# NAKURU WATER AND SANITATION SERVICES COMPANY LIMITED

# AUDITED ANNUAL REPORT AND FINANCIAL STATEMENTS

# FOR THE PERIOD ENDED 30TH JUNE 2016

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# GENERAL INFORMATION

## (a) Background information

Nakuru Water and Sanitation Services Company Ltd (NAWASSCO) is a Private Company Limited by Shares under the Companies Act (Chapter 486, Laws of Kenya). The Company was registered on 8th September 2003 and is fully owned the County Government of Nakuru. Pursuant to the provisions of the Water Act 2002, the Company is an agent of Rift Valley Water Services Board (RVWSB) and it is mandated with the provision of water and sanitation services in the area under the jurisdiction of the former Municipal Council of Nakuru and its environs.

**Vision**

"To be the Leading Water Utility in Kenya"

**Mission**

"To provide Quality, Reliable, Adequate, sustainable water and Sanitation Services to the delight of our customers"

**Core Values**

These values form the foundation on which we perform our work and conduct ourselves. The values underlie our work, how we interact with each other, and the strategies we employ to fulfil our mission. They are the practices we use every day in everything we do and are a constant description of who we are.

Our cores include the following:

Customer Focus, Professionalism, Integrity, Team Work and Innovation & Creativity

### (b) Principal Activities

The mandates of the Company are as follows:

- To ensure that it possesses and retains all the necessary expertise necessary to fulfil the technical, commercial, financial and administrative functions.
- To provide the services within the Service Provider's Defined Service Area.
- To meet all the required standards, guidelines and provisions of the Service Provision Agreement (SPA)
- To obtain all necessary licenses, permits and warranties necessary to carry out its Obligations in accordance with statutes in force.
- To maintain the assets in good working order and not to dispose of any assets without the authorization of the Licensee.
- To come up with proposals for improvement of the assets so as to enhance service delivery.
- To propose tariff adjustments to the licensee.

### (c) The Water Sector in Kenya

The Water Act 2002, established different but complimentary institutions to carry out functions in the sector. This includes:

- The Water Services Regulatory Board (WASREB) -responsible for regulation of water and sewerage services in the country.

- Water Services Boards (WSB) – responsible for provision of water and sewerage services in their areas of mandate. The Rift valley Water Services Board (RVWSB) is the WSB responsible for the Rift valley Region.
- Water Service Providers (WSP) – Are agents of the WSB. NAWASSCO is an agent of the RVWSB and responsible for provision of water and sanitation services in the jurisdiction of former Municipal Council of Nakuru and its environs.
- Under the constitution 2010, water and sanitation service is a devolved function under the County Governments.

**(d) Shareholding**

The Company is fully owned by the County Government of Nakuru and is registered with 5,000 shares of Kshs 20 each. According to the Company Memorandum and Articles of Association the shares are held in trust are as follows:

| Shareholding | Number of Shares held |
|---|---|
| The County Government of Nakuru | 4,996 |
| His Excellency the Governor of County Government of Nakuru | 1 |
| The Executive Member, Finance &Economic Planning, County Government of Nakuru | 1 |
| The Executive Member, Environment, Water, &Natural Resources, County Government of Nakuru | 1 |
| The County Secretary, County Government of Nakuru | 1 |
| **TOTAL** | 5,000 |

Each person has one voting right and the County Government is represented by a proxy during meetings.

**BOARD OF DIRECTORS' & MANAGEMENT**

## Board of Directors

The Company has a Board of Directors which is responsible for:

a) the efficient management of the human, physical, and financial resources of the Company;
b) making policies for Company;
c) approving Strategies and Development plans for the Company;
d) any other matters related to the management of the Company;

Members of Board of Directors during the year under review were the following:

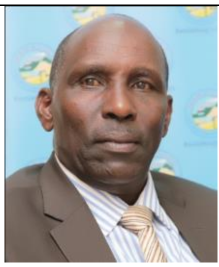
**BOARD OF DIRECTORS' & MANAGEMENT**

## Board of Directors

The Company has a Board of Directors which is responsible for:

a) the efficient management of the human, physical, and financial resources of the Company;
b) making policies for Company;
c) approving Strategies and Development plans for the Company;
d) any other matters related to the management of the Company;

Members of Board of Directors during the year under review were the following:

| | NAME | PROFILE |
|---|---|---|
| 1 | <br>John Karanja Kimani<br>**Chairman** | Mr. Karanja was appointed on 3rd February 2016 to represent Resident organisations and he is the Board Chairman.<br><br>He is the Branch Chairman of Agricultural Society of Kenya, Central Rift Branch.<br>He has attended various courses in leadership and corporate governance and project management. He Has a Degree in Bachelor of Science in structural Engineering. Mr Karanja has business interests in Nakuru Town. |
| 2 | <br>James Mungai Muhia<br>Non-Executive Director | Mr Mungai was appointed on 3rd February 2016 to represent Learning Institutions.<br><br>He attended various courses in leadership, management, special education and environmental conservation. Mr Mungai is a Teacher by profession.<br><br>Committee membership :Technical (chairman) |

| | | |
|---|---|---|
| 3 | <br>Gladys Achieng' Ndeda<br>Non-Executive Director | Ms Ndeda was appointed on 3rd February 2016 to represents Professional Bodies.<br><br>She has attended various courses in management and administration.<br>She has a Degree in Bachelor of Laws and has served as a Chief Magistrate of the HIGH Court. Ndeda is a practicing lawyer.<br><br>Committee membership: Finance and Staff |
| 4 | <br>Monicah W. Gitone<br>Non-Executive Director | Ms Wanjiru was appointed on 23rd May 2016 to represent the Business Community.<br><br>She has a Diploma in Theology and has attended various courses in management, leadership, community development, finance, and conflict resolution.<br>She has a wealth experience in managing businesses in Nakuru Town<br><br>Committee membership :Audit and Governance |
| 5 | <br>Jennifer J. Kigen<br>Non-Executive Director | Ms Jepchumba was appointed on 3rd February 2016 to represent Women Organisations.<br><br>She has attended various courses in leadership and management. She is currently undertaking a degree in Business Administration at St. Paul University. She is the Executive Director, Rongai Social Economic Women Organisation.<br><br>Committee membership: Finance and Staff ( Chairlady) |
| 6 | <br>Ibrahim M. Osman<br>Non-Executive Director | Mr Osman was appointed on 23rd May 2016 to represent the Manufacturing Community. He is a member of Jua Kali Association (small manufacturers)<br><br>He is currently pursuing a degree in business management at St Pauls University and he is a trustee of Jamia Muslim Association.<br>He has wealth of experience in managing businesses in Nakuru town.<br><br>Committee membership :Audit & Governance |
| 7 | <br>Richard K.Rop<br>Non-Executive Director | Mr Rop was appointed on 24th June 2013 and he represents the County Government of Nakuru. He is the CEC Member in charge of Water, Energy, Environment and Natural Resources.<br><br>Committee membership: Technical |

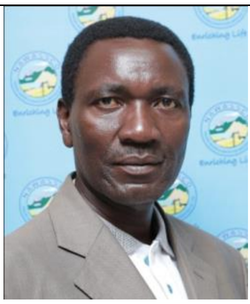
| | | |
|---|---|---|
| 8 | <br>Francis Mathea<br>Non-Executive Director | Mr Mathea was appointed on 24th June 2013 and he represents the County Government of Nakuru.<br>He is a former CEC Member of Finance & Planning and currently he is CEC in charge of Education.<br><br>Committee membership: Audit & Governance (Chairman) |
| 9 | <br>James N. Gachathi<br>**Managing Director** | Mr Gachathi was appointed on 26th June 2014 as the Managing Director. Before his appointment, Mr Gachathi was the Technical Manager having been appointed on 23rd October 2007.<br><br>Before joining the Company, Mr Gachathi was the Technical Manager of Nyahururu Water and Sanitation Company.<br>He has a Degree in Bachelor of Science in Civil Engineering from University of Nairobi and on –going student of MBA (Strategic Management Option) at Egerton University. He has a rich experience in Water Sector spanning over 19 years |

## Corporate Management Team

The day to day operations of the Company is run by Corporate Management Team (CMT) headed by a Managing Director.

The following the Corporate Management Team:

| | NAME | PROFILE |
|---|---|---|
| 1 | <br>James N. Gachathi<br>**Managing Director** | Mr Gachathi was appointed on 26th June 2014 as the Managing Director. Before his appointment, Mr Gachathi was the Technical Manager having been appointed on 23rd October 2007.<br><br>Before joining the Company, Mr Gachathi was the Technical Manager of Nyahururu Water and Sanitation Company.<br><br>He has a Degree in Bachelor of Science in Civil Engineering from University of Nairobi and on –going student of MBA (Strategic Management Option) at Egerton University. Mr Gachathi has a rich experience in Water Sector spanning over 19 years. |
| 2 | <br>Isaac Mokaya Makori<br>**Finance Manager** | Mr Makori 47years was appointed on 18th May 2009.Before joining the Company, Mr Makori had worked at Pyrethrum Board of Kenya. He is experienced in Financial and Management Reporting, people management, monitoring and evaluation, Taxation, project Accounting. He has 22 years of work experience.<br><br>Mr Makori holds a Bachelor of Commerce (Accounting Option) from Kenyatta University and MBA (Finance Option) from Kenya Methodist University. He is CPA (K) and a Member of the ICPAK. He is also a Certified M&E expert, and a member of Kenya Institute of Management. He served as a member of the Local Committee at Kenya Revenue Authority, Nakuru for 2 years |
| 3 | <br>James Muthee Gathairu<br>**Commercial Manager** | Mr Gathairu 47years was appointed on 18th May 2009.<br><br>Before joining the Company, Mr Gathairu was an accountant with Kenindia Assurance Co. Ltd for 7years and Chief Accountant with BlueShield Insurance Co. Ltd for 7 years. He has a rich experience in finance and business development spanning over 22 years.<br><br>Mr Gathairu holds a degree in Bachelor of Arts (Business Studies & Economics) from Kenyatta University and MBA (Finance Option) from University of Nairobi. He has CPA (K) and is a Member of ICPAK. |
| 4 | <br>Joseph John Githinji<br>**Internal Audit Manager** | Mr Githinji 41years was appointed on 1st November 2013.<br><br>Before joining the Company, Mr Githinji has previously worked with M/s Kariru & Associates (Certified Public Accountants), Kenya Wildlife Service (KWS) (Ag. Manager Internal Audit and Mombasa Water (Internal Audit Manager).<br>He has a rich experience in Accounting spanning for a period of 16 years<br><br>Mr Githinji holds a degree in International Business Administration (Finance Option) from United States International University (USIU). He has CPA (K) and is a Member of the ICPAK. |

| | | |
|---|---|---|
| 5 | <br>Anthony Mwangi Chege<br>**Ag.Technical Manager** | Mr Chege 55 years was appointed on Acting capacity on 2nd March 2016.<br><br>He doubles as the Assistant Manager in charge of Water Distribution and has rich experience in the water sector spanning over 33 years having served in the defunct Municipal Council of Nakuru between 1983 and 2004.<br><br>Mr Chege has attended various courses in water and sewer network operations and asset management.<br><br>He holds a Bachelors Degree in Civil Engineering from Egerton University. |
| 6 | <br>Carditor W. Muchoki<br>**Ag. HR & Admin officer** | Ms Carditor Wanjiru 29 years was appointed as Acting capacity on 29th November 2013. She doubles as the Human Resource Assistant.<br><br>Ms. Carditor holds a Diploma in Personnel Management from Kabete Technical Training Institute and a Higher National Diploma in Human Resource Management from Rift Valley Institute of Science and Technology. She also holds a degree in Bachelor of Commerce (HRM Option) from Gresta University- Thika.<br><br>She has 7 years experience in Human Resource Management. |

## CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, it is with great honour that I present to you an overview of the annual report and financial statements of the Company for the year ended 30th June 2016. The strong foundation that we have laid over time by embracing our vision to be the leading Water Utility in Kenya; supported by a robust governance structure; continue to drive growth in NAWASSCO, providing momentum for a secure future.

**Operating Environment**
During the period the Kenyan economy recorded growth rate of 5.8% compared to 5.3 % in 2014/15. In the water industry, the cost of electricity which is the most common input was maintained due to intervention by the Government to lower the electricity tariff. The cost of chemicals went slightly high because of the depreciation of the Kenya Shilling against the US dollar.

**Financial Overview**
The performance during the period was good as the Company recorded a pre-tax profit of Ksh50.1M compared to a Kshs59.8M during the previous year. The good performance is mainly attributed to the new cost recovery tariff which was effected in July 2014 for a period of 2 years and un-accounted for water (UFW) reduction measures which have been put in place. Cost of electricity remained low at Kshs13.8million per month due to intervention by the Government. Other operating costs remained relatively low.

**Business Development**
During the period under review, the company continued to partner with donors in the funding of various projects. Water Services Trust funded the construction of water kiosks at Kaptembwo which benefited over 6,000 people. Vitens Evides International/European union funded the purchase of revolving fund materials to connect 641 consumers in the low income areas on credit. Water and Sanitation for Urban Poor (WSUP) is supporting in the promotion of sewer connection in the in the low income areas. In an effort to strengthen the pro-poor unit, WSUP provided the support of carrying out an assessment of its capacity and an appropriate structure together with the strategy with a view of improving service delivery to the pro-poor.

Through the Rift Valley Services Board and National Government the construction of the Itare Dam Water Project funded by the Italian Government was started. The project will produce over 100,000 $m^3$ of water per day compared to the current sources of water which produce 40,000 m3 of water per day.

The Company grew its revenue base by connecting new customers, attending to leaks and bursts and removing illegal connections.

**Corporate Social Responsibility**
The Company is more than a business that has served the community since 2004. The Company's Corporate Social Responsibility (CSR), policy sets out the guiding principles by which the organization is run in order to fulfil its core mission. This policy brings together the ways in which the Company ensures, at corporate level, that its activities are carried out ethically, sustainably and for the public benefit.

During the period, the Company was involved in a number of initiatives which have benefited the surrounding community. The initiatives are in line with the right to water and sanitation as enshrined in Chapter 4 (41 & 43) Kenyan Constitution – The Bill of Rights. Our initiatives are focused on the environment, good business and ethical labour practices.

The Company is committed to being a good employer, and contributes positively to the creation of employment in the Country and Nakuru County. As an employer the Company is committed to ensuring that all the employees are fully supported in their work, have a decent working environment, are fairly rewarded, and maintain a good work-life balance. The Company recognizes staff trade unions that represent and protect their interests. The Company currently offers competitive terms and conditions of service to its employees. The Company has in place two retirement benefits schemes for its staff which will provide earnings during the retirement period. In addition the Company has a medical and accident cover for is staff. The Company also carries out employee satisfaction survey every year with a view of improving the conditions and working environment of its employees and keep in touch with emerging employee issues. The Company has in place a medical cover and a retirement benefit scheme for staff. The company also participated in the WASCA games where the staff had an opportunity to participate in various games and interact with staff from other water companies.

The Company has always ensured that the water available is distributed equitably to all the customers and sewer systems are maintained. The Company partnered with donors in the area of sanitation by funding the construction of toilets at public schools and low income settlement areas of Nakuru Town. Through the partnership with Water and Sanitation for the Urban Poor (WSUP), the Company is expanding sewer network at Mwariki estate which will greatly improve the sanitation standards in the area.

To the Customers who are the pillar of the Company's existence, great concern is put to ensure their satisfaction. Annually the company conducts a customer satisfaction survey to ascertain whether the efforts put by the Company are felt by the customers and issues raised are addressed promptly. During the year the company held open days on 26th and 27th May 2016 in all the zones whose theme was **Every Connection Matters- "Your Experience, Our Priority"** The Company is committed to service delivery to its customers by creating a customer friendly environment. The Company does this activity by use of customer voice and choice system which records all customer complaints and provision of feedback once the complaints are resolved. The Company also in an effort to improve service delivery to customers holds meetings with Water Action Groups, a team appointed by the Regulator, WASREB to voice the complaints of customers.

The Company recognizes environmental sustainability as the greatest challenge of the 21st century and commits to ensuring that all of its major strategies and operations consider their environmental and ecological aspects and impacts. The Company participates in the conservation of the environment by planting trees at Aberdare forest. The Company also ensures that discharge to Lake Nakuru National Park meets the required standards by conducting regular tests through its laboratory which is ISO certified.

**Future Outlook**
The company has continued to implement its 2013-2018 business plan. The plan details various investment plans that will ensure NAWASSCO's growth. This includes the completion of Itare Dam Water Project (by RVWSB). The project implementation has started and is projected to be completed by the 2018.

The company enjoys donor confidence due to its good corporate image. This is evidenced by the success in implementation of minor projects and partnership with the EU, WSTF and WSUP.

Finally the future of NAWASSCO looks bright. The company has positioned itself to expand water coverage to underserved areas and prepared to stretch water production to maximum capacity of existing facilities.

**Appreciation**

I would like to appreciate all our stakeholders, more so the County Government of Nakuru and Development partners for the solid commitment and support during the year ended on 30th June 2016. To our esteemed Customers, thank you for your loyalty and support. It is through the hard work and dedicated effort of the Board of Directors and Management that we are now able to celebrate together our achievements for 2015/16 financial year. Therefore to the management and staff of NAWASSCO, let us practice our core values of Customer focus, Professionalism, Teamwork, Integrity, Innovation and Creativity to the delight of our customers so as to make a difference in our country.

We hope for continued cooperation from all the stakeholders in the coming years.

Thank you and May God Bless You all

**JOHN KARANJA KIMANI**
**CHAIRMAN, BOARD OF DIRECTORS**

## MANAGING DIRECTOR'S REPORT

I am pleased to present the Annual Report and Financial Statements of NAWASSCO for the year ended 30th June 2016. This is the Twelfth annual report and financial statements for the Company and demonstrates how far we have come.

NAWASSCO has continued to gain momentum over the short period since inception. The company has in place a Strategic Plan (2013-2018) which is used to improve service delivery and ensure achievement of set targets by emphasizing on areas of priority in provision of water and sanitation services.

**Financial Review**

During the year the Company made a profit of Kshs50.1 million compared to Kshs 59.8 million during the last year. This is mainly attributed to the new cost recovery water tariff which was effected in July 2014 for a period of 2 years and NRW improvement measures that have been put in place.

The cost of electricity went slightly up to Kshs 14m (Kshs13.8m in 2014/15) per month due to the Government intervention to make electricity cheap. Administrative expenses increased due to staff salaries other administrative expenses to support operations. Operating expenses increased due to licensee administrative fees to RVWSB, and maintenance of buildings, manholes and sewerage ponds.

**Service Delivery**

During the year, as envisaged in one of our core values of customer focus, the company continued to maintain satisfactory levels in service delivery. The water produced was distributed to customers equitably through a rationing programme. During the period the average water supply was 16hrs/day (18hrs per day in 2014/15) and the amount of water provided was an average of 33,000m3/day. The Non Revenue Water was 36% compared to 41% in 2014/15.

Generally there was a remarkable improvement in service delivery and the following activities were carried out:-

(i) Installation of District and Territory meters in Central, Western and southern Zones to help curb the Non Revenue Water.
(ii) Maintenance of distribution network
(iii) Installation of pre-paid meters and water kiosks at the low income areas
(iv) Improvement of sanitation at the low income areas
(v) Continued use of customer complaint tracking module

The Company has in place a social connection policy which seeks to intervene in the challenges of accessibility, affordability, and reliability of clean safe water and sanitation in the low income areas. This initiative has attracted donors resulting to funding from Vitens Evides International/European union for purchase of revolving fund materials to connect 641 consumers in the low income areas on credit.

**Staff Development**

During the period, the company continued to improve staff competence in an effort to maintain good service delivery. The managers who are members of various professional bodies attended seminars and workshops. Other soft programs included the training of peer educators on HIV and Environmental Health & Safety activities were also carried out. In addition our staff participated in the WASCA games in which they won various trophies and had an opportunity to interact with staff from other water companies. All these were carried out to ensure a healthy, motivated and satisfied workforce who will in turn contribute immensely to the growth of the company.

**Future Plans**

The Company has however faced many challenges that include infrastructure and facilities support due to low funding. These are being addressed through other mechanisms that include partnerships with County Government, National Government and other Development Partners. Through the Rift Valley Services Board and National Government construction of the Itare Dam Water Project funded by the Italian Government was started which will produce over 100,000 $m^3$ of water per day. The current water production sources produce 40,000m3 of water per day against a demand of 70,000m3 per day. Another grant was obtained towards financing improvements of our sewer infrastructure.

The company will continue partnering with WSTF, Vitens Evides, EU and NCSP for funding projects in the low income areas.

**Appreciation**

I take this opportunity to thank the County Government, Shareholders, Board of Directors, Management, Staff, and other stakeholders for their mutual cooperation, trust and continued support.

**Thank you and best wishes to you**

**JAMES N. GACHATHI**
**MANAGING DIRECTOR**

## CORPORATE GOVERNANCE STATEMENT

The Board of Directors of NAWASSCO is responsible for the overall management of the Company and is committed to ensuring that its business and operations are conducted with integrity, professionalism, and in compliance with the law, internationally accepted principles and best practices in corporate governance.

In the recent years various recommendations have been made in several legal and professional publications in an attempt to determine the most appropriate way for companies to be structured to achieve the highest standards of corporate governance. The Board is committed to full compliance of all the relevant laws including the Guidelines on Corporate Governance issued by the Regulator, WASREB

The Corporate Governance of NAWASSCO takes place within a framework which exists to regulate and/or guide the conduct of Board members, staff, customers and members of public in assessing the Company's facilities and services. The objective of the framework is to provide for the effective, ethical and accountable governance and management of the Company. The key instruments within the governance framework are:

- The Kenya Constitution
- The Water Act 2002
- The Public Financial Management Act (2012)
- The Public Financial Management Regulation (2014)
- The Public Procurement and Asset Disposal Act (2015)
- Employment Act
- The NAWASSCO Service Charter
- Company approved policies and procedures

For the sake of coherence and legitimacy, it was in the best interest of the Company that its conduct be regulated by the most appropriate type of governance instrument.

**The Board of Directors**

The Company Board of Directors are appointed in accordance with section 69 of the Company's Articles of Association

The Board of Directors are responsible for the following:-

- Implementation of Memorandum and Articles of Association
- Provision of guidelines and control function of the Company
- Approval of the organisation structure and maintenance of staff terms and conditions of service
- Approval of business plans and budgets
- Provision of management guidelines
- Approval of major contracts/projects
- Approval of tariff adjustment
- Prudent investment of funds to ensure continuity of service
- Appointment of Corporate Management Team

The Board is responsible for drawing and implementing strategies for the long term success of the company as well as carrying out the fiduciary duty of monitoring and overseeing the activities of management. The Board meets regularly and has a formal schedule of meetings to discuss matters reserved for its decision with a view of determining and reviewing the strategies of the Company and overseeing the Companies compliance with statutory and regulatory obligations.

Notices and agenda for all Board meetings are circulated to all Directors on a timely basis together with the respective documents for discussion.

**Composition of the Board**

The Board is composed of 8 non-executive Directors including an independent Chairman and one executive director who is also the Managing Director. The Directors represent various stake holding. They have a wide range of skills and experience and each contributes independent judgement and knowledge to the Board's discussions.

On appointment, each Director is provided with a comprehensive and tailored induction process covering the Company's business and operations and also provided with information relating to their legal and regulatory obligations.

All the Directors except the Managing Directors and representatives of the County Government are required to submit themselves for re-election in accordance with the Company's Articles of Association.

**Board Meetings**

The Board meets 6 times in one financial year.

**Board Committees**

The Board has constituted 3 sub-committees chaired by one director in each, namely Finance and Staff, Technical and Social; and Audit and Governance. Each committee meets 4 times in one financial year.

The Board appoints other committees as and when necessary.

## CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Company's Corporate Social Responsibility (CSR), policy sets out the guiding principles by which the organization is run in order to fulfil its core mission. This policy brings together the ways in which the Company ensures, at corporate level, that its activities are carried out ethically, sustainably and for the public benefit.

The CSR Policy is made up of three central pillars:

- People and Community
- Finance and Economic Activity
- Environmental Sustainability

**1. People and Community**

***The Company as an employer***
The Company is committed to being a good employer, and contributes positively to the creation of employment in the Country and Nakuru County. As an employer the Company is committed to ensuring that all the employees are fully supported in their work, have a decent working environment, are fairly rewarded, and maintain a good work-life balance. The Company recognizes staff trade unions that represent and protect their interests. The Company currently offers competitive terms and conditions of service to its employees. The Company has in place two retirement benefits schemes for its staff which will provide earnings during the retirement period. In addition the Company has a medical and accident cover for is staff

The Company also carries out employee satisfaction survey every year with a view of improving the conditions and working environment of its employees and keep in touch with emerging employee issues.

***Local Community***
The Company has always ensured that the water available is distributed equitably to all the customers and sewer systems are maintained.

The Company is a major stimulus for economic growth in Nakuru region. Rapid housing development has occurred in Nakuru Town making it one of the fastest growing Towns. Land values in town have increased as a result of the services offered by the Company.

The Company has also partnered with donors in the area of sanitation by funding the construction of toilets at public schools and low income settlement areas of Nakuru Town. Through the partnership with Water and Sanitation for the Urban Poor (WSUP), the Company is expanding sewer network at Mwariki estate which will greatly improve the sanitation standards in the area.

Further, the company employee visited Pangani Special School in Nakuru, a school which carters for children with mental illness. During the visit the employees had an opportunity to mix, mingle, play and interact with children and they learned a lot about special needs.

***The Customers***
To the Customers who are the pillar of the Company's existence, great concern is put to ensure their satisfaction. Annually the company conducts a customer satisfaction survey to ascertain whether the efforts put by the Company are felt by the customers and issues raised are addressed promptly.

During the year the company held open days on 26th and 27th May 2016 in all the zones whose theme was **Every Connection Matters- “Your Experience, Our Priority”**

The Company is committed to service delivery to its customers by creating a customer friendly environment. The Company does this activity by use of customer voice and choice system which records all customer complaints and provision of feedback once the complaints are resolved.

The Company also in an effort to improve service delivery to customers holds meetings with Water Action Groups, a team appointed by the Regulator, WASREB to voice the complaints of customers.

**2. Finance and Economic Activity**

The Company recognizes the fact that the way in which it conducts its activities financially has a bearing on those with an interest in its work. The Company’s Financial Regulations reinforce its core values in informing policy, practice and guidance to staff of the Company to ensure fair and ethical financial practice.
The Company’s financial activity is undertaken with reference to the following guidance and policies:

- Directors and staff code of conduct
- A suggestion box

As part of their conditions of employment, all staff are required to follow such policies to ensure the Company conducts its activity in an appropriate manner.
The Company also commits to the following as a good organizational citizen:

- providing clear information where required to organizations with whom we engage financially
- incorporating CSR considerations in tender submission reviews from potential suppliers in line with Government policy on women , youth and the disabled
- furthering the use of electronic data to reduce paper use and environmental degradation

**3. Environmental Sustainability**

The Company is located within touching distance of Mau and Aberdare Forests and the Lake Nakuru National Park. The Company recognizes environmental sustainability as the greatest challenge of the 21st century and commits to ensuring that all of its major strategies and operations consider their environmental and ecological aspects and impacts.

The Company participates in the conservation of the environment by planting trees at Aberdare forest. The Company also ensures that discharge to Lake Nakuru National Park meets the required standards by conducting regular tests through its laboratory which is ISO certified.

## REPORT OF THE DIRECTORS

The Board of Directors submit their Annual Report together with the Financial Statements for the year ended 30th June , 2016 which show the state of the Company's affairs financial position.

### VISION, MISSION AND CORE VALUES

**Vision**
"To be the Leading Water Utility in Kenya"

**Mission**
"To provide Quality, Reliable, Adequate, sustainable water and Sanitation Services to the delight of our customers"

### Core values
Customer Focus, Professionalism, Integrity, Team Work and Innovation & Creativity

### Principal activities
The principal activities of the company are providing water and sewerage services.

### Results and dividend
The results of the Company for the Year ended 30th June, 2016 are set out on page 20 to 39. The net profit for the period of Kshs 50,105,806 has been added to retained earnings. The directors do not recommend the payment of dividend.

### Directors
The Directors who held office during the year and to the date of this report are shown on page 4 – 6. In accordance with Company Memorandum and Articles of Association, Directors serve for a term not exceeding 3 years renewable for another one term.

### Auditors
The Company Auditor is the Auditor General, KENAO of P.O BOX 30084 Nairobi as provided for by the Public Audit Act 2003.

### Registered office
NAWASSCO Plaza
Government Road
P.O Box 16314
NAKURU

### Main bankers
Co-operative Bank of Kenya
Nakuru Branch
P.O. Box 2982
NAKURU

By order of the Board

**JAMES N. GACHATHI**
**BOARD SECRETARY**

**28th September, 2016**

## Statement of Directors' Responsibilities

The Kenyan Companies Act requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss. It also requires the Directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The Directors are of the opinion that the Financial Statements give a true and fair view of the state of the financial affairs of the company and of its profit or loss in accordance with International Financial Reporting Standards. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material mis-statement.

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

| | |
|---|---|
| **JOHN KARANJA KIMANI** | **JAMES N. GACHATHI** |
| **CHAIRMAN** | **MANAGING DIRECTOR** |
| **28th September, 2016** | **28th September, 2016** |

# REPUBLIC OF KENYA
# OFFICE OF THE AUDITOR-GENERAL

**REPORT OF THE AUDITOR- GENERAL ON NAKURU WATER AND SANITATION SRVICES COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2016**

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Nakuru Water and Sanitation Services Company Limited set out on pages 20 and 39, which comprise the statements of financial position as at 30 June 2016, 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 35 of the Public Audit Act, 2015. 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 Responsibility for the Financial Statement

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 the 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 47 of the Public Audit Act, 2015.

### 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 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 of the Constitution.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions. 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 to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether to due 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 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 that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### Basis for Qualified Opinion

1. **Receivables and Prepayments**

The statement of financial position as at 30 June 2016 reported receivables and prepayments balance of Kshs. 563,094,080 as supported by note 15. However, the aging analysis for the trade receivables has not been produced in support of the debtors. A listing of debtors totaling Kshs.368, 368,778 or 75% was described as inactive and, consequently bad debt provision of Kshs. 166,612,195 appearing in note 15 does not appear sufficient. Evidently the Company has demonstrated lack of seriousness in debt management which may affect cash flow and profitability as the receivables continue to rise. In the circumstance, the collectability and recoverability of the receivables balance of Kshs.563, 094,080 as at 30 June 2016 could not be confirmed.

**2. African Development Bank Loan**

Note 17 to the financial statements as at 30June 2016 reflects trade payables of Kshs.289, 648,652 which includes an amount of Kshs.49, 335,681 in respect of African Development Bank Loan. According to records produced for audit verification the loan has a term of more than one year and should, therefore, not have been reported as a current liability. The loan disclosure does not, therefore, comply with IFRS requirements.

**3. Un- remitted LAPTRUST Deductions**

Included in the payable and accrual expenses of Kshs.399, 797,440 (note 19) are unremitted LAPTRUST deductions totaling Kshs. 38,970,299. No explanation has been provided for failure to remit the amount. Failure to remit statutory deductions will certainly attract interest and penalties.

**Qualified Opinion**

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of

Nakuru Water and Sanitation Services Company Limited as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with both the Water Act, 2002 and the Kenya Companies Act.

**Other Matter**

**1. Un-accounted for Water**

During the year under review, the Company produced 11,537,906 $m^3$ of water. However, out of this volume, only 7,549,501 $m^3$ of water was billed to customers with total revenue amounting to Kshs. 817,268,656. The balance of 3,988,470 $m^3$ of water or approximately 34.57% of the total revenue represented Unaccounted for water (UFW). According to the Water Services Regulatory Board (WASREB) guidelines, this quantity is 9.56% above the allowable loss of 25%. The abnormal loss of 9.5% of the water produced may have resulted in loss estimated at Kshs. 431,771,460. The significant level of UFW may negatively impact on the Company's profitability and long term sustainability.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenya Companies Act, I report based on my 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.
ii. In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books.
iii. The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

**FCPA Edward R. O. Ouko, CBS**
**<u>AUDITOR-GENERAL</u>**
**Nairobi**
**01 August 2017**

## Statement of Profit & Loss and other Comprehensive Income

| | Notes | 2016 | 2015 |
|---|---|---|---|
| | | Kshs | Kshs |
| **Revenue** | 5 | **825,372,535** | **789,581,479** |
| Cost of sales | 6 | 209,010,760 | 201,550,861 |
| **Gross profit** | | **616,361,775** | **588,030,618** |
| Administrative expenses | 8(b) | 258,004,810 | 247,386,587 |
| Operating expenses | 8(c) | 303,389,381 | 273,791,579 |
| Provision for impairment losses | 15 | 4,861,779 | 7,054,611 |
| **Operating profit/(loss) before income tax** | | **50,105,806** | **59,797,840** |
| Income tax expense | 9 | - | - |
| **Profit/(loss) for the year** | | **50,105,806** | **59,797,840** |

## Statement of Financial Position

| | Notes | 2016<br>Kshs | 2015<br>Kshs |
|---|---|---|---|
| **CAPITAL EMPLOYED** | | | |
| Share capital | 10 | 100,000 | 100,000 |
| Accumulated losses | | (36,612,029) | (86,717,835) |
| Reserve – Assets transferred | 21(v) | 262,893,991 | 262,893,991 |
| Asset revaluation reserve | 13 | 37,922,895 | 37,922,895 |
| Grants from SUWASA | 22 | 1,260,981 | 3,488,400 |
| Grants from Vitens Evides | 22 | 3,014,296 | 3,966,701 |
| Grants from WSTF | 22 | 94,937,160 | 84,893,143 |
| Shareholders' Surplus/(deficit) | | 363,607,294 | 306,547,297 |
| **Non Current Liabilities** | | | |
| Non – current accounts payable | 21(v) | 180,197,815 | 180,197,815 |
| | | **543,805,109** | **486,745,110** |
| **REPRESENTED BY** | | | |
| **Non-current assets** | | | |
| Properties, Plant and Equipment | 11 | 121,309,628 | 114,885,311 |
| Intangible assets | 12 | 149,001 | 420,902 |
| Prepaid operating lease rentals and Buildings | 13 | 118,252,050 | 121,157,194 |
| | | 239,710,678 | 236,463,407 |
| **Current assets** | | | |
| Inventories | 14 | 24,518,550 | 9,551,080 |
| Receivables and prepayments | 15 | 563,094,080 | 482,872,782 |
| Cash and cash equivalents | 16 | 116,279,241 | 61,105,382 |
| | | 703,891,872 | 553,529,244 |
| **Current liabilities** | | | |
| Payables and accrued expenses | 17 | 399,797,440 | 303,247,541 |
| | | 399,797,440 | 303,247,541 |
| Net current assets/(liabilities) | | 304,094,431 | 250,281,703 |
| | | **543,805,109** | **486,745,110** |

The Financial Statements on pages 20 to 39 were approved by the Board of Directors held on 21st September 2016 and signed on its behalf by:-

| | |
|---|---|
| **JOHN KARANJA KIMANI** | **JAMES N. GACHATHI** |
| **CHAIRMAN** | **MANAGING DIRECTOR** |
| **28th September, 2016** | **28th September, 2016** |

## Statement of Changes in Equity

| | Notes | Share Capital | Accumulated losses | Reserves | Total |
|---|---|---|---|---|---|
| | | Kshs | Kshs | Kshs | Kshs |
| At 1July 2013 | | **100,000** | **(98,840,976)** | **338,318,642** | **239,577,666** |
| Grant From WSTF | 22 | - | - | 12,506,030 | 12,506,030 |
| Grant from Vitens Evides | 22 | - | - | 5,001,951 | 5,001,951 |
| Non-current liability –KPLC | 21(V) | - | - | 45,108,015 | 45,108,015 |
| Loss for the year | | - | (47,674,699) | - | (47,674,699) |
| **At 30th June 2014** | | **100,000** | **(146,515,675)** | **400,934,638** | **254,518,962** |
| At 1July 2014 | | **100,000** | **(146,515,675)** | **400,934,638** | **254,518,962** |
| Grant From WSTF | 22 | - | - | (52,000) | (52,000) |
| Grant Suwasa amortisation | | | | (6,682,257) | (6,682,255) |
| Grant vitens amortisation | | | | (1,035,250) | (1,035,250) |
| Profit for the year | | - | 59,797,840 | - | 59,797,840 |
| **At 30th June 2015** | | **100,000** | **(86,717,835)** | **393,165,130** | **306,547,297** |
| At 1July 2015 | | **100,000** | **(86,717,835)** | **393,165,130** | **306,547,297** |
| Grant From WSTF | 22 | - | - | 10,044,018 | 10,044,017 |
| Grant Suwasa amortisation | | - | - | (2,227,423) | (2,227,423) |
| Grant vitens amortisation | | - | - | (862,405) | (862,405) |
| Profit for the year | | - | 50,105,806 | - | 50,105,806 |
| **At 30th June 2016** | | **100,000** | **(36,612,029)** | **400,119,323** | **363,607,294** |

## Statement of Cash Flows

| | Note | 2016 | 2015 |
|---|---|---|---|
| Profit/(Loss) before income tax | | 50,105,806 | 59,797,840 |
| **Adjustments for:** | | | |
| Depreciation | 11 | 13,840,221 | 9,061,572 |
| Amortization of software | 12 | 271,901 | 499,609 |
| Amortization of prepaid operating lease rentals | 13 | 2,905,144 | 2,905,144 |
| **Changes in working capital:** | | | |
| -Increase in Receivables and prepayments | | (80,221,298) | (51,286,080) |
| -Increase in Payables and accrued expenses | | 96,549,899 | 48,895,932 |
| -Decrease /(Increase) in Inventories | | (14,967,470) | 738,854 |
| **Cash generated from operations** | | **68,484,203** | **70,612,872** |
| **Operating activities** | | | |
| Cash generated from operations | | 68,484,203 | 70,612,872) |
| **Investing activities** | | | |
| Purchase of Property, Plant & Equipment, | 11 | (23,354,362) | (18,672,868) |
| Acquisition of intangible assets | 12 | - | (443,835) |
| Net cash used in investing activities | | (23,354,362) | (19,116,703) |
| **Financing activities** | | | |
| Loan repayment (Co-op bank & Family) | 23 | - | (3,333,333) |
| Grant from WSTF | 22 | 10,044,017 | (52,000) |
| Net cash from financing activities | | 10,044,017 | (3,385,333) |
| (Decrease)/increase in cash and cash equivalents | | 55,173,859 | 48,110,836 |
| **Movement in cash and cash equivalents** | | | |
| At start of year as at 1st July 2015 | 16 | 61,105,382 | 12,994,546 |
| Increase/(Decrease) in cash | | 55,173,859 | 48,110,836 |
| **At end of year as at 30th June 2016** | 16 | **116,279,241** | **61,105,382** |

## Notes to the Financial Statements

### 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### (a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Kshs). The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

### (b) Statement of compliance

*Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2016*

**IFRS 9 Financial Instruments**

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

**Key requirements of IFRS 9:**

All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The directors of the Company anticipate that the application of IFRS 9 in the future will not have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities.

**IFRS 15 Revenue from Contracts with Customers**

In May 2015, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

**Notes (continued)**

**Summary of significant accounting policies (continued)**

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The Company however derives a substantial amount of its revenue from cash sales, and the directors do not anticipate that the application of IFRS 15 will have a significant impact on the amounts reported in respect of the Company's revenue from contracts with customers.
Amendments to IAS 16 and IAS 38 Clarifications of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

When the intangible asset is expressed as a measure of revenue; or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Company uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

The directors of the Company do not anticipate that the application of the standard will have a significant impact on the Company's financial statements.

**Annual Improvements 2010-2012 Cycle**

The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.
The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a Company of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:-

"the property meets the definition of investment property in terms of IAS 40; and
the transaction meets the definition of a business combination under IFRS 3

**Notes (continued)**

**Summary of significant accounting policies (continued)**

The directors of the Company do not anticipate that the application of these amendments will have a significant impact on the Company's financial statements.

Annual Improvements 2011-2015 Cycle

Makes amendments to the following standards:

IFRS 1 — Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only).

IFRS 3 — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
IFRS 13 — Clarify the scope of the portfolio exception in paragraph 52.
IAS 40 — Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2016 (Continued)

These IFRS improvements are effective for accounting periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these improvements to IFRSs will have a significant impact on the Company's financial statements.

Early adoption of standards

The Company did not early-adopt any new or amended standards in the period.

**(c) Revenue recognition**

Revenue from supply of water represents amounts actually billed to customers for water consumption.

Revenue of other goods are recognised in the period in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Other incomes
This relates to sales of sludge, disconnection charges, water and sewer connection charges, laboratory tests fees, fines and penalties.

Revenue represents the fair value of the consideration receivable for sales of goods and services, and is stated net of value-added tax (VAT), rebates and discounts

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

Motor vehicles and equipment are stated at historical cost less depreciation.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

**Notes (continued)**

**Summary of significant accounting policies (continued)**

Depreciation is calculated using the straight line method to write down the cost of assets to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Leasehold Land and Buildings | Over the remaining period of the lease |
| Pumps and Motors | 5 years |
| Motor Vehicles and Cycles | 4 years |
| Furniture, Fittings and Office Equipment | 8 years |
| Computers | 3 years |
| Water Meters | 7 years |
| Prepaid Water Meter | 5 years |
| Office Block | 50 years |
| Software | 3 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date

Motor vehicles and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of motor vehicles and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

**(e) Intangible assets**

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over three years.

**(f) Accounting for leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

**(g) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

**(h) Receivables**

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of expected cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

**Notes (continued)**

**Summary of significant accounting policies (continued)**

**(i) Grants**

Government or Donors grants are not recognised until there is reasonable assurance that the company will comply with the conditions attaching to them and that the grants will be received. Government or Donors grants are recognised in profit or loss on a systematic basis over the periods in which the company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.
Government or Donor grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the company with no future related costs are recognised in profit or loss in the period in which they become receivable.

**(j) Provisions**

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**(k) Related parties.**

The County Government of Nakuru is the principal shareholder of the Company, holding 100% of the Company's equity interest. Transaction between related parties has been disclosed as the nature of its relationship as well as information about the transactions and outstanding balances.

**(l) Employee Benefits**

**(i) Retirement benefit obligations**

The company operates a defined contribution retirement benefit scheme for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the company and employees. The company and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

The company's contributions to the defined contribution schemes are charged to the profit and loss account in the year to which they relate.

**(ii) Other entitlements**

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

**(m) Income Tax**

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss, it is not accounted for.

**Notes (continued)**

**Summary of significant accounting policies (continued)**

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled**.**

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

## 2. Financial Risk Management Objectives and Policies

The company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance, but the company does not hedge any risks.

**Risk management is carried out by the finance department under policies approved by the Board of Directors.**

*i) Market risk*

The board has put in place an internal audit function to assist it in assessing the risk faced by the company on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the company's income or the value of its holding of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

*(ii) Foreign exchange risk*

The company does not have any foreign currency dealings and has no foreign currency denominated assets or liabilities. Accordingly, the company is not exposed to any foreign exchange risk.

*(iii) Price risk*

The company does not hold any financial instruments subject to price risk.

*(iv) Cash flow and fair value interest rate risk*

The Company does not hold interest bearing assets or liabilities subject to fair value interest rate risk; hence this risk is not relevant

**Notes (continued)**
**Summary of significant accounting policies (continued)**

*(v) Credit risk*

The company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

**Notes (continued)**

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment

The amount that best represents the company's maximum exposure to credit risk at 30th June 2016 is made up as follows:

| | 2016<br>Kshs | 2015<br>Kshs |
|---|---|---|
| Cash and cash equivalents | 116,279,241 | 61,105,382 |
| Trade receivables | 494,360,029 | 482,872,782 |
| Receivables from related companies | 42,200,799 | 39,962,666 |
| Loans to directors | | - |
| Other receivables | 68,645,728 | 35,349,684 |
| | **721,485,797** | **619,290,514** |

No collateral is held for any of the above assets. The company does not grade the credit quality of receivables. All receivables that are neither past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

**(vi) Liquidity risk**

Ultimate responsibility for liquidity risk management rests with the company directors, who have built an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| | Less than 1 month<br>Kshs | Between 1 and 2 month<br>Kshs | Between 2 and 3 month<br>Kshs | Above 3 months | Over 1 year<br>Kshs | |
|---|---|---|---|---|---|---|
| At 1st July 2015 | | | | | | |
| Trade payables | 45,070,499 | 5,264,138 | 5,522,244 | 54,835,138 | 69,274,814 | 179,966,833 |
| At 30th June 2016 | | | | | | |
| Trade payables | 39,916,502 | 17,427,020 | 5,980,850 | 155,248,789 | 71,075,491 | 289,648,652 |

**Notes (continued)**
**Summary of significant accounting policies (continued)**

***Capital risk management***

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may limit the amount of dividends paid to shareholders.
The company monitors capital on the basis of debt to capital ratio. Capital comprises of all components of equity i.e. share capital 2016-Kshs 100,000 (2015 Kshs100, 000) accumulated losses 2016 Kshs (36,612,029) (2015 Kshs (146,515,675) and reserve-assets transferred 2016 Kshs 262,893,991 (2016 Kshs 262,893,991). The company's strategy remained unchanged during the year.

In the Financial year 2015/2016 the Company had no borrowings

## 3. Critical accounting estimates and judgements

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

(i) Critical accounting estimates and assumptions

*Receivables*
Critical estimates are made by the directors in determining the recoverable amount of impaired receivables.

*Motor vehicles and equipment*
(ii) Critical estimates are made by the directors in determining depreciation rates for motor vehicles and equipment. The rates used are set out in Note 2(c) above.

(iii) Critical judgements in applying the entity's accounting policies

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

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

ii) Going concern

The Financial statements have been prepared on a going concern basis on the belief that the company operations will be ongoing.

iii) Contingent liability

The management evaluates the status of any exposures to contingent liabilities on a regular basis to assess the probability of the Company incurring related liabilities. Provisions are only made in the financial statements where, based on the management's evaluation, a present obligation has been established

iv) *Impairment losses*

At each year end, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

**Notes (continued)**

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, management estimates the recoverable amount of the cash generating unit to which the asset belongs.

**4. Currency**

These financial statements are presented in Kenya Shillings thousands

**5. Analysis of revenue by category**

| | 2016 Kshs | 2015 Kshs |
|---|---|---|
| Water sales | 817,268,656 | 782,608,534 |
| Other sales | 8,103,879 | 7,272,945 |
| | **825,372,535** | **789,581,479** |

- Water sales include sewerage and water charge
- Other sales include among others reconnection fees, connection fees, penalties, bulk water sales, laboratory charges, and sewer unblocking fees.

The above figure represents a small portion of the potential revenue of the company because of the following reasons:
The company accounted for 64% (59%:2014/15) of the water produced. The 34% loss is due to technical and commercial losses.

**6 Cost of sales**

| Cost of sales is analyzed as follows: | 2016 Kshs. | 2015 Kshs. |
|---|---|---|
| Bulk water purchase | 34,070,995 | 29,631,067 |
| Electricity | 168,877,544 | 166,238,947 |
| Chemicals | 6,062,221 | 5,680,848 |
| | **209,010,760** | **201,550,861** |

**7 Operating profit**

The following items have been charged in arriving at operating profit.

| | 2016 Kshs | 2015 Kshs |
|---|---|---|
| Depreciation on property, plant and equipment **(Note 11)** | 13,840,220 | 9,061,572 |
| Amortization of intangible assets (**Note 12**) | 271,901 | 499,609 |
| Amortization of prepaid operating lease rentals and Building (Note13) | 2,905,144 | 2,905,144 |
| Operating lease | 139,997,520 | 133,742,374 |
| Provision for impairment losses (bad debts) **(Note15)** | 4,861,779 | 7,054,611 |
| Employee benefits expense (**Note 8 b)** | 216,180,370 | 215,856,266 |
| Auditors' remuneration | 382,500 | 382,500 |

**8 (a) Employees benefits scheme expense**

| The following items are included within employee benefits expense: | 2016 Kshs | 2015 Kshs |
|---|---|---|
| Retirement benefits costs: | | |
| - Defined contribution scheme | 40,175,650 | 37,979,019 |
| - National Social Security Fund | 1,103,600 | 1,136,800 |

**Notes (continued)**

| | | 2016 | 2015 |
|---|---|---|---|
| **(b)** | **Administrative Expenses** | **Kshs** | **Kshs** |
| | These expenses comprises of :- | | |
| | Personnel costs | 218,724,901 | 218,182,391 |
| | Board Expenses | 8,138,299 | 4,367,708 |
| | Personnel subsistence and performance incentive | 19,716,118 | 16,926,309 |
| | Personnel medical and occupational health | 8,234,422 | 5,486,729 |
| | Personnel subscription and training | 3,191,069 | 2,423,450 |
| | **Total** | **258,004,810** | **247,396,587** |
| **(c)** | **Operating Expenses** | **2016** | **2015** |
| | These includes: | **Kshs** | **Kshs** |
| | Depreciation | 17,017,265 | 12,466,326 |
| | Licensee Administrative Fees and ADB loan | 139,997,520 | 133,742,374 |
| | Water Fittings | 9,555,314 | 12,475,522 |
| | Professional Fees | 12,974,014 | 12,236,334 |
| | Abstraction and permit Fees | 6,108,911 | 14,306,538 |
| | Motor Vehicles | 5,939,269 | 3,871,484 |
| | Insurance | 2,161,293 | 2,022,428 |
| | Printing and stationary | 13,729,858 | 7,296,857 |
| | Telephone | 4,799,338 | 3,932,964 |
| | Security | 15,335,862 | 14,278,059 |
| | Postage | 8,356,873 | 8,697,052 |
| | Fuel and Lubricants | 11,595,950 | 9,989,090 |
| | Rent | 2,343,050 | 2,204,095 |
| | Others | 53,474,863 | 36,272,424 |
| | Total | **303,389,381** | **273,791,579** |

| | | 2016 | 2015 |
|---|---|---|---|
| **9.** | **Income Tax Expense** | **Kshs** | **Kshs** |
| | Profit before Tax | 50,105,806 | 67,647,251 |
| | Add: Expenses not deductable for tax purposes | 27,623,408 | 36,773,398 |
| | Less: Expenses deductable for tax purposes | 35,599,560 | 95,912,058 |
| | Adjusted loss for tax purposes | 42,129,654 | 8,508,592 |
| | Tax Losses brought forward | (46,349,754) | (54,858,346) |
| | Add: Fully amortised losses years 2012 and years before | - | - |
| | Tax Losses carried forward | **(4,220,100)** | **(46,349,754)** |
| | **Income Tax Expense** | **-** | **-** |

The company made a profit during the year under review However, according to section.4 of the Income tax Act Cap 480, losses are supposed to be carried for 4 years therefore only the losses relating to year 2012 and after have been carried forward. Since the computed tax profit is negative there is no tax liability

| | | Number of shares | Ordinary shares (Kshs) |
|---|---|---|---|
| **10.** | **Share Capital** | | |
| | Balance as at 30th June 2016 | 100,000 | 100,000 |

The total authorised number of ordinary shares is 5, 000 with a par value of Kshs.20 per share. All the shares are fully paid

## Notes (continued)

### 11. Property, Plant and Equipment

| | Motor vehicles | Computers | Pumps and motors | Furniture and fittings | Water Meters | Network Extensions | CWIP | Total |
|---|---|---|---|---|---|---|---|---|
| | Kshs | Kshs | Kshs | Kshs | Kshs | Kshs | Kshs | Kshs |
| **Cost or valuation** | | | | | | | | |
| At 30 June 2014 | 10,616,285 | 8,937,058 | 27,648,454 | 5,878,969 | 46,672,858 | 9,386,435 | 72,155,149 | 181,295,208 |
| Additions | - | 942,228 | 7,542,144 | 744,610 | 6,790,765 | - | 2,653,121 | 18,672,868 |
| **At 30 June 2015** | **10,616,285** | **9,879,286** | **35,190,598** | **6,623,579** | **53,463,623** | **9,386,435** | **74,808,270** | **199,968,076** |
| **Cost or valuation** | | | | | | | | |
| As at 1st July 2015 | 10,616,285 | 9,879,286 | 35,190,598 | 6,623,579 | 53,463,623 | 9,386,435 | **74,808,270** | **199,968,076** |
| Additions | 1,352,586 | 1,402,369 | 5,950,613 | 710,895 | 5,112,931 | **-** | **8,824,967** | **23,354,362** |
| **At 30th June 2016** | **11,968,871** | **11,281,655** | **41,141,212** | **7,334,474** | **58,576,555** | **9,386,435** | **83,633,237** | **223,322,438** |
| **Depreciation** | | | | | | | | |
| At 1st July 2014 | **(10,473,788)** | **(7,772,701)** | **(17,679,571)** | **(3,049,251)** | **(16,975,763)** | **(7,383,148)** | **-** | **(63,334,222)** |
| **Reclassification of Accumulated Depreciation on Grant Assets** | | | (517,625) | - | (4,454,838) | - | - | (4,972,463) |
| **Amortisation of Grant asset** | | | (1,035,250) | | (6,682,257) | | | 7,717,507 |
| Charge for the year | (47,500) | (1,280,821) | (3,629,023) | (666,633) | (1,591,809) | (1,845,787) | - | (9,061,572) |
| **As at 30th June 2015** | **(10,521,288)** | **(9,053,522)** | **(22,861,469)** | **(3,715,884)** | **(29,701,667)** | **(9,228,935)** | **-** | **(85,082,764)** |
| **Depreciation** | | | | | | | | |
| As at 1st July 2015 | **(10,521,288)** | **(9,053,522)** | **(22,861,469)** | **(3,715,884)** | **(29,701,667)** | **(9,228,935)** | **-** | **(85,082,764)** |
| Charge for the year grants | **-** | - | **(862,405)** | **-** | **(2,227,419)** | **-** | - | **(3,089,825)** |
| Charge for the year | **(385,646)** | **(978,578)** | **(4,991,990)** | **(715,563)** | **(6,610,944)** | **(157,499)** | **-** | **(13,840,221)** |
| **At 30th June 2016** | **(10,906,934)** | **(10,032,100)** | **(28,715,864)** | **(4,431,447)** | **(38,540,030)** | **(9,386,434)** | **-** | **(102,012,810)** |
| **Net book value** | | | | | | | | |
| **As at 30th June 2016** | 1,061,937 | 1,249,555 | 12,425,347 | 2,903,027 | 20,036,524 | - | 83,633,237 | 121,309,628 |
| **As at 30th June 2015** | **94,998** | **825,764** | **12,329,129** | **2,907,695** | **23,761,957** | **157,500** | **74,808,270** | **114,885,311** |

Capital Works in Progress (CWIP) includes WSTF projects; Rhonda Kshs.12,496,242, Kaptembwa Kshs11,828,799, London/Manyani Kshs 10,907,440, Free Area/Kiratina Kshs.13,143,075 Mzee Wa Nyama Kshs 13,261,978 , Pre Paid water Meter Kshs 12,024,184,Barut Kshs 5,773,952, Githima , Bondeni & Misonge Kshs 4,197,567

Charge for year Grants Kshs 3,089,825 relates to amortization of grant assets which is charged to Reserves Grants from SUWASA and Grants from Vitens Evides.

**Notes (continued)**

12 Intangible assets

| | 2016<br>Kshs | 2015<br>Kshs |
|---|---|---|
| **Cost** | | |
| At July 1st | 5,233,596 | 4,789,761 |
| Additions | - | 443,835 |
| Disposals | - | - |
| At June 30th | 5,233,596 | 5,233,596 |
| **Amortisation** | | |
| At July 1st | 4,812,694 | 4,313,085 |
| Charge for the year | 271,901 | 499,609 |
| Disposals | - | - |
| Impairment loss | - | - |
| At June 30th | 5,084,595 | 4,812,694 |
| **Net book value** | | |
| **At June 30th** | **149,001** | **420,902** |

Software development costs comprise internally generated expenditure directly associated with the production of identifiable and unique software products controlled by the company that will probably generate economic benefits exceeding costs beyond one year.

**13 Prepaid operating lease rentals and Buildings**

| | Lease hold Land | Buildings | Total |
|---|---|---|---|
| **At 30th June 2014** | **46,153,847** | **77,908,491** | **124,062,338** |
| At 1st July 2015 | **46,153,847** | **77,908,491** | **124,062,338** |
| Additions | - | - | - |
| Less: Amortization for the year | (1,282,051) | (1,623,093) | (2,905,144) |
| **At 30th June 2015** | **44,871,796** | **76,285,398** | **121,157,194** |
| At 1st July 2015 | **44,871,796** | **76,285,398** | **121,157,194** |
| Additions | - | - | - |
| Less: Amortization for the year | (1,282,051) | (1,623,093) | (2,905,144) |
| **At 30th June 2016** | **43,589,745** | **74,662,305** | **118,252,050** |

The company land, Nakuru Municipality Block 4/27 along government road was on 25th August 2011 re-valued to Kshs 50,000,000 by professional valuers, messrs Hectare & Associates of P.O Box 4170-20100 Nakuru. The resultant incremental value of Kshs 37,922,895 has been incorporated in the Financial Statements.
The Buildings relates to the Company Head office block and central Zone office along Government Road Nakuru Municipality Block 4/27.

| **14 Inventories** | **2016**<br>**Kshs** | **2015**<br>**Kshs** |
|---|---|---|
| Technical stocks and stationery | 24,518,550 | 9,551,080 |

These relates to water chemicals, water fittings, and office stationery.

**Notes (continued)**

## 15 Receivables and prepayments

| | 2016 Kshs | 2015 Kshs |
|---|---|---|
| Trade receivables | 665,834,004 | 627,412,412 |
| Less: Accumulated Provision for impairment losses (bad debts) | (166,612,195) | (172,967,687 |
| Provision for impairment losses(bad debts) | (4,861,779) | (7,054,611) |
| | **494,360,029** | **447,390,113** |
| **Prepayments** | 88,322 | 132,984 |
| **Other receivables** | | |
| Electricity deposits | 10,344,500 | 7, 348, 500 |
| Telephone deposits | 100,000 | 100,000 |
| VAT input claims | 57, 300,872 | 16,840,579 |
| Water deposit for NAWASSCO facilities | 29,700 | 29,700 |
| Cash collected by Posta | 348,991 | 781,562 |
| Mpesa receivable from Safaricom | 521,665 | 10,235,093 |
| unspent imprests | - | 14,250 |
| | **563,094,080** | **482,872,782** |

The provision for impairment losses (bad debts) is based on the debt age. The provision is a 10% of the uncollected billing for the current Financial year.

Pre-payments relate to outstanding staff advances.

## 16 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and in bank reconciled to cashbooks and cash grant from Water Services Trust Fund to finance capital project in Pre-paid water meters and NAWASSCO Office block. .The analysis as under :-

| Bank Account | Bank account Name | 2016 Kshs | 2015 Kshs |
|---|---|---|---|
| 01136087648601 | Revenue Account | 12,107,902 | 21,796,639 |
| 01100087648600 | Saving Account | 100,985,606 | 25,766,338 |
| 01136087648600 | Expenditure Account | 585,726 | 10,362,639 |
| 01136087648606 | Office Block Account | 79,221 | 176,770 |
| 011360876486010 | WSTF-Pre-paid water Meters | 315,227 | - |
| 018000046253 | Family Bank | 1,579,735 | 2,992,893 |
| | Petty cash book | - | - |
| 0310261237839 | Equity Bank | 625,824 | - |
| | | **116,279,241** | **61,105,382** |

The cash held at the close of business on 30th June 2016 is included in the Revenue cashbook balance and is reconciled to the bank balance.

**Notes (continued)**

17 **Payables and accrued expenses**

| | 2016 Kshs | 2015 Kshs |
|---|---|---|
| These includes: | | |
| Trade payables | 289,648,652 | 179,966,833 |
| Accrued expenses | 382,500 | 382,500 |
| **Other payables** | | |
| Customer Deposits | 69,290,419 | 61,267,255 |
| Un paid June 2016 Salaries deductions and un paid LAPTRUST deductions | 38,970,299 | 57,941,221 |
| Unknown bank direct credits | 1,505,570 | 1,304,605 |
| Pre paid Vitens allowances and salary subsidy | - | 2,363,573 |
| Aquaya Laboratory support | - | 21,554 |
| | 399,797,440 | 303,247,541 |

Trade payables relate to suppliers' outstanding balances Administrative fees to RVWSB and ADB loan repayments.

Accrued expenses relate to audit fees.

**18 Contingent liabilities**

The company has no contingent liabilities in respect of bank, guarantees and other matters arising in the course of business.

**19 Licensee Administrative fees**

The Rift Valley Water Services Board and Nakuru Water and Sanitation Services Company Limited (The Service Provider) entered into a renewable Services Provision Agreement (SPA) dated 31 May 2004 under which the Water Services Board agreed to provide to the Service Provider with infrastructure, fixed assets and facilities associated with the management and administration of the services, abstraction and collection of raw water. During the period of the SPA the Service Provider is required to pay the Water Services Board a portion of the collected revenue for the use of the assets. In the current period, Kshs 139,997,520 (2015: Kshs 133,742,374) was charged as licensee Administrative fees.

**20 Related party transactions**

The company was previously owned by the defunct Municipal Council of Nakuru and currently owned by the County Government of Nakuru. There are no other companies that are related to Nakuru Water and Sanitation Services Company Limited through common Shareholdings or common Directorships.

| **i) Sale of goods and services** | 2016 Kshs | 2015 Kshs |
|---|---|---|
| County Government of Nakuru | 25,840,485 | 28,686,369 |

The above figures are included in the revenues at year end and the transaction were carried out at arm's length

| **ii) Key management compensation** | 2016 Kshs | 2015 Kshs |
|---|---|---|
| Salaries and other short-term employment benefits | 15,683,730 | 16,697,437 |

| **Notes (continued)** | **2016** | **2015** |
|---|---|---|
| **iii) Directors' remuneration** | **Kshs** | **Kshs** |
| Directors sitting allowance | 6,904,459 | 3,217,418 |
| Chairman's honorarium | 692,861 | 764,290 |

**iv)** Outstanding balances arising from sale and purchase of goods/services

| | **2016** | **2015** |
|---|---|---|
| | **Kshs** | **Kshs** |
| Non-current receivables from defunct Municipal Council of Nakuru currently | 215,703,436 | 215,703,436. |
| County Government of Nakuru | 39,286,303 | 42,200,780 |

## 21 Assets and liabilities transferred

In accordance with the provisions of the Water Act 2002, Nakuru Water and Sanitation Services Company Limited assumed responsibility of providing water and sanitation services in the jurisdiction of the defunct Nakuru Municipal Council with effect from 1st June 2004. To facilitate this service provision, certain operational assets and liabilities were assigned by the Director of Water –Ministry of Water Resources Management and Development. The operational assets included customer accounts amounting to Ksh 443,091,806 while the operational liabilities included amounts due to National Water Corporation Kshs 168,490,370, KPLC Kshs 45,108,015 and employees statutory deductions Kshs.11,707,446 all amounting to Ksh 225,305,830 were assigned to the company for the time being subject to resolution with the Treasury - Ministry of Finance. Overall the net operational assets amounting to Ksh 217,785,976 were included as a reserve in the Financial Statements.

The company on 16th June 2011 wrote to the Rift valley Water Services (RVWSB) requesting them to Negotiate on its behalf with the Ministry of Water and irrigation, Ministry of Finance and National Water Conservation and Pipeline corporation to write off the liability of Kshs168, 490,370.

Further the company on 23rd June 2011and 17th may 2016 wrote to Kenya Power requesting them to provide us details on how the Kshs 45, 108, 015 was settled because the current bills were up to date. On 26th July 2011 Kenya Power responded that according to their records there was no amount owing and that it was not possible to provide the details of who settled the bills. In view of the Kenya Power response, the Board of Directors resolved that the amount be written off against a reserve of assets Transferred to the Company at inception. After the adjustment the Non -current accounts payable reduced to Kshs 180,197,815 while the reserve of assets Transferred increased to Kshs.262, 893,991.

## 22 Grants from water services Trust Fund(WSTF) and SUWASA/USAID

| | **2016** | **2015** |
|---|---|---|
| **Projects funded by WSTF** | **Kshs** | **Kshs** |
| WSTF -Rhonda Project | 12,496,242 | 12,496,242 |
| WSTF-Kaptembwa Project | 11,828,799 | 11,828,799 |
| WSTF- London/Manyani | 13,101,625 | 13,101,625 |
| WSTF- Free area/ Kiratina | 14,822,202 | 14,822,202 |
| WSTF Project Mzee Wa Nyama | 14,797,498 | 14,797,498 |
| WSTF Project Prepaid Meters | 3,199,218 | 3,199,218 |
| Githima Bondeni & misonge WSTF project | 6,564,737 | 6,564,737 |
| Baruti WSTF Project | 8,082,822 | 8,082,822 |
| Pre paid water Meters & Maji soko Kiosks | 10,044,018 | - |
| Total | **94,937,160** | **84,893,143** |
| | | |
| **Projects funded by SUWASA/USAID** | **Kshs** | **Kshs** |
| Prepaid Meters | 1.260.941 | 3,488,400 |
| Water Equipment | 3,104,296 | 3,966,701 |

Upon completion of the WSTF projects they will be transferred to RVWSB who are the asset owner.
**Notes (continued)**

## 23 Co-operative Loans

| | 2016 | 2015 |
|---|---|---|
| **As at 1st July** | | **3,333,333** |
| Loan repaid | | **3,333,333** |
| As at 30th July 2016 | **-** | **-** |

In October 2011 the company secured a loan of Kshs 30 million towards the construction of the office block. This was repaid in full in 2014/15 financial year.

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