,028 | 630,314 |
| Private Vehicle Mileage | 17,482 | 95,016 |
| Renewal of Driving Licenses | 0 | 35,400 |
| Parking, Fines, Tolls , Cleaning | 29,290 | 95,094 |
| | <u>20,000,022</u> | <u>19,466,313</u> |
| 19 Directors Expenses | | |
| Directors Expenses | 3,008,029 | 1,930,178 |
| Lunches | 0 | 60,000 |
| Directors Travel | 0 | 0 |
| Honorarium | 960,000 | 960,000 |
| | <u>3,968,029</u> | <u>2,950,178</u> |
| 20 Advertising & Publicity | | |
| Advertising & Publicity | 3,001,669 | 2,064,854 |
| Show Expenses | 1,704,554 | 287,140 |
| | <u>4,706,222</u> | <u>2,351,994</u> |

MOMBASA WATER SUPPLY & SANITATION CO. LTD
 Reports and Financial Statements
 FOR THE YEAR ENDED 30TH JUNE 2014

| | 2014 Shs | 2013 Shs |
|------------------------------------|--------------------|-------------------|
| 21 Other Operating Expenses | | |
| Depreciation | 10,755,215 | 8,089,136 |
| Bad Debts | 4,220,099 | 12,030,876 |
| Bad Debts written off | 108,259,028 | |
| Vat, Corporate Tax, Penalties | | 99,801 |
| | <u>123,234,342</u> | <u>20,219,813</u> |

22 Operating Loss

The following items have been charged in arriving at operating profit:-

| | | |
|------------------------------|-------------|-------------|
| Staff Costs (Note 16 above) | 383,130,574 | 352,572,727 |
|------------------------------|-------------|-------------|

23 Contingent Liability

There may be a contingent liability arising as a result of unresolved dispute with Kenya Revenue Authority amounting to Kshs 13.6 Million. We further had not received confirmation from the Company legal counsel on any probable economic outflow that may arise.

24 Business Segments

The major part the Company falls under the category of provision of quality and sufficient water and sewerage services.

25 Country of Incorporation

Mombasa Water Supply & Sanitation Company is incorporated in Kenya under the Companies Act. The Company is domiciled in Kenya

26 Tenure of the undersigned chairman

The current chairman did not serve as board member or chairman during the period under review.