



**MASENO UNIVERSITY RETIREMENT BENEFITS SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020
RBA REGISTRATION NO. 097**

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STRATEGIC DIRECTION OF THE SCHEME

Vision

Strive to provide excellent retirement benefits to members.

Mission

To provide outstanding reputable benefits to members through maximization of returns, prudent management of risks and enhanced member communication.

Core values

1. **Member focused**

Trustees are committed to effectively and efficiently meet the needs of all members including pensioners and beneficiaries.

2. **Accountability**

The trustees commit themselves to be accountable to members and to ensuring that there is transparency in the operations of the scheme.

3. **Fairness**

The trustees endeavor to treat all members with utmost fairness and equality in the dealings of the scheme.

4. **Professionalism**

This is meant to govern all systems, processes and structures put in place to ensure smooth implementation of decisions and service delivery.

5. **Integrity**

The scheme endeavors to uphold honesty and transparency in its operations.

6. **Teamwork**

The scheme endeavors to consult with stakeholders before key decisions are made and in as far as possible encourage the effective participation of members, pensioners and beneficiaries.

SCHEME INFORMATION

TRUSTEES

Dr. Destaings Nyongesa	- Chairman
Prof. Julius Nyabundi	- Member
Prof. Catherine Muhoma	- Member
Mr. Bernard Nyaoro	- Member
Dr. Beverlyne Asiko Ambuyo	- Member
Mrs. Dorcas Nyawade	- Member
Mrs. Lucy Osmerah	- Member
Mr. Gerald Kariithi	- Member

REGISTERED OFFICE

MURBS Building
Makasembo Road
P.O. Box 9268, 40141
KISUMU

INDEPENDENT AUDITOR

PKF Kenya LLP
Certified Public Accountants
P.O. Box 187, 40100
KISUMU

INVESTMENT MANAGERS

Genafrica Asset Managers Limited
P.O. Box 30375, 00100
NAIROBI

Sanlam Investments East Africa Limited
P.O. Box 67262, 00200
NAIROBI

CUSTODIAN

Standard Chartered Security Services Limited
P.O. Box 40984, 00100
NAIROBI

LEGAL ADVISORS

Rogo Okello & Co. Advocates
P.O. Box 966, 40100
KISUMU

BANKERS

Absa Kenya Limited
P.O. Box 831, 40100
KISUMU

SPONSOR

Maseno University
Private Bag
MASENO

INDUSTRY REGULATOR

Retirement Benefits Authority
P.O. Box 57733, 00200
NAIROBI

REPORT OF THE CHAIRMAN

INTRODUCTION

I am delighted to present the audited financial statements for the year ended 30 June, 2020.

Indeed 2020 has been a tough year because of the COVID-19 pandemic. Much like everywhere in the world, our members have been adversely affected since institutions of higher learning were closed, in an effort to contain the spread of the pandemic leading to a great uncertainty.

However, despite this, I am pleased to report that through the concerted effort of the board of trustees, the scheme was able to maintain a positive performance through this period. The scheme was able to wade through the negative effects of the pandemic that majorly affected the third quarter of the financial year, to record an improved performance compared to last year. This is a commendable effort on the part of the board of trustees and management.

As we continue to monitor and adjust to the changing landscape brought on by the pandemic, we undertake to uphold our vision of striving to provide excellent retirement benefits to members.

Scheme financial performance

Performance of three out of the four quarters of the financial year was solid, returning positive income. The third quarter was however subdued by effects of the pandemic, and returned a negative performance. However, this negative performance was not severe enough to affect overall performance of the full year. We continue to see a year on year improvement in income as depicted in the graph on page 10.

The scheme's net realised investment income increased to Shs. 270,205,617 (7.1%) in 2020 compared to Shs. 197,833,826 (5.7%) in 2019. Returns were however impacted negatively by a fair value loss (unrealised loss) on financial assets which stood at negative Shs. 24,267,464. Though net performance for 2020 had improved compared to 2019, trustees exercised prudent financial judgement with deliberate measures to reserve adequate funds, as we continue facing an uncertain future given the ongoing pandemic. As a result, trustees approved distribution of a net income of 6% to members for the financial year ended 30 June 2020.

The fund value increased by a margin of 6.40% in 2020 to close at Shs. 3,615,641,978 for the year ended 30 June, 2020.

Although the growth was higher than inflation (5.1%), the growth in fund value was subdued by large payouts to members during the financial year. Benefits paid out of the scheme to leavers in the year increased by a margin of 128%. This implies that more benefits were paid out to retiring members compared to last year (Shs. 251 Million: 2020 and Shs. 110 Million: 2019). Management expenses increased by 11% in 2020 compared to 2019. The increment is attributed to increased costs of managing a growing fund. During the year, administrative expenses increased by a margin of 10% compared to 2019, due to efforts made to improve ICT infrastructure.

As at 30 June 2020, scheme membership stood at 1,324 active and deferred members down from 1,348 in 2019.

We are pleased to report that trustees and the sponsor reached an agreement to offset the balance of Shs. 62 million employer portion arising from the 2013-2017 CBA salary arrears, from the Administrative Reserve Fund, which had excess group-life contributions. The debt now stands fully settled and has been distributed to member accounts.

Members are requested to view their statements of account online by visiting the 'member statements portal' on the scheme's website www.masenorbs.or.ke

Scheme governance and strategic direction

The board remains aware of the need to continually review its strategies to keep up with the changing social, economic and political environment and guarantee growth and security of members' investments. In conformity to governance requirements, the trustees have shared the governance statement in the 2020 financial statements. The statement details specific actions undertaken by the board to promote effective governance.

REPORT OF THE CHAIRMAN (CONTINUED)

Scheme governance and strategic direction (continued)

The board undertook an evaluation exercise of the performance of the board chairman, individual board members as well as board committees. The evaluation provides an opportunity for the board to rate its performance for the year and use the results to improve in any weak areas identified. The overall score for 2020 was 4.65 out of 5 and was rated excellent.

The board also held a mid-term review of the 2017-2022 strategic plan during the financial year in an effort to monitor implementation. The board is pleased with the achievements so far and report that the scheme is indeed on track to achieve its objectives.

Board changes

The board has made a decision to incorporate a member-representative from Tom Mboya University College, to join the scheme board of trustees. This is in realisation to the fact that their contributions in the scheme are growing and they represent a vital part of the scheme's growth into the future. Elections have been slated for the coming year, 2021.

Pension's regulatory environment

During the financial year, legislative changes were introduced that directly affect the scheme and members including the Tax Laws Act, 2020 and amendments to the Retirement Benefits Act, 1997. The Tax Laws (Amendment) Act ('the Act') received Presidential Assent on 25 April 2020 and became effective from that date. The Act was majorly introduced to cushion Kenyans against negative effects of the pandemic, by reducing taxes and putting more money in the pocket of Kenyans.

The scheme has benefited by way of reduced Corporation Tax, reduced Value Added Tax and expanded tax bands for members withdrawing from the scheme.

Section 58 (1A) of the Retirement Benefits Act, 1997 was also amended to allow members use a proportion of the money saved in the scheme to purchase a residential home on such terms as may be prescribed in the regulations. The draft regulations were submitted for public participation. We continue urging the regulator to speed up release of the final regulations, to allow members take advantage of this revolutionary product to own houses.

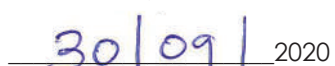
Trustees have taken note of the pension regulators directive on conduct of pension schemes during the period of the pandemic. The scheme continues serving members, even with the stay-at-home directive issued by the Ministry of Health. Officers continue working remotely, and trustees continue holding statutory meetings while conforming to safety measures advised. The scheme has fully embraced technology to ensure services are not interrupted.

I would like to express my gratitude to the two employers, Maseno University and Tom Mboya University College, for their support of the scheme. Even through these difficult times, they have maintained remittance of contributions, so that members do not lose out on investment income.

Lastly, I would like to thank our membership for the immense trust they continue placing on the board to manage their retirement nest egg. I urge our members to stay safe and adhere to all guidelines on health and safety during these challenging times.


DR. DESTAINGS NYONGESA

CHAIRMAN, BOARD OF TRUSTEES


30/09/2020

GOVERNANCE DISCLOSURE STATEMENT

About the Fund

Maseno University Retirement Benefits Scheme (MURBS) was established on 1st September, 1990 as a contributory defined benefit (DB) plan. As from 1st July, 2004 the Scheme converted into a defined contribution scheme with the defined benefits section being closed except for the existing pensioners and beneficiaries (Hybrid-Scheme). From 27th May, 2015 the Scheme was converted to a full defined contribution scheme, with pensioners now purchasing annuities from insurance companies and income drawdown plans from approved issuers.

Maseno University Retirement Benefits Scheme (MURBS) is governed by an irrevocable Trust Deed and rules registered under the Retirement Benefits Act 1997 and Income Tax Act (Cap 470).

The main purpose of the scheme is the provision of pensions and other retirement benefits for employees of Maseno University and Tom Mboya University College upon retirement and relief for the dependants of the deceased employees in accordance with the provisions of the Trust Deed and Rules.

1. Trustees in Office

	Name of Trustee	Age	Category	No. Of meetings attended	Certified	Highest Qualification
1.	Dr. Destaings N. Nyongesa	39	Member-elected	7	Yes	Doctor of Philosophy
2.	Prof. Julius O. Nyabundi	66	Sponsor-nominated	6	Yes	Doctor of Philosophy
3.	Prof. Catherine A. Muhoma	49	Sponsor-nominated	6	Yes	Doctor of Philosophy
4.	Mr. Gerald M. Kariithi	52	Sponsor-nominated	7	Yes	Masters
5.	Mrs. Lucy A. Osmerah	69	Sponsor-nominated	7	Yes	Masters
6.	Dr. Beverlyne A. Asiko	41	Member-elected	7	Yes	Doctor of Philosophy
7.	Mr. Bernard O. Nyaoro	37	Member-elected	7	Yes	Bachelors
8.	Ms. Dorcas R. Nyawade	40	Member-elected	7	Yes	O-Level

GOVERNANCE DISCLOSURE STATEMENT (CONTINUED)

2. The board of trustees held seven (7) meetings during the year ended 30th June, 2020. The meetings were held on the dates detailed hereunder;

- i. Friday 19th July 2019 - Special Meeting
- ii. Thursday 19th September 2019
- iii. Tuesday 22nd October, 2019
- iv. Thursday 14th November, 2019
- v. Friday 6th March, 2020
- vi. Tuesday 9th June, 2020
- vii. Friday 19th June, 2020 - Special Meeting

3. The composition of the board is as hereunder;

- i. Gender Balance: Female: 50% Male: 50%
- ii. Skills Mix: Number of Trustees with financial skills: 8
- iii. Age Mix: Number of Trustees younger than 35 years: 0
- iv. Number of Trustees older than 35 years: 8

4. Committees of the board

Committee Name	No. Of meetings held	External advisors	Allowances paid (Kshs)
Investment and custody	5	Yes	587,658.00
Audit and risk management	4	Yes	604,850.00
Governance and administration	6	Yes	551,718.00

5. Fiduciary responsibility statement: -

The board of trustees is the governing body for the Maseno University Retirement Benefits Scheme and is responsible for the corporate governance of the Scheme. The trustees have responsibility for ensuring that the administration of the Scheme is done in the best interest of members and the sponsor. To achieve this, I confirm that trustees embraced their fiduciary responsibility by: -

- Acting honestly and did not improperly use inside information or abuse their position.
- Exercising the highest degree of care and diligence in the performance of their duties that a reasonable person in a like position would exercise in the circumstances; and
- Performing their duties with the requisite degree of skill.

The Scheme has complied with the laws, regulations and guidelines that govern retirement benefits schemes and the scheme's business operations.

The trustees have ensured that the fund manager has carried out all scheme investments and that all scheme assets and funds are held by the custodian.

GOVERNANCE DISCLOSURE STATEMENT (CONTINUED)

6. Responsible corporate citizenship

The scheme has participated in socially responsible investments and operations and has not been involved in any activity that may undermine the well-being of the sponsor, members or the community in which it operates.

7. Key outcomes:

The board of trustees seeks to achieve the following:

- Building trust with the members and the sponsor of the scheme so that they are satisfied with the administration of the scheme;
- Supporting innovation and developing solutions that meet the members and sponsors needs; and
- Ensuring that the scheme's administrative processes remain transparent and accessible to Members and the Sponsor.

The board of trustees will measure the progress towards these outcomes through:

- Member surveys
- Regular reports and feedback from the sponsor

8. Annual General Meeting

The Board of trustees held the annual general meeting on **Friday 22nd November, 2019** in which **855** members, making up **63.42%** of scheme members attended. The board adequately addressed the members' concerns during this session.

9. Members sensitization

The Board conducted the following sensitization activities;

	Date held	No. of members attended	Remarks
Retirement Planning seminar (Academic Staff)	11 th October, 2019	48	Topic: Investment for retirement
Retirement Planning seminar (Administration Staff)	1 st November, 2019	101	Topic: Agribusiness and retirement
Member Education Webinar	22 nd May, 2020	59	Topic: Impact of COVID-19 on investment for pension funds & lessons learnt in the stressed market

GOVERNANCE DISCLOSURE STATEMENT (CONTINUED)

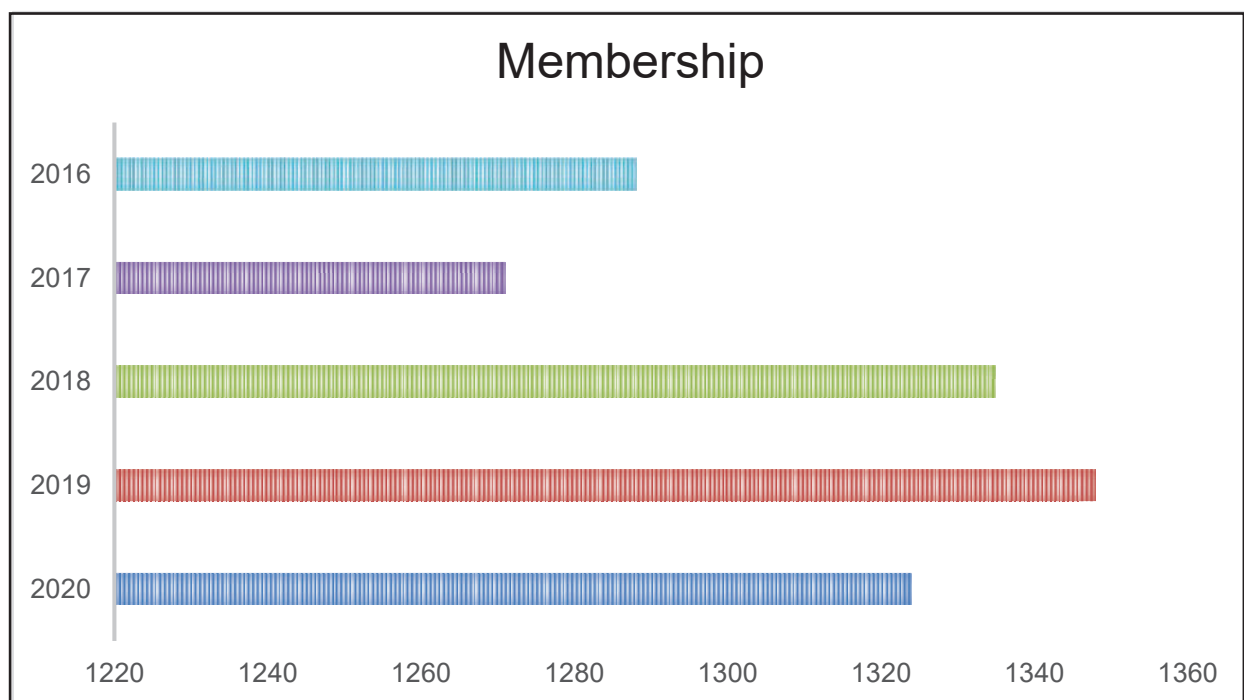
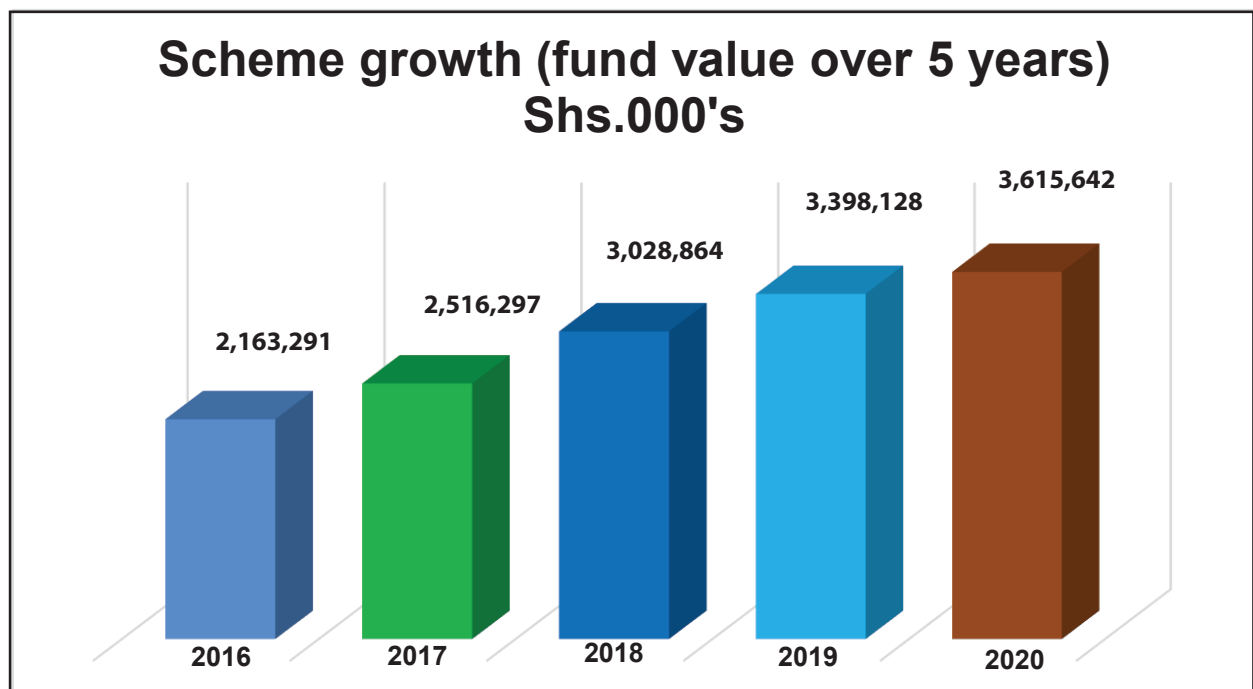
10. Trustees Remuneration Policy

During the year under review the trustees were paid a gross sum of Kshs. 5,433,326.00. The payments complied with trustee remuneration policy of the scheme which was approved by members at the annual general meeting held on 23rd November, 2018.

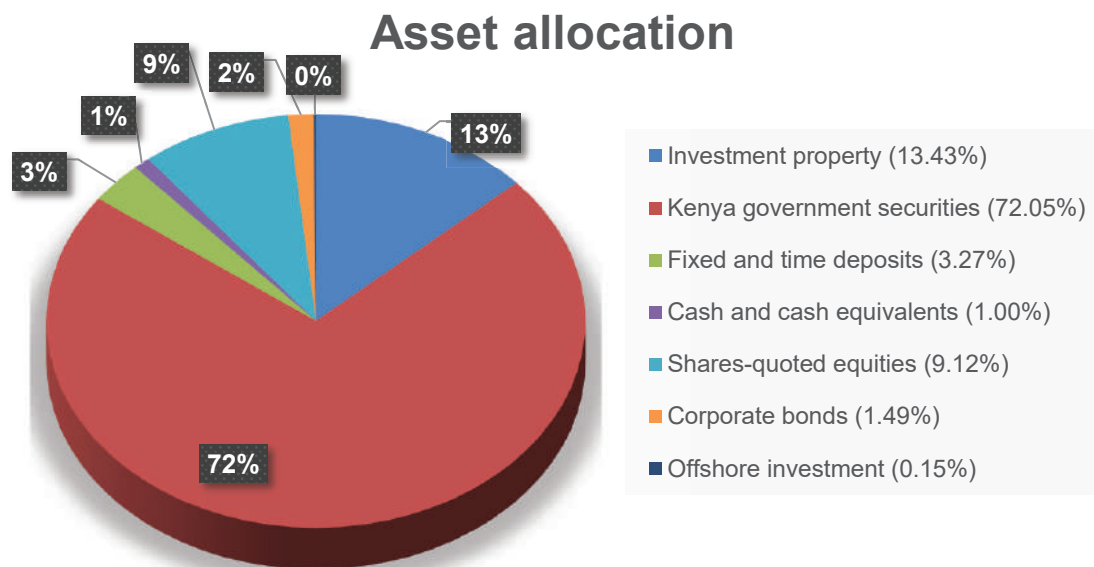
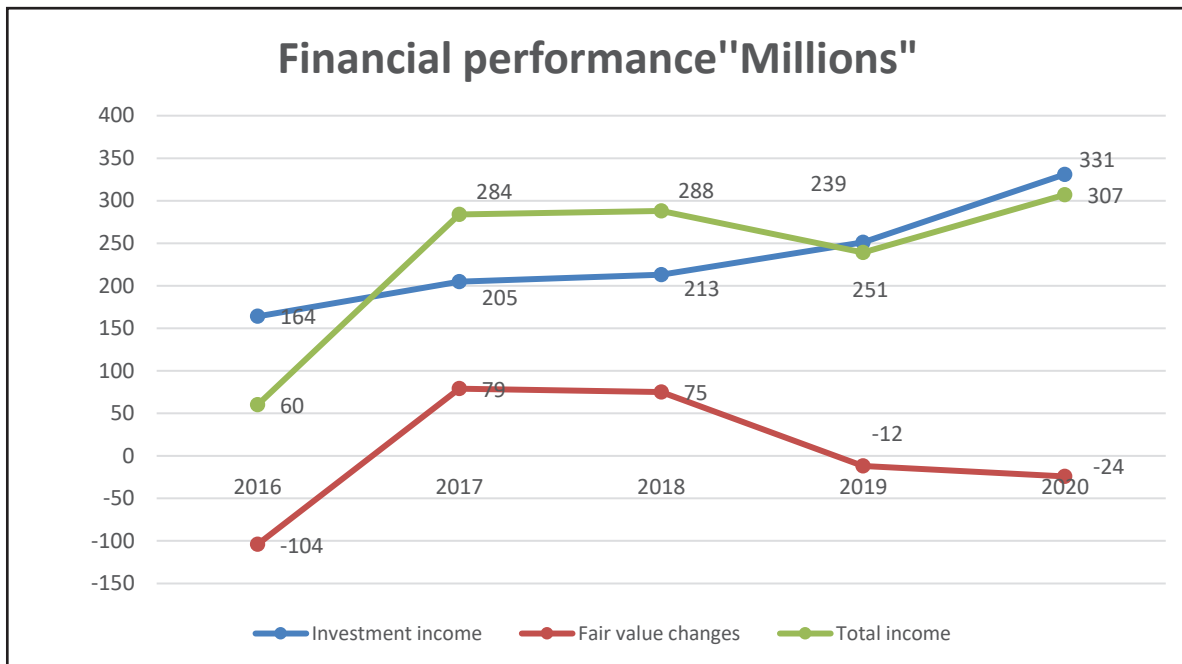
6. Board and Trustees Evaluation

The Board undertook board evaluation in the year under review. The review process was facilitated externally by the Centre for Corporate Governance and the process took the form of a questionnaire. The Board was tested on the following parameters; general operations of the board, board structure, selection of trustees, meetings of the board, board committees, strategic management, human resource management, financial management, risk management, legal compliance, accountability and conflicts of interest. The board was rated **excellent** with a score of **4.65 out of 5**.

Signed: Dr. Destains N. Nyongesa.....
Chairman, Board of Trustees



SUMMARY OF PERFORMANCE FOR THE YEAR 2020



REPORT OF THE TRUSTEES

The trustees present their report together with the audited financial statements for the year ended 30 June 2020.

ESTABLISHMENT, NATURE AND STATUS OF THE SCHEME

Maseno University Retirement Benefits Scheme was established as a defined benefit scheme (DBS) and is governed by an irrevocable Trust Deed and Rules and registered under the Income Tax Act and with the Retirement Benefits Authority.

From 1 July 2004, the scheme converted into a defined contribution scheme with a defined benefits section being closed except for the existing pensioners and beneficiaries. The defined contribution section has had a defined benefit (DB) underpin until May 2015 when the scheme converted to a pure defined contribution scheme.

The main purpose of the scheme is the provision of pensions and other retirement benefits for employees of the university upon retirement and relief for the dependents of the deceased employees in accordance with the provisions of the trust deed and rules.

It is an exempt approved scheme, up to the statutory limit, under the Income Tax Act.

CONTRIBUTIONS

Contributions to the scheme by the employer and employees were at the rate of 20% and 10% respectively of the individual members' basic salaries. The employer further contributes an additional 2.5% to meet the cost of death in service as is determined by the actuary from time to time.

MEMBERSHIP

Contributing members

At start of period
Joiners
Leavers (a)

At end of period

Deferred

At start of period
Cases in the period

At end of period

Total scheme members

a) Leavers

Resigned
Retired with pension
Death

	2020 Members	2019 Members
At start of period	1,102	1,100
Joiners	32	41
Leavers (a)	(61)	(39)
At end of period	1,073	1,102
Deferred		
At start of period	246	235
Cases in the period	5	11
At end of period	251	246
Total scheme members	1,324	1,348
a) Leavers		
Resigned	7	21
Retired with pension	50	14
Death	4	4
	61	39

REPORT OF THE TRUSTEES (CONTINUED)**FINANCIAL REVIEW**

The statement of changes in net assets available for benefits on page 17 shows an increase in the net assets of the scheme for the year of Shs. 250,777,040 (2019: Shs. 420,065,486) and the statement of net assets available for benefits on page 18 shows the scheme's net assets as Shs. 3,615,641,978 (2019: Shs. 3,398,128,015).

INVESTMENT OF FUNDS

Under the terms of their appointment Genafica Asset Managers Limited and Sanlam Investments East Africa Limited were responsible for the investment of funds during 2019/2020 financial year. Genafica Asset Managers Limited was managing 50% of the scheme assets and Sanlam Investment East Africa Limited was managing 50% of the scheme assets.

The overall responsibility for investment and performance lies with the trustees. At the end of the year, the investment portfolio was as follows:

	2020 Shs	% of portfolio	2019 Shs	% of portfolio
Investment property	482,000,000	13.4	483,000,000	14.6
Kenya government securities	2,585,478,330	72.1	1,870,111,546	56.6
Fixed and time deposits	117,170,374	3.3	114,384,481	3.5
Cash and cash equivalents	17,784,075	0.5	24,463,528	0.7
Shares-quoted equities	325,041,924	9.1	675,983,872	20.4
Shares-unquoted equities	2,080,000	0.1	2,080,000	0.1
Corporate bonds and commercial papers	53,317,772	1.5	99,649,627	3.0
Offshore investment	5,339,551	0.1	36,309,982	1.1
	3,588,212,026	100	3,305,983,036	100

INTEREST AND HONORARIA

The trustees recommend payment of 6% (2019: 7%) interest on members balances.
The trustees did not recommend payment of honoraria for the year (2019: Nil).

TERMS OF APPOINTMENT OF THE AUDITOR

PKF Kenya, a partnership was on 10 March 2020 converted to PKF Kenya LLP, a Limited Liability Partnership under the Limited Liability Partnership Act, 2011. PKF Kenya LLP continues in office in accordance with section 34(3) of the Retirement Benefits Act. The trustees monitor the effectiveness, objectivity and independence of the auditor. The trustees also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

BY ORDER OF THE TRUSTEES

 TRUSTEE

 TRUSTEE

30/09/2020

KISUMU

STATEMENT OF TRUSTEES' RESPONSIBILITIES

The Retirement Benefit (Occupational Retirement Benefit funds schemes) Regulations, 2000 made under Retirement Benefits Act, 1997 requires the trustees to prepare financial statements in a prescribed form for each financial year which give a true and fair view of the state of affairs of the scheme as at the end of the financial year and of its net change in net assets available for benefit. The trustees are also required to ensure that the scheme keeps proper accounting records of its income, expenditure, liabilities and assets, and that contributions are remitted to the custodian in accordance with the rules of the scheme. The trustees are also responsible for safeguarding the assets of the scheme and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The trustees accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

- i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
- ii) selecting and applying appropriate accounting policies; and
- iii) making accounting estimates and judgements that are reasonable in the circumstances.

The trustees are of the opinion that the financial statements give a true and fair view of the net assets available for benefits and changes in net assets available for benefits and cash flows for the year then ended in accordance with the International Financial Reporting Standards and the Retirement Benefits Act, 1997.

In preparing these financial statements the trustees have assessed the scheme's ability to continue as a going concern. Nothing has come to the attention of the trustees to indicate that the scheme will not remain a going concern for at least the next twelve months from the date of this statement.

The trustees acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of trustees on 30/09/ 2020 and signed on its behalf by:



TRUSTEE



TRUSTEE



**REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF MASENO UNIVERSITY RETIREMENT BENEFITS SCHEME**

Opinion

We have audited the financial statements of Maseno University Retirement Benefits Scheme set out on pages 17 to 39, which comprise the statement of net assets available for benefits as at 30 June 2020, statement of changes in net assets available for benefits, statement of cash flows for the year then ended and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of Maseno University Retirement Benefits Scheme net assets available for benefits as at 30 June 2020 and changes in net assets available for benefits for the year then ended in accordance with International Financial Reporting Standards and the Retirement Benefits Act, 1997.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the scheme in accordance with the International Ethics Standards Board for Accountants' code of Ethics for professional accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The trustees are responsible for the other information. The other information comprises strategic direction of the scheme, scheme information, report of the chairman, report of the trustees and statement of trustees' responsibilities that form part of the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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PKF Kenya, a partnership carrying on business under BN registration no. 309855 was on 10 March 2020 converted to PKF Kenya LLP (LLP-8519PL), a limited liability partnership under the Limited Liability Partnership Act, 2011.

Partners: R. Shah, A. Shah, A. Vadher, P. Shah, R. Mirchandani*, D. Kabeberi, C. Ogutu***, A. Chaudhry, K. Shah**, M. Mburugu, G. Santokh, D. Shah, S. Alibhai, L. Abreu, P. Kuria, N. Shah, J. Shah, E. Njuguna, P. Kahi, A. Chandria, M. Kimundu, S. Chheda**, M. Bhavsar, C. Mukunu, K. Bharadva (*Indian, **British, ***Ugandan)

PKF Kenya LLP and its associates are member firms of the PKF International Limited family of legally independent firms and do not accept any responsibility or liability for the actions or inactions of any other individual member or correspondent firm or firms

**REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF MASENO UNIVERSITY RETIREMENT BENEFITS SCHEME (CONTINUED)**



Responsibilities of trustees for the financial statements

The trustees are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Retirement Benefit Act, 1997 and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustees.
- Conclude on the appropriateness of trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the scheme to cease to continue as a going concern.



**REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF MASENO UNIVERSITY RETIREMENT BENEFITS SCHEME (CONTINUED)**

Auditor's responsibilities for the audit of the financial statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Certified Public Accountants
KISUMU**

**CPA Patrick Kuria, Practising certificate No. 2045
Signing partner responsible for the independent audit**

September 30, 2020

0087/2020

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	Notes	2020 Shs	2019 Shs
Dealings with members			
Contributions	2(a)	283,489,521	282,645,969
Transfers in	2(b)	3,529,685	2,180,880
Benefits paid	2(c)	(186,416,236)	(52,935,739)
Refunds to leavers	2(d)	(28,554,389)	(46,252,566)
Transfer out	2(e)	(36,283,035)	(10,849,357)
Net additions from dealing with members		35,765,546	174,789,187
Return on plan investments			
Plan investment income	3	331,356,093	251,610,386
Investment management expenses	4	(11,508,346)	(10,379,828)
Net return on plan investments		319,847,747	241,230,558
Administrative expenses	5	(39,414,500)	(35,770,341)
Tax	6	(10,227,630)	(7,626,391)
Net investment income		270,205,617	197,833,826
Fair value (losses)/gains on investment property	9	(1,000,000)	1,000,000
Fair value (losses) on plan investments	10	(23,267,464)	(13,418,433)
Changes in fair value of plan investments		(24,267,464)	(12,418,433)
Transfer to general reserve		(30,926,659)	59,860,906
Net increase in net assets available for benefits		250,777,040	420,065,486
Net assets available for benefits at start of year		3,094,455,680	2,674,390,194
Net assets available for benefits at end of year		3,345,232,720	3,094,455,680
Reserve fund	7	270,409,258	303,672,335
Net assets of the scheme	8	3,615,641,978	3,398,128,015

The notes on pages 20 to 39 form an integral part of these financial statements.

Report of the independent auditor - page 14 to 16.

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

		As at 30 June	
	Notes	2020 Shs	2019 Shs
Members balances and reserves	8	3,615,641,978	3,398,128,015
REPRESENTED BY			
Non-current assets			
Investment property	9	482,000,000	483,000,000
Plan investments	10	2,287,831,535	2,436,657,566
Property and equipment	11	371,038	816,313
		2,770,202,573	2,920,473,879
Current assets			
Plan investments	10	800,596,413	361,861,941
Inventories	12	19,946,884	19,946,884
Cash and cash equivalents	13	17,784,075	24,463,528
Contributions and other receivables	14	46,325,464	116,408,429
Tax recoverable		443,220	2,160,774
		885,096,056	524,841,556
Current liabilities			
Other payables	15	39,656,651	47,187,420
Net current assets			
		845,439,405	477,654,136
Net assets of the scheme		3,615,641,978	3,398,128,015

The financial statements on pages 17 to 39 were approved and authorised for issue by the trustees on 30/09/2020 and were signed on its behalf by:

TRUSTEE

TRUSTEE

The notes on pages 20 to 39 form an integral part of these financial statements.

Report of the independent auditor - page 14 to 16.

STATEMENT OF CASH FLOWS

Cash from scheme activities

Contributions received			
Transfers in	2(b)		
Benefits paid			
Refunds to leavers	2(d)		
Transfer out	2(e)		
Plan investment income received			
Investment management expenses			
Tax paid			
Administrative expenses	5		
Payment for life insurance and land costs	7		

Notes	2020 Shs	2019 Shs
	299,029,517	313,312,153
	3,529,685	2,180,880
	(189,296,566)	(42,979,837)
	(28,554,389)	(46,252,566)
	(36,283,035)	(10,849,357)
	339,114,951	248,132,139
	(12,765,010)	(8,978,772)
	(9,604,919)	(6,499,484)
	(44,757,998)	(32,548,648)
	(15,431,324)	(14,745,026)
	304,980,912	400,771,482

Net cash from operating activities

Investing activities

Purchase of property and equipment	11		
Plan investments maturing within 91 days			
Purchase of plan investments	10		
Proceeds from disposal of plan investments	10		

	(742,075)	(1,632,626)
	(13,543,066)	15,281,275
	(1,047,005,543)	(884,823,844)
	738,873,146	513,641,962
	(322,417,538)	(357,533,233)

Net cash (used in) investing activities

(Decrease)/increase in cash and cash equivalents

	(17,436,626)	43,238,249
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Movement in cash and cash equivalents

At start of year			
(Decrease)/increase			

	272,018,342	228,780,093
	(17,436,626)	43,238,249
	254,581,716	272,018,342

The notes on pages 20 to 39 form an integral part of these financial statements.

Report of the independent auditor - page 14 to 16.

NOTES**1. Significant accounting policies**

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

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards, Retirement Benefits Act, 1997, as amended, and with the Retirement Benefits (Occupational Retirement Benefits scheme) Regulations, 2000. The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the scheme takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The financial statements summarise the transactions of the scheme and deal with the net assets available for benefits disposal of the trustees. They do not take account of obligations to pay pensions and benefits that fall due after the end of the scheme year.

Going concern

The financial performance of the scheme is set out in the report of the trustees and in the statement of changes in net assets available for benefits. The financial position of the scheme is set out in the statement of net assets available for benefits. Disclosures in respect of risk and scheme management are set out in note 16 and 17.

Based on the financial performance and position of the scheme and its risk management policies, the trustees are of the opinion that the scheme is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

New and amended standards adopted by the scheme

All new and amended standards and interpretations that have become effective for the first time in the financial year beginning 1 January 2019 have been adopted by the scheme. Of those, the following has had an effect on the scheme's financial statements:

Amendments to IAS 12 'Income Taxes' effective for annual periods beginning on or after 1 January 2019 clarifying on the recognition of income tax consequences of dividends.

Amendments to IFRS 9 'Financial instruments' effective for annual periods beginning on or after 1 January 2019 clarifying that the existence of prepayment features with negative compensation will not in itself cause the instrument to fail the amortised cost classification.

NOTES (CONTINUED)

1. Significant accounting policies (continued)

a) Basis of preparation (continued)

New and amended standards adopted by the scheme (continued)

Amendments to IAS 19 'Employee Benefits' effective for annual periods beginning on or after 1 January 2019 clarifying the effects of a retirement benefit plan amendment, curtailment or settlement.

IFRS 16 'Leases' (issued in January 2017) effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease' and their interpretations (SIC-15 and SIC-27). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

New standards, amendments and interpretations issued but not effective

At the date of authorisation of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective for the year presented:

- Amendments to IAS 1 and IAS 8 'Definition of Material' (issued in October 2018) applicable to annual periods beginning on or after 1 January 2020, clarify the definition of material and how it should be applied by including in the definition guidance that previously featured elsewhere in IFRS.

The trustees do not expect that adoption of the other Standards and Interpretations will have a material impact on the financial statements in future periods. The entity plans to apply the changes above from their effective dates noted above.

b) Key sources of estimation uncertainty

In the application of the accounting policies, the trustees are required to make the judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Except for the valuation of investment property and fair valuation of plan assets, the trustees have made no other sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

c) Significant judgements made by trustees in applying the scheme's accounting policies

Trustees have made the following judgements that are considered to have the most significant effect on the amounts recognised in the financial statements:

The trustees have made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- **Impairment of contributions due** - the scheme recognises the contributions receivables on an annual basis. In determining whether amount due is impaired, the trustees have made significant judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected as explained in note 15.
- **Fair value measurement and valuation process** - In estimating the fair value of investment property, the scheme uses market-observable data to the extent it is available.

NOTES (CONTINUED)**1. Significant accounting policies (continued)****d) Investment income**

Income comprises the fair value of the consideration received or receivable in the ordinary course of business.

The scheme recognises income when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the scheme and when the specific criteria have been met for each of the scheme's activities as described below. The scheme bases its estimates on historical results, type of transaction and specifics of each arrangement.

- i) Interest income is recognised for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discounts and premium on treasury bills and other discounted instruments.
- ii) Dividends are recognised as income in the period in which the right to receive payment is established.
- iii) Rental income is accounted for on an accrual basis

e) Plan investments

All plan investments are carried at fair value. For marketable securities, the fair value is the market value which is the most useful measure of the securities as at the report date and of the investment performance for the period.

Those securities that have a fixed redemption value and have been acquired to match the obligations of the scheme, or specific parts thereof, may be carried at amounts based on their ultimate redemption value assuming a constant rate of return to maturity.

Plan investments have been carried at the ultimate redemption value. Any assets in operations of the scheme are accounted for in accordance with the applicable standards

f) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings (the functional currency), at the rates ruling at the transaction dates.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

g) Financial instruments**Financial assets**

Financial instruments are recognised when, and only when, the scheme becomes party to the contractual provisions of the instrument. All financial assets are recognised initially using the trade date accounting which is the date the scheme commits itself to the purchase or sell.

NOTES (CONTINUED)

1. Significant accounting policies (continued)

g) Financial instruments (continued)

Financial assets (continued)

The scheme classifies its financial assets into the following categories:

i) Amortised cost:

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and return (SPPI) on the principal amount outstanding and are not designated at Fair Value Through Profit or Loss (FVTPL), are classified and measured at amortised cost; The carrying amount of these assets is adjusted by any expected credit loss allowance recognised.

ii) Fair Value Through Other Comprehensive Income (FVTOCI):

Financial assets that are held for collection of contractual cash flows where these cash flows comprise SPPI and also for liquidating the assets depending on liquidity needs and that are not designated at FVTPL, are classified and measured at value through other comprehensive income (FVTOCI). Movements in the carrying amount are taken through OCI, except for recognition of impairment gain or losses, return revenue and foreign exchange gain and losses. Gains and losses previously recognised in OCI are reclassified from equity to profit or loss on disposal of such instruments. Gains and losses related to equity instruments are not reclassified.

iii) Fair Value Through Profit or Loss (FVTPL):

Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measure at fair value through profit or loss and is not part of a hedging relationship is recognised in increase/decrease in net assets available for benefits and presented in the statement of changes in net assets available for benefits.

Notwithstanding the above, the scheme may:

- on initial recognition of an equity investment that is not held for trading, irrevocably elect to classify and measure it **at fair value through other comprehensive income**.
- on initial recognition of a debt instrument, irrevocably designate it as classified and measured **at fair value through profit or loss** if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

At initial recognition of a financial asset, the trustees determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The trustees reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the scheme has not identified a change in its business models.

Contributions and other receivables and cash at bank are classified and measured at amortised cost.

Derecognition/write off

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, when the scheme has transferred substantially all risks and rewards of ownership, or when the scheme has no reasonable expectations of recovering the asset.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to statement of changes in net assets available for benefits. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

NOTES (CONTINUED)**1. Significant accounting policies (continued)****g) Financial instruments (continued)****Financial assets (continued)****Derecognition/write off (continued)**

Financial instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

Impairment

The scheme recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are measured at amortised cost:

- Contributions due and other receivables
- Cash at bank

The trustees have determined that adoption of IFRS 9 has no material impact on the amount reported in the financial statements.

There is no impairment loss recognised on investments measured at FVTPL.

The loss allowance is measured at an amount equal to the lifetime expected credit losses for contributions due and for financial instruments for which:

- the credit risk has increased significantly since initial recognition; or
- there is observable evidence of impairment (a credit-impaired financial asset).

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

All financial assets are classified as non-current except those that are held for trading, those with maturities of less than 12 months from statement of net assets available for benefits date, those which management has the express intention of holding for less than 12 months from the reporting date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

Financial liabilities

Financial liabilities that are held for trading (including derivatives), financial guarantee contracts, or commitments to provide a loan at a below-market return rate are classified and measured at fair value through profit or loss. The scheme may also, on initial recognition, irrevocably designate a financial liability as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

All other financial liabilities are classified and measured at **amortised cost**.

All financial liabilities are classified as non-current except those held for trading, those expected to be settled in the organization's normal operating cycle, those payable or expected to be paid within 12 months of the reporting date and those which the scheme does not have an unconditional right to defer settlement for at least 12 months after the reporting date.

NOTES (CONTINUED)

1. Significant accounting policies (continued)

g) Financial instruments (continued)

Financial assets (continued)

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of net assets available for benefits when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

h) Taxation

Maseno University Retirement Benefits Scheme has been approved by the Kenya Revenue Authority and is exempt from income tax on its investment income up to the statutory limit. Any income arising on contributions in excess of the statutory limit is charged income tax at the statutory tax rate.

i) Contributions

Contributions are made on the employees monthly basic salary and remitted to the scheme custodian. The rates used are as follows:

	<u>Rate %</u>
Employer	20
Employee	10

j) Investment property

Investment property is long-term investment in land and buildings that are not occupied substantially for own use. Investment property is initially recognised at cost and subsequently carried at fair value representing open market value at the reporting date and is determined annually by external registered valuers. Changes in fair value are recorded in statement of changes in net assets available for benefits.

The investment property carrying amounts are written down immediately to their recoverable amounts if the carrying amount are greater than their estimated recoverable amount.

Gains and losses on disposal of investment property are determined by reference to their carrying amounts and are taken into account in determining net increase in members balances.

k) Property and equipment

All property and equipment are initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

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 scheme and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

NOTES (CONTINUED)**1. Significant accounting policies (continued)****k) Property and equipment (continued)**

Depreciation is calculated on a straight line basis to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	<u>Rate %</u>
Computers	50
Office partitions	20
Motor vehicle	50
Fittings and equipment	50

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining net increase in net assets available for benefits.

l) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short term highly liquid investments with maturities of three months or less.

m) Reserves**General reserve**

The reserve is debited or credited at the end of the year with such sum the trustees in their absolute discretion decide. The credit in the reserve may be used by trustees each year to make good any loss incurred on depreciation or sale of any securities or investments during the year or in the costs of administration of the fund, provided that a member shall receive a share of the reserve upon being awarded benefits in respect of retirement, disability or death in proportion to the value of the funds allocated to the accounts of all members of the fund at the time.

Administrative reserve

Administrative reserve is to be used to fund members' group life insurance and other unexpected cost. The sponsor contributes 2.5% of the members basic salary towards this reserve.

Trust fund reserve

The trust fund reserve is credited with members benefits in cases of death as well as interest allocation for the year. This account is reduced by payments made to beneficiaries of the deceased members.

n) Inventories

Inventories comprise non-current assets and are stated at the lower of cost and net realisable value. Cost is determined by the first-in-first-out (FIFO) basis and comprises all costs attributable to bringing the inventories to their current location and condition. Net realisable value is the estimate of the selling price in the ordinary course of business, less the selling expenses.

NOTES (CONTINUED)

1. Significant accounting policies (continued)

o) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

NOTES (CONTINUED)

2. Dealing with members

a) Contributions

Employers - exempt	79,797,024	81,254,058
Employers - non exempt	105,933,121	103,714,386
Employees - exempt	90,488,899	89,862,888
Employees - non exempt	2,510,527	2,884,237
Employees additional voluntary contribution - exempt	4,071,878	4,178,091
Employees additional voluntary contribution - non exempt	688,072	752,309

2020 Shs	2019 Shs
283,489,521	282,645,969
3,529,685	2,180,880
186,416,236	52,935,739
28,554,389	46,252,566
36,283,035	10,849,357

b) Transfers in

c) Benefits paid

Annuity purchase for pensioners	95,105,761	22,133,371
Commutation and lump sum retirement benefit	71,545,029	22,589,822
Payment on death	19,765,446	8,212,546

d) Refunds to leavers

e) Transfer out

3. Investment income

Net rental income (Note 3(a))	19,947,619	15,983,304
Fixed and time deposits interest	9,426,356	7,972,137
Treasury bond interest	224,039,865	153,734,157
Treasury bills interest	25,571,584	21,943,294
Corporate bonds interest	9,210,588	13,547,101
Dividend on quoted shares	32,073,221	34,353,780
Gain on disposal of financial assets (Note 10)	2,257,614	616,937
Other income	8,829,246	3,459,676

331,356,093	251,610,386
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a) Rental income

Rent received

less:

Land rent and rates	91,875	91,875
Legal fees	175,600	176,640
Valuation fees	108,000	135,690
MURBS operational expenses	6,738,683	11,594,998

27,061,777	27,982,507
7,114,158	11,999,203
19,947,619	15,983,304

Net rental income

NOTES (CONTINUED)

4. Investment management expenses

	2020 Shs	2019 Shs
Management fees	6,788,984	5,928,175
Custodial fees	4,131,704	3,745,703
Investment committee	587,658	705,950
	11,508,346	10,379,828

5. Administrative expenses

Trustee expenses	5,433,326	4,630,032
Administration and processing	21,425,453	18,913,049
Seminar and trainings	534,866	323,840
Audit fees	727,474	661,340
RBA levy	4,365,642	4,148,128
Depreciation on property and equipment	1,187,351	1,197,613
Strategic planning	1,059,929	-
Members education	788,998	1,254,719
General office expenses	-	48,002
Valuation fees	150,000	-
Annual general meeting	1,908,661	2,238,818
Software license fees	1,832,800	2,354,800
	39,414,500	35,770,341

6. Tax

Tax charge-on non-exempt fund income	10,227,630	7,626,391
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Tax is charged on investments income earned from the non-exempt portion net of associated expenses at the rate of 25% (2019: 30%)

7. Reserves

Reserves comprise of the following:

	2020 Shs	2019 Shs
General reserve	176,378,110	145,451,451
Administrative reserve	44,581,715	108,498,884
Trust fund reserve	49,449,433	49,722,000
	270,409,258	303,672,335
General reserve		
At start of year	145,451,451	209,791,979
Increase/(decrease) during the year	30,926,659	(64,340,528)
At end of year	176,378,110	145,451,451

NOTES (CONTINUED)

7. Reserves (continued)

Administrative reserve

	2020 Shs	2019 Shs
At start of year	108,498,884	100,336,740
Additions	23,137,779	22,907,170
Less: payment for group life insurance	(14,648,703)	(10,631,545)
2013/2017 CBA arrears	(71,623,624)	-
Land related costs payments	(782,621)	(4,113,481)
At end of year	44,581,715	108,498,884

Trust fund reserve

At start of year	49,722,000	44,345,610
Additions	17,470,892	21,572,281
Increase during the year	4,379,372	4,479,622
Tax	(1,094,843)	-
Less: payments during the year	(21,027,988)	(20,675,513)
At end of year	49,449,433	49,722,000

8. Members balance and reserves

At start of year	3,094,455,680	2,674,390,194
Net increase during the year	250,777,040	420,065,486
At end of year	3,345,232,720	3,094,455,680
Reserves	270,409,258	303,672,335
	3,615,641,978	3,398,128,015

The movement in the members' balances and reserves are as follows:

At start of year	3,398,128,015	3,028,864,523
Contributions for the year (Note 2(a))	283,489,521	282,645,969
Transfers in (Note 2(b))	3,529,685	2,180,880
Benefits paid (Note 2(c))	(186,416,236)	(52,935,739)
Refunds to leavers (Note 2(d))	(28,554,389)	(46,252,566)
Transfer out (Note 2(e))	(36,283,035)	(10,849,357)
Investment income (Note 3)	331,356,093	251,610,386
Changes in fair value of financial assets (Note 10)	(23,267,464)	(13,418,433)
Changes in fair value of investment property (Note 9)	(1,000,000)	1,000,000
Investment property management expenses (Note 4)	(11,508,346)	(10,379,828)
Administrative expenses (Note 5)	(39,414,500)	(35,770,341)
Tax (Note 6)	(10,227,630)	(7,626,391)
Administrative reserves movement	(63,917,169)	8,162,144
Net movement in trust fund reserve (Note 7)	(272,567)	896,768
At end of year	3,615,641,978	3,398,128,015

9. Investment property

At start of year	483,000,000	482,000,000
Fair value (losses)/gains	(1,000,000)	1,000,000
At end of year	482,000,000	483,000,000

NOTES (CONTINUED)

9. Investment property (continued)

The fair value of investment property was determined by reference to the market prices of similar properties of the type and in the area in which the properties are situated. The valuation was carried out by QMACS Realtors Limited, an independent professional valuer with recent experience in the location and category of the investment properties as at 30 June 2020.

The following amounts are included under statement of changes in net assets available for benefits in respect of the investment properties:

	2020 Shs	2019 Shs
Rental income	27,061,777	27,982,507
Less: direct rental expenses arising from investment properties that generate rental income	(7,114,158)	(11,999,203)
Net rental income (Note 3)	19,947,619	15,983,304
Fair value gain	(1,000,000)	1,000,000

10. Plan investments

Non-current

Shares

- Quoted shares (Kenya)	325,041,924	675,983,872
- Quoted shares (Uganda)	3,743,700	5,197,222
- Unquoted shares	2,080,000	2,080,000
Kenya Government securities: Treasury bonds	1,922,573,993	1,660,459,476
Corporate bonds	32,796,066	61,824,235
Offshore investments	1,595,851	31,112,760
	2,287,831,535	2,436,657,566

Current

Kenya Government securities: Treasury bonds

- Maturing within 91 days (Note 13)	-	13,530,362
- Maturing after 91 days	124,104,405	46,953,253
Kenya Government securities: Treasury bills		
- Maturing within 91 days (Note 13)	109,156,028	100,692,853
- Maturing after 91 days	429,643,900	48,475,600
Corporate bonds		
- Maturing within 91 days (Note 13)	10,471,239	18,947,118
- Maturing after 91 days	10,050,467	18,878,274
Fixed term bank and time deposits	117,170,374	114,384,481
	800,596,413	361,861,941
	3,088,427,948	2,798,519,507

NOTES (CONTINUED)

10. Plan investments (continued)

Included in corporate bonds is an amount of Shs. 10,000,000 which had been placed with Chase Bank Limited. Chase Bank was placed under receivership in April 2016 and was shortly thereafter opened for operation, albeit with restricted allowance from drawing of depositors funds. There has been limited correspondence on the status of the bank, however all publicly issued statements by the regulator suggest that the receivership would be lifted in due course, with no specific timelines being committed to. Due to uncertainty on the recoverability of investments in the bank, a provision for impairment has been made.

Plan investments

Gross investment
Provision for impairment

2020 Shs	2019 Shs
3,098,427,948	2,808,519,507
(10,000,000)	(10,000,000)
3,088,427,948	2,798,519,507

10. Plan investments (continued)

Shares

Fixed term bank and time deposits

Shares

Fixed term bank and time deposits

	2020		2019	
	Current Shs	Non-current Shs	Current Shs	Non-current Shs
Fair value at market value	124,104,405	2,255,035,469	60,483,615	2,374,833,331
Ultimate redemption value	676,492,008	32,796,066	301,378,326	61,824,235
	800,596,413	2,287,831,535	361,861,941	2,436,657,566
		3,088,427,947		2,798,519,507

NOTES (CONTINUED)

10. Plan investments (continued)

Weighted average effective interest rates at the year-end were as follows:

	2020 %	2019 %
- Treasury bonds	12.09%	12.03%
- Treasury bills	8.50%	8.00%
- Trust fund treasury bills	8.50%	8.00%
- Fixed deposits	7.40%	7.09%
- Corporate bonds	13.12%	12.49%

11. Property and equipment

Year ended 30 June 2020

	Computers Shs	Office partitions Shs	Motor vehicle Shs	Fittings and equipment Shs	Total Shs
Cost					
At start of year	2,701,683	3,280,783	1,762,528	5,154,807	12,899,801
Additions	742,075	-	-	-	742,075
At end of year	3,443,758	3,280,783	1,762,528	5,154,807	13,641,876
Accumulated depreciation					
At start of year	2,514,283	3,280,783	1,762,528	4,525,894	12,083,488
Charge for the year	558,438	-	-	628,913	1,187,351
At end of year	3,072,720	3,280,783	1,762,528	5,154,807	13,270,838
Net book value	371,038	-	-	-	371,038

Year ended 30 June 2019

Cost					
At start of year	2,326,883	3,280,783	1,762,528	3,896,981	11,267,175
Additions	374,800	-	-	1,257,826	1,632,626
At end of year	2,701,683	3,280,783	1,762,528	5,154,807	12,899,801
Accumulated depreciation					
At start of year	2,057,083	3,280,783	1,762,528	3,785,481	10,885,875
Charge for the year	457,200	-	-	740,413	1,197,613
At end of year	2,514,283	3,280,783	1,762,528	4,525,894	12,083,488
Net book value	187,400	-	-	628,913	816,313

NOTES (CONTINUED)

12. Inventories

At start and end of year

2020 Shs	2019 Shs
19,946,884	19,946,884

Inventories relates to Eldoret land which has been divided into plots that are being sold.

13. Cash and cash equivalents

Cash at bank
Custodian current accounts
Receipts

2020 Shs	2019 Shs
14,290,054	22,044,707
3,494,021	2,406,709
-	12,112
17,784,075	24,463,528

The weighted average effective interest rates at the year-ended was 7.06% (2019: 7.09%)

For the purposes of statement of cash flows, the year-end cash and cash equivalent comprise the following:

Cash and cash equivalents
Fixed term bank and time deposits
Financial assets maturing within 91 days (Note 10)

2020 Shs	2019 Shs
17,784,075	24,463,528
117,170,374	114,384,481
119,627,267	133,170,333
254,581,716	272,018,342

The carrying amounts of the scheme's cash and cash equivalents are denominated in Kenya Shillings.

14. Contributions and other receivables

Employer contribution
Employee contribution
Employee contribution - additional voluntary contribution

Contributions due
Accrued income

Other receivables
Less: impairment of other receivables

Net other receivables

Total contributions and other receivables

2020 Shs	2019 Shs
16,351,111	79,598,712
7,296,715	7,995,605
351,500	430,850
23,999,326	88,025,167
713,359	5,748,176
27,243,864	28,285,421
(5,631,085)	(5,650,335)
21,612,779	22,635,086
46,325,464	116,408,429

In the opinion of the trustees, the carrying amounts of contributions due approximate to their fair value.

NOTES (CONTINUED)

14. Contributions and other receivables (continued)

Contributions due	2020 Shs	2019 Shs
Contributions due:		
- Outstanding for less than 30 days	23,999,326	25,197,427
- Outstanding for more than 30 days	-	62,827,740
	<u>23,999,326</u>	<u>88,025,167</u>

100% of the outstanding contributions due are held by the sponsor. No provisions in respect of contributions due is necessary as they are all recoverable.

The carrying amounts of the scheme's contribution due are denominated in Kenya Shillings.

15. Other payables

	2020 Shs	2019 Shs
Land creditors	469,025	469,025
Sundry creditors	12,954,338	19,556,284
Other payables	6,144,233	6,073,135
Management fees payable	2,721,462	3,978,126
Benefits payable	11,049,694	9,419,269
Deferred income	5,527,174	5,947,198
Payable for annuity purchase	790,725	1,744,384
	<u>39,656,651</u>	<u>47,187,420</u>

In the opinion of the trustees, the carrying amounts of other payables approximate to their fair value.

The carrying amounts of other payable are denominated in Kenya Shillings.

The maturity analysis of the other payables of the scheme is as follows:

	0 to 1 month Shs	2 to 3 months Shs	4 to 12 months Shs	Total Shs
Year ended 30 June 2020				
Land creditors	-	-	469,025	469,025
Sundry creditors	522,408	2,566,781	9,865,149	12,954,338
Other payables	262,222	-	5,882,011	6,144,233
Management fees payable	2,074,949	-	646,513	2,721,462
Benefits payable	11,049,694	-	-	11,049,694
Deferred income	1,635,359	-	3,891,815	5,527,174
Payable for annuity purchase	790,725	-	-	790,725
	<u>16,335,357</u>	<u>2,566,781</u>	<u>20,754,513</u>	<u>39,656,651</u>
Year ended 30 June 2019				
Land creditors	-	-	469,025	469,025
Sundry creditors	4,057,915	9,637,094	5,861,275	19,556,284
Other payables	-	-	6,073,135	6,073,135
Management fees payable	675,395	2,993,714	309,017	3,978,126
Benefits payable	9,419,269	-	-	9,419,269
Deferred income	1,658,498	-	4,288,700	5,947,198
Payable for annuity purchase	1,744,384	-	-	1,744,384
	<u>17,555,461</u>	<u>12,630,808</u>	<u>17,001,151</u>	<u>47,187,420</u>

NOTES (CONTINUED)

16. Financial risk management objectives and policies

The scheme's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

The scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the scheme's financial performance.

Risk management is carried out by the trustees in close collaboration with the investment managers, under policies stipulated in the trust deed. The trustees and investment managers identify, evaluate and hedge financial risks.

a) Market risk

- Foreign exchange risk

The scheme has investments in offshore markets and short bank deposits denominated in foreign currencies. It is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and Ugandan shilling. Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities.

The table below summarises the effect on the net assets available had the Kenya Shilling weakened by 10% against other currencies, with all other variables held constant. If the Kenya Shilling strengthened against each currency, the effect would have been the opposite.

	2020 Shs	2019 Shs
Effect on net assets available for benefits - increase	533,955	3,630,998

- Interest rate risk

During the year ended 30 June 2020, if interest rates at that date had been 100 basis points higher with all other variables held constant, net assets available for benefits would have been Shs. 22,959,508 (2019: Shs.16,982,849) higher, arising mainly as a result of higher interest income on interest bearing investments. If interest rates had been 100 basis points lower, the effects on net assets available for benefits would have been the opposite.

- Price risk

The scheme holds financial instruments that are subject to price risk. These include treasury bonds and equity investments

The table below summarises the effect on net assets of the scheme had the bond and share prices weakened by 5% with all other variables held constant. If the share prices had strengthened the effect would have been the opposite.

	2020 Shs	2019 Shs
Market price - increase	118,956,994	121,765,847

A 5% sensitivity rate is being used when reporting price risk internally to the trustees and represents trustees assessment of the reasonably possible change in market rates of stock prices.

b) Credit risk

Credit risk arises from plan investments and contributions receivable.

NOTES (CONTINUED)**16. Financial risk management objectives and policies (continued)****b) Credit risk (continued)**

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

In assessing whether the credit risk on a financial asset has increased significantly, the trustees compare the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the fund considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

For this purpose default is defined as having occurred if the sponsor is in breach of contractual obligations, or if information is available internally or externally that suggests that the sponsor unlikely to be able to meet its obligations. However, there is a rebuttable assumption that the default does not occur later than when a financial asset is 90 days past due.

If the trustees do not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are recognised on a collective basis. For such purposes, the fund groups financial assets on the basis of shared credit risk characteristics, such as:

- type of instrument;
- industry in which the sponsor operates; and
- nature of collateral.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired include observable data about the the following events:

- significant financial difficulty of the sponsor
- a breach of contract
- it is probable that the sponsor will enter bankruptcy
- the disappearance of an active market for the financial asset because of financial difficulties.

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities.

The scheme is not exposed to liquidity risk as it maintains adequate amounts of cash and cash equivalents to pay off liabilities as they fall due.

Note 15 discloses the maturity analysis of other payables respectively.

Undiscounted maturity is not materially different from maturity disclosure on note 15.

17. Fund management

The scheme's objectives when managing the fund are:

- to comply with The Retirement Benefit (Occupational Retirement Benefit Schemes) Regulations, 2000 made under Retirement Benefit Act, 1997.
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for members and benefits for other stakeholders.

NOTES (CONTINUED)

17. Fund management (continued)

The Retirement Benefit Act, 1997 requires the scheme's trustees to invest members' funds using prudent investment policies that shall get the members market rates on their investments. This requirement has been complied with.

The scheme sets the amount of fund in proportion to risk. The scheme manages the fund structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. Fund comprises members' balances and reserves.

18. Contingent liability

The scheme is a defendant in various legal actions. In the opinion of the trustees and after taking appropriate legal advice, they do not consider it probable that a loss will arise and have not made any provisions in these financial statements.

19. Presentation currency

The financial statements are presented in Kenya Shillings (Shs).

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