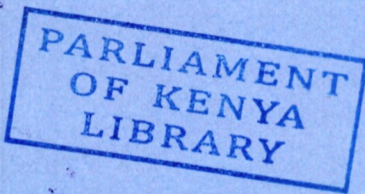


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KYENI WATER AND SEWERAGE COMPANY
LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2015**



KYENI WATER AND SEWERAGE COMPANY LIMITED

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2015

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KEY ENTITY INFORMATION

Background information

Kyeni water and sewerage company (KYEWASCO) is a water service provider (WSP) which was incorporated in June 2008 and falls under Tana water services Board. KYEWASCO covers an area of over 171km² which has a population of about 90468. The head office is at Kathanjuri, Embu County.

Principal Activities

The principal activity of KYEWASCO is provision of water and sewerage services within the designated SPA region of Runyenjes Sub-county of Embu County.

Directors

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

- | | | |
|-----|---------------------------|-----------------------|
| 1. | MOSES NDWIGA | - Chairman |
| 2. | ROBERT NDWIGA | - Director |
| 3. | JOHNSON MBOGO | - Director |
| 4. | ANNA NJOKI | - Director |
| 5. | RACHAEL KARIMI | - Director |
| 6. | SUB-COUNTY Representative | - Director |
| 7. | ELIJAH NJUKI | - Director |
| 8. | AGAPIO NJAGI | - Director |
| 9. | MICHAEL NJUKI | - Director |
| 10. | JULIUS NJUKI | - Director |
| 11. | JULIETA KARIMI | - Ag. General Manager |

Corporate Secretary.

Registered Office And Headquarters

Kathanjuri divisional headquarter
Runyenjes- Karurumo Road
P.O.Box 315-60103
RUNYENJES

Corporate Contacts.

Telephone: +254 715 870 863
Email: kyewasco@yahoo.com
Website: _____

Corporate Bankers

Co-operative Bank of Kenya
Embu Branch
P.O. Box _____
EMBU.








Independent Auditors



Wamutu and Associates on behalf of "Kenya National Audit
Office"
Anniversary Towers, University Way
P.O Box 30084-00100
NAIROBI

Principal Legal Advisers

1. The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112

THE BOARD OF DIRECTORS

NO.	NAME OF THE DIRECTOR	DATE OF BIRTH	QUALIFICATION
1.	 MOSES NDWIGA	1954	B.E.D SCIENCE
2.	 ROBERT NDWIGA	1963	O LEVEL
3.	 JOHNSON MBOGO	1948	O LEVEL
4.	 ANNA NJOKI	1952	C.P.E
5.	 RACHAEL KARIMI	1982	O LEVEL
6.	 AGAPIO NJAGI	1960	O LEVEL
7.	 MICHAEL NJUKI	1955	DIPLOMA

8.	 ELIJAH NYAGA	1953	A LEVEL
9.	 JULIUS NJOKA	1973	DIPLOMA
10.	LYDIA MAINA		

MANAGEMENT TEAM

	NAME	DESIGNATION
1.	Julieta Karimi Kithinji	Ag. General Manager
2.	Daniel Murimi Ileri	Human Resource
3.	Jacinta Ndegwa	
4.	Bancy Nyakio	

Note: The CEO and the Company Secretary will feature both under the 'Board' and 'Management'.

CHAIRMAN'S STATEMENT

It gives me great pleasure to present the 2015 annual report and financial statements for KYENI WATER AND SEWERAGE COMPANY LIMITED. During the year under review, we continued to make great strides in our service provision agreement area in our focal role of enhancing water provision services.

Financial Performance

The year 2015 was a momentous one for the company as we have been able to register impressive growth in business. The gross water income attained was Kshs. 15.6 million Up from Kshs. 13.6 million in 2014, Kshs. 2 million (12.82%) increase.

The growth is spread across all our SPA area. There was some improvement in other various incomes.

Appreciation

We continue to enjoy the support and goodwill inter alia of our client, suppliers, service providers, regulatory authority and board. I wish to record our appreciation to them all and note that we highly value these relationships.

I also wish to thank and congratulate the management and staff of the company for the loyalty, dedication and tireless efforts that have made these results possible.

Finally, to my fellow directors, thank you for your commitment, support and considered advice that is so essential in this extremely noble service.

MOSES NDWIGA

Chairman

Date 02/12/2015



REPORT OF THE CHIEF EXECUTIVE OFFICER

It is my pleasure to report on another successful year. In 2015, Kyeni water has again registered an impressive growth in water sales income to reach Kshs. 15.6 million up from Kshs. 13.6 million in 2014. This performance has once again confirmed what can be achieved when there is focus and dedication and reaffirmed our position to be a leading water service provider in our country.

Customer Service

Our business motto is to exceed our customers' expectations. This has seen our delivery of service to be no longer giving our clients promises, but deliver the promises. We keep our promise at the hour of reckoning, when a customer makes a complain. We endeavour to keep abreast with the ever-changing times. We work closely with our clients. To support them and our staff, we hold trainings to share our thoughts and make them understand our services.

Branch Network

Our branch network continues to grow in line with our business model and we aim to align ourselves with the county government and ensure full representation. Branches are opened after a thorough feasibility study is conducted. Our growing network currently consists of two branches. These branches are managed by dynamic persons who are always available to provide solutions to the needs of our clients.

Customer Base

Customer base of 8,078 connections spread over an area of 171 km² with a population base of 90,468. A population of 38,701 is for now adequately served by the reticulation system in place stretching a distance of 350 km in form of assorted sizes ranging from 25" to 315 mm dia.

Information Technology

We can only accord superior services when our processes are efficient and effective. The need for a robust and pragmatic information technology platform was identified after a thorough review of the processes. The company is in the process of sourcing an integrated billing/accounts software that is web based, hence transforming the way we do business. Once implemented, the system will offer us with a competitive advantage and above all ensure that we are able to offer a superior customer service.

Staffing

Our staffs are the greatest resource and we have an exciting mix of skills in various disciplines blended with wealth of experiences. The average age of our employees is approximately thirty five years. They are enthusiastic to make certain that we are always in the front. These employees are always ready to roll up their sleeves whenever required to perform specific tasks to ensure that customers' needs are met and our goals achieved.

Kyeni Water and Sewerage Company
Reports and Financial Statements
For the year ended June 30, 2015

Conclusion

Kyeni water has continued to be the front runner and this can only be due to the commitment and diligence by the board, management and staff who have worked tirelessly to satisfy our clients, and all stakeholders. I register my appreciation to the support which has made 2015 a momentous year for all of us.

We hope that 2016 we will offer even better services.

Julieta Karimi


Ag. General Manager.

Date ... 21.12.2015



CORPORATE GOVERNANCE STATEMENT

Good corporate governance is key to the integrity of water sector institutions and markets and is central to the health of our economics and their stability. Corporate governance plays a leading role in making certain how corporations and their boards and management are directed, controlled and held to account. Corporate governance therefore encompasses the systems, practices and procedures by which the individual corporation regulates it in order to remain competitive, ethical, sustainable and fair.

THE BOARD OF KYEWASCO limited follows, principles of openness, integrity and accountability in its stewardship of the company's affairs. It recognizes the developing nature of corporate governance and assesses the company's compliance with generally accepted corporate governance practice on a regular basis, directly and through its board committees and management. The role of the board is to ensure conformance by focusing on and providing the company's overall strategic direction and policy-making as well as performance review through accountability and ensuring appropriate monitoring and supervision. The board is also responsible for the overall system of internal control and for the reviewing its effectiveness. The controls are designed to both safeguard the company's assets and ensure the reliability of financial information.

A management team, comprising the general manager, heads of departments and senior staff meets regularly to consider issues of operational and strategic importance to the company. Here below are the key features of the existing corporate governance practices within KYENI WATER AND SEWERAGE COMPANY LIMITED which are reviewed and improved on a regular basis:-

1. Board Of Directors

The board of directors consists of one executive director and nine non-executive directors. The chairman of the board is a non-executive director and the board meets formally at least four times a year.

The board is responsible for setting the direction of the company through the establishment of strategic objectives, key policies and approval of budgets. It monitors the implementation of strategies and policies through a structured approach to reporting by management and consequent accountability.

The non-executive directors are actively involved in and bring strong independent judgment on board deliberations and discussions. These directors have a wide range of knowledge and experience of local markets that is applied to the formulation of strategic objectives and decision making. The board meets regularly and retains full and effective control over the company in all strategic, financial, operational and compliance areas. In 2015, four board meetings were held and all directors attended the four meetings

To assist the board in the discharge of its responsibilities, board committees have been established. All the board committees meet at least once a year. The committees are as follows:-

a) Audit Committee

The audit committee comprises of three non-executive directors and a senior manager. The committee is responsible for inter alia, developing and advising an audit and financial controls and compliance issues of the company. It also defines the scope of the internal audit function and acts as a liaison between the external auditors and management. The current members of the committee are: - Agapio Gacogo, (Chairman), Johnson Mbogo, Moses Ndwiga and the Ag. General Manager.

b) Finance And Technical Committee

The finance and technical committee comprises of four non-executive directors and the general manager. The committee provides guidance to the board on finance and technical requirements for the company. The current members are Julius Njoka (Chairman), Rachael Karimi, Robert Ndwiga, Michael Njuki, Elijah Nyaga, Anna Njoki, Moses Ndwiga and the Ag. General Manager.

2. Internal Controls

The company has implemented and maintained internal controls designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard and maintain accountability of the company's assets. Such controls are based on established policies and procedures and are implemented by trained personnel with appropriate segregation of duties. The effectiveness of the system of internal controls is monitored regularly through internal audit functions, operational meetings and the annual external audit.

3. Related Party Transactions And Directors Remuneration.

The related party transactions with the company during the year ending 30th June 2015 are detailed under note 18 on page 30 of these annual report and financial statements.

The remuneration for directors consists of sitting allowances for their services in connection with the Board and committee meetings.

The aggregate amount of director's remuneration for services rendered during the year ending 30th June 2015 are contained under note 18 on page 30 of these annual report and financial statements.

4. Going Concern

The directors confirm that the company has adequate resources to continue in business for the feasible future and therefore the continued use of going concern as a basis of preparing the financial statements.

MOSES NDWIGA
Chairman



J.K. KITHINJI
Ag. General Manager

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The company upholds its core values which enshrine ethical business practices, compliance with regulatory and other legal requirements and respect for humanity, communities and the environment. The company's corporate social responsibility (CSR) hinges on two key pillars, employees and welfare programmes.

During the year, our employees have become an important part of this noble objective. The employees are the backbone of our success.

Therefore, we have unrelentingly ensured that they have a favourable work environment. Training and development of staff has continued to be an important part of our business. All staff are encouraged to attend internal and external training sessions in order to upgrade themselves technically and professionally. The internship placement programmes has continued with several students working as interns in various departments. Those students are drawn from various colleges.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2015 which show the state of the Company's affairs.

Principal activity

The principal activity of the entity is provision of water and sanitation services within the SPA area.

Results

The results of the entity for the year ended June 30, 2015 are set out on page 15

Directors

The members of the Board of Directors who served during the year are shown on page 4 In accordance with Regulation of the company's Articles of Association.


Auditors

The Auditor General is responsible for the statutory audit of the company in accordance with the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board

Director _____

Date _____


02/12/2015



STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Public Finance Management Act, 2012 and the State Corporations Act, require the Directors to prepare financial statements in respect of the company, which give a true and fair view of the state of affairs of the company at the end of the financial year and the operating results of the company for that year. The Directors are also required to ensure that the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company. The Directors are also responsible for safeguarding the assets of the company.

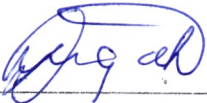
The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year ended on June 30, 2015. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.


The Directors accept responsibility for the company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the company's financial statements give a true and fair view of the state of company's transactions during the financial year ended June 30, 2015 and of the company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the company's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The company's financial statements were approved by the Board on 6th August 2015 and signed on its behalf by:


Director


Director


Director

Date: 02/12/2015



REPUBLIC OF KENYA

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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 KYENI WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Kyeni Water and Sewerage Company set out on pages 17 to 27, which comprise the statement of financial position as at 30 June 2015, and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Wamutu & Associates, auditors appointed under Section 39 of the Public Audit Act, 2003. The audit has been 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 of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229 of the Constitution of Kenya. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those Standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of

the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Budgetary Control and Performance

The Company's approved budget reflected an income of Kshs.20,045,856, however the actual income collected was Kshs.17,710,901 resulting to an under collection of Kshs.2,334,955. It was noted that the Interest earned of Kshs.32,803 was not budgeted for. Further, the Company's expenditure was budgeted for Kshs.20,026,743 but the actual expenditure was Kshs.19,926,165 resulting to an under expenditure of Kshs.100,578. In addition, six (6) items which had not been budgeted for spent a total expenditure of Kshs. 2,313,776 while seven (7) other items with a budget of Kshs.2,760,000, did not have any actual expenditure. As a result, the company did not contain its operations within the approved budget during the year ended 30 June 2015.

2. Loss of Revenue

As previously reported, Water Service Regulatory Board (WASREB) guidelines require non-metered consumers to be billed at a flat rate of Kshs.500.00 per month. However, the Company had 4,216 consumers out of which 938 non-metered consumers were billed at Kshs.250.00 per month resulting to loss of revenue of Kshs. 2,814,000.00 in the year under review. Further, WASREB through a gazette Notice No. 166 of 10 January 2014 gave Water Tariff Justification for the Company. However, the tariff did not have a provision for non-metered customers.

Consequently, the Company was in breach of the WASREB guidelines and the loss of revenue has not been justified.

3. Customer Deposit

The statement of financial position reflects a customer's deposit balance of Kshs.4,796,745.00 as at 30 June 2015. However, both the customers deposit ledger and the savings account reflect customer deposit of Kshs.5,057,909.00 resulting to an unreconciled variance of Kshs.261,164.00. Even though Management explained that the difference between the variance was due to water sales amounting to Kshs.269,860.00 which were erroneously deposited to customers' deposit account, no evidence to support the explanation was made available for audit review.

In the circumstances, the accuracy of the customer deposit balance of Kshs.4,796,745 as at 30 June 2015 could not be confirmed.

4. Accounts Receivables

The statement of financial position reflects accounts receivables balance of Kshs.12,551,376 as at 30 June 2015. The provision for bad and doubtful debts rose from 5% in the previous year to 10% in the year ended 30 June 2015. However, the Company did not have a bad debts policy and no risk assessment on the debts was undertaken during the year.

In view of the foregoing, the completeness and accuracy of the accounts receivables balance of Kshs.12,551,376 as at 30 June 2015 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 Kyeni Water and Sewerage Company Limited as at 30 June 2015, 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 Companies Act, Cap 486 of the Laws of Kenya.

Other matter

1. Non Compliance with the Companies Act, Cap 486

Section 131 (1) of the Companies Act, requires every company to hold a general meeting as its annual general meeting. Further, Article 36 of the Company's Memorandum of Association states that the company shall in each year hold a general meeting in addition to any other meetings held in that year. However, as at 30 June 2015, Kyeni Water and Sewerage Company Limited had not held an Annual General Meeting since its inception on 20 June 2008.

In the circumstances, the Company was in breach of the provisions of the Companies Act, Cap 486 and its own Memorandum of Association.

2. Composition of the Board of Directors


I draw your attention to the Company's non – compliance with WASREB guidelines in respect to composition of Board of Directors. As reported previously, WASREB guidelines require that each Company appoints directors to represent various stakeholders' interest in the Board. However, the appointment of the Company's Directors were not clear as no appointment letters were availed for audit review. In addition, majority of the directors have been in office for more than three years. As at 30 June 2015, no action had been taken and the matter was still outstanding. Consequently, the Company was in breach of the Water Service Regulatory Board guidelines.

My opinion is not qualified in respect to these matters.

REPORTING ON OTHER LEGAL AND REGULATORY REQUIREMENT

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; an
- ii. In my opinion, proper books of account have been kept by the company, so far as appears from my examination of those books; and
- iii. The company's statement of financial position is in agreement with the books of account.



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

Nairobi

29 March 2016

STATEMENT OF COMPREHENSIVE INCOME

INCOMES	NOTES	2015 KSHS	2014 KSHS
Water revenues	9	17,710,901	13,166,995
Grants and subsidies		1,340,950	1,340,950
TOTAL INCOMES		19,051,851	14,507,945
<u>LESS:EXPENSES</u>			
Other operating expenses	10	115,000	115,000
Finance costs	11	377,064	335,029
Administrative expenses	12	15,585,506	10,964,727
TOTAL EXPENDITURE		16,077,570	11,414,756
Operating profit before Taxation		2,974,281	3,093,189

STATEMENT OF FINANCIAL POSITION

ASSETS	NOTES	30/06/2015	30.06.2014
		KSHS	KSHS
NON CURRENT ASSETS			
Property, Plant and Equipments	2	7,135,076	5,104,293
CURRENT ASSETS			
Stock (stores)		900,000	224,999
Accounts receivables	3	12,551,376	10,413,426
Cash & cash Equivalents	4	8,880,333	6,606,452
TOTAL CURRENT ASSETS		<u>22,331,709</u>	<u>17,244,877</u>
CURRENT LIABILITIES			
Customer deposit	5	4,796,745	3,473,945
Payables and accruals	6	856,198	803,068
TOTAL CURRENT LIABILITIES		<u>5,652,943</u>	<u>4,277,013</u>
WORKING CAPITAL		<u>16,678,766</u>	<u>12,967,864</u>
TOTAL ASSETS		<u>23,813,842</u>	<u>18,072,157</u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Capital funds	7	18,462,544	15,290,544
Long term loan		-	404,595
Retained earnings	8	5,351,298	2,377,017
TOTAL CAPITAL EMPLOYED		<u>23,813,842</u>	<u>18,072,156</u>

SIGNED BY [Signature] DATE 2/12/2015
 GENERAL MANAGER

[Signature] DATE 02/12/2015
 DIRECTOR



STATEMENT OF CHANGES IN EQUITY

	CAPITAL	RETAINED EARNINGS	TOTAL
	KSHS	KSHS	KSHS
<u>2014/2015</u>			
Balance b/d (01/07/2014)	15,290,544.00	2,377,017.00	17,667,561.00
ADD: Additions during the year	<u>3,172,000.00</u>	<u>2,974,281.00</u>	<u>6,146,281.00</u>
TOTAL (30/06/2015)	<u>18,462,544.00</u>	<u>5,351,298.00</u>	<u>23,813,842.00</u>
	CAPITAL	RETAINED EARNINGS	TOTAL
	KSHS	KSHS	KSHS
<u>2013/2014</u>			
Balance b/d (01/07/2013)	11,846,544.00	(716,172.00)	11,130,372.00
ADD: Additions during the year	<u>3,444,000.00</u>	<u>3,093,189.00</u>	<u>6,537,189.00</u>
TOTAL (30/06/2014)	<u>15,290,544.00</u>	<u>2,377,017.00</u>	<u>17,667,561.00</u>

STATEMENT OF CASHFLOWS

	NOTE	2015 Kshs	2014 Kshs
<u>Cash flows from operating activities</u>			
Net surplus / (deficit) realised from operations		2,974,281	3,095,189
Adjustments:			
Depreciation		1,141,217	891,746
Net cash generated from operating activities		4,115,498	3,984,935
<u>working capital changes</u>			
Decrease (Increase) in trade and other receivables		(2,137,950)	(1,489,842)
Increase in Bank Guarantee			-
Decrease (Increase) in stocks /stores		(675,001)	(224,999)
Increase(Decrease)in trade payables		53,130	31,452
Increase/(Decrease) in customer deposits		1,322,800	1,236,745
Cash flows from working capital		(1,437,021)	(446,644)
Net cash flow from operating activities		2,678,477	3,538,291
<u>Investing Activities</u>			
Purchase of non current assets		(3,172,000)	(3,444,000)
Cash flow generated from (used in) investing activities		(3,172,000)	(3,444,000)
Net cash generated /(used in)financing activities		2,767,405	2,904,539
Net (decrease)/increase in cash and cash equivalent		2,767,405	2,904,539
Movement in cash and cash equivalents		2,273,882	2,998,830
Cash and cash equivalents at start of year		6,606,452	3,607,622
Cash and cash equivalents at end of year		8,880,333	6,606,452

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 in conformity with International Financial Reporting Standards (IFRS) which allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the company's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the company.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

2. **Revenue recognition**

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the company and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the company's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the company's activities as described below.

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

3. **In-kind contributions**

In-kind contributions are donations that are made to the company in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the company includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Property, plant and equipment

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

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

5. Depreciation and impairment of property, plant and equipment

Depreciation on property, plant and equipment is recognised in the income statement on a reducing balance basis to write down the cost of each asset to its residual value over its estimated useful life. The annual rates in use are:

Buildings and civil works	2%
Plant and machinery	12.5%
Motor vehicles, including motor cycles	25%
Computers and related equipment	30%
Office equipment, furniture and fittings	12.5%

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

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amounts.

6. Finance leases

Leases which confer substantially all the risks and rewards of ownership to the company are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

7. Inventories

Inventories are stated at the lower of cost and net realisable value.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. 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 based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

9. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and which were not surrendered or accounted for at the end of the financial year.

10. Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

11. Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the company or not, less any payments made to the suppliers.

12. Retirement benefit obligations

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.1,080 per employee per month.

13. Provision for staff leave pay

Employees' entitlements to annual leave are recognised as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

14. Comparative figures

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

15. Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2015.

NOTES TO THE FINANCIAL STATEMENTS

2 SCHEDULE OF FIXED ASSETS

	PLANT/ MACHINERY	MOTOR & BI- CYCLE	TOTAL
W.D.V (01/07/2013)	1,414,116	1,137,923	2,552,039
Additions	3,444,000	-	3,444,000
	<u>4,858,116</u>	<u>1,137,923</u>	<u>5,996,039</u>
DEPRECIATION			
Charge (01/07/2013)	212,802	1,559,377	1,772,179
Charge for the year	607,265	284,481	891,746
Accumulated depreciation	<u>820,067</u>	<u>1,843,858</u>	<u>2,663,925</u>
NBV (30/06/14)	<u>4,250,851</u>	<u>853,442</u>	<u>5,104,293</u>
W.D.V (01/07/2013)	<u>1,414,116</u>	<u>1,137,923</u>	<u>2,552,039</u>

	PLANT/ MACHINERY	MOTOR & BI- CYCLE	TOTAL
W.D.V (01/07/2014)	4,250,851	853,442	5,104,293
Additions	3,172,000	-	3,172,000
	<u>7,422,851</u>	<u>853,442</u>	<u>8,276,293</u>
DEPRECIATION			
Charge (01/07/2014)	820,067	1,843,858	2,663,925
Charge for the year	927,856	213,361	1,141,217
Accumulated depreciation	<u>1,747,923</u>	<u>2,057,219</u>	<u>3,805,142</u>
NBV (30/06/15)	<u>6,494,995</u>	<u>640,081</u>	<u>7,135,076</u>
W.D.V (01/07/2014)	<u>4,250,851</u>	<u>853,442</u>	<u>5,104,293</u>

2015
KSHS

2014
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3 ACCOUNT RECEIVABLES

Receivables	2014/2015	5,054,545	-
	2013/2014	1,773,478	-
	Prior Years	7,117,950	-
	Total Debtors	<u>13,945,973</u>	11,582,696
Less: 10% provision		1,394,597	1,169,270
		<u>12,551,376</u>	<u>10,413,426</u>

4 CASH AND CASH EQUIVALENTS

Cash at hand		164,697	257,915
Cash in bank-Current Account		3,597,727	3,147,077
-Fixed deposit account		60,000	60,000
-Savings Account		5,057,909	3,141,460
		<u>8,880,333</u>	<u>6,606,452</u>

5 CUSTOMER DEPOSITS

Balance b/f		3,473,945	2,237,200
ADD: Additions for the year		1,322,800	1,236,745
Balance c/d		<u>4,796,745</u>	<u>3,473,945</u>

NOTES TO THE FINANCIAL STATEMENTS

6 PAYABLES AND ACCRUALS

Other creditors	610,838	567,936
WASREB	12,830	12,013
Tana water services Board	117,530	108,119
Provision for Audit	115,000	115,000
	<u>856,198</u>	<u>803,068</u>

7 CAPITAL FUNDS

Balance b/f	15,290,544	11,846,544
ADD: Additions for the year	3,172,000	3,444,000
Balance c/d	<u>18,462,544</u>	<u>15,290,544</u>

8 RETAINED EARNINGS

Opening balance	2,377,017	(716,172)
Add Profit for the year	2,974,281	3,093,189
Balance c/d	<u>5,351,298</u>	<u>2,377,017</u>

9 i.) WATER REVENUES

Water charges	17,678,098	13,149,755
Interest Earned	32,803	17,240
	<u>17,710,901</u>	<u>13,166,995</u>

10 OTHER OPERATING EXPENSES

Audit fees	115,000	115,000
Entertainment		-
	<u>115,000</u>	<u>115,000</u>

11 FINANCIAL COSTS

Loan interest	349,572	302,582
Bank charges	27,492	32,447
	<u>377,064</u>	<u>335,029</u>

12 ADMINISTRATIVE EXPENSES

i) Water management

Regulatory board levy	1,308,934	1,376,354
Water levy (WASREB)	153,534	152,928
Raw water charge (WARMA)	60,000	67,500
Maintenance of water supply system	3,626,330	937,340
Directors allowance	420,901	266,040
	<u>5,569,699</u>	<u>2,800,162</u>

ii) Staff emoluments

Salaries	5,599,120	4,427,830
Staff motivation	352,500	844,800
Statutory deductions	643,989	217,113
Casual labour	66,750	23,300
Staff training	16,000	-
Staff travel and subsistence	624,610	267,400
	<u>7,302,969</u>	<u>5,780,443</u>

NOTES TO THE FINANCIAL STATEMENTS

iii) Establishment costs

Printing and stationery	95,710	129,801
Telephone, fax and mobile	91,100	83,000
Advertisement, publicity and newspapers	15,000	130,484
Transport hire and equipments	308,501	358,823
Insurance	121,965	186,078
Postage and courier	9,290	8,395
Professional fees	-	-
Office general expenses (misc) and supplies	108,649	54,090
Laboratory apparatus, chemical and reagents		198,000
Computer repairs and maintenance	25,641	21,829
Electricity and Motor vehicles running (fuel)	33,700	27,850
Rent	66,000	66,000
Staff uniforms and protective cloths	90,322	-
Motor repairs and maintenance	378,126	50,265
Building and furniture repairs and maintenance	2,290	-
Increase in provision for bad debts	225,327	177,761
Depreciation	1,141,217	891,746
Total establishment costs	2,712,838	2,384,122
TOTAL ADMINISTRATIVE EXPENSES	15,585,506	10,964,727

