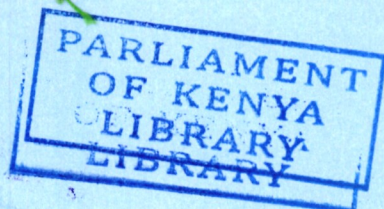


REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
OL-KALOU WATER AND SANITATION
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2014**

OL KALOU WATER AND SANITATION COMPANY LIMITED

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2014**

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

OI Kalou Water and Sanitation Company Limited
Reports and Financial Statements
For the year ended June 30, 2014 (Kshs)

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Ol Kalou Water and Sanitation Company Limited
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KEY ENTITY INFORMATION

Background information

Ol-kalou Water and Sanitation Company Limited was established in the year 2005 under the Companies Act (Cap 486) and started its operations in the year 2006, whose management status initially from government management to Rift Valley Water Services Board management and further licensed OLWASCO as a Water Service Provider to operate on their behalf.

Principal Activities

The principal activity of Ol Kalou Water and Sanitation Company Ltd is provision of water and sanitation services in Ol Kalou Sub-county.

Directors

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

- | | | | |
|----|-----------------------|---------------------|---|
| 1. | Mr. Stephen K Gichiri | - Chairman | - Left on 11 th January 2014 |
| 2. | Mary W Kamau | - Managing Director | - Appointed on December 2010 |
| 3. | Tabitha W Ndung'u | | - Left on 11 th January 2014 |
| 4. | Vincent Mwangi | | - Left on 11 th January 2014 |

REGISTERED OFFICE

OL-KALOU WATER AND SANITATION COMPANY LTD
WATER OFFICES
JUA-KALI, OFF OLKALOU-NJABINI ROAD
P.O. BOX 455-20303
OL-KALOU TOWN

Corporate Contacts

TEL: 020-2342471

Email: olwasco03@yahoo.com

Ol Kalou Water and Sanitation Company Limited
Reports and Financial Statements
For the year ended June 30, 2014 (Kshs)

Corporate Bankers

THE CO-OPERATIVE BANK OF KENYA LTD
P.O. BOX 558-20303
OLKALOU
FAX: 020-23149965
MOBILE: 0708-223334, 0732-520415
Email: olkalaubr@co-opbank.co.ke

EQUITY BANK LTD.
P.O. BOX 75104-2262000
NAIROBI
FAX: 2737276
MOBILE: 0711026000
Email: info@equitybank.co.ke




Independent Auditors

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






Oi Kalou Water and Sanitation Company Limited
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THE BOARD OF DIRECTORS

 <p>BOARD CHAIRMAN Mr. Stephen K. Gichiri</p>	<ul style="list-style-type: none"> -Academic Qualification: ATS I Teacher -Profession: Educationist -Date of Birth: 1950 -Work experience: 42 years
 <p>Tabitha W. Ndung'u DIRECTOR</p>	<ul style="list-style-type: none"> -Academic Qualification: E. A. C. E. -Profession: Business Woman -Date of Birth: 1959 -Work experience: 34 years
<p>Vincent Mwangi DIRECTOR</p>	<ul style="list-style-type: none"> -Academic Qualification: Degree in Business Administration – Catholic University of Eastern Africa -Professional Qualification: PGDE in English/ Literature – Kenyatta University -Date of Birth: 26th May 1974 -Work experience: 14 years
 <p>MANAGING DIRECTOR Mrs. Mary W Kamau</p>	<ul style="list-style-type: none"> -Academic Qualification: Diploma -Professional Qualification: Diploma in Water Engineering - KEWI -Date of Birth: 5th September 1966 -Work experience: 23 years

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MANAGEMENT TEAM

 <p>MANAGING DIRECTOR Mrs. Mary W Kamau</p>	<ul style="list-style-type: none"> -Academic Qualification: Diploma -Professional Qualification: Diploma in Water Engineering- KEWI -Date of Birth: 5th September 1966 -Work experience: 23 years
 <p>MR. JULIUS M MAINA Technical Manager</p>	<ul style="list-style-type: none"> -Academic Qualification: Diploma -Professional Qualification: Diploma in Water Technology- KEWI -Date of Birth: 1958 -Work experience: 32 years
 <p>MR. EPHANTUS N WAGURA Ag. Commercial Manager</p>	<ul style="list-style-type: none"> -Academic Qualification: Bachelor Of Commerce – Egerton University -Professional Qualification: C.P.A. (K) -Date of Birth: 06th August 1985 -Work experience: 7 years

OI Kalou Water and Sanitation Company Limited
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For the year ended June 30, 2014 (Kshs)

CHAIRMAN'S STATEMENT

I feel honoured while presenting to you the report of OI Kalou Water and Sanitation Company Limited for the financial year 2013/2014.

PERFORMANCE REVIEW

During the year under review, I am glad to report that the company improved tremendously despite a few shake-ups as a result of the devolved Government.

The company service area increased from 15km²- 17.8km² from company's own revenue. It also managed to install a new billing system which improved the commercial section of the company.

Water demand for OI Kalou town was fully met as result of the town being made the headquarter of Nyandarua County with anticipated population.

Due to favourable water tariff the company was able to train its members of staff which was not possible before and even fenced two of its plots.

CHALLENGES

The company's new tariff was challenged by a few customers and the case is still pending in court awaiting judgment.

Water storage continued to be the main challenge of the company. However the 2400m³ storage tank was repaired towards the end of the year although minor repairs are yet to be done to enable it hold water.

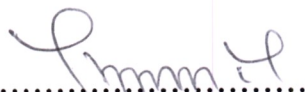
As a result of devolution, company directors were not appointed at the appropriate time hindering process of a number of activities of the company.

FUTURE PROSPECTS

The company intends to source funds for construction of a water intake, water and sewerage treatment works to improve water and sanitation services. However it will continue to fulfill its mission to ensure sustainable, efficient, effective and reliable provision of quality and affordable water and sanitation to the people of OI Kalou and its environs.

CONCLUSION

I wish to thank all those who contributed to the success of the company in forms of finance, materials, advice, encouragement and even acquiring our services. These include the National Government, Nyandarua County Government, Rift Valley Water Service Board, my fellow board members, OI Kalou Water and Sanitation Company members of staffs and the customers at whole of which without them our services would not have been recognized.



.....
Engineer Japheth Mutai,
Chief Executive Officer,
Rift Valley Water Service Board,
For Board Chairman.

MANAGING DIRECTORS REPORT

INTRODUCTION

Ol Kalou Water and Sanitation Company was licensed by Rift Valley Water Service Board in July 2006 for a period of five years which was renewable, as a service water provider to provide water and sewerage services to the former Ol Kalou town council area of jurisdiction under water Act 2002. The license was renewed in September 2011 for a period of five years. The service area was 371km² but the company has only managed to serve an area of 17.8km² both urban and rural in terms of water. As far as sewerage is concerned the company is sourcing funds for the plant.

Currently the area served by the company is referred to as Ol Kalou sub- County in Nyandarua County as a result of devolved Government. The main source of water is River Malewa, which is 20km away from Ol Kalou town whose mode of transmission is gravity. Five other boreholes act as standby in case of breakdowns and during the dry spell as water is never enough due to high demand from other stakeholders of whom we share the same source whose practice is irrigation.

ACHIEVEMENTS

The company achieved the following under the review year.

- Introduced water strainers which improved water quality, reduced pipe blockages and damage of customer water meters hence increased water production, hours of service and water sales.
- Implementation of a new tariff although it has a case pending in court.
- Increased service area from 15km² to 17.8km².
- Fenced two company plots.
- Installed a new billing system which improved the commercial unit.
- Introduced M-Maji mode of payment through M-pesa.
- Procured and installed 5No. zonal water meters ranging from 90mm- 110mm.
- Increased water production from 114,800m³ to 174,518m³.
- Increased number of connections from 925 to 1217.
- Increased annual sales from Kshs. 4,610,965.00 to 12,901,787.00
- Trained all the staff on customer relationship and other courses.
- Procured and installed 250No. customer water meters ranging from 15mm- 25mm

CHALLENGES

- Water storage continued to be the main challenge as water is distributed direct from the source and the customers feel the impact of breakdowns immediately. However the 2400m³ reinforced concrete tank was repaired towards the end of the year although minor repairs are pending.
- The company's tariff was challenged with a court injunction which is still in court awaiting judgment.

Oi Kalou Water and Sanitation Company Limited
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- Non- Revenue Water has being a challenge due to high pressures as a result of lack of storage and dilapidated distribution system.
- Access to grants was not possible hence water services were not extended to Rurii as was planed during the beginning of the year.

CONCLUSION

I wish to extend my gratitude to both National and County Governments for their financial support and especially salaries for the seconded staff and even their morale support.

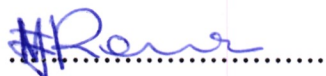
I am grateful to Water Service Regulatory Board for their continued guidelines and especially during the milestones of the devolved government.

Rift Valley Water Service Board, you stood with us by giving us advice and encouragement throughout the year.

Company directors and staff united as one and we have made it. Let the same spirit continue.

And to our esteemed customers, thank you for granting us the opportunity to serve you.

May the showers of blessings be upon us all.



Mary W. Kamau (Mrs.)
Managing Director.

CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

OI Kalou Water and Sanitation Company Limited is a water service provider licensed by the Rift Valley Water Service Board as a Water Service Provider to provide water and sewerage services to OI Kalou sub-county. The company is led by a board of directors who appoint the managing director to head the corporate management team who is responsible for the day to day operations. The composition of the board was supposed to be seven members.

BOARD OF DIRECTORS

During the year under review the company had only three directors who were professional mixed. This was as a result of devolution whereby three directors from the local authority ceased to be directors and one had already resigned to join politics.

The three directors' term expired on 11th January 2014. However recruitment of new board of directors kicked off on March 2014 and by the end of the year the exercise was uncompleted as the directors were not yet appointed even though interviews and short listing had been done.

MEMORANDUM AND ARTICLE OF ASSOCIATION


The document was not amended awaiting board of directors' approval. However the draft is available.

COMPLIANCE

Tender and procurement committees were in place, statutory requirements were complied with, and all quarterly and annual reports were prepared and submitted to Rift Valley Water Service Board as agreed in the performance contract.

CORPORATE RESPONSIBILITY

The company assisted Kiganjo Primary School to connect water into their premises


Mary W. Kamau (Mrs.)
Managing Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Public Finance Management Act, 2012 and the State Corporations Act, require the Directors to prepare financial statements that give a true and fair view of the state of affairs of OI Kalou Water and Sanitation Company Limited at the end of the financial year and the operating results of the water company for that year. The Directors are also required to ensure that the water 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 water company.

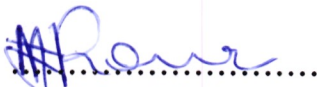
The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs for and as at the end of the financial year ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management 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 water 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 companies transactions during the financial year ended June 30, 2014, and of the water 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 OI Kalou Water and Sanitation Company Limited will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

OI Kalou Water and Sanitation Company Limited financial statements were approved by the Board on 29th September 2014 and signed on its behalf by:


.....
Mrs. Mary W. Kamau
Managing Director


.....
Eng. Japheth Mutai
Chief Executive Officer
Rift Valley Water Services Board
For Board Chairman

Date.....

Date.....

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON OL-KALOU 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 Ol-Kalou Water and Sanitation Company Limited set out on pages 12 to 25, 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 believe, were necessary for the purpose of the audit.

Management' 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 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. Revenue Reserves

As similarly reported in the previous year, the revenue reserves negative balance of Kshs.6,370,887 in the statement of financial position includes a suspense account balance of Kshs.2,096,887 which has not been explained.

Consequently, the accuracy and validity of the negative revenue reserve balance of Kshs.6,370,887 could not be confirmed.

2. Trade and Other Receivables

As similarly reported in the previous period, the trade receivables balance of Kshs.3,646,914 as at 30 June 2014, and as disclosed in Note 8(b) to the financial statements includes trade debts amounting to Ksh.739,998 inherited from the Ministry of Water and Irrigation which have been outstanding for a long period of time. The recoverability of these debts is uncertain and a provision of Kshs.72,938 for bad and doubtful debts made in the financial statements appears inadequate.

Further, the gross trade and other receivables balance of Kshs.3,755,951 as at 30 June 2014 is in variance with the supporting schedule balance of Kshs.4,088,404 and aged trade receivables balance of Kshs.4,219,318, resulting in unexplained differences of Kshs.332,453 and Kshs.463,367 respectively.

In the circumstances, the accuracy and full recoverability of trade and other receivables balance of Kshs.3,755,951 as at 30 June 2014 could not be confirmed.

3. Agency Account

As previously reported, the agency current account in respect of Rift Valley Water Services Board as maintained by the Company had a balance of Kshs.2,929,665 as at 30 June 2012. However, records maintained by the Board against the same account and as at the same date showed a balance of Kshs.2,551,766. The difference of Kshs.377,899 between the two sets of records had not been reconciled or explained as at 30 June 2014. Consequently, the accuracy of trade and other payables opening balance of Kshs.9,052,973 as at 1 July 2013 could not be confirmed.

4. Bank and Cash Balances

The statement of financial position and note 9 to the financial statement reflected bank and cash balances of Kshs.1,848,817 as at 30 June 2014, comprising of cash

at bank balance of Kshs.782,344 and cash in hand of Kshs.1,066,473. However, the note did not disclose the various bank accounts for the balance of Kshs.782,344. Further, a board of survey report was not availed for audit review to support the cash in hand balance of Kshs.1,066,473. In the circumstances, the accuracy of bank and cash balances of Kshs.1,848,817 as at 30 June 2014 could not be confirmed.

5. Administration Costs

The statement of comprehensive income for the year ended 30 June 2014 includes administration costs of Kshs.16,807,141. However, schedules availed for audit review supporting administration cost totaled Kshs.14,321,211 resulting in unexplained and unreconciled variance of Kshs.2,485,930.

Consequently, the accuracy of the administration costs figure of Kshs.16,807,141 for the year ended 30 June 2014 could not be confirmed.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 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 the Water Act, 2002 and the Companies Act, Cap 486 of the Laws of Kenya.

Other Matter

1. Sustainability

During the year under review, the Company recorded a loss of Kshs.31,827 (2012/2013 loss of Kshs.829,809), which increased the accumulated loss from Kshs.6,339,060 to Kshs.6,370,887 as at 30 June 2014. Further, the current liabilities balance of Kshs.11,230,334 exceeded the current assets balance of Kshs.6,397,471 by negative working capital of Kshs.4,832,863. This is indicative of the Company experiencing difficulties in meeting its obligations as and when they fall due. The Company's financial position therefore appears precarious.

However, the financial statements have been prepared on a going concern basis on the assumption that the Company will continue to receive support from the Government and creditors.

2. Unaccounted For Water (UFW)

During the year under review, the Company produced 180,545 cubic meters (m³) of water. However, out of this volume, only 125,151m³ was billed to water consumers. The balance of 55,394m³ or approximately 31% of total volume produced represented Unaccounted for Water (UFW) which is 6% above the allowable water loss of 25% as per Water Services Regulatory Board guidelines. The UFW of 31%

may have resulted in loss of sales estimated at Kshs.5,515,143. The significant level of UFW may negatively impact on the Company's profitability and its long term sustainability.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, Cap 486 I report based on my audit, that:

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- (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

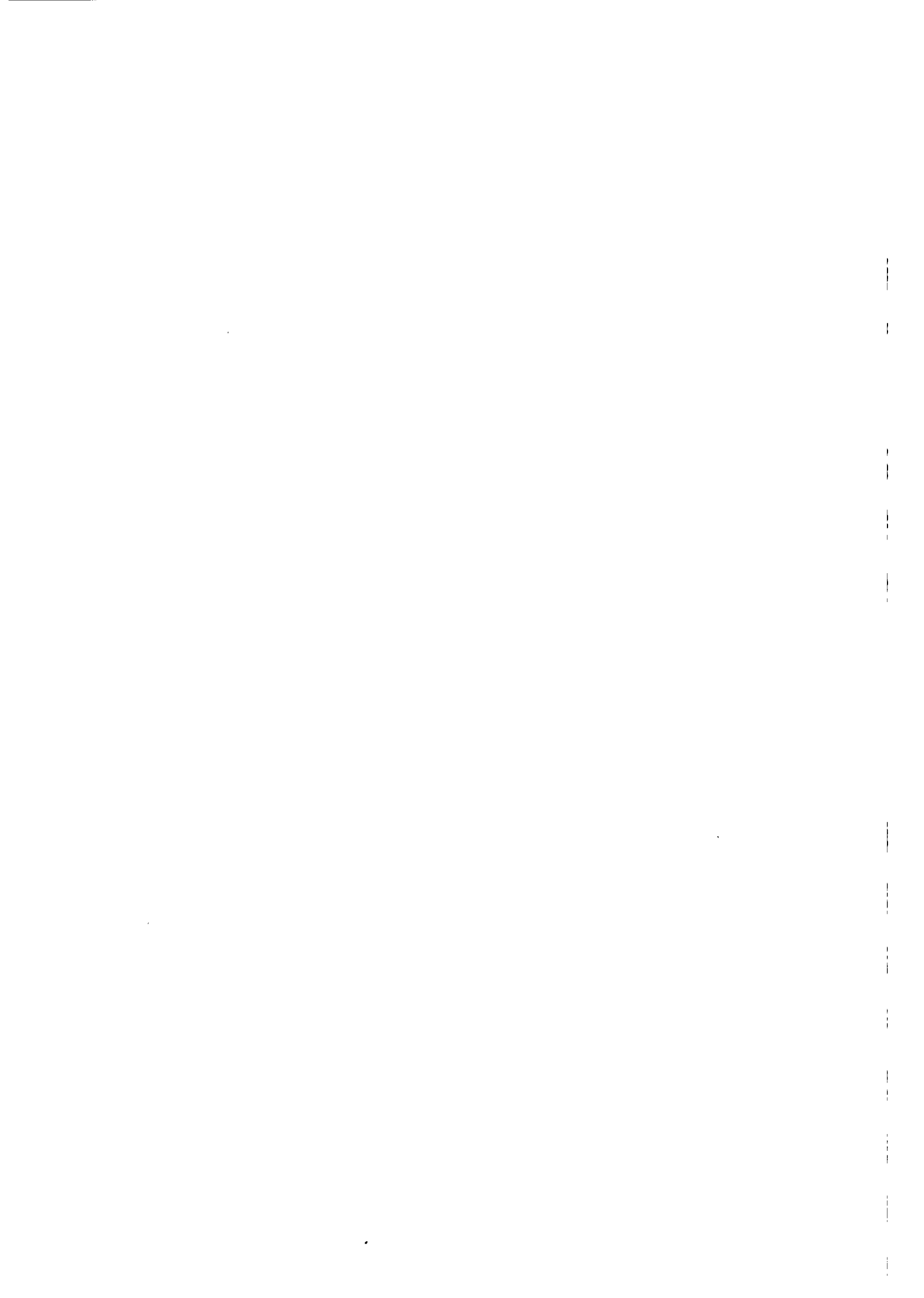
Nairobi

23 October 2015

Ol Kalou Water and Sanitation Company Limited
Reports and Financial Statements
For the year ended June 30, 2014 (Kshs)

STATEMENT OF COMPREHENSIVE INCOME


	Note	2014 Kshs	2,013 Kshs
REVENUES			
Sales	1	12,460,297	4,610,965
In-Kind Contributions	2	3,313,117	4,439,920
Other Income	3	1,001,900	388,250
TOTAL REVENUES		16,775,314	9,439,135
OPERATING EXPENSES			
Administration Costs	4	10,622,563	4,098,696
Staff Cost	5	6,097,078	6,170,248
TOTAL OPERATING EXPENSES		16,719,641	10,268,944
PROFIT/(LOSS) BEFORE TAX		55,673	(829,809)




OI Kalou Water and Sanitation Company Limited
Reports and Financial Statements
For the year ended June 30, 2014 (Kshs)

STATEMENT OF FINANCIAL POSITION

	Note	2014 Kshs	2013 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	6(a)	25,092,032	22,519,644
Intangible Assets	6(b)	87,500	-
Total Non-Current Assets		25,179,532	22,519,644
Current Assets			
Inventories	7	792,703	539,810
Trade and other receivables	8 (a)	3,755,951	2,958,045
Bank and cash balances	9	1,848,817	1,129,796
Total Non-Current Assets		6,397,471	4,627,651
TOTAL ASSETS		31,577,003	27,147,295
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	10	100,000	100,000
Capital reserve	11	1,768,431	1,768,431
Revenue Reserve Surplus/Deficit	12	(6,283,387)	(6,370,887)
WSTF Grant	13	24,761,625	22,564,951
Capital and Reserves		20,346,669	18,094,322
Current Liabilities			
Trade and other payables	14	11,230,334	9,052,973
Total Current Liabilities		11,230,334	9,052,973
TOTAL EQUITY AND LIABILITIES		31,577,003	27,147,295



Mrs. Mary W. Kamau
Managing Director



Eng. Japheth Mutai
Chief Executive Officer
Rift Valley Water Services Board
For Board Chairman

STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital	Capital reserve	Revenue reserve	Grant	Total
At July 1, 2012	100,000	1,768,431	(5,509,251)	11,416,042	7,775,222
WSTF Grant received	-	-	-	11,148,909	11,148,909
Total comprehensive income	-	-	(829,809)	-	(829,809)
At June 30, 2013	100,000	1,768,431	(6,339,060)	22,564,951	18,094,322
At July 1, 2013	100,000	1,768,431	(6,339,060)	22,564,951	18,094,322
WSTF Grant received	-	-	-	2,196,674	2,196,674
Total comprehensive income	-	-	55,673	-	55,673
At June 30, 2014	100,000	1,768,431	(6,283,387)	24,761,625	20,346,669

OI Kalou Water and Sanitation Company Limited
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STATEMENT OF CASH FLOWS

	Note	2014 Kshs	2013 Kshs
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	15	<u>1,219,735</u>	<u>1,003,601</u>
Net cash generated from/(used in) operating activities		<u>1,219,735</u>	<u>1,003,601</u>
INVESTING ACTIVITIES			
Purchase/ disposal of equipments	6	<u>(2,697,388)</u>	<u>(13,004,760)</u>
Net cash generated from/(used in) investing activities		<u>(2,697,388)</u>	<u>(13,004,760)</u>
FINANCING ACTIVITIES			
WSTF Grants		<u>2,196,674</u>	<u>11,149,910</u>
Net cash generated from/(used in) financing activities		<u>2,196,674</u>	<u>11,149,910</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		719,021	(851,249)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,129,796	1,981,045
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		<u>1,848,817</u>	<u>1,129,796</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. The preparation of financial statements is in conformity with International Financial Reporting Standards (IFRS).

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of Ol Kalou Water and Sanitation Company Limited.

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 water 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. Specific criteria have been met for each of the company's activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which the water company actually receives such grants.
- iii) **Other income** is recognised as it accrues.

3. Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Depreciation is calculated on the straight-line basis to write down the cost of each asset to its residual 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	Life span
Furniture	- 20	-5years
Computer Equipment	- 30	-3years
Office Equipment	- 25	-3years

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

WSTF Projects have not been depreciated or amortised as they are not Olkalou Water and Sanitation Company's assets. They are waiting handing over to Rift Valley Water Services Board upon their final audit completion.

4. Inventories

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

5. Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables at 2% of all outstanding amounts at the year end.

6. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at the Co-operative Bank of Kenya at the end of the financial year.

7. 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 *entity* or not, less any payments made to the suppliers.

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NOTES TO THE FINANCIAL STATEMENTS

	2014 Kshs	2013 Kshs
1. SALES		
Gross sales of goods	<u>12,460,297</u>	<u>4,610,965</u>
	<u>12,460,297</u>	<u>4,610,965</u>

2. IN-KIND DONATIONS

Seconded personnel	3,313,117	3,689,710
Electricity	<u>-</u>	<u>750,210</u>
	<u>3,313,117</u>	<u>4,439,920</u>

In-kind donations are salaries for seconded permanent employees working at the water company but paid for by the Nyandarua County Government.

3. OTHER INCOME

Reconnection Fees	348,500	75,250
Owners request disconnection/reconnection	4,400	-
special meter reading	200	-
Labour charge	242,000	209,000
Sale of tender documents	-	77,000
Fines and penalties	165,000	27,000
Meter rent	<u>241,800</u>	<u>-</u>
	<u>1,001,900</u>	<u>388,250</u>

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4. ADMINISTRATION COSTS	2014	2013
Directors' emoluments	25,000	141,000
Electricity	271,495	45,021
Advertising and publicity	57,115	55,892
Travel & accommodation	1,452,775	879,549
Printing, stationery and photocopying	89,794	57,036
Telephone, internet & postage	95,098	79,772
Staff training expenses	196,800	10,000
Security, hospitality supplies and services	254,148	231,862
Motor Vehicle expense - Fuel, Repairs & Insurance	961,093	552,478
Bank charges and commissions	15,292	21,896
RWSB Levy	2,118,250	783,864
WASREB Levy	124,603	46,110
WARMA Levy	87,259	60,153
Subscription to professional bodies	110,000	60,000
Office tea and general supplies and services	68,660	60,068
Provision for audit Fees	348,000	348,000
Newspapers & Periodicals	14,670	12,100
Computer repairs and accessories	200,800	98,000
Repairs and maintenance	3,939,652	297,764
Provision for bad and doubtful debts	72,938	71,206
Generator expenses	-	186,925
Uniform	36,890	-
Maintenance of office building	44,730	-
Depreciation	37,500	-
	<u>10,622,563</u>	<u>4,098,696</u>



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. STAFF COSTS

	2014	2013
Salaries permanent employees (Seconded)	3,313,117	5,959,498
Salary top ups for seconded employees	749,074	-
Contracted employees salary	1,843,763	-
Wages of temporary employees	191,124	210,750
TOTAL SALARIES & WAGES	<u><u>6,097,078</u></u>	<u><u>6,170,248</u></u>

Salaries for seconded permanent employees are paid for by the Nyandarua County Government and thus recognize as in-kind donations. A salary top-up is also paid by the company to the seven (7) seconded employees at the rate of 25% of their basic salary except for the Managing director whose rate is 50%.

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

Permanent employees – Management	2	2
Permanent employees - Seconded	5	5
Temporary and contract employees	13	11
	<u>20</u>	<u>18</u>

Other staff costs

1. NSSF Contribution	28,800
2. Staff training	196,800

Staff training has been expensed under administration expenses and NSSF contribution included in contracted employee salary.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6.a) PROPERTY, PLANT AND EQUIPMENT

	2013	Computers	Telkom Wireless	Office Chair	WSTF PROJECTS	Total
COST OR VALUATION						
At July 1, 2013		53,200.00	11,250.00	4,000	22,519,644	22,588,094
Additions		-	-	-	-	-
WSTF Funded Project (Captain Water Project)					2,572,388	2,572,388
Transfers		-	-	-	-	-
Disposals		-	-	-	-	-
At June 30, 2013		53,200.00	11,250.00	4,000	25,092,032	25,160,482
DEPRECIATION						
At July 1, 2013		53,200.00	11,250.00	4,000	-	68,450
Charge for the year		-	-	-	-	-
Impairment loss		-	-	-	-	-
Eliminated on disposal		-	-	-	-	-
At June 30, 2014		53,200.00	11,250.00	4,000	-	68,450
NET BOOK VALUE						
At June 30, 2014		53,200.00	11,250.00	4,000	25,092,032	25,092,032
At June 30, 2013		-	-	-	22,519,644	22,588,094

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6.b) INTAGIBLE ASSETS-COMPUTER SOFTWARE

2013	Computer Software
COST OR VALUATION	
At July 1, 2013	-
Additions	125,000
Transfers	-
Disposals	-
At June 30, 2014	125,000
DEPRECIATION	
At July 1, 2013	-
Charge for the year	37,500
Impairment loss	-
Eliminated on disposal	-
At June 30, 2014	37,500
NET BOOK VALUE	
At June 30, 2014	87,500
At June 30, 2013	-

Computer software is depreciated at 30% p.a and expected useful life is assumed to be 3years

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	Cost or Valuation	Normal annual depreciation charge
Computers	53,200	-
Telkom Wireless	11,250	-
Office Chair	4,000	-
WSTF PROJECTS	25,092,032	-
	<u>25,160,482</u>	<u>-</u>

7. INVENTORIES

	2014	2013
Consumables	97,219	107,509
Pipes and Fittings	695,484	432,301
	<u>792,703</u>	<u>539,810</u>

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8. a) TRADE AND OTHER RECEIVABLES

Trade receivables (note 8 (b))	3,573,976	2,777,045
Electricity deposits	22,000	-
Staff receivables	59,975	81,000
Unpaid shareholding from Town Council of OI-Kalou	100,000	100,000
Net trade and other receivables	<u>3,755,951</u>	<u>2,958,045</u>

8. b) TRADE RECEIVABLES

Gross trade receivables	3,646,914	2,848,251
Provision for doubtful receivables	<u>(72,938)</u>	<u>(71,206)</u>
	<u>3,573,976</u>	<u>2,777,045</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. BANK AND CASH BALANCES

	2014	2013
Cash at Bank	782,344	189,474
Cash in hand	1,066,473	940,322
	<u>1,848,817</u>	<u>1,129,796</u>

10. ORDINARY SHARE CAPITAL

Authorized:

5000 ordinary shares of Kshs.20 par value each	<u>100,000</u>	<u>100,000</u>
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Issued and fully paid:

5000 ordinary shares of Kshs.20 par value each	<u>100,000</u>	<u>100,000</u>
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11. CAPITAL RESERVE

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Capital reserves include arrears/debtors inherited by the Company from the Ministry of Water & Irrigation amounting to Kshs. 1,768, 431.

12. Revenue Reserve	2014	2013
Bal b/f	(6,339,060)	(5,509,251)
Surplus/(Deficit) for the year	55,673	(829,809)
	<u>(6,283,387)</u>	<u>(6,339,060)</u>

13. WSTF GRANTS

WSTF	24,761,625	22,564,951
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14. TRADE AND OTHER PAYABLES

	2014	2013
KPLC	18,413	60,102
Rentokil Initials	7,410	3,368
Fees & Levies	5,049,423	3,811,258
Upper Malewa Water Users Association	5,000	30,000
Emerging Technologies Consultants Ltd	75,000	-
Winnet Technologies Ltd	329,740	-
Rent	-	22,500
Advances from OTC	229,966	229,966
Customer Deposits	2,002,354	1,382,804
KENAO audit fees accrued	1,992,000	1,644,000
Ndirangu's Hardware	940,675	96,675
Salaries Accrued/ Top ups	497,732	1,374,044
The Monarch Insurance	82,620	177,910
Factor Security Systems	-	20,000
Postal Corporation of Kenya	-	6,000
Intel's Systems Solutions	-	28,500
Tewan Plaza Hotel	-	38,640
Stan Products & Supplies	-	12,205
Board Expense	-	85,000
Olkalou Town Council	-	30,000
Total	<u>11,230,334</u>	<u>9,052,973</u>

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15. NOTES TO THE STATEMENT OF CASH FLOWS

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

Operating profit/(loss)	55,673	(829,809)
	55,673	(829,809)
Adjustment for depreciation	37,500	-
(Increase)/decrease in inventories	(252,893)	194,528
(Increase)/decrease in trade and other receivables	(797,906)	(513,771)
Increase/(decrease) in trade and other payables	2,177,361	2,152,653
Cash generated from/(used in) operations	<u>1,219,735</u>	<u>1,003,601</u>

16. RELATED PARTY DISCLOSURES

Nyandarua County Government

The Nyandarua County Government is the principal shareholder of Olkalou Water and Sanitation Company Ltd, holding 100% of the company's equity interest. . The Nyandarua County Government has provided full guarantees to all long-term lenders of the entity, both domestic and external.

There were not other entity transactions involving the Nyandarua County Government.

Employees

The *entity* does not provide employees with car and housing loans. 9

17. INCOPORATION

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

