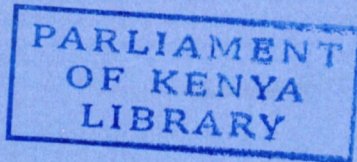


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

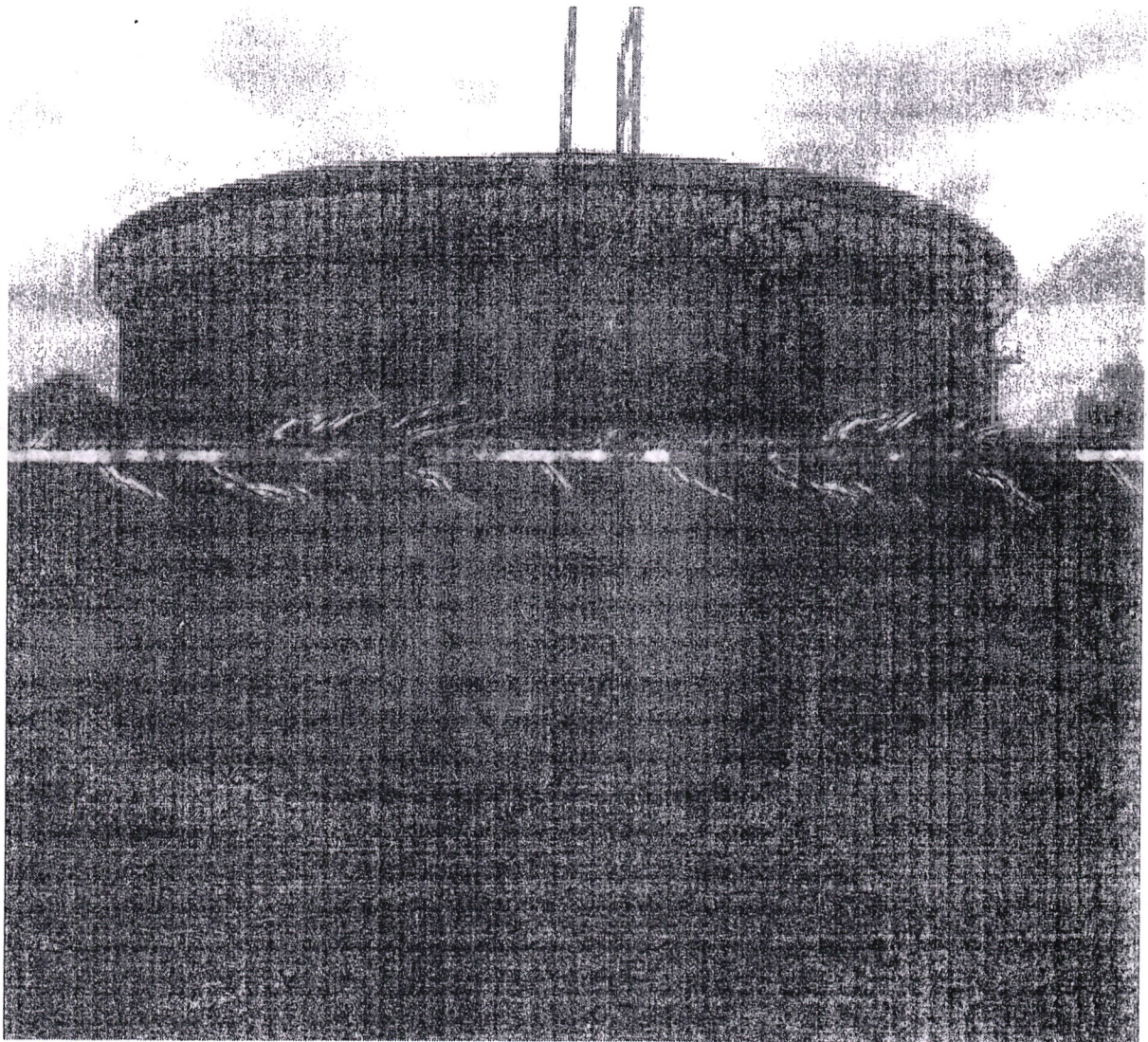
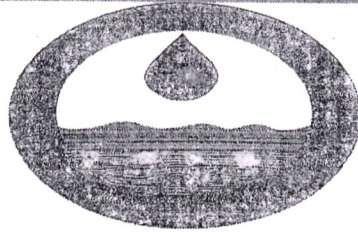
THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KIBWEZI-MAKINDU WATER AND
SANITATION COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2015**

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015



KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
Reports and Financial Statements
For the year ended June 30, 2015

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KEY ENTITY INFORMATION

Background information

The *company* was established by the Company's Act cap 486 of the laws of Kenya

Principal Activities

The principal activity of the *company* is to provide water.

Directors

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

		Appointed on
1.	Samuel Nzuki Muindi - Chairman	- 14 th Jan 2011
2.	Dr. Peter Nduulu - Director	- 14 th Jan 2011
3.	Job Mulani Maingi - Director	- 14 th Jan 2011
4.	Jane Wausi Mutua - Director	- 14 th Jan 2011
5.	Monica Mwikali Maithya - Director	- 14 th Jan 2011
6.	Jacob Mutuku Maonge - Director	- 14 th Jan 2011
7.	Bishop Benard Mutuku - Director	- 14 th Jan 2011
8.	Albert Nzise Masua - Director	- 14 th Jan 2011
9.	Lucia Roberts - Director	- 14 th Jan 2011
10.	Augustus K Nduundu - chief Executive	

Registered Office

Dc,s Building
Off Nairobi – Mombasa Road
P.O. Box 104-90137
Kibwezi

Corporate Contacts

Telephone: (254) 020 2121713
E-mail: kibwezi_mtitowaco@yahoo.com

KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD

Reports and Financial Statements

For the year ended June 30, 2015

Corporate Bankers

1. Kenya Commercial Bank
Kibwezi Branch
P.O. Box 288-90137
Kibwezi, Kenya



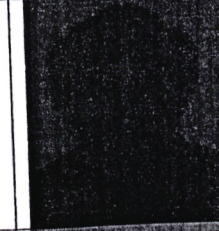




2. Kenya Post Office Savings Bank
Kibwezi Branch
P.O 30311-00100
Nairobi.

Independent Auditors

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

KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
Reports and Financial Statements
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THE BOARD OF DIRECTORS

<p>1. Samuel N Muindi Chairman</p>		<p>Born in 1953 Degree in Economics</p>
<p>2. Jacob M Moenga</p>		<p>Born in 01/10/1986 Certificate in sales & marketing</p>
<p>3. Jane W Mutua</p>		<p>Born in 1963 Form four certificate</p>
<p>4. Ben Mutuku</p>		<p>Born 1962 Diploma in education</p>
<p>5. Peter Nduulu</p>		<p>Born 21/11/1967 Degree in veterinary medicine</p>
<p>6. Monicah Maithya</p>		<p>Born on 1969 Form Four certificate</p>
<p>7. Albert N Masua</p>		<p>Born in 9/7/1971 Degree in Architecture</p>





CHAIRMAN'S STATEMENT

On behalf of the BOD I humbly take this opportunity to present the financial reports of the financial year ended 30th June 2015

This noble mandate of water service provision within our jurisdiction area has experienced various challenges, some unique if compared to any other area. I therefore wish to commend the responsiveness and determination of the directors and also the commitment and dedication of the management and employees for the progress so far achieved since the inception of this company on 16th August, 2011

Notable among the challenges faced include

- *Old and dilapidated distribution systems.*
- *Continuous costly interventions to curb water losses due to worn out pipes, infrastructure vandalism and wild game damages.*
- *Limitations in pipeline distribution coverage.*
- *Funds constraints to meet rehabilitation and expansion needs.*

Achievements through the years include; among others

- *Gradual but substantial growth of consumer base.*
- *Establishment of an active rapid response repair/maintenance team hence minimized water losses along distribution pipelines.*
- *Four medium reticulation expansions (three at Makindu and one at Kibwezi) have been achieved with financial support from water services trust fund (WSTF).*
- *Kibwezi – Mtito Andei extension along Nairobi-Mombasa road (recently operationalized) was achieved with Italian aid through Tanathi WSB.*
- *Time and time replacement of unserviceable pump set units at Kibwezi and Makindu pumping stations.*
- *Commercially, the company has computerized its billing system to enhance un-delayed bills issuance monthly.*
- *Financially, the company has departed from cash handling of revenue by establishing bills payment through post bank and M pesa.*
- *On service provision outreach to institutions beyond our pipeline network coverage, the company ensures that the two water bowzers are always operational on a cost recovery and not profit making basis.*

The future is equally challenging since the harsh droughts pose a diminishing output capacity trend at our source springs (Umani and Kwa-venge). This calls for surface water sources i.e. dams development interventions that will require substantial funding.

The board will however endeavour to enhance good governance for better performance in line with our vision "To be the leading water service provider in the board area and regionally".

In conclusion, I deeply appreciate the support of all stakeholders, esteemed customers, G.O.K and the County Government of Makueni, investment partners, our valued suppliers and the efforts of my fellow directors, management team and staff. You have all made us a WSP geared for total success.



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KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
Reports and Financial Statements
For the year ended June 30, 2015

Looking back since 2011 after the company's inception we have experienced a more improved service provision to consumers and have attracted increased investments including the ability of the government and development partners to finance these investment projects.

These investments have focused on improving the current infrastructure i.e putting up new systems, rehabilitations and extensions with a view to ensuring effective, efficient and sufficient services delivery. The extensions on the other hand have also improved water accessibility to our people. From the above interventions, our new connections have increased from 3,000 to 4,600 connections. To ensure better and effective service the company has established area offices spread across the area with qualified and experienced staff being stationed in those areas to match and meet the needs of our customers namely , Makindu, Kibwezi , Kambu and Mtito Andei towns.

To meet the growing demand as well as our customer numbers, the company is undertaking an integrated approach that encompasses improvements of our existing pumping equipment, Augmentation and operational efficiency enhancement. In this regard the company plans to anchor our progress on at least five year Business and strategic plans. Our achievement of these targets is and has been propped by the Government performance contracting regime under which the water service Boards signs a performance contract with the ministry and hence cascaded to the companies every year.

In fulfilling our vision for the company, we have managed to construct 25 No water kiosks, 100m³ and 200m³ storage tank, 50km assorted pipelines and 1 No 500m³ storage tank through funding by the Italian Government through our parent ministry. By making this worthwhile investment approximately 15,000 people have been able to access our services closer home. More than 300 connections have been realized through this single project.

The water services trust fund (a state corporation) has over time assisted in making extensions and construction of water storage facilities. Through this window the company has been able to realize 168m³ steel elevated tank 1 No, 1 No 250m³ masonry tank and 40km pipeline extensions of assorted pipelines, zonal and consumer metering. The company will continue to partner with other like minded partners and well wishers to ensure efficient and effective service delivery.

Our company statement remains as (partnering) with our customers. In ensuring this, the company has devised bill payment modes that are tailored to suit our customer convenience throughout our region. By so doing we have partnered with Kenya commercial bank, the post bank and safaricom Mpesa money transfer services where our customers can pay their bills with ease and convenience . Tirelessly the company continues to explore ways and means to which our customers will get benefit of the service rendered.

To actualize this, the company has initiated upgrading of our billing system which will involve E-bill query system, Geographical information system (GIS) to manage digital data of the customers.

The recognition of the human right to water and sanitation in the constitution implies that investment and financing plans have to be aligned towards the progressive realization of this right. The company, as a duty bearer on behalf of the county government of Makueni , is reinforcing our efforts to extend services to currently underserved low income areas.

In addition, corporate governance guidelines have been holding us to account and participate fully in our core mandate of providing water and sanitation services. Our focus therefore has been on results



1997-1998

1997-1998

KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
Reports and Financial Statements
For the year ended June 30, 2015

and transparency in the management of water services. Our transparency has been about information. Information keeps the company and customers improve access to water services.

Challenges

- **Vandalism on metal pipes and fittings:** the office reports to the necessary office i.e. National Police Service and the County Government.
- **Non-cost recovery tariff:** the water company was taken to court by some dissatisfied customers in the year 2012 and up to date, the case is yet to be determined. However, the water company is reviewing the same through Tanathi Water Services Board and the Regulator (WASREB)
- **Dilapidated systems:** a comprehensive work has been given to the relevant institutions i.e. County Government of Makueni and Tanathi Water Services Board.
- **Water theft:** this is a persistent problem and the water company addresses it as it arises and culprits are surcharged.
- **Reduced spring production:** this is a natural phenomenon and the water company can do nothing about it.

Conclusion

With increased economic growth resulting in higher demand for water, the future of the company can only be bright. Although a challenge, it offers opportunities. As we continue to undertake value-creating capacity expansion, we expect further growth in productivity and sustainability in the coming years. Our task is to build on our achievements and apply our experience as we continue to fulfill our primary role as one of the strategic drivers of our regions social –economic development.

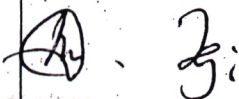
Acknowledgement

I would like to thank our two-tire Government that is the National Government and the County Government, the Ministry of water and Irrigation, the Water Services Regulatory Board, Tanathi Water Services Board, Board of Directors, Our customers and the stake holders for their support during the years.

I am also grateful to our dedicated staff for their commitment to the success of the company.

Finally, I welcome the opportunity to work with the public and development partners in delivering water to our area of jurisdiction and environs.

Thank you.



B.M Kyengo
For Managing Director.



CORPORATE GOVERNANCE STATEMENT

The Board of directors of Kibwezi-Makindu water and sanitation Company Ltd established under the State Corporations and Water Act 2002.

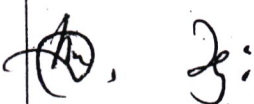
The board fully appreciates its responsibilities in meeting its strategic objectives and mandate. In order to meet these objectives the board is striving to ensure it embraces good corporate governance and this has had positive impact on the board's performance.

The Board is responsible for formulating the company's policies and strategies and ensuring that business objectives, aimed at promoting and protecting shareholders value, are achieved. The Board also retains the overall responsibility for effective control of the company and implements corporate governance policies of the company. In carrying out the above responsibilities, the Board delegates its authority to the Managing Director to oversee the day to day business operations of the company.

The Board comprises ten members, nine non-executive Directors and one executive Director (Managing Director). The Directors have diverse skills and are drawn from various sectors/Institutions of the residents' community in the company area of jurisdiction.

A timetable of calendar dates for Board meetings to be held in the following year is fixed in advance by the Board. The notice of Board meetings is given in advance in accordance with the company's Articles of Association and is distributed together with the agenda and board papers to all the Directors beforehand. The Board meets regularly and at least three times annually, in accordance with the company's practice.

The company operates within the requirements of the Kenyan Companies Act, among other laws, and adopts certain universally accepted principles in the areas of human rights, labour standards and environment in its commitment to best practice. Additionally, the company prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act.



B.M Kyengo
For Secretary to the Board

Date: 28/10/2015.....



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CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The company has in the financial year ended 30th June 2015 undertaken the following activities:

1. water tankering to schools that are adversely affected by drought and have no piped water e.g Kai shine star primary school, kathekani primary school among many others.
2. Tankered water to Utithi secondary school when there was fire outbreak to try and help put it off.
3. Constructing extension pipeline to Yikisemei primary school which could not afford and were in dire need of water.
4. Installing 10,000 litres water tank to kiunduani market to assist the community in water storage when the flow is not stable enough.
5. Handed over genset to Ithunguni community water project



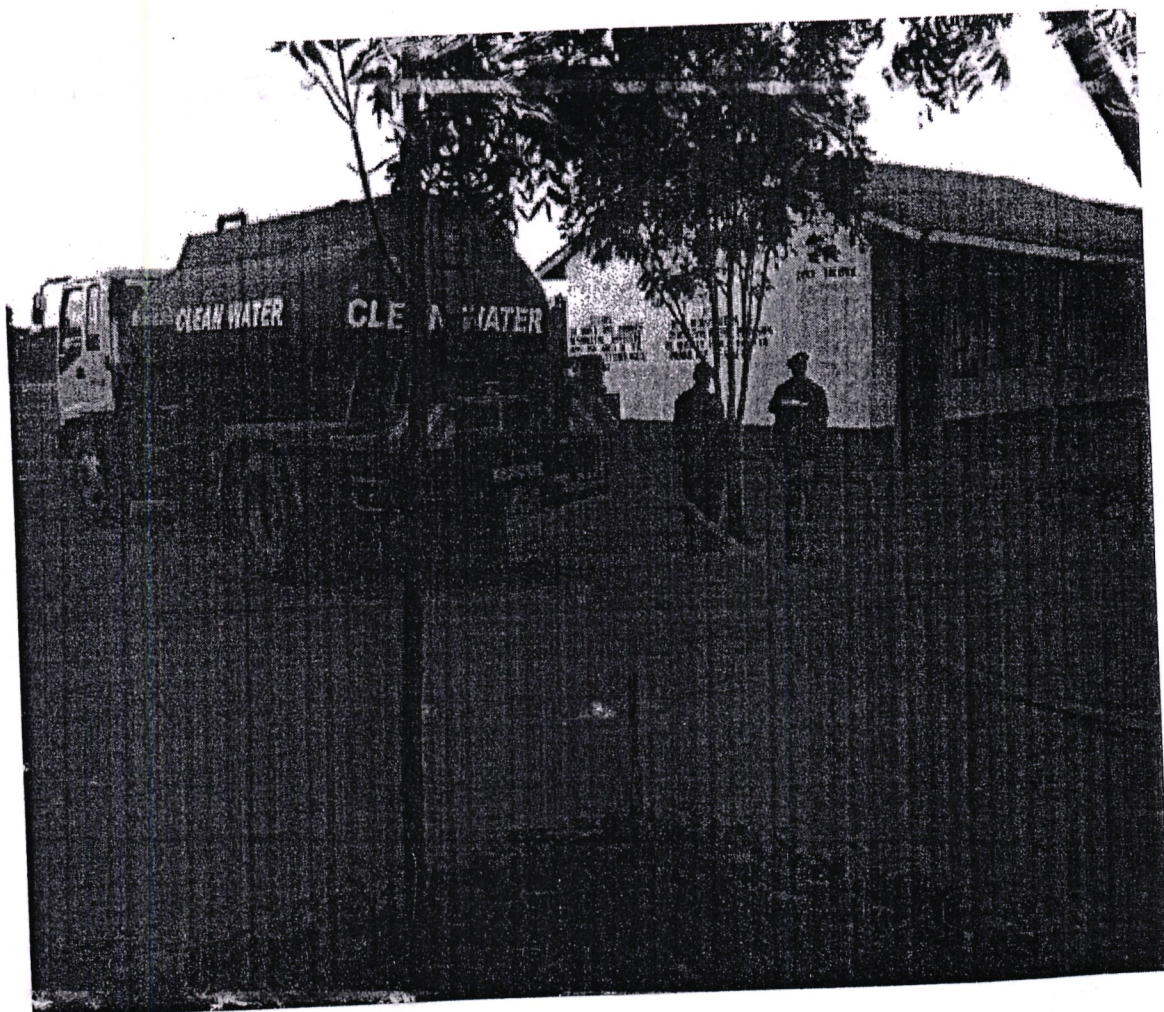
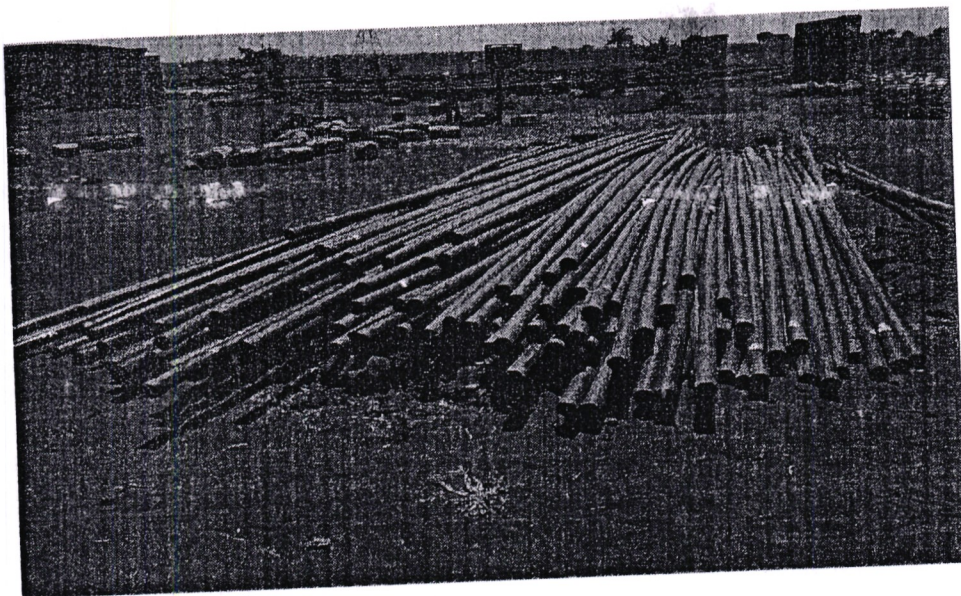


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KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
Reports and Financial Statements
For the year ended June 30, 2015

Report of the Directors on the Financial Statement
For the period ended 30th June, 2015

The Directors submit their report together with the financial statements for the period ended 30th June, 2015, which disclose the state of affairs of the company.

Incorporation.

The Company is incorporated in Kenya under the Companies Act and is domiciled in Kenya. The address of the registered office is set out on page 1 above.

Principal Activity.

The Principal activity of the company is the provision of water and sewerage services.

Results of Operations.

The net loss for the year under review is Kshs 2,334,029

Dividends.

Subject to the approval of the shareholders, the Directors recommend that there will be no payment of dividend for the year

Directors.

The Directors who held office during the year and to the date of this report are listed on page 1

Auditors

The company is audited by Kariru & Associates on behalf of Auditor General.



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STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2013 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of that company, which give a true and fair view of the state of affairs of the company at the end of the financial year/period and the operating results of the company for that year/period. 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.

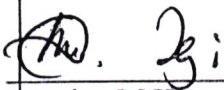
The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year(period) ended on June 30, 2015. This responsibility includes: (i) maintaining adequate 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 Director 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 statements were approved by the Board on 28th October 2015 and signed on its behalf by:



Bensley M Kyengo
For Managing Director



Samuel N Muindi
Chair person BOD



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kibwezi-Makindu Water and Sanitation Company Limited set out on pages 16 to 33, which comprise the statement of financial position as at 30 June 2015, 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 belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) of the Public Audit Act, 2003 and submit the audit report in compliance with article 229(7) of the Constitution. 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 adverse audit opinion.

Basis for Adverse Opinion

1.0 Accuracy of the Financial Statements

The financial statements submitted for audit review had the following differences between the financial statements balances and the supporting schedule balances;

Item	Financial statement figure (Kshs.)	Schedule figure (Kshs.)	Variance (Kshs.)
Sales	51,673,290	52,729,998	1,056,700
Administration Cost	64,036,357	63,906,357	(130,000)
Property Plant & Equipment	1,435,041	1,438,895	3,854
Trade and other receivables	15,440,522	16,056,567	383,955
Trade and other payables	21,037,640	20,937,180	(100,460)
Customer Deposits	8,347,800	8,487,448	139,648
Other Income	6,217,794	1,306,040	(4,911,754)
Bank & cash balances	3,098,318	3,458,104	359,786

In the circumstances, the accuracy and completeness of the financial statements for year ended 30 June 2015 could not be confirmed.

2.0 Customer Deposits

The customer deposits balance of Kshs.8,347,800 as at 30 June 2015 was at variance with corresponding bank account balance of Kshs.1,712,194 by unexplained and unreconciled difference of Kshs.6,635,606. Under the circumstances, it has not been possible to confirm that the customer deposits balance of Kshs.8,347,800 as at 30 June 2015 was fairly stated.

3.0 Unaccounted for Water UFW

During the year under review, the Company produced 1,374,440 cubic meters (m³) of water. However, only 973,085 cubic meter (M³) of water was billed to customers. The

balance of 401,355m³ or approximately 29.2% of the total volume represented Unaccounted for Water (UFW) which is 4.2% over and above the allowable loss of 25% in accordance with Water Services Regulatory Board guidelines. The UFW may have resulted in loss of sales estimated at Kshs.24,878,068. This significant UFW may negatively impact on the Company's profitability and long term sustainability.

4.0 Going Concern

During the year under review, the Company made a net loss of Kshs.2,334,029 which reduced the retained earnings from Kshs.(5,766,731) as at 30 June 2014 to Kshs.(8,100,720) as at 30 June 2015. Further, the current liabilities balance of Kshs.29,385,440 as at 30 June 2015 exceeded the current assets balance of Kshs.19,812,580 resulting to a negative working capital of kshs.9,572,860 an indication that the Company may be experiencing financial difficulties in settling maturing obligations, as and when they fall due. The Company's liquidity issue may have been the cause of the Kshs.4,409,802 increase in Trade and Other Payables from Kshs.16,627,838 as at 30 June 2014 to Kshs.21,037,640 as at 30 June 2015. The Company's financial position is therefore precarious and its continued existence as a going concern is dependent upon continued support from the government and creditors.

Other Matter

1.0 Budgetary Control and Performance

The Company's revenue and expenditure budget was Kshs.74,571,738 and Kshs.86,330,321 respectively resulting in a budget deficit of Kshs.11,758,584 as follows;

AUDIT COMPONENTS	Current year figures Kshs.	Current year budget Kshs,	Variance (Under)/Over Kshs.
Revenue			(22,102,591)
Sales	51,673,290.00	73,775,881.00	4,072,556
Grants from a National and County Government	4,072,556.00	-	5,421,938
Other Income	6,217,794.00	795,856.00	
Sub Total	61,963,640.00	74,571,737.00	12,608,097
Expenditure			
Staff Costs	28,594,761.00	34,057,448.00	(5,462,687)
Other administrative costs	33,952,380	50,376,373	(16,423,993)
Depreciation for property, plant & equipment	261,312		261,312
Sub – Total	64,297,669	86,330,321	(22,032,652)
Net – Total	2,334,029	(11,758,584)	(9,424,555)

Out of the Company's budgeted revenue of Kshs.74,571,737, only Kshs.61,963,640 was collected leading to an under-collection of Kshs.12,608,097. Further, out of the budgeted expenditure of Kshs.86,330,321, only Kshs.64,297,669 was spent translating to an under expenditure of Kshs.22,032,652. Further, the Company budgeted for a deficit of Kshs.11,758,584 without planning on how to cover the deficit.

In view of the foregoing, under collection, under expenditure and budget deficit, the Company's budget for the year under review was unrealistic.

2.0 Internal Audit

During the year ended 30 June 2015, the Company did not have a functional internal audit department contrary to the requirements of the Public Finance Management Act, 2012

In the circumstances, the Company was in breach of Section 155 of the Public Finance Management Act, 2012.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis of Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of the Kibwezi-Makindu Water and Sanitation 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 in compliance with the Water Act, 2002 and the Companies Act, Cap 486 of the laws of Kenya.

Report on Other Legal and Regulatory Requirements

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit; and
- ii. In my opinion, proper books of account have not 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

28 July 2016

KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
Reports and Financial Statements
For the year ended June 30, 2015

STATEMENT OF COMPREHENSIVE

	Note	2015 <u>Kshs</u>	2014 <u>Kshs</u>
REVENUES			
Sales	1	51,673,290	42,566,619
Grants from National and county Government	2	4,072,556	10,126,899
Other Income	3a&b	6,217,794	1,430,249
TOTAL REVENUES		<u>61,963,640</u>	<u>54,123,767</u>
OPERATING EXPENSES			
Administration Costs	4a	64,036,357	59,126,550
Depreciation of property, plant and equipment	6	261,312	793,300
Amortisation of Intangible Assets		-	-
TOTAL OPERATING EXPENSES		<u>64,297,669</u>	<u>59,919,850</u>
OPERATING PROFIT/(LOSS)		(2,334,029)	(5,796,083)
PROFIT/(LOSS) BEFORE TAXATION		(2,334,029)	(5,796,083)
INCOME TAX EXPENSE/(CREDIT)		(2,334,029)	(5,796,083)
PROFIT/(LOSS) AFTER TAXATION		<u>(2,334,029)</u>	<u>(5,796,083)</u>



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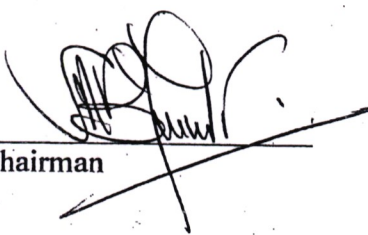
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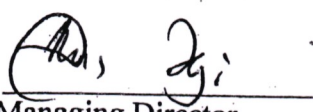
KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
Reports and Financial Statements
For the year ended June 30, 2015

STATEMENT OF FINANCIAL POSITION

	Note	2015 <u>Kshs</u>	2014 <u>Kshs</u>
ASSETS			
Non-Current Assets			
Property, plant and equipment	6	1,435,041	3,149,762
Intangible assets	6	37,099	40,107
Total Non-Current Assets		1,472,140	3,189,869
Current Assets			
Inventories		1,273,740	852,917
Trade and other receivables	7(a)	15,440,522	10,667,600
Bank and cash balances	8	3,098,318	3,502,863
Total Current Assets		19,812,580	15,023,380
Total assets		21,284,720	18,213,249
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	9	40	40
Retained earnings		(8,100,760)	(5,766,731)
Capital and Reserves		(8,100,720)	(5,766,731)
Current Liabilities			
Trade and other payables	13	21,037,640	16,627,838
Customer deposits	12	8,347,800	6,429,300
Project funds		0	1,035,302
Total Current Liabilities		29,385,440	24,092,440
TOTAL EQUITY AND LIABILITIES		21,284,720	18,213,249

The financial statements were approved by the Board on 28th October 2015 and signed on its behalf by:


 Chairman


 Managing Director



KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
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STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Proposed dividends	Total
At July 1, 2014	40	-	-	29,352	-	29,392
Total comprehensive income	-	-	-	(5,766,083)	-	(5,766,083)
At June 30, 2014	40	-	-	(5,766,731)	-	(5,766,691)
At July 1, 2015	40	-	-	(5,766,731)	-	(5,766,691)
Total comprehensive income	-	-	-	(2,334,029)	-	(2,334,029)
At June 30, 2015	40	-	-	(8,100,760)	-	(8,100,720)



KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
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STATEMENT OF CASH FLOWS

	Note	2015 Kshs	2014 Kshs
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	39(a)	(825,661)	353,658
Taxation paid	26	(-)	(-)
Net cash generated from/(used in) operating activities		(825,661)	353,658
INVESTING ACTIVITIES			
Projects expenditure		(1,005,448)	(6,183,329)
Purchase of property, plant and equipment	16	(367,770)	(330,600)
Proceeds from disposal of property, plant and equipment		1,824,187	-
Purchase of intangible assets	17	(-)	(-)
Net cash generated from/(used in) investing activities		450,969	(6,513,929)
FINANCING ACTIVITIES			
Projects grant-wstf		-	7,215,160
Proceeds from issues of new share capital		-	-
Proceeds from borrowings	39(b)	-	-
Repayment of borrowings	39(b)	(-)	(-)
Net cash generated from/(used in) financing activities		(374,652)	7,215,160
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			1,054,889
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	39(c)	3,472,970	2,451,551
PRIOR YEAR ADJUSTMENT		-	(3,577)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	39(c)	3,098,318	3,502,863



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 except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) 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* and all values are rounded to the nearest thousand (Kshs'000).

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, and when specific criteria have been met for each of the company's activities as described below.

- i) **Revenue from water sales** 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) **Finance income** comprises interest receivable from bank deposits securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.

3. Property, plant and equipment

The tools, furniture and computer accessories acquired by the company are stated at cost less depreciation.

All other property, plant and equipment are leased to the company by Tanathi Water Services Board and are not included in the figures shown in the financial statements.



April 1964

100

100

Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost of ongoing but incomplete works on buildings and other civil works and installations.

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 in profit or loss in the income statement.

4. Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

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

Buildings and civil works	2.5%
Plant and machinery	10%
Motor vehicles, including motor cycles	25%
Computers and related equipment	33%
Office equipment, furniture and fittings	10%

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

Inventories

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

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.

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.

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.



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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit obligations

The company enabled its contracted employees contribute to the National Social Security Fund (NSSF), which is a defined contribution scheme. Contributions are determined by local statute and are currently limited to Kshs 200/= per month per employee as a similar amount by the company to the contracted employees.

The company's contributions to NSSF are charged to the income statement in the year to which they relate.

Comparative figures

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

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.

Financial risk management objectives and policies

The company's overall activities expose to a variety of financial risks including credit and liquidity risks. The company's overall risk management programme focusses on an unpredictability of changes in the business environment by setting acceptable level of risks.

NOTES TO THE FINANCIAL STATEMENTS

	2015 <u>Kshs</u>	2014 <u>Kshs</u>
1 SALES		
Gross sales of water (Billing)	51,673,290	42,566,619
Gross sales of services	-	-
Less: Value added tax on gross sales	-	-
	<u>51,673,290</u>	<u>42,566,619</u>

[The company has eleven seconded to the company and whose salaries are directly paid by the GoK]

2 GRANTS FROM NATIONAL AND COUNTY GOVERNMENTS		
Salaries for GOK staff on secondment	4,072,556	5,301,570
Electricity paid to KPLC by the Makueni County government	0	4,825,329
	<u>4,072,556</u>	<u>10,126,899</u>

3. OTHER INCOME		
a) Sale of tender documents	-	28,000
Fines and penalties	-	-
Other miscellaneous receipts/income (b)	4,934,900	1,430,249
	<u>4,938,254</u>	<u>1,458,249</u>

(b) OTHER MISCELLANEOUS RECEIPTS/INCOME

New connection fees	557,400	360,324
Meter rent	530,000	452,450
Skilled labour charges	-	-
Retained customer deposits	-	-
Decrease in provision for doubtful debts	-	-
By-pass surcharge	30,500	65,000
Cut-off owner's request	7,000	5,800
Surcharge for water misuse	35,000	223,125
Change of name	5,500	8,500
Reconnection fees	546,500	314,500
Bank interest	-	3,354
-	-	-
Bounced cheque charges	-	550
Surcharge for irrigation	125,040	-
Water trucking	4,377,500	-
	<u>6,217,794</u>	<u>1,430,249</u>



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KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
Reports and Financial Statements
For the year ended June 30, 2015

	<u>2015</u> KSH	<u>2014</u> KSH
4(a) ADMINISTRATION COSTS		
Staff costs (note 4b)	28,594,761	27,232,837
Directors' emolument	872,610	620,923
Electricity and water	101,438	70,468
Communication services and supplies	188,965	208,395
Transportation, travelling and subsistence	1,114,200	1,141,600
Advertising, printing, stationery and photocopying	226,222	499,306
Rent expenses	300,000	300,000
Office tea	88,718	136,184
Hospitality supplies and services	101,780	102,780
Insurance costs (motor vehicles)	733,084	735,623
Bank charges and commissions	98,628	86,253
Office and general supplies and services	146,747	122,649
Auditors' remuneration	279,000	315,000
Legal fees	45,000	30,000
Consultancy fees	-	-
Repairs and maintenance of water infrastructures	1,058,338	1,948,178
Electricity operating	11,851,942	9,935,177
Water abstraction fees	1,637,772	793,764
Bulk Water purchases	864,060	1,787,280
Water quality testing	275,090	58,690
Hire of transport and equipment	248,850	101,100
Contracted guarding services	205,200	184,600
Computer and printer supplies	4,698	16,850
ICT support services (software maintenance)	116,500	12,000
Revenue collection fees	947,883	710,952
Motor vehicle fuel and maintenance	7,097,781	7,073,797
NHIF penalties	-	72,000
Other operating expenses(note 5)	1,489,216	470,642
Licensee remuneration fees to TAWSB	4,813,087	3,923,552
Regulatory levy to WASRB	534,787	435,950
	<u><u>64,036,357</u></u>	<u><u>59,126,550</u></u>



KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
Reports and Financial Statements
For the year ended June 30, 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 <u>Kshs</u>	2014 <u>Kshs</u>
4(b) STAFF COSTS		
Salaries and allowances of permanent employees	19,635,554	20,537,457
GoK staff salaries paid directly by the GoK	4,072,556	5,301,570
Wages of temporary employees	2,924,052	403,535
Compulsory national health insurance schemes		
Compulsory national social security schemes	99,000	98,800
Other pension contributions	55,800	55,800
Leave pay and gratuity provisions	1,203,539	350,000
Staff lunches	604,260	485,675
	<u>28,594,761</u>	<u>27,232,837</u>

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

Permanent employees – Management	4	4
Permanent employees – Unionisable	-	-
Temporary and contract employees	49	52
	<u>53</u>	<u>56</u>

5 Other Operating Expenses

	2015 <u>Kshs</u>	2014 <u>Kshs</u>
Survey & Design	45,750	-
Purchase of meters	35,000	-
Staff Training	45,950	-
Annual General Meeting	120,000	-
Interest on water abstraction charges	186,698	-
Maintenance of plant & equipment	3,300	4,100
Maintenance of Buildings	44,810	105,533
Library expenses	77,540	80,790
Maintenance of office Furniture	7,300	179,988
Provision for Bad debts	150,144	63,531
Accident Expenses	325,700	-
Staff Meetings & welfare		36,700
Umani-Mtito Andei Expenses	447,024	-
	<u>1,489,216</u>	<u>470,642</u>

KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
Reports and Financial Statements
For the year ended June 30, 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Intangible assets	Office Equipment	Buildings & civil works	Plant and machinery	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
2014										
COST OR VALUATION										
At July 1, 2012		75,000	13,500		694,881	3,243,000	1,019,149	826,787		5,872,317
Additions					330,600					330,600
Transfers					-	-	-	-		-
Disposals										
At June 30, 2013		75,000	13,500		1,025,481	3,243,000	1,019,149	826,787		6,202,917
DEPRECIATION										
At July 1, 2012		31,641	8,940		68,265	810,750	887,930	412,223		2,219,748
Charge for the year		3,252	1,505		95,722	608,063	43,302	41,456		793,300
Impairment loss										
Eliminated on disposal										
At June 30, 2013		34,893	10,445		104,662	1,418,813	931,232	453,679		3,013,048
NET BOOK VALUE										
At June 30, 2014		40,107	3,055		920,819	1,824,188	87,917	373,108		3,189,869



KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
Reports and Financial Statements
For the year ended June 30, 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)
6. PROPERTY, PLANT AND EQUIPMENT (Continued)

2014	Freehold land	Intangible assets	Office Equipment	Buildings & civil works	Plant and machinery	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
COST OR VALUATION										
At July 1, 2014		75,000	13,500	xxx	1,025,481	3,243,000	1,019,999	826,787		6,202,917
Additions					71,920	-	295,850	-		367,770
Transfers			-		-	-	-	-		-
Disposals						3,243,000				
At June 30, 2014	-	75,000	13,500	-	1,097,401	-	1,314,999	826,787		3,327,687
DEPRECIATION										
At July 1, 2014		34,893	10,445		163,986	1,418,813	931,232	453,679		3,013,048
Charge for the year		3,008	1,008		93,341		126,643	37,311		261,312
Impairment loss										
Eliminated on disposal						(1,418,813)				(1,418,813)
At June 30, 2015		37,901	11,453		257,328	-	1,057,875	490,990		1,855,547
NET BOOK VALUE										
At June 30, 2015		37,099	2,047		840,073	-	257,124	335,797		1,472,140



KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD

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For the year ended June 30, 2015

[Provide short appropriate explanations as necessary, including make-up of the investments]

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015	2014
	Kshs	Kshs
7 (a) TRADE AND OTHER RECEIVABLES		
Trade receivables (note 24 (b))	16,536,585	11,178,645
Deposits and prepayments	35,000	35,000
VAT recoverable	-	-
Staff receivables (note 24 (c))	136,905	68,900
Other receivables	40	40
Gross trade and other receivables	<u>16,708,450</u>	<u>11,282,585</u>
Provision for bad and doubtful receivables	(1,268,005)	(1,117,865)
Net trade and other receivables	<u><u>15,440,522</u></u>	<u><u>10,164,720</u></u>

[Provide short appropriate explanations as necessary]

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015	2014
	Kshs	Kshs
7 (b) TRADE RECEIVABLES		
Gross trade receivables	16,708,450	11,178,645
Provision for doubtful receivables	(1,268,005)	(1,117,865)
	<u>15,440,522</u>	<u>10,060,781</u>

At June 30, the ageing analysis of the gross trade receivables was as follows:

Less than 30 days	XXX	XXX
Between 30 and 60 days	XXX	XXX
Between 61 and 90 days	XXX	XXX
Between 91 and 120 days	XXX	XXX
Over 120 days	XXX	XXX
	<u>XXX</u>	<u>XXX</u>

[Provide short appropriate explanations as necessary]



KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD

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For the year ended June 30, 2015

7 (c) STAFF RECEIVABLES

Gross staff loans and advances	136,905	68,900
Provision for impairment loss		
	<u>136,905</u>	<u>68,900</u>
Less: Amounts due within one year	-	-
Amounts due after one year	<u><u>136,905</u></u>	<u><u>68,900</u></u>

KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Kshs	2013 Kshs
8 BANK AND CASH BALANCES		
Cash at bank	3,083,286	3,422,361
Cash in hand	15,031	80,501
	<u>3,098,317</u>	<u>3,502,862</u>

The bulk of the cash at bank was held at Kenya Commercial Bank, Kibwezi branch, the *entity's* main bankers.

9 ORDINARY SHARE CAPITAL

Authorised: 5,000 ordinary shares of Kshs.20 par value each	<u>100,000</u>	<u>100,000</u>
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Issued and fully paid: 2 ordinary shares of Kshs. 20 par value each	<u>40</u>	<u>40</u>
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[Provide short appropriate explanations as necessary]

10 REVALUATION RESERVE

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

11 FAIR VALUE ADJUSTMENT RESERVE

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

KIBWEZI-MAKINDU WATER AND SANITATION COMPANY LTD
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015	2014
	Kshs	Kshs
12. Customer Deposits		
Balance brought Forward	6,429,300	5,425,300
Additions during the year	1,921,500	1,009,000
Less: Refunds for the year	<u>(3000)</u>	<u>(5000)</u>
	<u>8,347,800</u>	<u>6,429,300</u>
13 TRADE AND OTHER PAYABLES		
Accrued staff leave	56,241	-
Water sales payable	324,164	328,929
Provision for audit & supervision fees	558,000	315,000
Licence remuneration fee payable	11,273,234	6,836,591
Accrued staff salaries	1,092,077	1,179,333
National hospital insurance fund	150,700	-
Waspa	125,000	125,000
Mumbe hardware supplies	654,400	109,840
Water Resources Management Authority	1,528,556	1,289,086
Staff lunches	567,400	567,400
Makindu security services	68,400	42,600
Kenya Revenue Authority	358,357	272,451
Water services Regulatory Board	164,571	91,610
Kari Kiboko	137,040	386,000
Staff gratuity	210,000	-
Gulf Energy		42,520
NSSF	16,000	-
Nairobi Iron Mongers	-	120,000
Kenya power & lighting company	1,265,536	2,888,122
Standard Bank securities	146,475	-
Kinetics Engineering Ltd		101,200
Miscellaneous receipt		89,953
Basala Hardware		52,135
Henaque collections		19,100
Kimawasco SHG	173,200	134,200
Pioneer Insurance	40,676	81,792
Ukulima co-operative society	1,703,965	1,252,484
Nolturesh	91,200	91,200
Casual wages	212,668	-
Safaricom ltd	2,030	-
Modern Choice electronics centre	17,260	-
	<u>21,037,640</u>	<u>16,416,546</u>



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For the year ended June 30, 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 Kshs	2014 Kshs
14 PROVISION FOR LEAVE PAY		
Balance at beginning of the year		415,000
Additional provision at end of year		350,000
Leave paid out or utilised during the year		(307,365)
	_____	_____
Balance at end of the year		<u>457,635</u>

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

15 NOTES TO THE STATEMENT OF CASH FLOWS

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

Operating profit/(loss)	(2,334,029)	(5,796,083)
Depreciation	261,312	793,300
Amortisation	-	-
(Gain)/loss on disposal of property, plant and equipment	-	-
	<u>(2,072,717)</u>	<u>(5,002,783)</u>
Operating profit/(loss) before working capital changes	(420,824)	(70,289)
(Increase)/decrease in inventories	(4,871,714)	(502,880)
(Increase)/decrease in trade and other receivables	4,621,094	4,895,718
Increase/(decrease) in trade and other payables	-	-
Increase/(decrease) in retirement benefit obligations	-	-
Increase/(decrease) in provision for staff leave pay	1,918,500	1,004,000
Increase in customers deposit	1,247,046	<u>5,326,548</u>
Net cash outflow from working capital changes	_____	_____
Cash generated from/(used in) operations	<u>825,661</u>	<u>353,765</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 RELATED PARTY DISCLOSURES

(a) Government of Kenya

The Government of Kenya is the principal shareholder of the *entity*, holding 100% of the *entity's* equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the *entity*, both domestic and external.

There were not other *entity* transactions involving the Government of Kenya.

17 CONTINGENT LIABILITIES

Bank guarantees	-	293,175
Legal claims against the <i>entity</i>	-	-
	<u>-</u>	<u>293,175</u>
	<u>-</u>	<u>293,175</u>

18 INCOPORATION

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