

**Malindi Water and Sewerage Company Ltd**  
**Annual Report and Financial Statements**  
**For the year Ended 30 June, 2016**



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# **MALINDI WATER & SEWERAGE COMPANY LIMITED**

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## **REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2016**

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

**Malindi Water and Sewerage Company Limited**  
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**Malindi Water and Sewerage Company Key Information**

**Key Entity Information**

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

**Principal Activities**

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

**Directors**

The Directors who served the entity during the 2015 / 2016 financial year were as follows:

<b>Name</b>	<b>Designation</b>	<b>Date of Appointment</b>
1. Mrs Christine Karani	Chairman	Appointed on October 2010
2. Mr Michael Kingi	Chief Executive	Appointed on October 2015
3. Mr Benjamin Shollo	Director	Appointed on October 2010
4. Mr Felix Charo	Director	Appointed on October 2010
5. Mr Stanley Chai	Director	Appointed on October 2010
6. Mr Ben Kai	Director	Appointed on October 2010
7. Mr Samuel Kombe	Director	Appointed on October 2010

**Corporate Secretary**

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

**Registered Office**

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

**Corporate Contacts**

Telephone: (254) 4231037  
E-mail: [info@malindiwater.co.ke](mailto:info@malindiwater.co.ke)  
Website: [www.malindiwater.co.ke](http://www.malindiwater.co.ke)

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

**Corporate Bankers**

**1. Kenya Commercial Bank**

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

**Account Number**

1104220504

1104220578

1104220377

1103447661

1104224186

**Description**

Main Revenue Account

Operations Account

Customer Fixed Deposit Account

Savings Account

Projects Accounts

**2. Equity Bank Limited**

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

**Account Number**

045-0293125064

**Description**

Revenue Collection Account

**Independent Auditors**

Auditor-General

Anniversary Towers, University Way

P.O. Box 30084- 00100

Nairobi, Kenya.

**Principal Legal Advisers**

Attorney-General

Harambee Avenue

P.O. Box 40112- 00200

Nairobi, Kenya.

## **Board of Directors**



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



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



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

## Board of Directors



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



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



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



Mr Michael Kingi. He is the Managing Director appointed on 1<sup>st</sup> October 2015. He holds a degree in Civil Engineering and a vast experience in Water Engineering

## **Corporate Management Team**



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



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



Mr Kingstone Mulewa is the Internal Audit Manager. He holds a degree in Business Management. He is a Certified Public Accountant



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



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



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## **Chairperson Report**

Malindi Water And Sewerage Company Limited continued to register remarkable progress in its pursuit to serve the people in its area of mandate. In the year under review, significant progress was realised in the increase in network coverage, customer base and the entrance to the vast Malindi North mainly Magarini area that previously had not been under our coverage

The total turnover increased compared to the previous year, attributable to the increase in coverage of the area under jurisdiction. In addition, there was a marked increase in the cost of production and the levels of non-revenue water compared to the last financial year.

The Company has continued working closely with development partners in the pursuit to realize its strategic plan. These include the World Bank, Water Services Trust Fund, Vitens Evides International, the County Government of Kilifi and CDF. This partnership has resulted in the improvement of Water and Sanitation Services in both Malindi and Magarini which are within our areas of jurisdiction.

During the financial year, the unrelenting support received from the County Government of Kilifi enabled the Company increase its service area in a tremendous way. We appreciate and look forward to continued support in this.

God bless MAWASCO and Kilifi County.

Christine Karani,

**Chairperson Board of Directors**



## **Report of the Chief Executive Officer**

### **OVERALL PERFORMANCE OF THE COMPANY AND ECONOMIC OUTLOOK**

There was an improved service provision in the financial year under review despite the difficult trading environment the Company faced. During the year, the Company's revenue continued largely to depend on the tourism sector. The effects of the travel advisories, low tourism sector performance and the non-cost recovery tariff, the performance of the Company did not meet its target despite its improvement in overall performance.

### **MAJOR WATER AND SANITATION PROJECTS UNDERTAKEN BY THE COMPANY**

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

### **COMPANY'S STRATEGIC PLAN**

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

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

## Report of the Chief Executive Officer

### **CHALLENGES**

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

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

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

**Gerald Mwambire**

**Ag Managing Director**

## **Corporate Governance Statement**

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

The Board has 3 committees namely:

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

### **FINANCE PLANNING AND ADMINISTRATION COMMITTEE**

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

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

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

### **AUDIT AND RISK COMMITTEE**

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

### **HUMAN RESOURCE COMMITTEE**

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

## **Corporate Social Responsibility Statement**

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

### **HIV /AIDS SENSITISATION**

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

### **ESTABLISHMENT OF THE PRO-POOR UNIT**

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

### **WOMEN EMPOWERMENT**

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

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## **Report of the Directors**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2016 which show the state of affairs of Malindi Water and Sewerage Company Ltd.

### **Principal activities**

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

### **Results**

The results of the entity for the year ended June 30, 2016 are set out on page 15 to 29

### **Directors**

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

### **Auditors**

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

By Order of the Board

Mr J. N. Nyakoe  
Corporate Secretary  
Nairobi

Date

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## **Statement of Directors' Responsibilities**

The Public Finance Management Act, 2012 and the State Corporations Act, require the Directors to prepare financial statements in respect of Malindi Water and Sewerage Company Ltd, which give a true and fair view of the state of affairs of Malindi Water and Sewerage Company Ltd at the end of the financial year ended 30 June 2016 and the operating results of Malindi Water and Sewerage Company for year ended 30 June 2016. The Directors are also required to ensure that Malindi Water and Sewerage Company Ltd keeps proper accounting records which disclose with reasonable accuracy the financial position of Malindi Water and Sewerage Company Ltd. The Directors are also responsible for safeguarding the assets of the Company.

The Directors are responsible for the preparation and presentation of Malindi Water and Sewerage Company's financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year ended on June 30, 2016. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for MAWASCO'S financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that MAWASCO'S financial statements give a true and fair view of the state of its transactions during the financial year ended June 30, 2016, and of the financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for MAWASCO, which have been relied upon in the preparation of the its financial statements as well as the adequacy of the systems of internal financial control.

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

### **Approval of the financial statements**

Malindi Water and Sewerage Company's financial statements were approved by the Board on 29 September 2016 and signed on its behalf by:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

## **Report of the Auditor-General**



**Malindi Water and Sewerage Company Limited**  
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**Statement of Comprehensive Income for the period ended 30 June, 2016**

	Notes	2016' Kshs	2015' Kshs
<b>REVENUES</b>			
Sales	2	317,205,944	330,215,100
		317,205,944	330,215,100
Cost of sales	3	207,032,024	191,364,603
Net Sales		110,173,920	138,850,497
In-Kind Contribution	4	3,731,040	3,604,080
Other income	5	12,919,975	7,938,689
<b>Total Revenues</b>		<b>126,824,935</b>	<b>150,393,266</b>
<b>OPERATING EXPENSES</b>			
Administration Costs	6(a)	85,507,709	62,852,791
Staff Costs	6(b)	128,273,497	125,343,873
Depreciation of property, plant and equipment	7	7,462,455	5,155,665
<b>TOTAL OPERATING EXPENSES</b>		<b>221,243,661</b>	<b>193,352,329</b>
<b>OPERATING PROFIT/(LOSS)</b>	8	<b>(94,418,726)</b>	<b>(42,959,063)</b>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b>(94,418,726)</b>	<b>(42,959,063)</b>
<b>INCOME TAX EXPENSE/(CREDIT)</b>		<b>-</b>	<b>-</b>
<b>PROFIT/(LOSS) AFTER TAXATION</b>		<b>(94,418,726)</b>	<b>(42,959,063)</b>

The notes set out on pages 22 to page 29 forms an integral part of the financial statements

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**Statement of Financial Position for the period ended 30 June, 2016**

	Note	2016 Kshs	2015 Kshs
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	9	67,769,880	64,841,847
Non-Current Receivables	10	57,134,125	57,134,125
<b>Total Non-Current Assets</b>		<b>124,904,005</b>	<b>121,975,972</b>
<b>Current Assets</b>			
Inventories	11	7,236,155	7,959,190
Trade and other receivables	12	150,172,454	175,467,005
Share Capital Receivable	13	5,000,000	5,000,000
Customer Deposit Receivable	14	8,443,600	8,443,600
Delegated Works	15	18,313,353	18,313,353
Bank and cash balances	16	13,279,551	3,563,914
		202,445,113	218,747,062
<b>Total Non-Current Assets</b>		<b>327,349,118</b>	<b>340,723,034</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Ordinary share capital	17	5,000,000	5,000,000
Retained earnings	18	(192,179,299)	(97,760,573)
Project Grant Fund	19	17,429,025	8,383,972
Capital Reserve Fund	20	39,534,996	39,534,996
<b>Capital and Reserves</b>		<b>(130,215,278)</b>	<b>(44,841,605)</b>
<b>Non-Current Liabilities</b>			
Non Current Payables	21	57,134,125	57,134,125
<b>Total Non-Current Liabilities</b>		<b>(73,081,153)</b>	<b>12,292,520</b>
<b>Current Liabilities</b>			
Trade and other payables	22	367,344,146	299,486,099
Provision for leave pay	23	4,901,124	3,574,714
Customer Deposit Old	24	8,443,600	8,443,600
Customer Deposit New	25	19,741,401	16,926,101
<b>Total Current Liabilities</b>		<b>400,430,271</b>	<b>328,430,514</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>327,349,118</b>	<b>340,723,034</b>

The Financial Statements on pages 15 to 29 were approved by the board of Directors on the 29 September 2016 and signed on its behalf by:

Chairperson

Ag Managing Director

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**Statement of Changes in Equity for the period ended 30 June, 2016**

<b>Particulars</b>	<b>Ordinary share capital</b>	<b>Capital Researve Fund</b>	<b>Retained earnings</b>	<b>Total</b>
<b>At July 1, 2015</b>	<b>5,000,000</b>	<b>39,534,996</b>	<b>(54,801,510)</b>	<b>(10,266,514)</b>
Net Loss For the Year	-	-	<b>(42,959,063)</b>	<b>(42,959,063)</b>
<b>At June 30, 2015</b>	<b>5,000,000</b>	<b>39,534,996</b>	<b>(97,760,573)</b>	<b>(53,225,577)</b>
<b>At July 1, 2015</b>	<b>5,000,000</b>	<b>39,534,996</b>	<b>(97,760,573)</b>	<b>(53,225,577)</b>
Net Loss For The Year			(94,418,726)	(94,418,726)
Prior Year Adjustment				
<b>At June 30, 2016</b>	<b>5,000,000</b>	<b>39,534,996</b>	<b>(192,179,299)</b>	<b>(147,644,303)</b>

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**Statement of Cash Flows for the period ended 30 June, 2016**

	Note	2016 Kshs	2015 Kshs
<b>OPERATING ACTIVITIES</b>			
Cash generated from/(used in) operations	26	11,061,072	(37,803,397)
<b>Net cash generated from/(used in) operating activities</b>		<b>11,061,072</b>	<b>(37,803,397)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	9	(10,390,488)	(6,036,535)
<b>Net cash generated from/(used in) investing activities</b>		<b>(10,390,488)</b>	<b>(6,036,535)</b>
<b>FINANCING ACTIVITIES</b>			
Increase(Decrease) in Project Grant Reserve	19	9,045,053	-
<b>Net cash generated from/(used in) financing activities</b>		<b>9,045,053</b>	<b>-</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>9,715,637</b>	<b>(14,486,782)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>3,563,914</b>	<b>18,050,695</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	16	<b>13,279,551</b>	<b>3,563,914</b>

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**Summary of Significant Accounting Policies**

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

**a) Statement of compliance and basis of preparation**

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Company's accounting policies.

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

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

**b) Revenue recognition**

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

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

**c) In-kind contributions**

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

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**d) Property, plant and equipment**

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

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

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

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

**e) Depreciation**

**i) Depreciation and impairment of property, plant and equipment**

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations. Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

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

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

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

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

**f) Inventories**

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

**g) Trade and other receivables**

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

**h) Cash and cash equivalents**

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Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

**i) Trade and other payables**

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

**j) Retirement benefit obligations**

The entity operates a defined contribution scheme for all full-time employees from July 1, 2008. The scheme is administered by CPF (County Pension Fund) and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.400.00 per employee per month.

**k) Provision for staff leave pay**

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

**l) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2016.

**Explanatory Notes to the Financial Statements**



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	2016 Kshs	2015 Kshs
<b>2 SALES</b>		
Water Sale	306,647,874	319,078,325
Meter Rent	10,558,070	11,136,775
	<b>317,205,944</b>	<b>330,215,100</b>
<b>3 Cost Of Sales</b>		
Cost of Water	171,871,790	157,922,350
9% Administrative Fees To CWSB	31,643,851	30,098,028
1% Administrative Fees To WASREB	3,516,384	3,344,225
	<b>207,032,024</b>	<b>191,364,603</b>
<b>4 In-Kind Contribution</b>		
Seconded Personnel	3,731,040	3,604,080
	<b>3,731,040</b>	<b>3,604,080</b>
<i>This is an amount paid to 6 ministry staff seconded to the Company. Their salary is now paid by the County</i>		
<b>5 OTHER INCOME</b>		
Sale of tender documents	118,000	59,000
Other miscellaneous receipts	8,681,545	7,879,689
Written off Payables	4,120,430	-
	<b>12,919,975</b>	<b>7,938,689</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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**6(a) ADMINISTRATION COSTS**

Directors' emoluments	6,040,337	3,228,857
Electricity and water	2,565,171	1,294,555
Communication services and supplies	9,083,036	7,586,325
Transportation, travelling and subsistence	10,158,367	8,812,446
Advertising, printing, stationery and photocopying	5,090,946	5,189,610
Staff training expenses	2,564,132	1,653,992
Hospitality supplies and services	6,140,505	3,713,002
Insurance costs	4,484,976	3,715,825
Bank charges and commissions	903,825	497,893
Office and general supplies and services	10,472,472	9,474,669
Auditors' remuneration	747,280	1,139,280
Legal fees	390,001	723,069
Consultancy fees	15,000	323,000
Repairs and maintenance	20,094,462	8,619,152
Provision for bad and doubtful debts	-	-
Other operating expenses(Wasca Games e.t.c.)	6,757,200	6,881,117
	<b>85,507,709</b>	<b>62,852,790.79</b>

**6(b) STAFF COSTS**

Salaries and allowances of permanent employees	116,762,439	110,998,276
Wages of temporary employees	-	-
Compulsory national health insurance schemes	-	-
Compulsory national social security schemes	897,600	819,800
Other pension contributions	10,505,731	11,873,010
Leave pay and gratuity provisions	107,727	1,652,787
	<b>128,273,497</b>	<b>125,343,873</b>

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

Permanent employees – Management	7	6
Permanent employees – Unionisable	105	109
Temporary and contract employees	22	7
	<b>134</b>	<b>122</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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	2016 Kshs	2015 Kshs
<b>7 Depreciation Expense</b>		
Dep-Concrete Elements	65,068	70,487
Dep-Furnitue &Fittings	555,920	431,929
Dep-O&M Equipment	45,976	39,124
Dep-Office Equipment	299,960	232,903
Cold Water Meters	3,242,552	2,266,719
Dep-Buildings	210,820	190,348
Dep-Computers&Accessories	994,515	614,708
Dep-Motor Vehicle	2,047,645	1,309,447
	<b>7,462,455</b>	<b>5,155,665</b>
<b>8 OPERATING PROFIT/(LOSS)</b>		
<b>The operating profit/(loss) is arrived at after charging:</b>		
Staff costs	128,273,497	125,343,873
Depreciation of property, plant and equipment	7,462,455	5,155,665
Provision for bad and doubtful debts	-	-
Directors' emoluments - Honorarium	960,000	960,000
-others	5,080,337	2,328,857
Auditors' remuneration - current year fees	638,000	638,000

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**9. PROPERTY PLANT AND EQUIPMENT**

2016	Buildings & civil works	Plant and machinery	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Total
<b>COST OR VALUATION</b>						
At July 1, 2015	26,462,511	43,284,246	15,224,050	11,614,046	10,974,525	107,559,378
Additions	937,465.60	5,673,476	446,500.00	1,460,141	1,872,906	10,390,488
<b>At June 30, 2016</b>	<b>27,399,977</b>	<b>48,957,722</b>	<b>15,670,550</b>	<b>13,074,187</b>	<b>12,847,431</b>	<b>117,949,866</b>
<b>DEPRECIATION</b>						
At July 1, 2015	1,320,530	24,770,904	5,249,306	6,548,666	4,828,125	42,717,531
Charge for the year	210,820	3,353,595	2,047,645	994,515	855,880	7,462,455
<b>At June 30, 2016</b>	<b>1,531,350</b>	<b>28,124,499</b>	<b>7,296,951</b>	<b>7,543,181</b>	<b>5,684,005</b>	<b>50,179,986</b>
<b>NET BOOK VALUE</b>						
<b>At June 30, 2016</b>	<b>25,868,626.58</b>	<b>20,833,222</b>	<b>8,373,599</b>	<b>5,531,006</b>	<b>7,163,426</b>	<b>67,769,880</b>
<b>2015</b>						
At July 1, 2014	26,462,511	41,733,901	11,274,050	11,360,046	10,692,335	101,522,843
Additions	-	1,550,345	3,950,000	254,000	282,190	6,036,535
<b>At June 30, 2015</b>	<b>26,462,511</b>	<b>43,284,246</b>	<b>15,224,050.00</b>	<b>11,614,046</b>	<b>10,974,525</b>	<b>107,559,378</b>
<b>DEPRECIATION</b>						
At July 1, 2014	1,130,183	22,394,574	3,939,858	5,933,958	4,163,292	37,561,866
Charge for the year	190,348	2,376,330	1,309,447	614,708	664,833	5,155,665
<b>At June 30, 2015</b>	<b>1,320,530</b>	<b>24,770,904.26</b>	<b>5,249,306</b>	<b>6,548,666</b>	<b>4,828,125</b>	<b>42,717,531</b>
<b>NET BOOK VALUE</b>						
<b>At June 30, 2015</b>	<b>25,141,981</b>	<b>18,513,342</b>	<b>9,974,744</b>	<b>5,065,380</b>	<b>6,146,400</b>	<b>64,841,847</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2016 Kshs	2015 Kshs
<b>10 NON CURRENT RECEIVABLES</b>	57,134,125	57,134,125
	<b>57,134,125</b>	<b>57,134,125</b>
This represent debtors balances inherited from CWSB at the inception of the company. They are both receivable to the Company and payable to CWSB		
<b>11 INVENTORIES</b>		
Stationery and general stores	1,523,994	854,157
Computer Consumable parts	108,467	544,900
Office Equipment	2,550	30,715
Tools and Equipment	43,520	55,125
Pipes and Fittings	22,810	5,074,687
Motor vehicle spare parts	6,000	1,966
Appurtenances spares	4,012,135	132,745
Cleaning and Sanitation materials	-	1,300
Water Analysis Equipment	150	37,200
Uniform and Boots	39,500	6,000
Cold Water Meters accessories	1,287,200	1,106,625
Building Materials	189,829	113,770
	<b>7,236,155</b>	<b>7,959,190</b>
<b>12 TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	148,682,609	174,005,919
Staff receivables	1,489,844	1,461,086
<b>Gross trade and other receivables</b>	<b>150,172,454</b>	<b>175,467,005</b>
Less Provision for bad and doubtful receivables	-	-
<b>Net trade and other receivables</b>	<b>150,172,454</b>	<b>175,467,005</b>
No provision for bad and doubtful debts was provided due to the non cost recovery tariff		
<b>13 SHARE CAPITAL RECEIVABLE</b>	5,000,000	5,000,000
	<b>5,000,000</b>	<b>5,000,000</b>
This is an amount of share capital not paid up by the County Government of Kilifi.		

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2016 Kshs	2015 Kshs
<b>14 CUSTOMER DEPOSIT RECEIVABLE</b>	8,443,600	8,443,600
	<b>8,443,600</b>	<b>8,443,600</b>
<b>15 DELEGATED WORKS</b>		
Booster station and Watamu Junction project	3,250,906	3,250,906
Jimba Pipeline	1,691,040	1,691,040
Mayungu Pipeline	9,912,804	9,912,804
Watamu South Pipeline	3,458,604	3,458,604
	<b>18,313,353</b>	<b>18,313,353</b>
These are projects which were done on behalf of Coast Water Services Board and the funds are to be refunded to the Company.		
<b>16 BANK AND CASH BALANCES</b>		
Cash at bank	13,279,551	3,563,914
Cash in hand	-	-
	<b>13,279,551</b>	<b>3,563,914</b>
The bulk of the cash at bank was held at Kenya Commercial Bank, the Company's main bankers.		
<b>17 ORDINARY SHARE CAPITAL</b>		
<b>Authorised:</b>		
ordinary shares of Kshs.1,000.00par value each	<b>5,000,000</b>	<b>5,000,000</b>
<b>Issued and fully paid:</b>		
ordinary shares of Kshs.1,000. par value each		
County Government of Kilifi 4996 ordinary shares at kshs.1,000.00	4,996,000	4,996,000
County Secretary 2 ordinary shares at kshs.1,000.00	2,000	2,000
County executive member in charge of Water 1 ordinary share at kshs.1,000.00	1,000	1,000
County executive member in charge of Finance 1 ordinary share at kshs.1,000.00	1,000	1,000
	<b>5,000,000</b>	<b>5,000,000</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2016 Kshs	2015 Kshs
<b>18 RETAINED EARNINGS</b>		
The retained earnings represent amounts available for financing the company's business activities.	<b>(192,179,299)</b>	<b>(97,760,573)</b>
<b>19 PROJECT GRANT FUND</b>		
These are funds from development partners for various Water reticulation projects	17,429,025	8,383,972
	<b>17,429,025</b>	<b>8,383,972</b>
<b>20 CAPITAL RESERVE FUND</b>		
	39,534,996	39,534,996
	<b>39,534,996</b>	<b>39,534,996</b>
<b>21 NON CURRENT PAYABLES</b>		
	57,134,125	57,134,125
	<b>57,134,125</b>	<b>57,134,125</b>
<b>22 TRADE AND OTHER PAYABLES</b>		
Trade payables	363,609,283	295,751,236
Taxation Payable	3,734,863	3,734,863
	<b>367,344,146</b>	<b>299,486,099</b>
<b>23 PROVISION FOR LEAVE PAY</b>		
Balance at beginning of the year	3,574,714.00	3,539,427
Additional provision at end of year	1,326,410.00	35,287
Leave paid out or utilised during the year	-	-
Balance at end of the year	<b>4,901,124.00</b>	<b>3,574,714</b>
Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.		
<b>24 CUSTOMER DEPOSIT OLD</b>		
	8,443,600	8,443,600
	<b>8,443,600</b>	<b>8,443,600</b>
This is an amount of Customer Deposit receivable the former National water corporation.		
<b>25 CUSTOMER DEPOSIT NEW</b>		
	19,741,401	16,926,101
	<b>19,741,401</b>	<b>16,926,101</b>
This is an amount of Customer Deposit from 2006 when the company was incorporated upto 30th June 2016.		



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**26 NOTES TO THE STATEMENT OF CASH FLOWS**

	2016 Kshs	2015 Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	(94,418,726)	(42,959,062)
Depreciation	7,462,455	5,155,665
Operating profit/(loss) before working capital changes	<b>(86,956,271)</b>	<b>(37,803,397)</b>
<b>Adjusted for:</b>		
(Increase)/decrease in inventories	723,035	1,061,774
(Increase)/decrease in trade and other receivables	25,294,551	(16,232,190)
Increase/(decrease) in trade and other payables	67,858,047	37,653,094
Increase/(decrease) in staff leave provision	1,326,410	35,287
Increase/(decrease) in customer Deposit	2,815,300	2,847,815
<b>Cash generated from/(used in) operations</b>	<b>11,061,072</b>	<b>(12,437,616)</b>
(b) <b>Analysis of cash and cash equivalents</b>		
Cash at bank	13,279,551	3,563,914
Cash in hand	-	-
Balance at end of the year	<b>13,279,551</b>	<b>3,563,914</b>

**27 RELATED PARTY DISCLOSURES**

**The County Government of Kilifi**

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

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

**28 INCORPORATION**

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

**29 Going Concern**

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

**30 Legal Frame work**

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