

Malindi Water and Sewerage Company Ltd
Annual Report and Financial Statements
For the year Ended 30 June, 2015



**MALINDI WATER & SEWERAGE
COMPANY LIMITED**

**REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2015**

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

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Malindi Water and Sewerage Company Key Information

Key Entity Information

The Company was incorporated on 25 August 2005. The Company is led by the Managing Director who is answerable to the board of directors. The Board of Directors is responsible for the strategic management and policy formulation of the Company.

Principal Activities

The principal activity of Malindi Water and Sewerage Company is the Supply of Water to the Residents of Malindi Sub County and the neighbouring sub county of Magarini.

Directors

The Directors who served the entity during the 2014/ 2015 financial year were as follows:

Name	Designation	Date of Appointment
1. Mrs Christine Karani	Chairman	Appointed on October 2010
2. Mr Isaac Chibule	Ag. Chief Executive	Appointed on October 2010
3. Mr Benjamin Shollo	Director	Appointed on October 2010
4. Mr Felix Charo	Director	Appointed on October 2010
5. Mr Stanley Chai	Director	Appointed on October 2010
6. Mr Ben Kai	Director	Appointed on October 2010
7. Mr Samuel Kombe	Director	Appointed on October 2010

Corporate Secretary

Mr.J.N. Nyakoe
P.O. Box 5236-80200
Malindi

Registered Office

Malindi Water and Sewerage Co. Ltd
Water Road,
Next to County Assembly of Kilifi.
P.O. Box 410-80200
Malindi, KENYA.

Corporate Contacts

Telephone: (254) 4231037
E-mail: info@malindiwater.co.ke
Website: www.malindiwater.co.ke

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Malindi Water and Sewerage Company Key information ... cont'd

Corporate Bankers

1. **Kenya Commercial Bank**

P. O. Box 9- 80200
Malindi, Kenya.

Account Number

1104220504
1104220578
1104220377
1103447661
1104224186

Description

Main Revenue Account
Operations Account
Customer Fixed Deposit Account
Savings Account
Projects Accounts

2. **Equity Bank Limited**

P. O. Box 1800-80200
Malindi, Kenya.

Account Number

045-0293125064

Description

Revenue Collection Account

Independent Auditors

Auditor-General
Anniversary Towers, University Way
P.O. Box 30084- 00100
Nairobi, Kenya.

Principal Legal Advisers

Attorney-General
Harambee Avenue
P.O. Box 40112- 00200
Nairobi, Kenya.

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Board of Directors



Director Christine Karani, Chairperson board of Directors, was born on 5th April 1960; she has a Diploma in Business Management. She was the Electoral Commission of Kenya coordinator for Malindi and Magarini. She is the chairperson BOG Mbaraka Chembe Secondary School, a member of Green Town Movement and a life Member of Red Cross. She is the treasurer Mwera Women Group which she represents in the Board.



Mr Stanley Ndenge Chai, was born on 5th February 1968. He holds of a Master degree in Maritime affairs. He is the Managing Partner of Ultimate Maritime Consultants Limited, a director of Siekmann Kenya Limited, a Lecturer in Maritime studies at the Technical University of Mombasa and visiting Lecturer at Moi University Mombasa. He is currently pursuing a PhD in International Economics at Moi University. He represent the Business Community



Mr Felix Ngumbao Charo was born in 1971. He is a Pastor and Lecturer at the Kenya Baptist Theological College. He holds a Bachelor of arts degree in Religious studies. He represents Malindi Residents Association in the Board.

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Board of Directors



Mr Benjamin Shollo was born on April 26th 1972. He holds a Bachelor's degree in Education from Egerton University and a Masters' degree in Project Management from The University of Nairobi. He the Principal Garsen High School and represents professionals in the board.



Mr Ben Kai was born in November 1973. He is the County Government of Kilifi Chief Officer Finance. Appointed as a director in October 2010. He holds a Bachelors' Degree in Commerce and a Certified Public Accountant.



Mr Samuel Kombe Ngari. He is the County Government of Kilifi Chief Officer for Water. Appointed as a Director in October 2010. He holds a Bachelors of science degree in Agricultural Engineering.



Engineer Isaac Chibule is the Ag Managing Director. He holds a BSc in Water Engineering from Kenyatta University and is currently pursuing a Masters' degree in Project Planning and Management at the University of Nairobi. He is also the Technical Services Manager.

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Corporate Management Team



Mr Gerald Mwambire is the Commercial Services Manager. He holds a Bachelors' degree in Commerce from Kenyatta University.



Mr Charles Mapinga is the Finance Manager. He holds a Bachelor of Commerce degree from University Of Nairobi, he is a Certified Public Accountant, CPA (K) and is currently pursuing Masters in Business Administration



Mr Seth Baya is the Internal Audit and Risk Manager. He holds a Bachelors' degree in Business Administration; he is a Certified Public Accountant CPA. (K) and a Certified Public Secretary CPS.

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Mrs Fella Nawiri is the Human Resource Manager. She holds a Bachelors' degree in Business Administration (HRM) Human Resource.



Mrs Priscillah Oluoch is the deputy Technical Manager. She holds a post graduate Diploma in Land Management from Erasmus University Rotterdam, Netherlands, a graduate in Development Studies Mt Kenya University and a holder of a Diploma in Water Engineering from the Technical University of Kenya.

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Chairperson Report

Malindi Water And Sewerage Company Limited has registered remarkable progress in its pursuit to serve the people in its areas of mandate.

During the year under review, the progress is manifested in the increase in network coverage, increase in the customer base and the entrance to a new area; Magarini sub-county

The total turnover decreased compared to the previous year, attributable to the impact of the decline in the Tourism sector. In addition, there was a marked reduction in the of cost of production and the levels of non-revenue water compared to the last financial year.

In the pursuit to realize the strategic plan, MAWASCO has been working with development partners who include the World Bank, Water Services Trust Fund, Vitens Evides International, the County Government of Kilifi and CDF. This partnership has resulted to the improvement of Water and Sanitation Services in Malindi and Magarini which are within our areas of jurisdiction.

Finally, the support and positive direction we have continued to receive from the County Government of Kilifi cannot go without mention. This has impacted positively in enhancing services provision.

God bless MAWASCO and Kilifi County.

Christine Karani,

Chairperson Board of Directors

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Report of the Chief Executive Officer

OVERALL PERFORMANCE OF THE COMPANY AND ECONOMIC OUTLOOK

The Water Services Regulatory Board (WASREB) impact Report issue No 7 place the company at 8th Position out of 63 Water Services Provider in the order of overall performance. In the large Water Services Providers Categories MWASCO was rated 6th Position out of 22 large utilities.

The Company's revenue is largely dependent on the tourism sector and any adverse effect on it directly affects the financial performance as was the case in the year under review. The effects of the travel advisories and the low tourism sector performance significantly affected the turnover in the year. Despite the

During the year under review the company recorded a decline of 8.1% in Turnover from Kshs. 358,879,744 to Kshs. 330,215,100. The Company also experienced a high cost of production that reduced the gross profits. As a result of the loss in high end clientele and the increase in production costs, the Company made a loss of Kshs. 42,959,062 despite the optimal operating expenses incurred.

The collection efficiency average for the year under review was maintained at 92% and the average unaccounted for water was 31%.

MAJOR WATER AND SANITATION PROJECTS UNDERTAKEN BY THE COMPANY

1. Mida – Matsangoni Rehabilitation and Augmentation Project funded by Vitens Evides International under the Water for life program. A total of 15.844 KM completed.
2. MAWASCO – WSTF Matsangoni Water supply distribution project under the 7th call for proposal. Project funded and is now at the Tendering stage.
3. KISIP Project Water Project – The project implementation is on-going and covers 12.2KM of distribution pipelines, construction of 1No Water Kiosk, 10 No. Water yard Taps and 3No. Ablussion block at Kibokoni Secondary School (1 for female students, 1 for male students and 1 for Teachers), construction works are on-going.
4. Sabaki-Gongoni Water Project: - This project was funded by the Magarini Constituency CDF and covered construction of 18KM pipeline and 10 Water Kiosks.
5. The County Government of Kilifi under took several water projects in the supply area. The projects were completed in the year under review.
6. Sanitation Projects: The UBSUP (Up scaling basic Sanitation for the Urban Poor Project is funded by Water Services Trust Fund.

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Report of the Chief Executive Officer

COMPANY'S STRATEGIC PLAN

The Company embarked on implementation of the Strategic plan which spans for five years starting from 2014 to 2019. The plan embraces the aspirations of the County Government of Kilifi on its vision for provision of clean water to the people of Kilifi.

The World Bank through Coast Water Services Board completed some of the major water infrastructure development and capacity building Programmes for MAWASCO.

The strategic plan also focuses on providing water to the North of Malindi mainly the Sabaki Gongoni Area with the partnership of the World Bank group. The Project is at an advanced stage.

CHALLENGES

The Company is currently faced with a challenge in provision of its mandate due to the high cost of power as it is mainly a pumping system. This has adversely contributed to the high cost of production per cubic meter of water compared to other water Companies that use gravity systems.

The Company is also faced with a challenge on dispensation of its mandate in managing Sewerage Services since Malindi has no established sewerage system. Studies have been made and some donors have indicated willingness to address the sewerage challenge.

The Company has been faced with a challenge since inception in 2006 in providing water to the hinterland of Magarini Constituents nearing 150,000 people. There is a challenge in operation and maintenance of the dilapidated infrastructure bearing that this is a rural scheme.

Isaac Chibule

Ag Managing Director

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Corporate Governance Statement

The role of the Board of Directors is to determine the Company's policy and strategy, to monitor the attainment of company objectives and ensure that the company meets its obligations to its customers, stakeholders and shareholders. The Board is also responsible for overseeing the company's internal control systems designed to safeguard the company's assets and to ensure the reliability of the financial information provided by the company.

The Board has 3 committees namely:

- (a) Finance and Administration Committee
- (b) Audit Committee.
- (c) Human Resource Committee

FINANCE PLANNING AND ADMINISTRATION COMMITTEE

The Finance and Administration Committee whose main duties are to ensure that;

1. Company's budget is prepared, approved and enforced,
2. there is harmony within the staff members,
3. There is human resource planning, and that there are policies on Human Resource and to review and,
4. Set appropriate performance targets.

The Committee is responsible for reviewing and setting medium and long term strategic directions and financial prudence. The Committee includes all aspects of projects planning as all projects will require Planning & Financing.

AUDIT AND RISK COMMITTEE

The main duties of the Internal Audit Committee are to ensure that the systems of internal controls are effectively administered. The committee defines the responsibilities of the Internal Auditors and to review and recommend to the Board the approval of interim financial results and annual financial statements. The Internal Audit is a department operating independently of other departments and sections of the Company.

HUMAN RESOURCE COMMITTEE

Due to an increase in the Company's activities, the Board however identified the need for introducing a Human Resource Committee which shall clearly define the Company's organizational structure within which individual responsibilities are defined in relation to the Company's mandate. The structure will be complemented by documented policies. The Committee will deal with appointments, dismissal, conflicts, dispute, promotion and demotion.

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Corporate Social Responsibility Statement

The Company remained a social responsible corporate citizen by conducting its business in a socially acceptable and responsible manner. The company contributed and participated in various forums at the county and sub-county level that include;

HIV /AIDS SENSITISATION

The company has taken active participation in sensitizing the community within its area of mandate against the spread of the HIV/AIDS scourge. The company organized for and conducted sensitization campaigns at Mkongani Secondary School, Katana Ngala Secondary School, Matsangoni Primary School and Mkongani Primary School.

ESTABLISHMENT OF THE PRO-POOR UNIT

The company has been keen to provide water and sanitation services to the pro-poor residents of Malindi sub-county and its environs. In response to this, MAWASCO has established a pro-poor unit tasked with the responsibility of developing appropriate strategies for effective services delivery to the poor.

WOMEN EMPOWERMENT

MAWASCO has taken an active role in empowering women in the provision of water and sanitation services through conducting workshops for women Water operators. This has improved women skills in Management of Water and Sanitation Services at the community levels. This is in tandem with the concept of Gender Mainstreaming in the water sector; a program MAWASCO is implementing with Coast Water Services Board and the World Bank – WSP.

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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 affairs of Malindi Water and Sewerage Company Ltd.

Principal activities

The principal activities of the entity are provision of portable water to the residents of Malindi Sub County and its environs

Results

The results of the entity for the year ended June 30, 2015 are set out on page 16 to 31

Directors

The members of the Board of Directors who served during the financial year under review are shown on page 4 to 5. In accordance with Regulation of Malindi Water and Sewerage Company, there are 9 directors of which three of the retired directors have not been replaced.

Auditors

The Auditor General is responsible for the statutory audit of the Malindi Water and Sewerage Company Ltd in accordance with Article 229 (4) of the Constitution of Kenya and Section 8 of the Public Audit Act 2003.

By Order of the Board

Mr J. N. Nyakoe
Corporate Secretary
Nairobi

Date

Malindi Water and Sewerage Company Limited
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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 Malindi Water and Sewerage Company Ltd, which give a true and fair view of the state of affairs of Malindi Water and Sewerage Company Ltd at the end of the financial year ended 30 June 2015 and the operating results of Malindi Water and Sewerage Company for year ended 30 June 2015. The Directors are also required to ensure that Malindi Water and Sewerage Company Ltd keeps proper accounting records which disclose with reasonable accuracy the financial position of Malindi Water and Sewerage Company Ltd. The Directors are also responsible for safeguarding the assets of the Company.

The Directors are responsible for the preparation and presentation of Malindi Water and Sewerage 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 MAWASCO'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 MAWASCO'S financial statements give a true and fair view of the state of its transactions during the financial year ended June 30, 2015, and of the financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for MAWASCO, which have been relied upon in the preparation of the its 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 MAWASCO will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

Malindi Water and Sewerage Company's financial statements were approved by the Board on 25 August 2015 and signed on its behalf by:

Director

Director

Malindi Water and Sewerage Company Limited
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Report of the Auditor-General

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Statement of Comprehensive Income for the period ended 30th June 2015

	Notes	2015' Kshs	2014' Kshs
REVENUES			
Sales	2	330,215,100	358,879,744
		<u>330,215,100</u>	<u>358,879,744</u>
Cost of sales	3	191,364,603	200,922,381
Net Sales		<u>138,850,497</u>	<u>157,957,363</u>
In-Kind Contribution	4	3,604,080	3,599,796
Other Income	5	7,938,689	11,803,515
Total Revenues		<u>150,393,266</u>	<u>173,360,674</u>
OPERATING EXPENSES			
Administration Costs	6(a)	62,852,790	66,821,934
Staff Costs	6(b)	125,343,873	116,364,674
Depreciation of property, plant and equipment	7	5,155,665	4,812,698
TOTAL OPERATING EXPENSES		<u>193,352,328</u>	<u>187,999,305</u>
OPERATING PROFIT/(LOSS)		(42,959,062)	(14,638,632)
PROFIT/(LOSS) BEFORE TAXATION		(42,959,062)	(14,638,632)
INCOME TAX EXPENSE/(CREDIT)		-	-
PROFIT/(LOSS) AFTER TAXATION		<u>(42,959,062)</u>	<u>(14,638,632)</u>

The notes set out on pages 24 to page 31 forms an integral part of the financial statements

Malindi Water and Sewerage Company Limited
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Statement of Financial Position for the period ended 30 June 2015

	Note	2015 Kshs	2014 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	9	64,841,847	63,960,977
Non-Current Receivables	10	57,134,125	57,134,125
Total Non-Current Assets		121,975,972	121,095,102
Current Assets			
Inventories	11	7,959,190	9,020,964
Trade and other receivables	12	175,467,005	159,234,815
Share Capital Receivable	13	5,000,000	5,000,000
Customer Deposit Receivable	14	8,443,600	8,443,600
Delegated Works	15	18,313,353	18,313,353
Bank and cash balances	16	3,563,914	18,050,696
		218,747,062	218,063,429
Total Non-Current Assets		340,723,034	339,158,531
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	17	5,000,000	5,000,000
Retained earnings	18	(97,760,573)	(54,801,511)
Project Grant Fund	19	8,383,971	4,396,603
Capital Reserve Fund	20	39,534,996	39,534,996
Capital and Reserves		(44,841,606)	(5,869,912)
Non-Current Liabilities			
Non-Current Payables	21	57,134,125	57,134,125
Total Non-Current Liabilities		12,292,520	51,264,213
Current Liabilities			
Trade and other payables	22	299,486,099	261,833,005
Provision for leave pay	23	3,574,714	3,539,427
Customer Deposit Old	24	8,443,600	8,443,600
Customer Deposit New	25	16,926,101	14,078,286
Total Current Liabilities		328,430,514	287,894,318
TOTAL EQUITY AND LIABILITIES		340,723,034	339,158,531

The Financial Statements on pages 16 to 31 were approved by the board of Directors on the 20 August 2015 and signed on its behalf by:

Chairperson

Managing Director

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Statement of Changes in Equity for the period ended 30 June 2015

Particulars	Ordinary share capital	Revaluation reserve	Capital Reserve Fund	Retained earnings	Total
At July 1, 2013	5,000,000	-	39,534,996	(40,162,879)	4,372,117
Net Loss For the Year	-	-	-	(14,638,632)	(14,638,632)
At June 30, 2014	5,000,000	-	39,534,996	(54,801,511)	(10,266,515)
At July 1, 2014	5,000,000	-	39,534,996	(54,801,511)	(10,266,515)
Net Loss For The Year				(42,959,062)	(42,959,062)
Prior Year Adjustment					
At June 30, 2015	5,000,000	-	39,534,996	(97,760,573)	(53,225,577)

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Statement of Cash Flows for the period ended 30 June 2015

	Note	2015 Kshs	2014 Kshs
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	26	(12,437,615)	(9,825,938)
Net cash generated from/(used in) operating activities		<u>(12,437,615)</u>	<u>(9,825,938)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	(6,036,535)	(3,882,154)
Net cash generated from/(used in) investing activities		<u>(6,036,535)</u>	<u>(3,882,154)</u>
FINANCING ACTIVITIES			
Increase(Decrease) in Project Grant Reserve	19	3,987,368	-
Net cash generated from/(used in) financing activities		<u>3,987,368</u>	<u>-</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(14,486,782)	18,153,258
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		18,050,695	(102, 563)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	16	<u>3,563,914</u>	<u>18,050,695</u>

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Summary of Significant Accounting Policies

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

a) **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 Malindi Water and Sewerage 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.

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

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Summary of significant Accounting Policies (Continued)

c) **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.

d) **Property, plant and equipment**

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

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

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.

e) **Depreciation**

i) **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	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

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

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Summary of significant Accounting Policies (Continued)

ii) Depreciation and impairment of property, plant and equipment (Continued)

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 amount.

f) Inventories

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

g) 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.

h) 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.

i) 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)

j) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2008. The scheme is administered by CPF (County Pension Fund) and is funded by contributions from both the company and its employees. 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.400.00 per employee per month.

k) 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.

l) 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.

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Explanatory Notes to the Financial Statements

	2015 Kshs	2014 Kshs
2 SALES		
Water Sale	319,078,325	349,380,044
Meter Rent	11,136,775	9,499,700
	330,215,100	358,879,744

3 Cost of Sales

Cost of Water	157,922,350	164,729,425
9% Administrative Fees to CWSB	30,098,028	32,035,505
1% Administrative Fees to CWSB	3,344,225	4,157,451
	191,364,603	200,922,381

4 In-Kind Contribution

Seconded Personnel	3,604,080	3,599,796
	3,604,080	3,599,796

This is an amount paid to 6 ministry staff seconded to the Company. Their salary is now paid by the County

5 OTHER INCOME

Sale of tender documents	59,000	2,850,500
Other miscellaneous receipts	7,879,689	8,953,015
	7,938,689	11,803,515

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

6(a) ADMINISTRATIVE COSTS	2015	2014
	Kshs	Kshs
Directors' emoluments	3,228,857	4,320,585
Electricity and water	1,294,555	1,140,472
Communication services and supplies	7,586,325	6,741,233
Transportation, travelling and subsistence	8,812,446	12,687,115
Advertising, printing, stationery and photocopying	5,189,608	5,567,384
Staff training expenses	1,653,992	2,282,347
Hospitality supplies and services	3,713,002	3,644,468
Insurance costs	3,715,825	1,904,235
Bank charges and commissions	497,893	527,442
Office and general supplies and services	9,474,669	7,087,804
Auditors' remuneration	1,139,280	638,000
Legal fees	723,069	776,441
Consultancy fees	323,000	1,087,528
Repairs and maintenance	8,619,152	14,776,384
Provision for bad and doubtful debts	-	514,976
Other operating expenses (Wasca Games e.t.c)	6,881,117	3,125,520
	62,852,790	66,821,934

	2015	2014
	Kshs	Kshs
6(b) STAFF COSTS		
Salaries and allowances of permanent employees	110,998,276	105,273,374
Wages of temporary employees	-	-
Compulsory national health insurance schemes	-	672,000
Compulsory national social security schemes	819,800	783,000
Other pension contributions	11,873,010	8,964,300
Leave pay and gratuity provisions	1,652,787	672,000
	125,343,873	116,364,674

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

Permanent employees – Management	6	7
Permanent employees - Unionisable	109	102
Temporary and contract employees	7	7
	122	116

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015	2014
	Kshs	Kshs
7 Depreciation Expense		
Dep-Concrete Elements	70,487	80,032
Dep-Furniture & Fittings	431,929	460,385
Dep-O&M Equipment	39,124	44,421
Dep-Office Equipment	232,903	231,142
Cold Water Meters	2,266,719	2,651,263
Dep-Buildings	190,348	195,182
Dep-Computers & Accessories	614,708	808,157
Dep-Motor Vehicle	1,309,447	342,114
	5,155,665	4,812,698

8 OPERATING PROFIT/(LOSS)

	2015	2014
	Kshs	Kshs
The operating profit/(loss) is arrived at after changing:		
Staff costs	125,343,873	116,364,674
Depreciation of property, plant and equipment	5,155,665	4,812,698
Provision for bad and doubtful debts	-	514,976
Directors' emoluments – Honorarium	960,000	960,000
-others	2,328,857	3,360,585
Auditors' remuneration – current year fees	638,000	638,000

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NOTE 9: NOTES TO THE FINANCIAL STATEMENTS (continued)						
PROPERTY PLANT AND EQUIPMENT						
2015	Buildings & civil works	Plant and machinery	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Total
COST OR VALUATION						
At July 1, 2014	26,462,511	41,733,901	11,274,050	11,360,046	10,692,335	101,522,843
Additions	-	1,550,345	3,950,000.00	254,000	282,190	6,036,535
At June 30, 2015	26,462,511	43,284,246	15,224,050	11,614,046	10,974,525	107,559,378
DEPRECIATION						
At July 1, 2014	1,130,183	22,394,574	3,939,858	5,933,958	4,163,292	37,561,866
Charge for the year	190,348	2,376,330	1,309,447	614,708	664,833	5,155,665
At June 30, 2015	1,320,530	24,770,904	5,249,306	6,548,666	4,828,125	42,717,531
NET BOOK VALUE						
At June 30, 2015	25,141,980.58	18,513,342	9,974,744	5,065,380	6,146,400	64,841,847
2014						
At July 1, 2013	26,462,511	38,833,901	11,274,050	11,270,046	9,800,181	97,640,689
Additions	-	2,900,000	-	90,000	892,154	3,882,154
At June 30, 2014	26,462,511	41,733,901	11,274,050.00	11,360,046	10,692,335	101,522,843
DEPRECIATION						
At July 1, 2013	935,001	19,743,311	3,597,744	5,125,801	3,347,311	32,749,168
Charge for the year	195,182	2,651,263	342,114	808,157	815,981	4,812,698
At June 30, 2014	1,130,183	22,394,574.42	3,939,858	5,933,958	4,163,292	37,561,866
NET BOOK VALUE						
At June 30, 2014	25,332,328	19,339,327	7,334,192	5,426,088	6,529,043	63,960,977

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NOTES TO THE FINANCIAL STATEMENTS (continued)		
	2015 Kshs	2014 Kshs
10 NON CURRENT RECEIVABLES	57,134,125	57,134,125
	57,134,125	57,134,125
This represent debtors balances inherited from CWSB at the inception of the company. They are both receivable to the Company and payable to CWSB		
11 INVENTORIES		
	2014 Kshs	2013 Kshs
Stationery and general stores	854,157	557,506
Computer Consumable parts	544,900	279,300
Office Equipment	30,715	35,238
Tools and Equipment	55,125	57,535
Pipes and Fittings	5,074,687	6,653,282
Motor vehicle spare parts	1,966	8,700
Appurtenances spares	132,745	115,774
Cleaning and Sanitation materials	1,300	-
Water Analysis Equipment	37,200	33,075
Uniform and Boots	6,000	6,000
Cold Water Meters accessories	1,106,625	1,220,423
Building Materials	113,770	54,130
	7,959,190	9,020,964
12 TRADE AND OTHER RECEIVABLES		
Trade receivables	174,005,919	163,021,427
Staff receivables	1,461,086	1,388,412
Gross trade and other receivables	175,467,005	164,409,839
Less Provision for bad and doubtful receivables	-	(5,175,024)
Net trade and other receivables	175,467,005	159,234,815
13 SHARE CAPITAL RECEIVABLE	5,000,000	5,000,000
	5,000,000	5,000,000
This is an amount of share capital not paid up by the County Government of Kilifi.		

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NOTES TO THE FINANCIAL STATEMENTS (continued)

	2015 Kshs	2014 Kshs
14 CUSTOMER DEPOSIT RECEIVABLE	8,443,600	8,443,600
	8,443,600	8,443,600
15 DELEGATED WORKS		
Booster station and Watamu Junction project	3,250,906	3,250,906
Jimba Pipeline	1,691,040	1,691,040
Mayungu Pipeline	9,912,804	9,912,804
Watamu South Pipeline	3,458,604	3,458,604
	18,313,353	18,313,353
<p>These are projects which were done on behalf of Coast Water Services Board and the funds are to be refunded to the Company.</p>		
16 BANK AND CASH BALANCES		
Cash at bank	3,563,914	17,499,743
Cash in hand	-	550,952.93
	3,563,914	18,050,696
<p>The bulk of the cash at bank was held at Kenya Commercial Bank, the Company's main bankers.</p>		
17 ORDINARY SHARE CAPITAL		
Authorised:		
ordinary shares of Kshs.1,000.00par value each	5,000,000	5,000,000
Issued and fully paid:		
ordinary shares of Kshs.1,000. par value each		
County Government of Kilifi 4996 ordinary shares at kshs.1,000.00	4,996,000	4,996,000
County Secretary 2 ordinary shares at kshs.1,000.00	2,000	2,000
County executive member in charge of Water 1 ordinary share at kshs.1,000.00	1,000	1,000
County executive member in charge of Finance 1 ordinary share at kshs.1,000.00	1,000	1,000
	5,000,000	5,000,000

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 Kshs	2014 Kshs
18 RETAINED EARNINGS		
The retained earnings represent amounts available for financing the company's business activities.	(97,760,573)	(54,801,511)
19 PROJECT GRANT FUND		
These are fund from development partners for various Water reticulation projects	8,383,971	4,396,603
	8,383,971	4,396,603
20 CAPITAL RESERVE FUND	39,534,996	39,534,996
	39,534,996	39,534,996
21 NON CURRENT PAYABLES	57,134,125	57,143,125
	57,134,125	57,143,125
22 TRADE AND OTHER PAYABLES		
Trade payables	295,751,236	258,098,143
Taxation Payable	3,734,863	3,734,863
	299,486,099	261,833,005
23 PROVISION FOR LEAVE PAY		
Balance at beginning of the year	3,539,427.00	1,788,449
Additional provision at end of year	35,287.00	1,750,978
Leave paid out or utilised during the year	-	-
Balance at end of the year	3,574,714.00	3,539,427
Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.		
24 CUSTOMER DEPOSIT OLD	8,443,600	8,443,600
	8,443,600	8,443,600
This is an amount of Customer Deposit receivable the former National water corporation.		
25 CUSTOMER DEPOSIT NEW	16,926,101	14,078,286
	16,926,101	14,078,286
This is an amount of Customer Deposit from 2006 when the company was incorporated upto 30th June 2014.		

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 NOTES TO THE STATEMENT OF CASH FLOWS

	2015	2014
	Kshs	Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	(42,959,062)	(14,638,632)
Depreciation	5,155,665	4,812,698
Operating profit/(loss) before working capital changes	(37,803,397)	(9,825,934)
Adjusted for:		
(Increase)/decrease in inventories	1,061,774	-
(Increase)/decrease in trade and other receivables	(16,232,189)	-
Increase/(decrease) in trade and other payables	37,653,094	66,188
Increase/(decrease) in staff leave provision	35,287	(66,192)
Increase/(decrease) in customer Deposit	2,847,815	-
Cash generated from/(used in) operations	(12,437,616)	(9,825,938)
(b) Analysis of cash and cash equivalents		
Cash at bank	3,563,914	17,499,743
Cash in hand	-	550,952.93
Balance at end of the year	3,563,914	18,050,696

27 RELATED PARTY DISCLOSURES

The County Government of Kilifi

The County Government of Kilifi is the principal shareholder of the Company, holding 100% of the Company's equity interest.

There were not other Company transactions involving the County Government of Kilifi.

28 INCOPORATION

Malindi Water and Sewerage Company is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

29 Going Concern

Management is in consultation with the regulator for approval of a cost recovery tariff in order to recover on the deficit of current liabilities to current assets. The Management has currently instituted vigorous revenue collection on the current billing to improve on the revenue for operations

30 Legal Frame work

The Company is currently in the process of changing the memorandum and articles of association to reflect the current legal frame work with the devolved Government.