

LAD JULY 21

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

**REPORT
OF
THE CONTROLLER
AND AUDITOR-GENERAL**

ON

**THE FINANCIAL STATEMENTS OF OF
MERU WATER & SEWERAGE SERVICES
REGISTERED TRUSTEES FOR THE
YEAR ENDED 30 JUNE 2008**



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2008**

<u>CONTENTS</u>	<u>PAGE</u>
TRUST INFORMATION	2
CHAIRMAN'S REPORT	3-5
REPORT OF THE TRUSTEES	6
STATEMENT OF TRUSTEES' RESPONSIBILITIES	7
REPORT OF THE INDEPENDENT AUDITOR	8
FINANCIAL STATEMENTS	
INCOME STATEMENT	9
BALANCE SHEET	10
STATEMENT OF CHANGES IN RESERVES	11
CASH FLOW STATEMENT	12
NOTES TO THE FINANCIAL STATEMENTS	13 -21



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

TRUST INFORMATION

FOR THE YEAR ENDED 30TH JUNE 2008

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

Off Tom Mboya Street
P.O. Box 859 60200
MERU

Tel: 064 32591

Fax: 064 32603

Email: info@mewass.or.ke

TRUSTEES

Mr. Selesio Mutea	Chairman of the Board
Mr. Shaheed M. Iqbal	
Bishop Jeremiah Anondo	
Mr. Timothy Kibaki	
Eng. Ephantus Kamau	
Cllr. Andrew Gituma	
Mr. John Mutea	
Mr. David Kioko	
Mr. Fredrick Kirima	
Cllr. Zaverio Rukwaru	
Mr. Julius Kiugu	
Cllr. John Mwalimu	
Mr. Sospeter N. Musembi	
Julius Muthamia	
Mr. Stanley Mbae	Secretary to the Board

CORPORATE MANAGEMENT TEAM

Mr. Stanley Mbae	General Manager
Mr. Mathew Nteere	Commercial Manager
Mr. George Karanja	Technical Manager

ADVOCATES

Mbaabu M'Inoti & Co. Advocates
P.O. Box 681 60200
MERU

AUDITORS

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

BANKERS

Standard Chartered Bank of Kenya
Meru Branch
P.O. Box 109 60200
MERU

ABC Bank
Meru Branch
P.O. Box 3100 60200
MERU



**MERU WATER & SEWERAGE SERVICES
REGISTERED TRUSTEES**

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30TH JUNE 2008

Dear Stakeholders,

As a water and sewerage services provider in Meru town and its environs, MEWASS has just concluded her sixth financial year. It therefore gives me a great pleasure to present the Annual Report and Accounts for the year ended 30th June 2008.

As we realign ourselves to be in tandem with the wider aspirations of our nation as espoused in Millennium Development Goals (MDG's) and Vision 2030, we take great pride on our achievements and lessons learnt so far. More importantly the realization that water is becoming scarce every other day and the need to make it available in sufficient quantities and safe for various competing uses is key to all areas of economic development.

Your unwavering support in all what we have managed to achieve so far cannot be taken for granted, and for this reason allow me to sincerely thank you all on behalf of entire MEWASS fraternity for this gesture and we look forward to a very bright future together.

a). Milestones

For the years just ended, we managed to achieve amongst others the following:

- a) Customer connections increased from 4500 to over 5000 in the year.
- b) Increased collection efficiency from 90% in June 2007 to over 95% in June 2008 (less G.O.K institutions).
- c) Continued to finance our operational and maintenance requirements without external funding.
- d) Increased the coverage area from 39 square kilometer in June 2007 to about 46 square kilometers in June 2008.
- e) Networked with other water service providers through the Water service provider's association for information and experience sharing, and formed a forum for addressing our common interests.
- f) Continued to supply water on a 24 hour basis daily to our customers throughout the year.
- g) Application of modern packages for MIS development
- h) Acquired an office space near water treatment works that will completely change for a better working environment.
- i) A review of our strategic plan 2005-10, was undertaken to in readiness to the plan of 2011-15.
- j) Consistent high water quality was provided as attested by Kenya Bureau of Standards tests reports.

b.) Major challenges experienced in the year.

1. **Destruction of water facilities**

The Roads Act 2007 has inflicted a lot of damages on our water facilities located on road reserves. Ostensibly all infrastructures on the road reserve are to be removed and reinstalled at owners cost, failure to which they are destroyed to give way for road works. On account of this, for several months our customers in the whole of zone 3 (Thimangiri area) have gone without water. The suffering both social and economic to both the customer and MEWASS are immense and unwarranted. Advocacy for policy change or exemptions is being pursued to cushion against further damages.

2. **Accelerated Future service demands**

Meru water project design period was by the year 2005.

We are in the process of identifying new water sources and funding need be sought in order to ensure continuous water supply as potential demand in Meru is at verge of explosion.

Low sewer coverage (done 1974) requires that new expanded infrastructure be put in place to accommodate this fastest growing town.

3. **Financial sustainability.**

Prudent financial management and re-investment of surpluses to increase the number of connections and area of coverage will continue to be pursued. However for large assets development we look forward to the principal's asset development plan.

4. **Corporate social responsibility.**

We are committed to partnerships in areas of need within our community and other stakeholders in order to enhance better living environment. We shall continue to endeavor in achievement of millennium development goals.

5. **Expansion in area of coverage**

As mentioned earlier, there is increased demand for our services in areas hitherto not captured previously. More specifically areas like Meru University college (Nchiru) and Tigania west district are in dire need of water services

Increasing area of coverage involves capital works and other running costs. Financing these costs requires intervention of assets developer.

6. **Post election crisis**

Has contributed to increased population in the town and its environs hence likely to distort projected demand management.

c). Financial Performance

The Trust has reported increased surplus as compared with previous year due to increased water consumption by new consumers and major institutional consumers remained connected.

i) Total operating income grew by 9%

- ii) Reinvestment capital (surplus) grew by about 3.3 Million (approx. 45%)
- iii) Total assets increase by more than 14% in the year.

d). Board of trustees

Four members of the board of trustees left during the financial year while new ones have joined MEWASS. On behalf of the board of trustees, I pay special tribute to them for their excellent, valuable and positive contribution during their tenure. For the new members I wish them well as we continue to make MEWASS a successful organization in water services delivery.

e). Our future plans

To ensure that MEWASS achieves its mission 'to provide quality water and sewerage services to our customers, through state of the art technology, using a committed workforce to the delight of all the stakeholders' we intend to undertake the following:

- (i) Maintain high quality and performance through continued staff training and development.
- (ii) Pursue attainment of highest the quality water standards as prescribed by KEBS.
- (iii) Uphold individual honesty and integrity among our staff and board members.
- (iv) Encourage the principle of teamwork and togetherness.
- (v) Recognize exceptional performance.
- (vi) Liaise with other development partners to increase the coverage, quality and efficiency of our services.
- (vii) Sensitize and assist in water conservation to reduce wastage.
- (viii) Increase customers within the existing supply area to improve our revenue base.

f). Appreciation

My sincere appreciation to:

- The Japanese Government through JICA Kenya office for their continued technical support
- The Government of Kenya for providing a favourable working environment
- Our esteemed customers', who have continued to enjoy our services, pay regularly and for their positive criticism.
- The Board of Trustees for their support and commitment to safeguarding, promoting and advancing the interests of the Trust, stakeholders and our consumers and
- MEWASS management and staff for their commitment and dedication to their duties.



Salesio Mutea
CHAIRMAN



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

REPORT OF THE TRUSTEES

FOR THE YEAR ENDED 30TH JUNE 2008

The Trustees submit their sixth report and the financial statements for the year ended 30th June 2008.

1. PRINCIPAL ACTIVITIES

The principal activities of the Trust are the provision of water and sewerage services within the Meru Municipality and its environs.

2. RESULTS

The results for the year are set out on page 9.

3. TRUSTEES

Trustees who served during the year are shown on page 2.

5. AUDITORS

The Controller & Auditor General (Kenya National Audit Office) continues in office.

By order of the Board of Trustees:

Secretary

DATE: 02 - 09 - 2009



MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES


STATEMENT OF TRUSTEES RESPONSIBILITIES

FOR THE YEAR ENDED 30TH JUNE 2008

The Trustees are required to prepare accounts for each financial year, which give a true and fair view of the state of affairs of the Trust as at the end of the financial year and of its operating results for the year. They are also required to ensure that the Trust keeps proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Trust. They are also responsible for safeguarding the assets of the Trust.

The Trustees accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with generally accepted accounting practice. The Trustees are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Trust and of its operating results. The Trustees further accept responsibility maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

TRUSTEE. )

TRUSTEE. )

DATE: 02-09-2009



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF MERU WATER & SEWERAGE SERVICES REGISTERED TRUSTEES FOR THE YEAR ENDED 30 JUNE 2008

I have audited the financial statements of Meru Water and Sewerage Services Registered Trustees set out on pages 6 to 18 which comprise the balance sheet as at 30 June 2008, the income statement, the statement of changes in equity and the 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.

Trustees' Responsibility for the Financial Statements

The Trustees are responsible for the preparation of financial statements which give a true and fair view of the Trust's state of affairs and its operating results in accordance with the International Financial Reporting Standards (IFRS). 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 of 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 Abstracts of Accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements, whether due to fraud or error. In making those risk assessment, the auditor considers internal controls relevant to the entity's

preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of making an opinion on the effectiveness of the Trust'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 that the audit evidence obtained is sufficient and appropriate to provide a reasonable basis for the audit opinion.

1. Non-Current Assets

The non-current assets balance of Kshs.34,660,122 as at 30 June 2008 excludes an undetermined value of assets which were donated to the Trust by Meru Municipal Council and Ministry of Environment and Natural Resources. Consequently, it has not been possible to confirm that the balance of Kshs.34,660,122 is fairly stated in financial statements.

2. Debtors- Water and Sewerage Statement

Although the balance sheet reflects a debtors account balance of Kshs.38,930,405, the schedules and listings provided for audit reflect a figure of Kshs.44,946,651 against the account. The resultant difference of Kshs.6,016,246 has not been reconciled or explained. In addition, an aging list was not provided and a debtors' circularization for independent confirmation of the balances was not carried out. As a result, the adequacy of the provision for bad and doubtful debt of Kshs.571,765 during the year could not be confirmed. For the same reason, it has not been possible to ascertain the accuracy of debtors balance of Kshs.38,930,405 as at 30 June 2008.

3. Cash and Bank Balances

Included in the cash and cash equivalent of Kshs.33,750,678 as at 30 June 2008 is an amount of Kshs.4,704 reflected as cash on hand. However, the board of survey constituted by the Trust for the year end exercise, confirmed a cash on hand amount of Kshs.55,433. No reconciliation or explanation was offered for the difference of Kshs.50,729. Further, and included in the cash and bank balance of Kshs.33,750,678 is an amount of Kshs.32,107,400 indicated as relating to fixed deposits. However, the supporting documents provided for the deposits add up to a figure of Kshs.22,863,651. As in the previous instance, no reconciliation or explanation was availed for the difference of Kshs.9,243,749.

In the circumstances, it was not possible to confirm that cash and cash equivalent balance of Kshs.33,750,678 was fairly stated as at 30 June 2008.

Opinion

Except for the foregoing reservations, in my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the financial position of the Trust for the year ended 30 June 2008 and of its surplus and cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with both the Water Act, 2002 and the Trustees (Perpetual Succession) Act, Cap 164 of the Laws of Kenya.



A. S. M. Gatumbu

CONTROLLER AND AUDITOR GENERAL

Nairobi

5 October 2009



MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES

INCOME STATEMENT

FOR THE YEAR ENDED 30TH JUNE 2008

	Notes	2008 Kshs	2007 Kshs
Turnover	1(b)	62,099,875	55,828,002
Other Income	4	<u>8,515,516</u>	<u>8,778,097</u>
Total Operating Income		70,615,391	64,606,099
Add: Operating Grant	5	832,581	-
		<u>71,447,972</u>	<u>64,606,099</u>
EXPENSES:			
Administration and Establishment (Restated)	6	(33,817,872)	(25,778,242)
Selling and Distribution	7	<u>(26,556,081)</u>	<u>(31,271,406)</u>
		<u>(60,373,953)</u>	<u>(57,049,648)</u>
(Deficit)/Surplus from Operating Activities (Restated)		11,074,019	7,556,451
Net Finance Costs	8	<u>(193,635)</u>	<u>(203,185)</u>
(Deficit)/Surplus Before Taxation	9	10,880,384	7,353,266
Taxation	10	<u>(310,472)</u>	<u>(133,591)</u>
(Deficit)/Surplus After Taxation (Restated)		<u>10,569,912</u>	<u>7,219,676</u>



MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES

BALANCE SHEET AS AT 30TH JUNE 2008

	Notes	2008 <u>Kshs</u>	2007 <u>Kshs</u>
ASSETS			
NON-CURRENT ASSETS			
Property, plant & equipment (Restated)	1(c) & 11	34,660,122	24,892,096
Intangible assets	1(e) & 12	1,022,008	1,308,937
Other Assets	13	<u>8,783,403</u>	<u>9,974,272</u>
		<u>44,465,533</u>	<u>36,175,305</u>
CURRENT ASSETS			
Inventory	14	4,184,642	3,879,698
Receivables and prepayments	15	38,930,405	25,604,223
Cash and cash equivalents	16	<u>33,750,678</u>	<u>40,273,228</u>
		<u>76,865,725</u>	<u>69,757,149</u>
TOTAL ASSETS		<u>121,331,258</u>	<u>105,932,454</u>
RESERVES AND LIABILITIES			
TRUST FUND			
Grants	17	5,237,246	6,550,639
Revenue reserves (Restated)		<u>54,950,384</u>	<u>43,905,983</u>
		<u>60,187,630</u>	<u>50,456,622</u>
NON-CURRENT LIABILITIES			
Related parties	18	<u>43,553,653</u>	<u>43,553,653</u>
		<u>43,553,653</u>	<u>43,553,653</u>
CURRENT LIABILITIES			
Consumer deposits	19	6,836,391	5,744,025
Payables and accruals	20	<u>10,856,224</u>	<u>6,178,154</u>
		<u>17,692,615</u>	<u>11,922,179</u>
TOTAL EQUITY AND LIABILITIES		<u>121,433,898</u>	<u>105,932,454</u>

The financial statements were approved by the Board of Trustees on 14TH AUGUST 2008 and signed on its behalf by:

TRUSTEE [Signature])
)
 TRUSTEE [Signature])
)

DATE: 02-09-2009



MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30TH JUNE 2008

	Notes	Grants Kshs	Revenue Reserves Kshs	Total Kshs
At 01.07.2006		8,360,759.00	34,876,187.00	43,236,946
Transfer from Grant Account	1 (n) & 17	(1,810,120)	1,810,120	0
Transfer from Grant Account		0	0	0
Surplus for the year		-	<u>7,219,676</u>	<u>50,456,622</u>
At 30.06.2007		<u>6,550,639</u>	<u>43,905,983</u>	<u>50,456,622</u>
At 01.07.2001		<u>6,550,639</u>	<u>43,905,983</u>	<u>50,456,622</u>
Prior year adjustment			(838,900)	<u>(838,900)</u>
Transfer from Grant Account	1 (n) & 17	(1,313,393)	1,313,393	0
Surplus for the year		<u>0</u>	<u>10,569,912</u>	<u>10,569,912</u>
At 30.06.2008		<u>5,237,246</u>	<u>54,950,387</u>	<u>60,187,633</u>



MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30TH JUNE 2008

	Notes	2008 Kshs	2007 Kshs
Operating Activities			
Cash generated from operations	21	7,976,198	22,271,477
Taxation Paid		<u>(310,472)</u>	<u>(133,591)</u>
Net cash generated from operations		<u>7,665,725</u>	<u>22,137,886</u>
Investing Activities			
Interest received		2,112,591	755,938
Proceeds from disposal of assets		239,442	16,072
Purchase of intangible assets		(151,075)	-
Purchase of fixed assets		<u>(17,221,814)</u>	<u>(7,002,553)</u>
Net cash used in investing activities		<u>(15,020,856)</u>	<u>(6,230,543)</u>
Financing Activities			
Grant from related parties		832,581	-
Amount owing to related parties		<u>-</u>	<u>(124,175)</u>
Net cash generated from financing activities		<u>832,581</u>	<u>(124,175)</u>
Increase in cash and cash equivalents		(6,522,550)	15,783,168
Cash and cash equivalents:			
At the start of the year		<u>40,273,227</u>	<u>24,490,059</u>
At the end of the year		<u>33,750,677</u>	<u>40,273,227</u>



MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2008

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of accounting

The financial statements are prepared on the historical cost basis. The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards.

b) Turnover

Turnover is made up of the total amounts billed during the year for water and sewerage services. Income is recognized to the extent that it is probable that its economic benefits will flow to the trust and the revenue can be reliably measured.

c) Property, Plant & Equipment

Property, Plant & Equipment are stated at cost, less accumulated depreciation and any impairment in value.

With effect from July 2005, the Trustees decided to change the policy and capitalise the cost of laying pipes for extensions. The cost was to be amortised over the 5 year Service Provision Agreement period with Tana Water Services Board. However, with effect from July 2006, the Trustees have decided to change the policy and to depreciate the capitalised expansions over their estimated useful lives and classify them under pipes and fittings.

d) Depreciation

Depreciation is calculated on the reducing balance basis, at annual rates estimated to write off carrying values of the assets over their expected useful lives. The annual depreciation rates in use are:

Buildings	2.5%
Furniture and equipment	12.5%
Motor vehicles	25.0%
Water meters	20.0%
Computers and typewriters	30.0%
Workshop equipment	33.3%
Pipes and fittings	12.5%

e) Intangible Assets

Intangible Assets comprise of computer software i.e the billing system and the accounting software. This is stated at cost, less accumulated amortisation. Amortisation is calculated at 30% on the reducing balance basis, being the rate estimated to write off carrying values of the softwares over their estimated useful lives.

f) Inventory

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the average weighted basis. Net Realizable Value is the estimated selling price in the ordinary course of the business less estimated costs of completion and costs necessary to make the sale.

g) Deferred Taxation

No deferred taxation is provided as there are no timing differences.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2008 (CONT'D)

f)

h) Lease Charges

Operating lease charges are charged to the income statement on the accrual basis.

i) Retirement Benefits

The Trust and employees contribute to the National Social Security Fund, a statutory pension scheme. The Trust has established a Staff Retirement Benefits Scheme, which was registered with the Retirement Benefits Authority on 28th July 2005. The assets of this scheme are held in a separate Trustee administered fund.

The Trust's contributions to the schemes are charged to the income statements in the year to which they relate.

j) Provision for Staff Leave Entitlement

A provision is made to recognise staff entitlement in respect of annual leave not taken as at the end of the financial year. The monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognized as an expense accrual.

k) Foreign Currency

Transactions during the year in foreign currency are converted into Kenya shillings at rates ruling at the transaction date. Assets and liabilities denominated in foreign currency are translated into Kenya Shillings at the rates of exchange ruling at the balance sheet date.

l) Trade Receivables

Accounts receivable are stated at their nominal value and reduced by appropriate allowances for estimated irrecoverable amounts.

m) Trade Payables

Trade payables are stated at their nominal value.

n) Amortisation of Capital Grant

Grants received for capital assets are credited to the capital grant account net of amortisation which is released to the revenue reserves over the life of the relevant assets.

o) Bad and Doubtful Debts

General provisions are made based on the Trustees' evaluation of the trade receivables' balance and other exposures in respect of losses, which although not specifically identified, are known from experience to be present in the trade receivables balance.

Bad debts are written off when all reasonable steps to recover them have been taken without success.

p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, in hand and short term deposits with a maturity of 6 months or less.

For purpose of the cash flow statement, cash and cash equivalents comprise of cash and cash equivalents as defined above, net of outstanding bank overdrafts.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2008 (CONT'D)

q) Reserves

Surplus or Deficit from income statement is accumulated in the revenue reserve account.

r) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

s) Provisions

Provisions are recognized when the Trust has a legal or constructive obligation as a result of past events and is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the Trust expects a provision to be reimbursed, for example under insurance, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually uncertain.

t) Impairment

At each balance sheet date, the Trust reviews the carrying amounts of its financial assets to determine whether there is any indication that these assets have suffered an impairment loss.

Impairment loss occurs where the asset is carried at more than its recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset.

If such an indication exists, the recoverable amount is estimated. An impairment loss is recognized as an expense unless the relevant asset is carried at a revalued amount in which case the impairment loss is treated as a revaluation decrease.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

i) Critical accounting estimates and assumptions:

Property, plant and equipment

Critical estimates are made by the Trustees in determining depreciation rates for property, plant and equipment. The rates used are set out in note 1 (d) above.

ii) Critical judgements in applying the entity's accounting principles

In the process of applying the Trust's accounting policies, the management has made judgements in determining:

- The classification of financial assets and leases.
- Whether the assets are impaired.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR
ENDED 30TH JUNE 2008 (CONT'D)**

3. THE WATER SECTOR REFORMS

Pursuant to the requirements of the Water Act 2002, the Government of Kenya (GoK) has placed all the water assets and liabilities in the whole country under the management of Regional Water Services Boards.

In line with these countrywide reforms, the Meru Water & Sewerage Services (MEWASS) has signed a service provision agreement with the Tana Water Services Board (TWSB).

4. OTHER INCOME

	2008	2007
	<u>Kshs</u>	<u>Kshs</u>
Thimangiri pipeline Compensation	1,585,195	-
Sale of materials and labour charges	4,255,759	4,241,327
Sale of tender forms	444,120	8,000
Interest income	2,112,591	755,938
Miscellaneous income	<u>117,852</u>	<u>3,772,832</u>
	<u>8,515,516</u>	<u>8,778,097</u>

5. OPERATING GRANT

This represents various expenses paid by related parties and development partners on behalf of MEWASS.

832,581	0
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6. ADMINISTRATION AND ESTABLISHMENT EXPENSES

Salaries, Wages and Allowances	12,167,927	9,847,940
Staff Welfare	150,222	48,766
Office Repairs and Maintenance	461,649	443,934
Office Supplies	1,317,275	1,086,781
Training	491,941	359,731
Telephone and Email	544,739	567,245
Audit Fees	300,000	300,000
Travelling and Subsistence	559,011	345,873
Trustees' Fees and Allowances	1,878,287	2,261,132
Electricity and generator expenses	208,777	61,805
Advertising and Public Relations	338,172	180,503
Donations and Subscriptions	139,054	55,000
Jica volunteers expenses	171,292	210,717
Social activities expenses	5,000	47,014
Legal, Professional Fees & Levies	1,020,709	197,110
Security	385,517	408,480
Uniforms	370,850	178,019
Insurances	692,691	848,378
Office Rent	860,000	705,000
Depreciation	6,331,861	5,313,638
Amortisation of intangible assets	438,004	560,974
ASK Show	270,076	437,705
Postage	1,188,163	1,012,955
Transport	100	300
Provision for Accrued Leave	405,320	279,660
Provision for Doubtful Debts	571,765	(957,366)
Provision for VAT refund /KRA penalty	1,889,406	553,467
General Office Expenses	29,950	14,500
Minor works	1,100	38,256
Loss(profit) on disposal of fixed assets	(59,058)	(51,007)
Motor Vehicle Running Expenses	<u>688,073</u>	<u>421,732</u>
	<u>33,817,872</u>	<u>25,778,242</u>



MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR
ENDED 30TH JUNE 2008 (CONT'D)

	2008 <u>Kshs</u>	2007 <u>Kshs</u>
7. SELLING AND DISTRIBUTION EXPENSES		
Salaries, Wages and Allowances	11,007,711	11,700,407
Agency Fees	4,646,624	6,581,977
Repairs and Maintenance	683,125	597,213
Repairs and Maintenance-sewer system	422,418	176,414
Assorted Tools	35,373	57,787
Travel and subsistence	252,769	207,304
Revenue Stamps	107,200	90,942
Pipes and Fittings	4,838,786	6,729,600
Electricity	693,414	2,264,591
Chemicals and laboratory expenses	1,697,943	1,182,213
Motor Vehicle Running Expenses	1,906,843	1,213,244
Pump and generator expenses	-	42,705
Minor works	64,675	254,918
Night flow measurements	48,000	71,090
Water Analysis	151,200	101,000
	<u>26,556,081</u>	<u>31,271,406</u>
8. NET FINANCE COSTS		
Bank charges	<u>193,635</u>	<u>203,185</u>
9. SURPLUS/(DEFICIT) BEFORE TAXATION		
The surplus/(deficit) before taxation is stated after charging:		
Depreciation	6,331,861	5,313,638
Board of Trustees' emoluments	1,878,287	2,261,132
Auditor's remuneration	300,000	300,000
Net finance costs	<u>193,635</u>	<u>203,185</u>
And after crediting:		
Interest income	<u>2,112,591</u>	<u>755,938</u>
10. TAXATION		
Withholding Tax	<u>310,472</u>	<u>133,591</u>

The withholding tax was deducted by the paying institutions from interest income earned on fixed deposits.

The Trust has applied for exemption from income taxation because any surplus made is utilized to expand water and sewerage services to more residents in the area. No provision for taxation has been made in the financial statements.



MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2008 (CONT'D)

	2008 <u>Kshs</u>	2007 <u>Kshs</u>
12. INTANGIBLE ASSETS		
Balance at start of year(Restated)	1,411,577	1,869,911
Additions	151,075	-
Amortisation	<u>(438,004)</u>	<u>(458,334)</u>
	<u>1,124,648</u>	<u>1,411,577</u>
13. OTHER ASSETS		
This represents dormant accounts forming part of debtors inherited from related parties. It is uncertain as to when these accounts will be settled:		
	<u>8,783,403</u>	<u>9,974,272</u>
14. INVENTORIES		
Pipes and fittings	3,706,310	3,329,900
Chemicals	309,870	332,700
Motor spare parts	117,370	160,616
Other items	<u>51,091</u>	<u>56,483</u>
	<u>4,184,641</u>	<u>3,879,699</u>
15. TRADE AND OTHER RECEIVABLES		
Trade receivables	37,701,802	26,594,398
Provision for doubtful debts	<u>(4,225,928)</u>	<u>(3,654,162)</u>
	33,475,874	22,940,236
Other receivables, deposits and prepayments	<u>5,454,531</u>	<u>2,663,987</u>
	<u>38,930,405</u>	<u>25,604,223</u>
16. CASH AND CASH EQUIVALENTS		
Cash at Bank	1,638,573	3,736,883
Cash in Hand	4,704	23,997
Fixed Deposits	<u>32,107,400</u>	<u>36,512,348</u>
	<u>33,750,678</u>	<u>40,273,228</u>
The funds in the fixed deposit will be used to finance the capital projects lined up for the year (see note 26)		
17. GRANT		
Balance at start of year	6,550,639	8,360,759
Less: Transfer to Revenue Reserves	<u>(1,313,393)</u>	<u>(1,810,120)</u>
Balance at 31st December	<u>5,237,246</u>	<u>6,550,639</u>

The capital grant represents assets donated to MEWASS by the Japanese Government.



MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2008 (CONT'D)

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings Kshs.	Free Hold Land Kshs.	Temporary Buildings Kshs.	Office Computers Kshs.	Motor Vehicles Kshs.	WTP Equipment & Tools Kshs.	Water Meters & Equipment Kshs.	Office Furniture & Equipment Kshs.	Pipes & Fittings Kshs.	Total Kshs.
At 1st July 2006	373,971	0	390,000	4,263,945	7,089,624	2,550,266	16,256,842	4,641,854	6,217,528	41,784,030
Disposals	0	0	0	(215,000)	0	0	0	(110,200)	0	(325,200)
Additions	0	0	0	423,280	119,828	41,150	1,619,789	222,802	4,746,631	7,173,480
At 30th June 2007	373,971	0	390,000	4,472,225	7,209,452	2,591,416	17,876,631	4,754,456	10,964,159	48,632,310
At 1st July 2007	373,971	0	390,000	4,472,225	7,209,452	2,591,416	17,876,631	4,754,456	10,964,159	48,632,310
Disposals	0	0	0	0	(320,682)	0	0	0	0	(320,682)
Additions	6,427,920	1,606,980	0	535,228	3,164,929	2,866,759	2,866,759	319,302	2,278,069	17,199,186
At 30th June 2008	6,801,891	1,606,980	390,000	5,007,453	10,053,699	2,591,416	20,743,390	5,073,758	13,242,228	65,510,814
DEPRECIATION										
At 1st July 2006	9,349	0	37,562	2,451,770	3,939,825	1,457,332	8,094,008	1,848,746	777,191	18,615,783
On disposal	0	0	0	(163,378)	0	0	0	(25,828)	0	(189,207)
Charge for the year	9,116	0	8,811	655,150	817,407	226,817	1,956,525	366,442	1,273,371	5,313,639
At 30th June 2007	18,465	0	46,373	2,943,541	4,757,232	1,684,149	10,050,533	2,189,360	2,050,562	23,740,215
At 1st July 2007 (Restated)	18,465	0	46,373	3,834,225	4,757,232	1,828,991	10,271,187	1,852,094	2,050,562	24,659,129
On disposal	0	0	0	0	(140,298)	0	0	0	0	(140,298)
Charge for the year	159,819	0	8,591	619,725	1,359,191	249,324	2,094,442	431,812	1,398,958	6,331,861
At 30th June 2008	188,284	0	54,964	4,453,950	5,976,125	2,078,315	12,365,629	2,283,906	3,449,520	30,850,692
NET BOOK VALUE										
At 30th June 2008	6,613,607	1,606,980	335,036	553,503	4,077,574	513,101	8,377,761	2,789,852	9,792,708	34,660,122
At 30th June 2007 (Restated)	355,506	-	343,627	1,528,684	2,452,220	907,267	7,826,098	2,565,096	8,913,597	24,892,095

Property, plant and equipment worth Kshs 19,269,448 donated to Meru Water and Sewerage Services at inception by the Government of Kenya and the Government of Japan are included in these financial statements. These include computers, furniture and fittings, laboratory equipment, motor vehicles and motor cycles, office and workshop equipment and water meters.

Assets of an undetermined value which were originally under the Meru Municipal Council and the then Ministry of Environment and Natural Resources are not included in these accounts. These include all distribution and storage tanks, structures and works at the water treatment plant, buildings, water pipes network, master meters, structures and works at the sewer treatment, sewerage conduit pipes networks, and all the land on which these items are constructed. The Trust utilises all these assets to provide water and sewerage services to the residents of Meru Municipality and its environs.

The Tana Water Services Board is in the process of surveying these assets to determine their value. The management of these assets forms an integral part of the service provision agreement referred to in note 3.



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2008 (CONT'D)

	<u>2008</u> <u>Kshs</u>	<u>2007</u> <u>Kshs</u>
18. AMOUNTS DUE TO RELATED PARTIES		
Meru Municipal Council	15,131,313	15,131,313
Ministry of water	<u>28,422,340</u>	<u>28,422,340</u>
	<u>43,553,653</u>	<u>43,553,653</u>
<p>This represents the water and sewerage debtor balances taken over from Meru Municipal Council and the Ministry of Water on 1st July 2002.</p>		
19. CONSUMER DEPOSITS		
These are refundable deposits paid by customers. The deposits are refunded when water services to a customer are terminated:	<u>6,836,391</u>	<u>5,744,025</u>
20. TRADE AND OTHER PAYABLES		
Trade payables	1,528,905	1,932,041
Provision for staff leave entitlement	1,531,749	1,163,640
Other payables and accruals	<u>7,795,570</u>	<u>3,082,473</u>
	<u>10,856,224</u>	<u>6,178,154</u>
21. CASH GENERATED FROM OPERATIONS		
(Deficit)/Surplus before taxation	10,880,384	7,353,266
Adjustments for:		
Depreciation	6,331,861	5,313,639
Amortisation of intangible assets	438,004	560,974
Prior year adjustment		-
Loss/(Profit) on disposal of assets	(59,058)	(51,007)
Operating Grant	(832,581)	-
Interest Income	<u>(2,112,591)</u>	<u>(755,938)</u>
	<u>3,765,635</u>	<u>5,067,668</u>
(Deficit)/surplus before changes in working capital	14,646,020	12,420,934
Changes in Working Capital		
Inventory	(304,944)	1,718,635
Receivables and prepayments	(13,326,182)	6,573,048
Other assets	1,190,869	97,130
Consumer deposits	1,092,365	1,075,412
Payables and accruals	<u>4,678,070</u>	<u>386,318</u>
	<u>(6,669,822)</u>	<u>9,850,543</u>
Cash Generated from Operations	<u>7,976,198</u>	<u>22,271,477</u>



**MERU WATER AND SEWERAGE SERVICES
REGISTERED TRUSTEES**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2008 (CONT'D)

22. PRIOR YEAR ADJUSTMENTS

This relates to effects arising from change of accounting policy on the treatment of the expansion projects as well as opening balance adjustments on depreciation brought forward

23. STAFF COSTS

	<u>2008</u> <u>Kshs</u>	<u>2007</u> <u>Kshs</u>
Staff costs include:		
Provision for staff leave entitlement	<u>1,531,749</u>	<u>1,031,975</u>
Others		
Contribution to retirement benefit scheme	798,777	847,072
Contribution to statutory pension scheme	152,537	111,852
Contribution to benevolent fund	82,500	86,600
Other salaries, wages and allowances	<u>22,138,824</u>	<u>22,918,289</u>
	<u>23,172,638</u>	<u>23,963,813</u>

24. NUMBER OF EMPLOYEES

The number of employees as at 30th June 2008 was 70 (2007: 71)

25. CONTINGENT LIABILITIES

There were no contingent liabilities as at 30th June 2008.

26. CAPITAL COMMITMENTS

Authorized and contracted:	7,245,000	400,000
Authorized but not contracted:	<u>4,312,000</u>	<u>16,799,060</u>
	<u>11,557,000</u>	<u>17,199,060</u>

27. INCORPORATION

Meru Water & Sewerage Services Registered Trustees (MEWASS) is incorporated under The Trustees (Perpetual Succession) Act Cap 164, of the Laws of Kenya. An irrevocable declaration of Trust was made in April 2001 between Ministry of Environment and Natural Resources and Meru Municipal Council on the one hand and the Trustees of MEWASS on the other, effectively transferring the duty of water and sewerage provision from the Ministry and Council to MEWASS. MEWASS is registered with Tana Water Services Board as a Water Services Provider.

28. CURRENCY RISK

The Trust operates wholly within Kenya and its assets and liabilities are reported in the local currency. The Trust held no foreign currency as at 30th June 2008.

29. CURRENCY

The financial statements are presented in Kenya Shillings (Kshs).