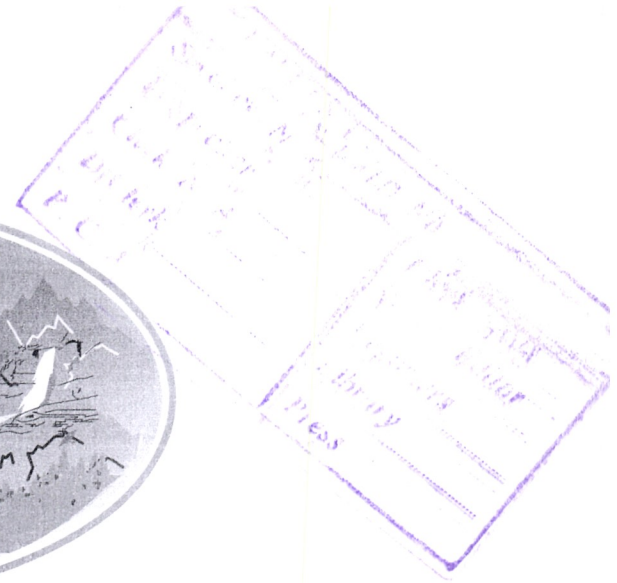
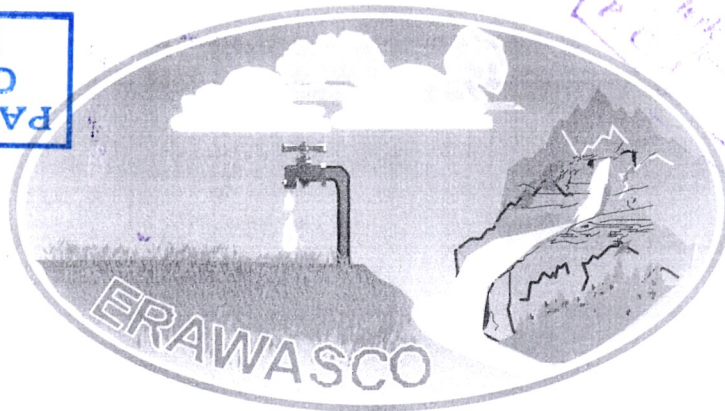
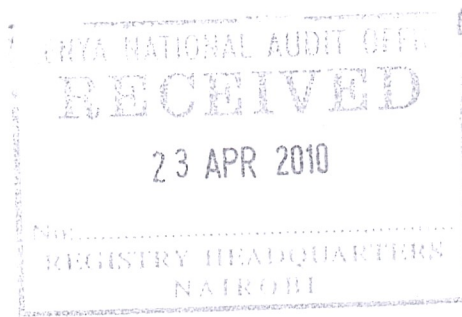


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# **ELDAMA RAVINE WATER AND SEWERAGE COMPANY LIMITED**



## **ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE (18) EIGHTEEN MONTHS PERIOD ENDED 30<sup>TH</sup> JUNE 2008**





REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

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

**ON**

**FINANCIAL STATEMENTS OF  
ELDAMA RAVINE WATER AND  
SEWERAGE COMPANY LIMITED  
FOR THE (18) EIGHTEEN MONTHS  
PERIOD ENDED 30 JUNE 2008**







**ELDAMA RAVINE WATER & SEWERAGE COMPANY  
LIMITED**

K.C.B. Building  
P.O. BOX 826  
ELDAMA RAVINE

Telephone : 0718-026126  
E-mail : erawasco2007@yahoo.co.uk  
FAX : 051-752040

**Ref:** ERAWASCO/WSP/ADM/150

**Date:** 28<sup>th</sup> September 2009

The Controller and Auditor General  
C/O Kenya National Audit Office  
**ELDORET**

Dear Sir,

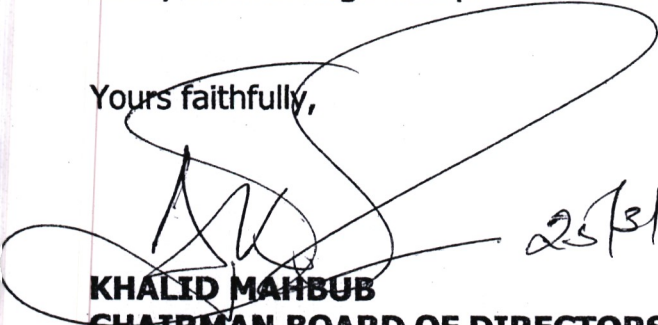
**RE: ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE (18)  
EIGHTEEN MONTHS PERIOD ENDED 30<sup>TH</sup> JUNE 2008**

The above subject matter refers.

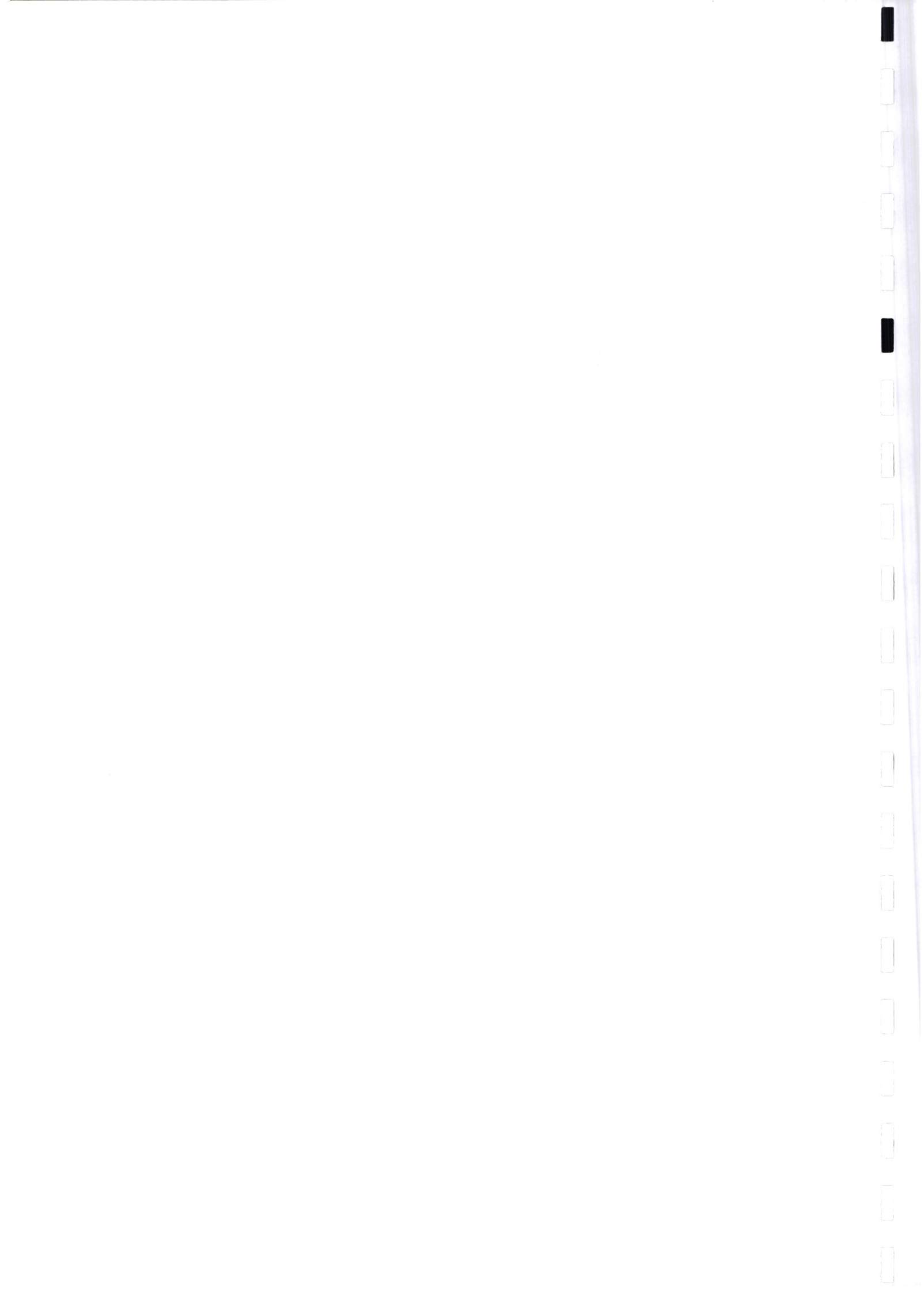
Following a Board meeting of this Company held on the 28<sup>th</sup> September 2009, members resolved to Adopt and adapt the above mentioned Annual Report and Financial Statement, vide Board Minute No. 1/ERAWASCO/FB/10

Kindly acknowledge receipt of the same.

Yours faithfully,

  
**KHALID MAHBUB  
CHAIRMAN BOARD OF DIRECTORS  
ERAWASCO LTD.**

25/9/2010



**ELDAMA RAVINE WATER AND SEWERAGE COMPANY LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE (18) EIGHTEEN MONTHS PERIOD ENDED 30<sup>TH</sup> JUNE 2008**

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## **COMPANY DETAILS/INFORMATION**

### **INCORPORATION**

Eldama Ravine Water and Sewerage Company Limited was established /incorporated in 2006 under the provision of the Company's Act Cap 486 of the Laws of Kenya. It is situated in Koibatek District in Rift Valley Province.

It covers an area of approximately 300 Sq.Km with a Population of 51,580 as per 1999 census and the projections done by the Central Bureau of Statistics. The Company took over the Management of Water Supply as a Service Provider within the Jurisdiction of Eldama Ravine after signing a Service Provider Agreement (SPA) with the Rift Valley Water Service Board (Licensee) on 15<sup>th</sup> January 2007.

It gets its supply from two water main sources i.e. Narasura and Chemususu Water Supply. The Company is fully owned by Town Council of Eldama Ravine. It is managed independently by a Board of Directors representing various Stakeholders.

### **Registered Office**

Kenya Commercial Bank Building, 1st floor  
Market road  
P.O. Box 826 – 20103

**ELDAMA RAVINE**  
**KENYA**

### **Bankers:**

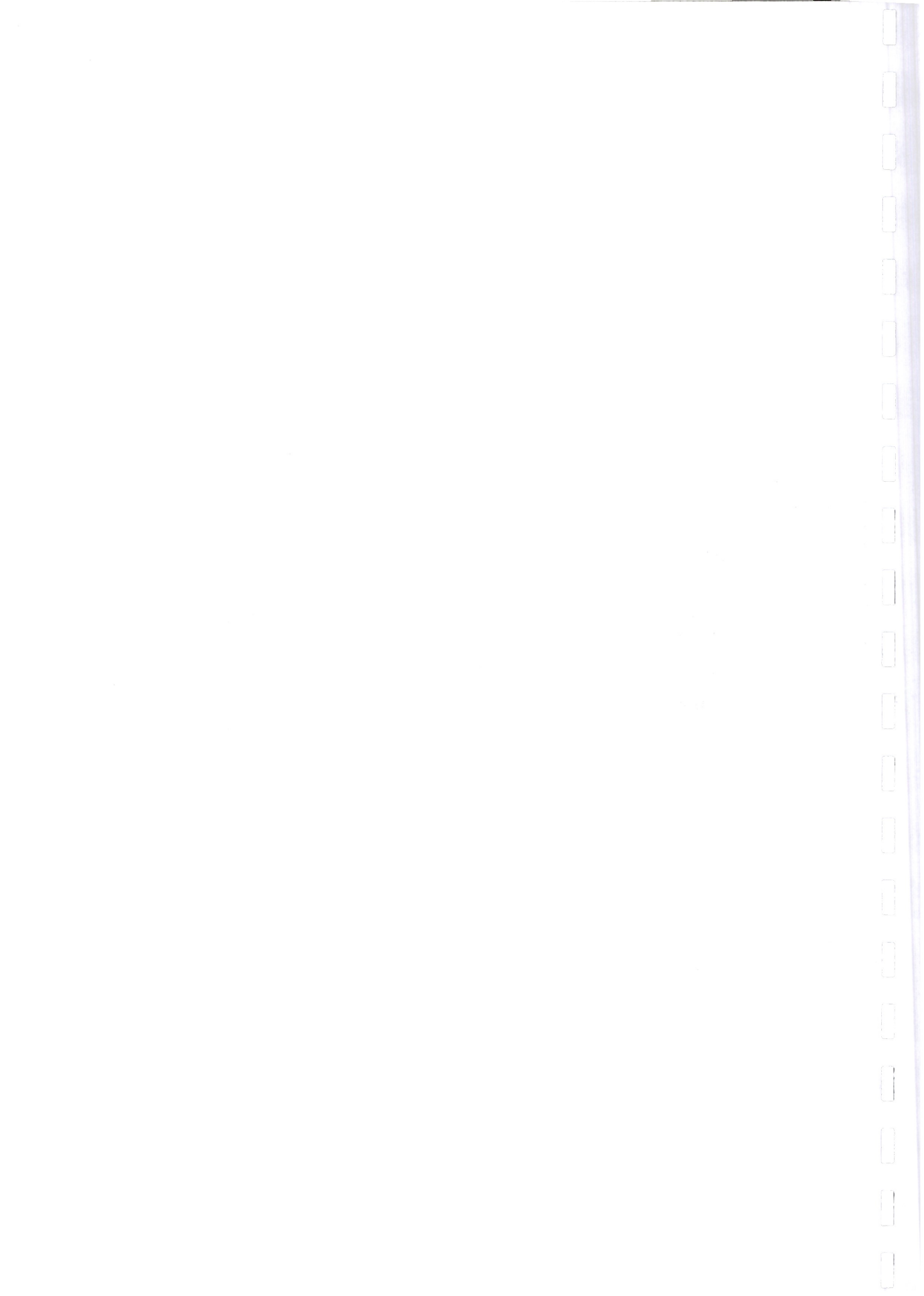
Kenya Commercial Bank  
Eldama Ravine Branch  
Market Road  
P.O. Box 415 – 20103

**ELDAMA RAVINE**  
**KENYA**

### **Auditors:**

Controller and Auditor General  
Kenya National Audit Office (KENAO)  
Anniversary Towers, 8<sup>th</sup> Floor  
P.O. Box 30084

**NAIROBI**  
**KENYA**





**BOARD MEMBERS**

The Board of Directors comprises seven (7) members whose names organizations and position they represent are given below:

S/No.	Name	Organization	Position
1.	<b>CHAIRMAN TOWN COUNCIL</b> Mr. Joseph Cheruiyot	Council	Technical Committee/ Administration & Personnel
2.	<b>CLERK TO COUNCIL</b> Mr. Stephen Kiprono	Council	Technical Committee/ Administration & Personnel
3.	<b>TREASURER TO COUNCIL</b> Mr. Samwel Rotich	Council	Finance Committee
4.	<b>CHIEF EXECUTIVE OFFICER</b> (C.E.O)	RVWSB (Representative)	Technical Committee
5.	<b>CHAIRMAN ERAWASCO .LTD</b> Mr. Khalid Mahbub	Consumer Community	Technical committee
6.	<b>BOARD MEMBER</b> Mr. Kennedy Chege	Business Community	Finance Committee
7.	<b>BOARD MEMBER</b> Mrs. Hellen Seroney	Women Representative	Finance Committee

SIGNED .....



**MR. SIMION KIPLAGAT**  
**SECRETARY TO THE BOARD**

DATE 25/03/2010.....



**REPORT OF DIRECTORS**

The directors have pleasure in presenting their annual financial report for the Company.

**PRINCIPAL ACTIVITIES**

The principal activity of the Company consists of the supply of wholesome water services and safe disposal of waste water services within the Legal jurisdiction of Eldama Ravine and Sewerage Company Limited.

**RESULTS**

The results of the year are shown on page 12

**DIRECTORS**

The directors who held office during the year are shown on page 2 above

**ON BEHALF OF THE BOARD**

SIGNED.....  
  
**MR. KHALID MAHBUB**

DATE 25/3/2010





**1. CHAIRMAN'S REPORT**

**1.1 INTRODUCTION**

These financial statements relate to the operations of Eldama Ravine Water and Sewerage Company limited for the period covering Eighteen (18) Months ended 30<sup>th</sup> June 2008. These financial statements are prepared in accordance with the International Public Sector Accounting Standards (IPSAS), International Financial Reporting Standards (IFRS), Public Audit Act Cap 2003 and within the requirements stated in the Company's Act Cap 486 Laws of Kenya.

**1.2 OVERVIEW**

During the period under review, emphasis was placed in reaching out to areas requiring Water and Sewerage Services. This has increased our performance and visibility in Eldama Ravine Town and its environs as we strive to enhance our Service Delivery levels. The Company intends to sustain the tempo in the years ahead.

**2.0 PERFORMANCE**

In the year under review, the company achieved the results as reported hereunder.

**2.1 REVENUE ITEMS**

The total Company turnover for the Eighteen (18) Months was Kshs. 13,352,721. This was a marked start taking into consideration that the company was faced with some challenges in its initial stages of operations and re-organization. The main source of revenue is Water Sales (Billings) contributing 96 % of total Revenue.

Debtors for the Eighteen (18) months ending 30<sup>th</sup> June 2008 amounted to Kshs.14, 392,800. This was due non-settlement of Water Billings by the consumers. However, we are putting in place mechanism to recover these debts.

Negative Bank Balance was maintained at the end of 18 months ending 30<sup>th</sup> June 2008 as evidenced by the Company's Bankers Kenya Commercial Bank Eldama Ravine Branch.

**2.2 EXPENDITURE ITEMS**

The total expenditure for the Eighteen (18) months ending 30<sup>th</sup> June 2008 was Kshs.19, 818,382. The ratio of expenditure on personnel, operations and finance costs is 59:40:1. This is a normal trend by any Standard. Creditors for the 18 months ending 30<sup>th</sup> June 2008 amounted to 9,043,638. Delay to clear this arrears was highly contributed by the fact that the consumers are defaulting to clear the debts.

**2.3 OPERATING PROFIT (LOSS)**

The Company's operational deficit in the Eighteen (18) months ending 30<sup>th</sup> June 2008 was Kshs. 7,712,758. This has resulted from lack of systematic approach towards the development of Strategies, Business Plans, Goals Targets and regular review of performance.

However, the management is putting under control. The deficit is taken to the Retained/Accumulated Losses as required by the company's Act Cap 486 Laws of Kenya.





## **2.4 RAPID RESULT INITIATIVE (R.R.I)**

The level of unaccounted for water (UFW) poses considerable challenges to the efforts of the company to operate in a financial sustainable manner. We are putting all our efforts in ensuring that we regulate the rate of unaccounted for water to a manageable level.

## **2.5 LIABILITIES/ DEBTS**

There is no major performing account and payment default that has a negative impact on the ability of the company to operate in a financially sustainable manner. During the Eighteen (18) months ending 30<sup>th</sup> June 2008, the debts identifiable related to Town Council of Eldama Ravine to **Kshs. 542,936.00** which was incurred in form of financial assistance extended to the Company during the initial stages of forming the company, Regulatory Levy (1% of monthly billing) Kshs. 127,597 lease fee (18% of monthly billing) Kshs. 2,296,755 and Water Resource Management Levy (WRMA) Kshs. 1,229,536.

Debt Management is one of the areas accorded the attention and measures spelled out with specific performance targets to be achieved over the plan period, cardinal among the targets is to reduce the number of days of outstanding debts to at most 60 days. The Company inherited debtor's worth Kshs. 11,592,483 and financial assistance used to pay salaries for the month of January to March 2007 worth Kshs. 1,616,976. This amounts are treated as capital in the Financial Statements. The Company is facing a major challenge in recovering debts some of which seem to be unrecoverable. However, we are putting efforts in ensuring that debts are recovered.

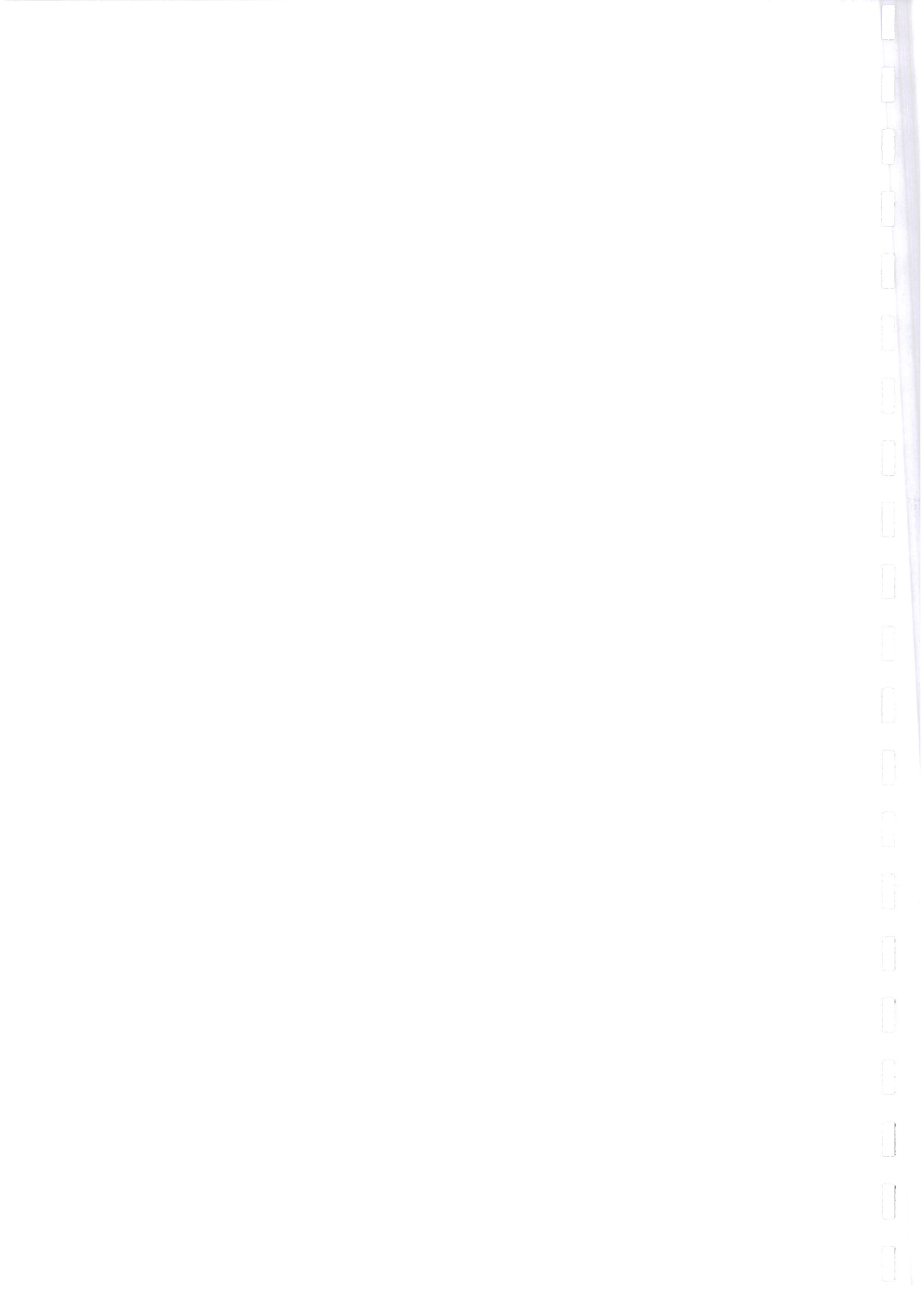
## **3.0 OTHER CHALLENGES**

In the year under review, the Company was faced with various challenges which put pressure on profitability in various segments of the company operations. These were:

- (i) Rampant illegal connections.
- (ii) Eldama Ravine Town has not witnessed any applicable increase in industrial activities.
- (iii) Personnel Cost stand at 59% which is a normal trend by any standard.
- (iv) The main shareholder (Town Council of Eldama Ravine) has not hand over the control of Sewerage services to the Company which could have increased the Company's Revenue.
- (v) Metering Services: - The Company has not managed to purchase meters and fittings that could serve all the consumers due to lack of funds.

## **4.0 WATER EXTENSION PROJECTS**

During the Eighteen (18) months ending 30<sup>th</sup> June 2008, the Company did not carry out any water distribution network extension. However, there are plans for water reticulation extensions to serve more customers.





## **5.0 SEWERAGE**

As mentioned in paragraph 3.0 above, sewerage services are being provided by the Town Council of Eldama Ravine.

## **6.0 MAINTAINCE**

The bull works carried out composed of pipe fittings, partitioning, electrical installation and inspection, testing and maintenance of fire fighting equipments and hydrants.

## **7.0 WATER SECTOR REFORMS**

The water sector has been undergoing major reforms. The company falls under the legal jurisdiction of Rift Valley Water Services Board.

Other Institutions established under the Water Act 2002 are;

- (i) Water Resources Management Authority
- (ii) Water Services Regulatory Board
- (iii) Water Services Boards
- (iv) Water Services Trust Fund
- (v) Water Appeals Board.

## **8.0 TRAINING, CAPACITY BUILDING AND HUMAN RESOURCES DEVELOPMENT**

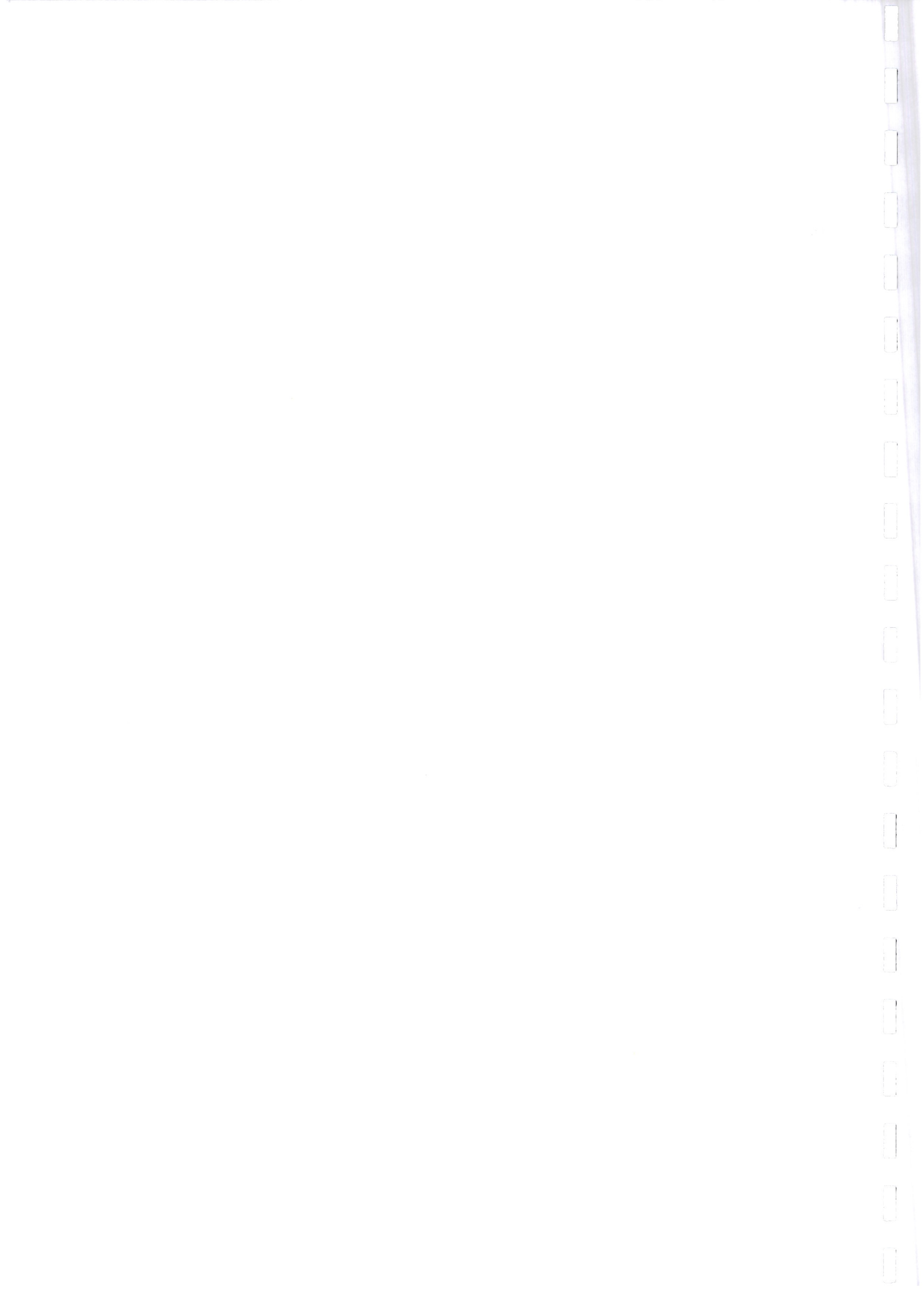
The Company values and appreciates the enormous construction and commitment of employee towards improved performance. In this regard, the company is focusing in developing its human capital and enhancing the skills and abilities for the employee's personnel development as well as towards meeting the company's business challenges. The training process will always be customized to suit the specific needs of the company, its customers, stakeholders and all-round development of employees.

## **9.0 PERFORMANCE MANAGEMENT**

In response to the emerging challenges, the company is taking up several steps to improve and sustain its leadership in the water sector. In addition, the strategic business planning and the periodic business review process will be invigorated and strengthened.

The company is in its process of establishing a performance management system where the Board of Directors and the corporate management team are going to be appraised of their performance. Through the system all the company staff will be appraised of their performance as well.

From the performance appraisals, skill gaps established, will be filled through training and capacity building.





## **10.0 PUBLIC RELATION**

Public relation remained good during the Period. The management and the Board of Directors continued their efforts for improvements in productivity; cost reduction, quality and employee performance.

## **11.0 INEGRATED SYSTEMS ORGANIZATION (ISO)**

The company is in the process of aligning its systems with the best practices and is presently in process of implementing the ISO 9001:2000 quality management systems. A team has been established to foresee the implementation when completed; the Board and Management are sure of improving in productivity and efficient service delivery to meet the internal quality standards so as to satisfy the growing and dynamic customer's demands.

## **12.0 HEALTH AND SAFETY**

The company is in the process of establishing an occupational Health and safety committee in keeping the factories and other places of Work Act.

## **13.0 CORPORATE SOCIAL RESPONSIBILITY**

The company is the process of forming a committee which will foster strong relationship with the community. This will be achieved after implementing a well-defined corporate social responsibility frame work.

## **14.0 CORPORATE GOVERNACE ISSUES**

The company is in the process of training all its Directors and the Corporate Management Team on the all important subject of Corporate Governance on its quest of achieving transparent accountable, efficient, effective and sustainable performance of the Company.

## **15.0 INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY**

I wish to confirm that the Company has a proper and adequate system of internal controls geared towards achieving efficiency in its various business operations, safeguarding of asset, optimum utilization of resources, and compliance with the law and statutory regulations.

## **16.0 DISCLOSURES**

During the Period under review, besides the transactions reported in the notes to the Accounts, there were no transactions with the Directors and Management that had any conflict with the company's interest.



**17.0 CONCLUSION**

I am glad to record my profound gratitude to all members of the Board, the Management and entire staff for the commitment and dedication with which the affairs of the company were conducted in the period under review.

I have every confidence that this spirit will be sustained in the years ahead.

Thank you.

SIGNED.....

  
**KHALID MAHBUB**

**CHAIRMAN**

26/3/2010





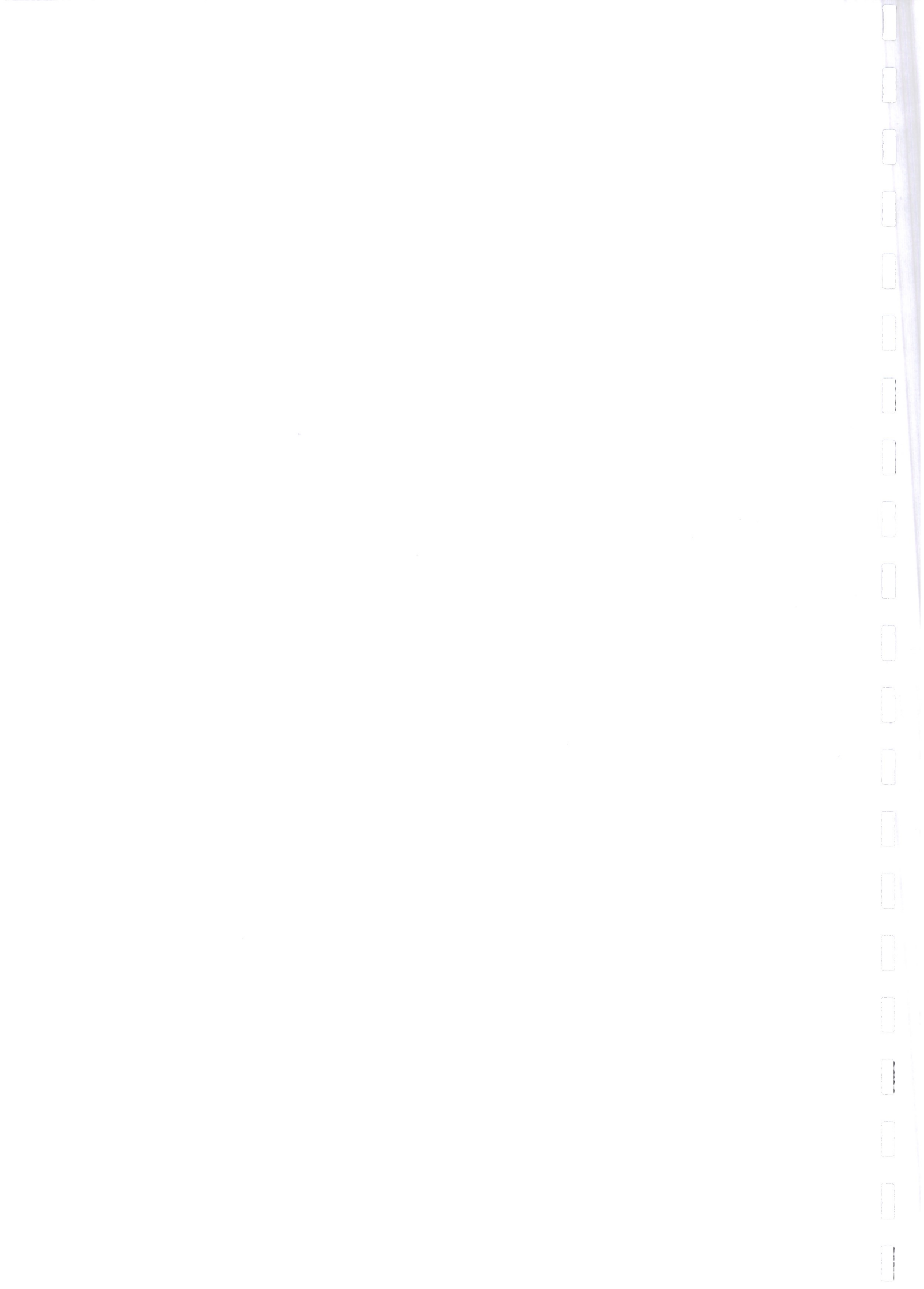
**Expression of Appreciation**

“I am grateful to the Finance Committee Members, Technical Committee members, Rift Valley Water Services Board, Representative, and the Corporate Management for the support they have given me and the staff during the period. I would also like to thank the members from the Town Council of Eldama Ravine being the main stakeholder and the Kenya Audit office for their advice and guidance.

SIGNED.....

  
**CHAIRMAN**

DATE..... 25/8/2010



**BOARD MEMBERS RESPONSIBILITIES**

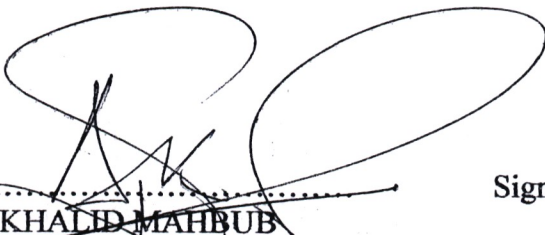
We are responsible for the preparation of this annual financial statement, which are set out on page 12 to 23, in accordance with the Company's Act Cap. 486 Laws of Kenya and the public Audit Act 2003 which we have signed on behalf of the Eldama Ravine Water and Sewerage Company limited.

We are of the opinion that these financial statements give a true and fair view of the state of affairs of the Corporation as at 30<sup>th</sup> June 2008 and its surplus or deficit for the period ended. We have ensured that the Company maintains proper accounting records which disclose with reasonable accuracy, the financial position of the Company. We are also responsible for safeguarding the assets of the corporation.

We accept responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, and in conformity with Internal Financial Reporting Standards (IFRS), and International Public Sector Accounting Standards (IPSAS)

Nothing has come to the attention of the Board members to indicate that the Company will not remain a going concern for the next twelve (12) months from the date of this statement.

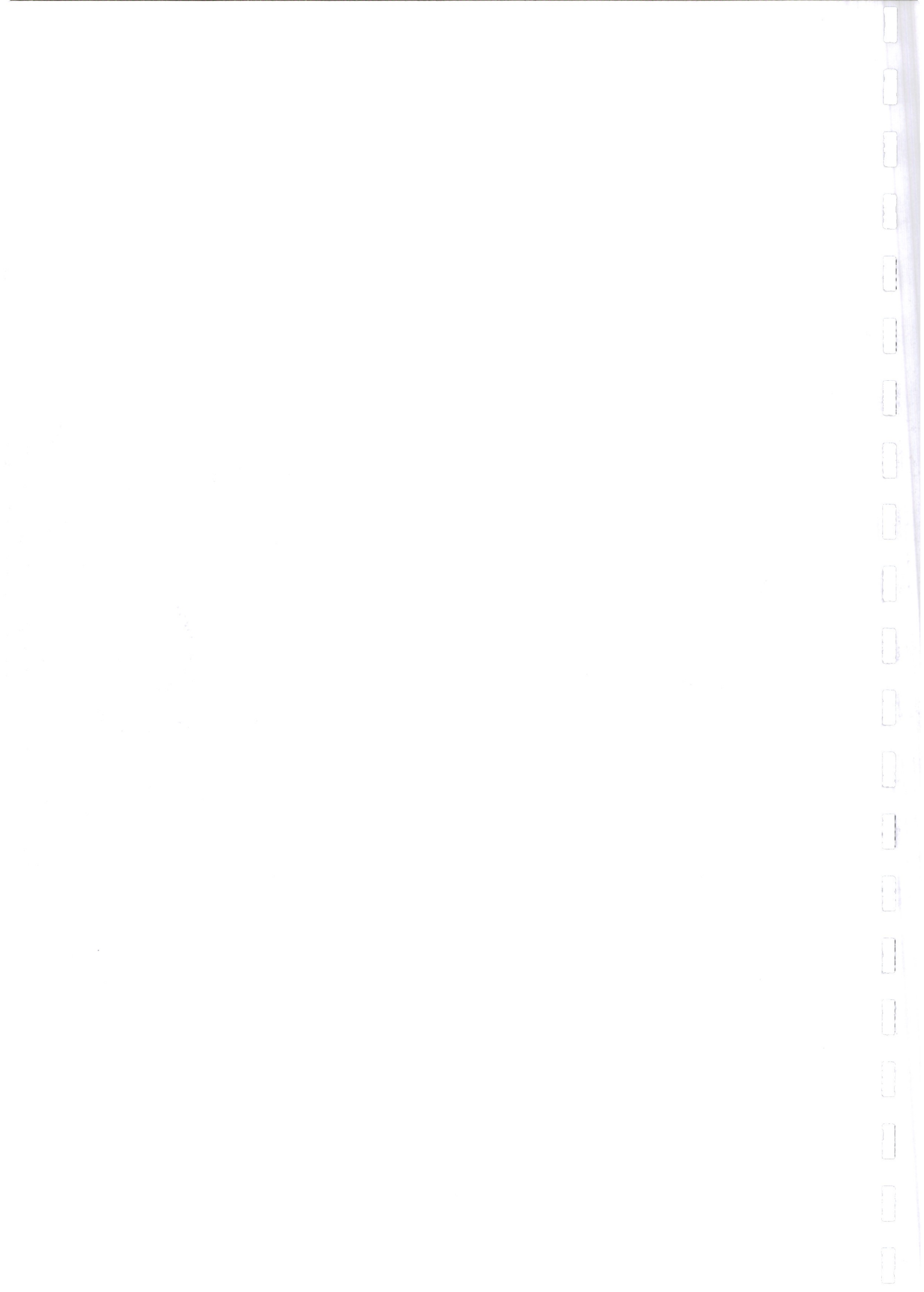
This statement is approved by the Board Members and it is signed on its behalf by:-

Signed.....  
  
**KHALID MAHBUB  
CHAIRMAN**

DATE..... 25/3/2010 .....

Signed.....  
  
**SIMION KIPLAGAT  
A.G MANAGING DIRECTOR**

DATE..... 25/3/2010 .....







## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF ELDAMA RAVINE WATER AND SEWERAGE COMPANY LIMITED FOR THE (18) EIGHTEEN MONTHS PERIOD ENDED 30 JUNE 2008

I have audited the accompanying financial statements of Eldama Ravine Water & Sewerage Company Limited set out at pages 12 to 23 which comprise the Balance Sheet as at 30 June 2008, the Income Statement, the Statement of Changes in Accumulated Funds and the Statement of Cash Flows for the (18) eighteen months period then ended and a summary of significant accounting policies and other explanatory information, in accordance with the provisions of Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

#### **Management's Responsibility for the Financial Statements**

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

#### **Responsibility of the Controller and Auditor General**

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining 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 controls 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 controls. 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 the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1. Share Capital**

The Company's share capital of Kshs.100,000, divided into 5,000 shares of Kshs.20 each had not been paid for as at 30 June 2008 by the Town Council of Eldama Ravine. In the circumstances, it has not been possible to confirm whether or not the Council is desirous of having the Company achieve its objectives as outlined in the Memorandum and Articles of Association.

#### **2. Inventories**

According to note 11 to the financial statements, the inventories balance of Kshs.532,637 as at 30 June 2008 is made up of water fittings and treatment chemicals worth Ksh.458,537 and stationery valued at Kshs.74,000. However, the management did not carry out a stock-take at the close of the year and stock cards used for accountability purposes were not maintained. In the circumstances, it was not possible to confirm the accuracy of the inventories balance of Ksh.532,637 as at 30 June 2008.

#### **3. Receivables**

The balance sheet accounts receivables figure of Ksh.14,392,800 as at 30 June 2008 includes trade debts totalling Kshs.14,360,202, out of which an amount of Kshs.11,592,483 was inherited from the Rift Valley Water Services Board in January 2007. However, and despite the apparent uncertainty surrounding collection of some of these debts, the management has not provided for bad and doubtful debts. In the circumstances, it was not possible to confirm that the receivables balance of Kshs.14,492,800 as at 30 June 2008 was fairly stated.

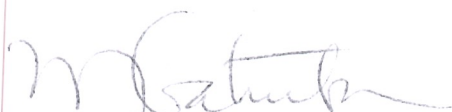
#### **4. Un-Accounted For Water**

Information available indicates that as at 30 June 2008, the total value of Un-accounted For Water (UFW) stood at Kshs.5,799,599. The significant volume of UFW is attributed to the fact that out of the 3,618 households connected, 200 had functioning water meters, 1,654 had no meters while the remaining 1,764 had been disconnected due to non-payment of water bills. Although management has explained that measures to reduce the UFW have been put in place, the volume of water lost may adversely affect the operations of the Company.



## Opinion

Except for the foregoing reservations, in my opinion, the financial statements give a true and fair view of the financial position of the Company as at 30 June 2008 of its financial performance and its cash flows for the eighteen (18) months period then ended in accordance with the International Financial Reporting Standards and comply with Water Act, 2002 and the Companies Act. Cap. 486 of the Laws of Kenya.



**A.S. M. Gatumbu**  
**CONTROLLER AND AUDITOR GENERAL**

Nairobi

23 April 2010





**ELDAMA RAVINE WATER AND SEWERAGE COMPANY LIMITED**

**INCOME STATEMENT**

**FOR THE (18) EIGHTEEN MONTHS ENDED 30<sup>TH</sup> JUNE 2008**

	<b>NOTES</b>	<b>KSHS.</b>
Turn over	<b>3</b>	13,352,721
Cost of Sales	<b>4</b>	1,247,097
<b>Gross profit</b>		<b>12,105,624</b>
<b>EXPENDITURE</b>		
Personnel Costs	<b>4</b>	11,781,686
Administrative/Operating Costs	<b>6</b>	7,956,357
Finance Costs	<b>7</b>	80,339
<b>Total Expenditure</b>		<b>19,818,382</b>
<b>Net Profit/(Loss)</b>		<b>(7,712,758)</b>

The notes shown from page 16 to 23 form an integral part of these financial statements



**ELDAMA RAVINE WATER AND SEWERAGE COMPANY LIMITED**  
**BALANCE SHEET**  
**AS AT 30<sup>TH</sup> JUNE 2008**

	NOTES	KSHS.
<b>FINANCED BY :-</b>		
Share Capital(Town Council of Eldama Ravine)	8(i)	100,000
RVWSB Grant	8(i)	13,209,459
Accumulated Funds /(Losses)	9	(7,454,758)
<b>Total Funds</b>		<b>5,854,701</b>
 <b>REPRESENTED BY</b>		
<b>Non - Current Assets</b>		
Property Plant & Equipment	10	28,096
<b>Current Assets</b>		
Inventories	11	532,637
Account Receivables	12	14,492,800
Utilities Deposits	13	42,000
<b>Total Current Assets</b>		<b>15,067,437</b>
 <b>Current Liabilities</b>		
Bank Ovedraft	14	197,194
Account Payables	15	9,043,638
<b>Total Current Liabilities</b>		<b>9,240,832</b>
 <b>Net Current Assets</b>		 <b>5,826,605</b>
 <b>Total Assets</b>		 <b>5,854,701</b>

The notes shown from page 16 to 23 form an integral part of these financial statements

Signature  .....  
**CHAIRMAN**  
**Mr. Khalid Mahbub**

Date 25/3/2010

Signature  ..... Date 25/03/2010  
**A.G MANAGING DIRECTOR**  
**Mr. Simion Kiplagat**

**ELDAMA RAVINE WATER AND SEWERAGE COMPANY LIMITED**

**STATEMENT OF CHANGES IN ACCUMULATED FUNDS**

**FOR THE EIGHTEEN(18) MONTHS PERIOD ENDED 30<sup>TH</sup> JUNE 2008**

	<b>Share Capital</b>	<b>Profit/Loss</b>	<b>Grant RVWSB</b>	<b>Total</b>
	<b>KSHS.</b>	<b>KSHS.</b>	<b>KSHS.</b>	<b>KSHS.</b>
As at 1 <sup>st</sup> January 2007	-	-	-	-
Share Capital (Town Council of Eldama Ravine)	100,000	-	-	<b>100,000</b>
Loss for the Year	-	(7,712,758)	-	<b>(7,712,758)</b>
RVWSB Grant	-	-	13,209,459	<b>13,209,459</b>
Adjustment	-	258,000	-	<b>258,000</b>
As at 30 <sup>th</sup> June 2008	<b>100,000</b>	<b>(7,454,758)</b>	<b>13,209,459</b>	<b>5,854,701</b>

The notes shown from page 16 to 23 form an integral part of these financial statements





**ELDAMA RAVINE WATER AND SEWERAGE COMPANY LIMITED**

**STATEMENT OF CASHFLOW**

**FOR THE EIGHTEEN (18) MONTHS ENDED 30<sup>TH</sup> JUNE 2008**

**KSHS.**

**OPERATING ACTIVITIES**

Net Profit /(Loss) for the year	(7,454,758)
Adjustment for Depreciation	4,014
<b>Net Profit /(Loss) before working capital changes</b>	<b>(7,450,744)</b>

**CHANGES IN WORKING CAPITAL**

(Increase)/Decrease in Stores	(532,637)
(Increase)/Decrease in Debtors/Receivables	(14,492,800)
(Increase)/Decrease in Utilities Deposits	(42,000)
Increase/(Decrease) in Creditors /Payables	9,043,638
<b>Net Inflow/(Outflow) from working Capital Changes</b>	<b>(6,023,799)</b>
<b>Net Cash used in Operating Activities</b>	<b>(13,474,543)</b>

**FINANCING ACTIVITIES**

Share Capital	100,000
Assistance/Grant from RVWSB	13,209,459
<b>Net Cash generated from Financing Activities</b>	<b>13,309,459</b>

**INVESTING ACTIVITIES**

Acquisition of Fixed Assets	(32,110)
<b>Net Cash used in Investing Activities</b>	<b>(32,110)</b>

**Net Increase/(Decrease) in Cash and Cash Equivalents (197,194)**

**Movement in Cash and Cash Equivalents**

At start of the year	-
<b>Increase/(Decrease)</b>	<b>(197,194)</b>
At End of the year	(197,194)

The notes shown from page 16 to 23 form an integral part of these financial statements



## ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENT

### 1.0 ACCOUNTING POLICIES

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

**(a) Basis of Preparation**

These financial statements have been prepared under the historical cost convention.

**(b) Revenue Recognition**

Revenue is recognized as follows:-

Revenue from the provision of water services is recognized when the title of services are rendered to the customer. The billing is done on monthly basis.

**(c) Currency**

The accounts are stated in Kenya Shillings and rounded off to the nearest Kenya Shilling

**(d) Property, Plant and Equipment**

Property, plant and equipment are stated at cost, less accumulated depreciation and amortization costs. Land if applicable is revalued on current market price.

**Depreciation policy**

Depreciation is calculated on cost or valuation using the straight line method over the estimated useful lives of the assets. The annual depreciation rates are based along the following estimates.

Asset	Life of assets in years	Depreciation rate (1%)
Treatment plants & Equipment	8	12.5
Water works	10	10
Buildings	40	2.5
Vehicles	5	20
Office equipment	8	12.5
Furniture and fittings	8	12.5





**(e) Unpaid Employees**

The full costs of employees, including un-remitted statutory and other payroll deductions are charged to the accounts of the period within which the employee, Chairman and Corporate Management Team worked. If there are unpaid salaries and allowances relating to the period of accounts, accruals are made and identified as a separate item in the statement of financial position under current creditors. However retrospective adjustment or special payments are required, for example through pay awards the accounts are charged with the additional amount as soon as the amount becomes measurable to the accounts of the period. Exceptionally, paid leave that is not taken by the end of the period is not accrued as charges from period to period are not normally material.

**(f) Un-remitted statutory and other deductions**

Statutory and other deductions not remitted at the end of the period are identified as current creditors.

**(g) Supplies and invoices**

All supplies and services are accrued and accounted for in the period during which they were incurred. Accruals are made for all unpaid invoices at the period end and identified as current creditors.

**(h) Interest payable and Receivables**

Interest payable is charged on accrual basis when due and credited to current creditors. Any outstanding interest not honoured for a period of twelve (12) months is transferred to loan balance as part of non-current creditors. Interest receivable from short term and long term investment is recognized once tune basis and of not received is considered as part of current assets.

**(i) Loans and Contractual Obligations**

The movement on long term loans and short term loans is disclosed with details on payments made during the period, interest accrued and the outstanding balance. This balance is considered under both current and non-current liabilities with the amount payable within Eighteen (18) months shown under current liabilities.

**(j) Contingencies**

Contingent liabilities are liabilities that in the event of the occurrence of a particular foreseeable event. These may include guarantees given by the Water Regulatory Bodies. Court cases outstanding or uninsured assets. In the cases, the likely cost to the Company in the event of the contingency occurring is recognized in the accounts by way of notes.





Where it is deemed that the contingency has occurred, or is likely to do so then provision is made in the accounts for the full amounts of the liability.

**(k) Prior year Adjustments**

Prior year and current period adjustments arise in the financial statements due to a change in accounting policies material error detected or change in accounting estimates. Changes arising as a result of the above, where possible, require the restatement of the previous balances. However, where it is impracticable to determine the cumulative effect, at the beginning of the current period, the earliest date comparative information is restated to correct the error prospectively from the earliest date practicable.

**(l) Reserves**

**Renewals Fund**

Under the company's Act Cap 486, a Corporation is expected to appropriate an amount from Company's revenue to the renewals funds. This is supported by creating separate bank account/investments for future replacements of fixed assets as per the company's replacement policy

**2.0 Notes to the financial Statement**

**Basis of Preparation**

The financial statements have been prepared in line with international Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS) under accrual accounting on historical cost basis as modified by the revaluation of fixed assets and the accounting policies set out above have been applied consistently throughout the period.

**3.0 TURN OVER**

The sales figures reflected in the income and Expenditure account is arrived at as shown below:

<b>DETAILS</b>	<b>KSHS.</b>
Water Billings(Sales)	12,759,690
Labour Charges	449,381
Reconnection Fees	125,000
Miscellaneous Income	18,650
<b>TOTAL</b>	<b>13,352,721</b>





**4.0 COST OF SALES**

The cost of sales figure reflected in the income and expenditure account is as arrived at as shown below:-

<b>DETAILS</b>	<b>KSHS.</b>
Water Pipes and Fittings	724,456
Water quality testing	15,000
Water treatment chemicals	507,641
<b>TOTAL</b>	<b>1,247,097</b>

The licensee (RVWSB) supported the Company in supply of these chemicals.

**5.0 PERSONNEL COSTS**

<b>DETAILS</b>	<b>KSHS.</b>
Basic Pay	4,860,225
House Allowances	2,347,500
Leave Allowances	170,500
Medical Allowances	472,400
Cycle Allowances	2,250
Wage Difference	49,156
N.W.C.P.S (Employer) Contribution	1,125,669
Chairman Honorarium	255,000
C.M.T Responsibility Allowances	770,000
Contractual Hire	98,211
Hazardous Allowance	13,800
Salaries Finance by RVWSB(Jan to Mar 2007)	1,616,976
<b>TOTAL</b>	<b>11,781,686</b>





**6.0 ADMINISTRATIVE/OPERATING COSTS**

The Administrative/ Operating Costs of sales figure reflected in the income and expenditure account is as arrived at as shown below:-

<b>DETAILS</b>	<b>KSHS.</b>
Office Rent	284,000
Depreciation	4,014
Telephone & Postages	181,963
Traveling and Subsistence Allowances	1,007,510
Directors Expenses	333,000
Printing & Stationeries	395,000
Fuel, Oils & Lubricants	782,232
Tyres & Tubes	8,500
Repair & Maintenance of M/Vehicles/Bikes	180,155
Electricity	679,574
Cleaning Materials	42,107
Legal Expenses	16,650
Billings Expenses	1,200
R &M of Machines, Furniture & Equipments	62,130
Entertainments	29,219
Regulatory Levy 1%	127,597
Lease Fees 18%	2,296,755
Water Resources Management Levy	1,229,536
Advertisement	36,000
Office Partioning	40,355
Repair and Maintenance Office, Pumps & Distributions Network	182,998
Journals & Periodicals	9,430
Hire of Equipments	2,300
Donation	10,000
General Repairs and Maintenance	14,132
<b>TOTAL</b>	<b>7,956,357</b>



**7.0 FINANCE COSTS**

The Finance Costs reflected in the income and expenditure account are arrived at as shown below:-

<b>DETAILS</b>	<b>KSHS.</b>
Bank Charges	80,339
<b>TOTAL</b>	<b>80,339</b>

**8.0 ASSISTANCE FROM LICENCE (R.V.W.S.B) - Kshs.13, 209,459**

The company was established from Rift Valley Water Services Board (Licensee). The licensee handed over debtors worth Kshs. 11,592,483 to the company (Service Provider). There was no agreement that the company will recover the debts under the mercy of the licensee. Bearing this in mind the company recognizes this assistance in its financial statements in form of a grant. In addition the licensee RVWSB financed salaries for the months of January, February and March 2007 on behalf of the Company amounting to Kshs. 1,616,976; similarly this was treated as a grant in the Financial Statements.

**9.0 RETAINED PROFITS/ACCUMULATED LOSSES**

<b>DETAILS</b>	<b>KSHS.</b>
Balance as 1 <sup>st</sup> July	-
Profit/(Loss) for the Year	7,712,758
Period Adjustments	258,000
<b>Balance as at 30<sup>th</sup> June</b>	<b>(7,454,758)</b>

**10.0 NON CURRENT ASSETS**

Fixed assets movement schedule for the assets being operated by the Company is detailed below. However, those Assets that were inherited from/leased to the Company by the licensee (RVWSB) have not been taken into account as they have not been revalued and further monetary values were attached to these assets during handing over – Depreciation/Renewals has been changed to the accounts accordingly applying the Internationally recommended depreciation policy as reflected above in folio 16.



**FIXED ASSETS MOVEMENT SCHEDULE**

Details	Furniture & fittings Kshs	Tools, Equipments & Machines Kshs	Totals Kshs
<b>Cost/Valuation</b>			
At 31 <sup>st</sup> Jan 2007	-	-	-
Additions	4,100	28,010	32,110
At 30 <sup>th</sup> June 2008	4,100	28,010	32,110
<b>Depreciation</b>			
At 30 <sup>th</sup> June 2007	-	-	-
Charge for the year	513	3,501	4,014
At 30 <sup>th</sup> June 2008	513	3,501	4,014
<b>Net book value</b>			
At 30 <sup>th</sup> June 2008	3,587	24,509	28,096

**11.0 INVENTORIES**

These are consumable stores purchased for use in the operations of the water systems, office and rendering other related services. They are stated on historical cost basis. Breakdown of the same is as analyzed below:

Details	KSHS.
Stationary	74,000
Water Fittings and Treatment Chemicals	458,637
<b>TOTAL</b>	<b>532,637</b>

**12.0 DEBTORS/RECEIVABLES**

These include realizable water billings and recoverable salaries in advance. They are stated in net realizable value.

Details	KSHS.
Staff Debtors	18,598
Consumers Debts	14,360,202
Prepayments	14,000
Share Capital (Town Council of Eldama Ravine)	100,000
<b>TOTAL</b>	<b>14,492,800</b>



**13.0 UTILITIES DEPOSITS**

They consist of recoverable prepayments entrusted with some institutions in form of securities.

Details	KSHS.
Regent Management Ltd (Office Rent)	39,000
Kenya Power & Lighting Co.Ltd (Electricity)	3,000
<b>TOTAL</b>	<b>42,000</b>

**14.0 CASH AND CASH EQUIVALENTS**

Details	KSHS.
Cash at Bank – General Purpose A/C No.1105641945	(197,194)
<b>TOTAL</b>	<b>(197,194)</b>

**15.0 CREDITORS/PAYABLES**

These are claimable pending bills from varied Institutions. They are stated at net realizable value

Details	KSHS.
Net Salaries	457,568
Ukulima Co-operative Society	1,076,265
Ardhi Co-operative Society	678,019
Nawaco Self Help Group	6,000
British America Insurance	1,096
Kucfaw	3,971
N.W.C.P Scheme	1,428,896
F. F.B.S Check Off loan	65,020
Kenya Power & Lighting Co.Ltd	522,668
Lease Fee 18%	2,296,755
Regulatory Levy 1%	127,597
WARMA Levy	1,229,536
C.M.T Responsibilities Allowance	214,700
Consumer Deposits	269,000
Town Council of Eldama Ravine	542,936
Regent Management Ltd	30,000
Kenya Revenue Authority	72,098
National Hospital Insurance Fund	9,380
Cooperative Check-Off Loan	5,338
Langas Cooperative Society	4,000
M.K.Hardware	2,795
<b>TOTAL</b>	<b>9,043,638</b>



