

**MASENO UNIVERSITY RETIREMENT BENEFITS SCHEME**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2019**  
**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
2. Accountability
3. Fairness
4. Professionalism
5. Integrity
6. Teamwork

**SCHEME INFORMATION**

|                            |                                                                                  |            |
|----------------------------|----------------------------------------------------------------------------------|------------|
| <b>TRUSTEES</b>            | Dr. Destaings Nyongesa                                                           | - Chairman |
|                            | Prof. Julius Nyabundi                                                            | - Member   |
|                            | Prof. Catherine Muhoma                                                           | - Member   |
|                            | Mr. Bernard Nyaoro                                                               | - Member   |
|                            | Dr. Beverlyne Asiko Ambuyo                                                       | - Member   |
|                            | Ms. Dorcas Nyawade                                                               | - Member   |
|                            | Mrs. Lucy Osmerah                                                                | - Member   |
|                            | Mr. Gerald Kariithi                                                              | - Member   |
| <b>REGISTERED OFFICE</b>   | MURBS Building<br>Makasembo Road<br>P.O. Box 9268, 40141<br>KISUMU               |            |
| <b>INDEPENDENT AUDITOR</b> | PKF Kenya<br>Certified Public Accountants<br>P.O. Box 187, 40100<br>KISUMU       |            |
| <b>INVESTMENT MANAGERS</b> | Genafrika Asset Managers Limited<br>P.O. Box 30375, 00100<br>NAIROBI             |            |
|                            | Sanlam Investments East Africa Limited<br>P.O. Box 67262, 00200<br>NAIROBI       |            |
| <b>CUSTODIAN</b>           | Standard Chartered Security Services Limited<br>P.O. Box 40984, 00100<br>NAIROBI |            |
| <b>FUND ADVISORS</b>       | Negotiated Benefits Consultants Limited<br>P.O. Box 4119, 00200<br>NAIROBI       |            |
| <b>LEGAL ADVISORS</b>      | Rogo Okello & Co. Advocates<br>P.O. Box 966, 40100<br>KISUMU                     |            |
| <b>BANKERS</b>             | Barclays Bank of Kenya Limited<br>P.O. Box 831, 40100<br>KISUMU                  |            |
| <b>SPONSOR</b>             | Maseno University<br>Private Bag<br>MASENO                                       |            |
| <b>INDUSTRY REGULATOR</b>  | Retirement Benefits Authority<br>P.O. Box 57733, 00200<br>NAIROBI                |            |

## REPORT OF THE CHAIRMAN

### INTRODUCTION

We are extremely grateful that we have come to the end of another financial year and wish to welcome you to the 2019 Annual General Meeting. It gives me great pleasure to present the Maseno University Retirement Benefits Scheme (MURBS) annual report and financial statements for the year ended 30 June 2019. Despite the challenging economic environment, we are pleased to report that the scheme managed to register positive results.

### Board of trustees

We are pleased to introduce the new members of the Board, Dr. Beverlyne Asiko and Ms. Dorcas Nyawade, having gone through a rigorous election process in June 2019. They were taken through an induction process in July 2019. They will also be undertaking the Trustee Development Program Kenya (TDPK) training to enhance their knowledge of pension operations. The continuing trustees look forward to working with them for the benefit of members.

### Scheme financial performance

As at June 2019, scheme membership stood at 1,348 active and deferred members up from 1,335 in 2018. Contribution remittance decreased by 21%. Last year's (2018) jump in contributions was a result of the 2013-2017 CBA salary contribution arrear factored in the books in 2018. The Shs. 62 million employer portion still remains owing from the 2013-2017 CBA salary arrears. Trustees continue engaging the sponsor on the payment.

Benefits paid out of the scheme to leavers in the year decreased by 13%. This implies that fewer members exited the Scheme compared to last year (39: 2019 and 60: 2018). Management expenses increased by 13% in 2019 compared to 2018. The increment is attributed to increased costs of managing a growing fund. During the year, administrative expenses decreased by 14% compared to 2018. The scheme's net realized investment income increased from Shs.157,177,276 in 2018 to Shs.197,833,826 in 2019. Returns were however impacted negatively by a fair value loss (unrealized loss) on financial assets which stood at negative Shs. 12,418,433.

The fund value increased by a margin of 12% (Shs. 369,263,492) in 2019 to close at Shs. 3,398,128,015 for the year ended 30 June 2019. As a result, the Scheme has distributed a net return of 7% to members in 2019 maintaining it at the same level (7%) distributed in 2018.

Members are requested to view their statements of account online by visiting the 'member statements portal' on [www.masenorbs.or.ke](http://www.masenorbs.or.ke)

### 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.

The board will hold a strategy session in year 2020 to take stock of progress of the 2017-2021 strategic plan.

### Pension's regulatory environment

The Retirement Benefits Authority, continues to carry out its mandate as the industry regulator to formulate policies and provide guidelines on conduct of pension schemes. Towards this end, the **Retirement Benefits (Good Governance Practices) Guidelines, 2018** were released in October 2018. The purpose is to ensure that good governance is maintained among sponsors, trustees and service providers in the sector and to improve service delivery to members who are the consumers of retirement benefits products and services. As a result, trustees have provided a governance disclosure statement as part of the financial statements 2019.

**REPORT OF THE CHAIRMAN (CONTINUED)**

**Draft retirement benefits act trustee remuneration policy and scheme expenses guidelines, 2019**, have also been released. The aim is to increase transparency and accountability in management of trustee remuneration, guide trustees on the process to follow in setting their remuneration and incentives as well as attract professionals in the management of schemes; and, take cognizance of the time taken by both trustees and service providers in the management of schemes and remunerate them for the service rendered.

Lastly, the regulator has also released the **Retirement Benefits (Treating Customers Fairly) Guidelines, 2019**, which recognizes that a member shall be the primary and ultimate customer of a service provider and shall have the right to be treated fairly when dealing with trustees and any service providers appointed by the trustees.

Members are also required to take note that the preservation rule has been reintroduced; members can now access only their contributions on leaving employment before attaining the retirement age. The employer's contribution (100%) will be preserved and continue to accrue interest and be accessed on retirement, emigration, or medical grounds. (Legal Notice No.88 of 2019)

Members are requested to visit the 'downloads' section of the Retirement Benefits Authority website on [www.rba.go.ke](http://www.rba.go.ke) for more details.



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**DR. DESTANGS NYONGESA**

**CHAIRMAN, BOARD OF TRUSTEES**

**30 SEPTEMBER 2019**

## GOVERNANCE DISCLOSURE STATEMENT

### About the scheme

Maseno University Retirement Benefits Scheme (MURBS) was established on 1 September 1990 as a contributory defined benefit (DB) plan. As from 1 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 27 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 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 | 38  | Member-elected    | 7                        | Yes       | Doctor of Philosophy  |
| 2. | Prof. Julius O. Nyabundi  | 65  | Sponsor-nominated | 7                        | Yes       | Doctor of Philosophy  |
| 3. | Prof. Catherine A. Muhoma | 48  | Sponsor-nominated | 9                        | Yes       | Doctor of Philosophy  |
| 4. | Mr. Gerald M. Kariithi    | 51  | Sponsor-nominated | 11                       | Yes       | Masters               |
| 5. | Mrs. Lucy A. Osmerah      | 68  | Sponsor-nominated | 10                       | Yes       | Masters               |
| 6. | Dr. Beverlyne A. Asiko    | 40  | Member-elected    | 0                        | Yes       | Doctor of Philosophy  |
| 7. | Mr. Bernard O. Nyaoro     | 36  | Member-elected    | 17                       | Yes       | O-Level               |
| 8. | Ms. Dorcas R. Nyawade     | 39  | Member-elected    | 0                        | No        | O-Level               |

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**GOVERNANCE DISCLOSURE STATEMENT (CONTINUED)**

**2. Board meetings;**

The board of trustees held five (5) meetings during the year ended 30 June 2019. The meetings were held on the dates detailed hereunder;

- i. Friday 21 September 2018
- ii. Friday 16 November 2018
- iii. Thursday 24 January 2019 – Special Meeting
- iii. Friday 1 March 2019
- v. Friday 31 May 2019

**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: Nil  
: Number of trustees older than 35 years: 8

**4. Committees of the board**

| <b>Committee name</b>                | <b>No. of meetings held</b> | <b>External advisors</b> | <b>Allowances paid (Shs)</b> |
|--------------------------------------|-----------------------------|--------------------------|------------------------------|
| <b>Investment and custody</b>        | 5                           | Yes                      | 705,950                      |
| <b>Audit and risk management</b>     | 4                           | Yes                      | 666,590                      |
| <b>Governance and administration</b> | 5                           | Yes                      | 538,190                      |

**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.

The board charter for the scheme has been developed.

## 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:

- a. Building trust with the members and the sponsor of the scheme so that they are satisfied with the administration of the scheme;
- b. Supporting innovation and developing solutions that meet the members and sponsors need's; and
- c. 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:

- Triennial members survey
- Regular reports and feedback from the sponsor

### 8. Annual general meeting

The board of trustees held the annual general meeting on **Friday 23 November 2018** in which **891** members, making up **66.74%** 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             | Number of members attended | Remarks                                 |
|---------------------------------------------------------------------------|-----------------------|----------------------------|-----------------------------------------|
| Retirement Planning seminar ( <b>Maseno University Staff</b> )            | 15 February 2019      | 127                        | <b>Topic:</b> Health care in retirement |
| Retirement Planning seminar ( <b>Tom Mboya University College Staff</b> ) | 22 February 2019      | 32/40                      | <b>Topic:</b> Financial planning        |
| Member education day ( <b>Trustee Elections</b> )                         | 15 March 2019         | 151/1000                   | <b>Topic:</b> Trustee elections         |
| MURBS Open Day                                                            | 1 and 2 November 2018 | Open                       | Member engagement                       |
| MURBS Pensioners' Forum                                                   | 24 August 2018        | 32/65                      | Annuity providers open session          |

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**GOVERNANCE DISCLOSURE STATEMENT (CONTINUED)**

**10. Trustees remuneration policy**

During the year under review the trustees were paid a gross sum of Shs. 4,630,032.  
The payments complied with the trustee remuneration policy of the scheme which was approved by members at the annual general meeting held on 23 November 2018.

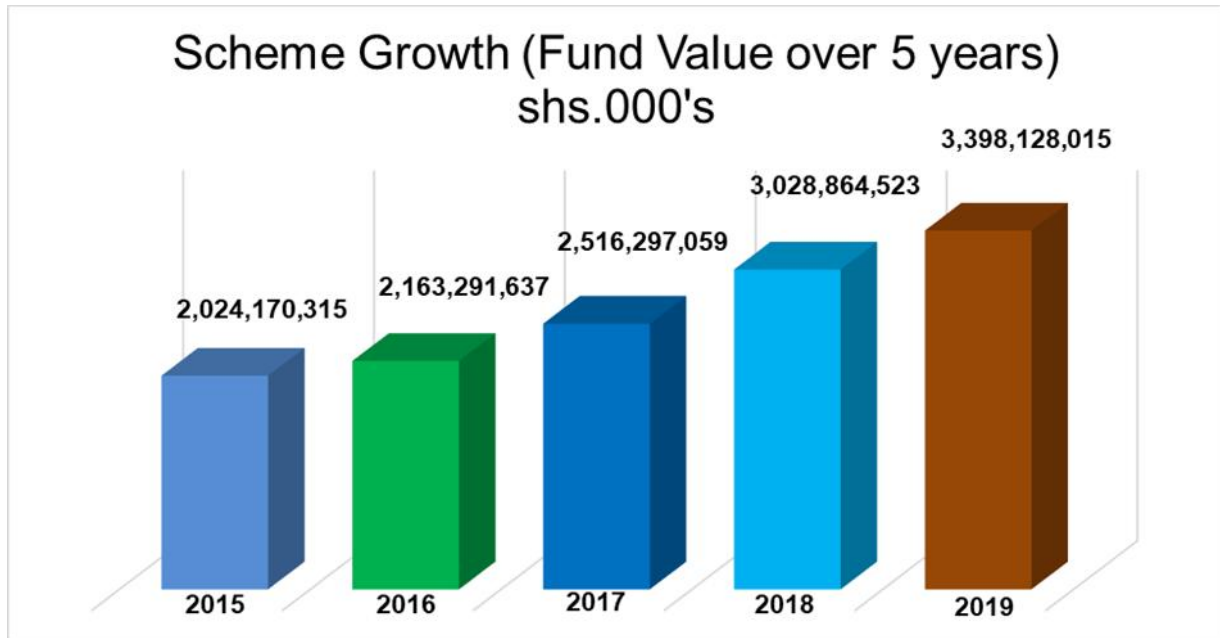
**11. Board and trustees evaluation**

The board undertook board evaluation in the year under review. The review process was facilitated externally and the process took the form of a questionnaire. The board was tested on three parameters; contribution by board members, provision of general direction and long term viability of the fund. The board was rated 89.54%.

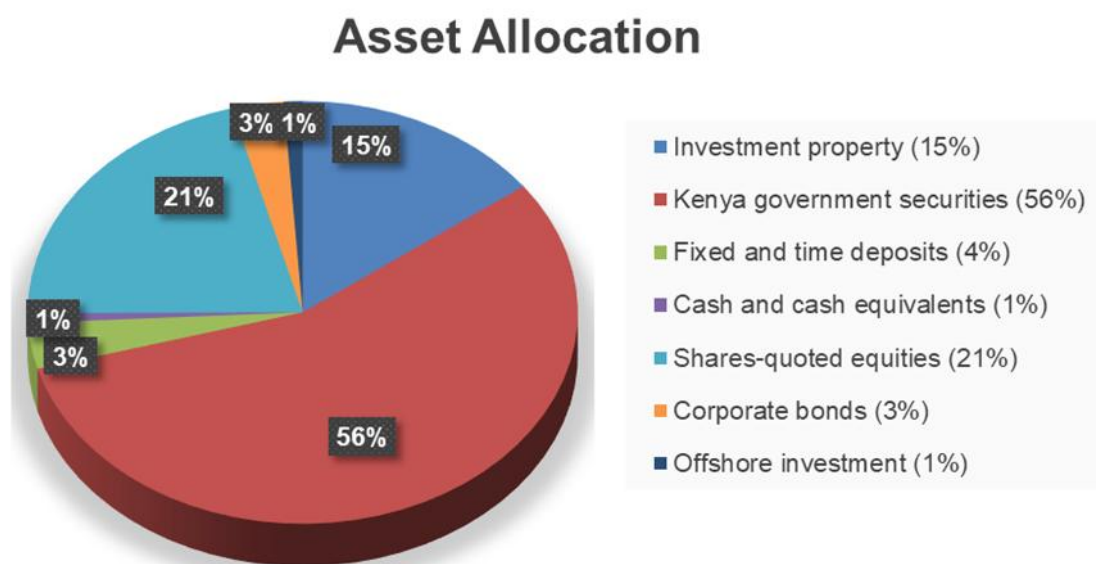
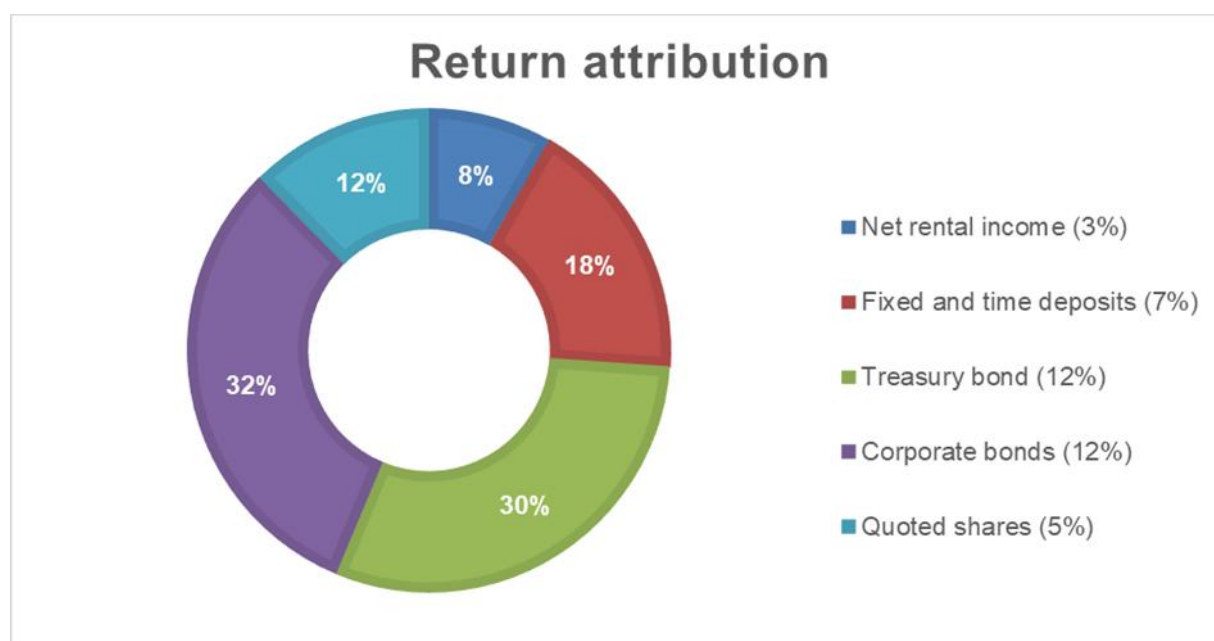
**Signed:** Dr. Destaings N. Nyongesa.....  
**Chairman, Board of Trustees**



**SUMMARY OF PERFORMANCE FOR THE YEAR 2019**



**SUMMARY OF PERFORMANCE FOR THE YEAR 2019 (CONTINUED)**



## REPORT OF THE TRUSTEES

The trustees present their report together with the audited financial statements for the year ended 30 June 2019.

### ESTABLISHMENT, NATURE AND STATUS OF THE SCHEME

Maseno University Retirement Benefits Scheme was established as a contributory defined benefit (DB) plan 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 2018 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

|                             | 2019<br>Members | 2018<br>Members |
|-----------------------------|-----------------|-----------------|
| <b>Contributing members</b> |                 |                 |
| At start of year            | 1,100           | 1,064           |
| Joiners                     | 41              | 96              |
| Leavers (a)                 | (39)            | (60)            |
| At end of year              | 1,102           | 1,100           |
| <b>Deferred</b>             |                 |                 |
| At start of year            | 235             | 208             |
| Cases in the year           | 11              | 27              |
| At end of year              | 246             | 235             |
| <b>Total scheme members</b> | <b>1,348</b>    | <b>1,335</b>    |
| <b>a) Leavers</b>           |                 |                 |
| Resigned                    | 21              | 39              |
| Retired with pension        | 14              | 12              |
| Death                       | 4               | 9               |
|                             | 39              | 60              |

**REPORT OF THE TRUSTEES (CONTINUED)**

**FINANCIAL REVIEW**

The statement of changes in net assets available for benefits on page 10 shows an increase in the net assets of the scheme for the year of Shs. 420,065,486 (2018: Shs. 423,566,476) and the statement of net assets available for benefits on page 11 shows the scheme's net assets as Shs. 3,398,128,015 (2018: Shs. 3,028,864,523).

**INVESTMENT OF FUNDS**

Under the terms of their appointment Genafrika Asset Managers Limited and Sanlam Investments East Africa Limited were responsible for the investment of funds during 2018/2019 financial year. Genafrika 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:

|                                       | 2019<br>Shs          | % of<br>portfolio | 2018<br>Shs          | % of<br>portfolio |
|---------------------------------------|----------------------|-------------------|----------------------|-------------------|
| Investment property                   | 483,000,000          | 14.6              | 482,000,000          | 16.5              |
| Kenya government securities           | 1,870,111,549        | 56.6              | 1,325,509,305        | 45.4              |
| Fixed and time deposits               | 114,384,481          | 3.5               | 59,217,841           | 2.0               |
| Cash and cash equivalents             | 24,463,527           | 0.7               | 51,673,194           | 1.8               |
| Shares-quoted equities                | 675,983,872          | 20.4              | 739,520,754          | 25.3              |
| Shares-unquoted equities              | 2,080,000            | 0.1               | 2,080,000            | 0.1               |
| Corporate bonds and commercial papers | 99,649,627           | 3.0               | 109,467,584          | 3.8               |
| Offshore investment                   | 36,309,982           | 1.1               | 149,176,999          | 5.1               |
|                                       | <u>3,305,983,038</u> | <u>100</u>        | <u>2,918,645,677</u> | <u>100</u>        |

**INTEREST AND HONORARIA**

The trustees recommend payment of 7% (2018: 7%) of interest on members balances.  
The trustees did not recommend payment of honoraria for the year (2018: Nil).

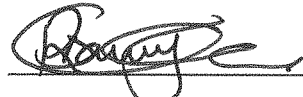
**INDEPENDENT AUDITOR**

The scheme's auditor, PKF Kenya, continues in office in accordance with section 34(3) of the Retirement Benefits Act.

**BY ORDER OF THE TRUSTEES**



TRUSTEE



TRUSTEE

30 September 2019

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 issuer 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.

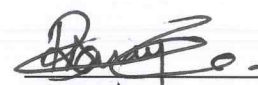
The trustees are of the opinion that the financial statements give a true and fair view of the net assets available for benefits and changes in net assets available for benefits and cash flows for the year then ended in accordance with the International Financial Reporting Standards and the Retirement 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 SEPTEMBER 2019 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 2019, 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 2019 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.

### Emphasis of matter

#### Contributions due

As disclosed in Note 15 to the financial statements, the scheme had overdue contributions receivable from the sponsor amounting to Shs. 62,827,740 as at the reporting date. The trustees have exercised significant judgement and estimation as detailed in accounting policy 1(c) whilst assessing the recoverability and measurement of this balance. Our opinion is not qualified in this respect.

#### 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 comprise 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.

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

**Other information (continued)**

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.

**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.

**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)**

- 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.
- 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.

*pkf Kenya*

**Certified Public Accountants  
KISUMU**

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

*September 30,* 2019

**0063/2019**

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

|                                                          |              | <b>2019<br/>Shs</b>  | <b>2018<br/>Shs</b>  |
|----------------------------------------------------------|--------------|----------------------|----------------------|
| <b>Dealings with members</b>                             | <b>Notes</b> |                      |                      |
| Contributions                                            | 2(a)         | 282,645,969          | 357,692,411          |
| Transfers in                                             | 2(b)         | 2,180,880            | 874,001              |
| Benefits paid                                            | 2(c)         | (52,935,739)         | (98,175,842)         |
| Refunds to leavers                                       | 2(d)         | (57,101,923)         | (28,168,225)         |
| <b>Net additions from dealing with members</b>           |              | <b>174,789,187</b>   | <b>232,222,345</b>   |
| <b>Return on plan investments</b>                        |              |                      |                      |
| Plan investment income                                   | 3            | 251,610,386          | 213,775,030          |
| Investment management expenses                           | 4            | (10,379,828)         | (9,111,311)          |
| <b>Net return on plan investments</b>                    |              | <b>241,230,558</b>   | <b>204,663,719</b>   |
| Administrative expenses                                  | 5            | (35,770,341)         | (41,755,031)         |
| Tax                                                      | 6            | (7,626,391)          | (5,731,413)          |
| <b>Net investment income</b>                             |              | <b>197,833,826</b>   | <b>157,177,275</b>   |
| Fair value gains on investment property                  | 9            | 1,000,000            | 1,750,000            |
| Fair value gains on plan investments                     | 11           | (13,418,433)         | 73,357,816           |
| <b>Changes in fair value of plan investments</b>         |              | <b>(12,418,433)</b>  | <b>75,107,816</b>    |
| Transfer to general reserve                              |              | 59,860,906           | (40,940,961)         |
| <b>Net increase in net assets available for benefits</b> |              | <b>420,065,486</b>   | <b>423,566,475</b>   |
| Net assets available for benefits at start of year       |              | 2,674,390,194        | 2,250,823,719        |
| Net assets available for benefits at end of year         |              | 3,094,455,680        | 2,674,390,194        |
| Reserve fund                                             | 7            | 303,672,335          | 354,474,329          |
| <b>Net assets of the scheme</b>                          | <b>8</b>     | <b>3,398,128,015</b> | <b>3,028,864,523</b> |

The notes on pages 20 to 38 form an integral part of these financial statements.

Report of the independent auditor - page 14 to 16.

Maseno University Retirement Benefits Scheme  
Annual report and financial statements  
For the year ended 30 June 2019

**STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS**

|                                     |       | As at 30 June        |                      |
|-------------------------------------|-------|----------------------|----------------------|
|                                     | Notes | 2019<br>Shs          | 2018<br>Shs          |
| Members balances and reserves       | 8     | <u>3,398,128,015</u> | <u>3,028,864,523</u> |
| <b>REPRESENTED BY</b>               |       |                      |                      |
| <b>Non-current assets</b>           |       |                      |                      |
| Investment properties               | 9     | 483,000,000          | 482,000,000          |
| Assets held for sale                | 10    | -                    | -                    |
| Plan investments                    | 11    | 2,436,657,566        | 1,993,629,311        |
| Property and equipment              | 12    | <u>816,313</u>       | <u>381,300</u>       |
|                                     |       | <u>2,920,473,879</u> | <u>2,476,010,611</u> |
| <b>Current assets</b>               |       |                      |                      |
| Plan investments                    | 11    | 361,861,941          | 391,343,172          |
| Inventories                         | 13    | 19,946,884           | 19,946,884           |
| Cash and cash equivalents           | 14    | 24,463,528           | 51,673,194           |
| Contributions and other receivables | 15    | 116,408,429          | 117,521,705          |
| Tax recoverable                     |       | <u>2,160,774</u>     | <u>3,287,681</u>     |
|                                     |       | <u>524,841,556</u>   | <u>583,772,636</u>   |
| <b>Current liabilities</b>          |       |                      |                      |
| Other payables                      | 16    | <u>47,187,420</u>    | <u>30,918,724</u>    |
|                                     |       | <u>47,187,420</u>    | <u>30,918,724</u>    |
| <b>Net current assets</b>           |       | <u>477,654,136</u>   | <u>552,853,912</u>   |
| <b>Net assets of the scheme</b>     |       | <u>3,398,128,015</u> | <u>3,028,864,523</u> |

The financial statements on pages 17 to 36 were approved and authorised for issue by the trustees on 30 SEPTEMBER 2019 and were signed on its behalf by:

  
TRUSTEE

  
TRUSTEE

The notes on pages 20 to 38 form an integral part of these financial statements.

Report of the independent auditor - page 14 to 16.

**STATEMENT OF CASH FLOWS**

| <b>Cash from scheme activities</b>                      | <b>Notes</b> | <b>2019<br/>Shs</b>  | <b>2018<br/>Shs</b>  |
|---------------------------------------------------------|--------------|----------------------|----------------------|
| Contributions received                                  | 2(a)         | 282,645,969          | 357,692,411          |
| Transfers in                                            | 2(b)         | 2,180,880            | 874,001              |
| Benefits paid                                           | 2(c)         | (52,935,739)         | (98,175,842)         |
| Refunds to leavers                                      | 2(d)         | (57,101,923)         | (28,168,225)         |
| Plan investment income received                         | 3            | 251,610,386          | 213,775,030          |
| Investment management expenses                          | 4            | (10,379,828)         | (9,111,311)          |
| Tax paid                                                |              | (6,499,484)          | (7,458,381)          |
| Administrative expenses                                 | 5            | (35,770,342)         | (41,755,030)         |
| Movements in contributions and other receivables        |              | 1,113,276            | (68,333,823)         |
| Movements in benefits and other payables                |              | 16,268,698           | (36,723,052)         |
| Provision for impairment                                | 11           | -                    | 10,000,000           |
| (Gain)/loss on disposal of plan investments             | 11           | (616,974)            | 3,208,101            |
| Depreciation on property and equipment                  | 12           | 1,197,614            | 547,698              |
| Net movement in administrative reserves                 |              | 8,162,144            | 3,714,417            |
| Net movement in trust fund reserves                     |              | 896,768              | 44,345,610           |
| <b>Net cash from operating activities</b>               |              | <b>400,771,444</b>   | <b>344,431,604</b>   |
| <b>Investing activities</b>                             |              |                      |                      |
| Purchase of property and equipment                      | 12           | (1,632,626)          | (762,600)            |
| Plan investments maturing within 91 days                |              | 15,281,275           | 72,512,996           |
| Purchase of assets held for sale                        |              | -                    | (337,600)            |
| Purchase of plan investments                            | 11           | (884,823,844)        | (846,582,770)        |
| Proceeds from disposal of plan investments              | 11           | 513,641,999          | 423,868,220          |
| <b>Net cash (used in) investing activities</b>          |              | <b>(357,533,196)</b> | <b>(351,301,754)</b> |
| <b>Increase/(decrease) in cash and cash equivalents</b> |              | <b>43,238,249</b>    | <b>(6,870,150)</b>   |
| <b>Movement in cash and cash equivalents</b>            |              |                      |                      |
| At start of year                                        |              | 228,780,093          | 235,650,244          |
| Increase/(decrease)                                     |              | 43,238,249           | (6,870,151)          |
| At end of year                                          | 14           | 272,018,342          | 228,780,093          |

The notes on pages 20 to 38 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 17 and 18.

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 July 2018 have been adopted by the scheme. Of those, the following has had an effect on the scheme's financial statements:

International Financial Reporting Standards 9 (IFRS 9): Financial Instruments

IFRS 9 requires all financial assets to be measured at fair value on initial recognition and subsequently at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flows characteristics.

**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

**a) Basis of preparation (continued)**

**New and amended standards adopted by the scheme (continued)**

For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, IFRS 9 introduces an “expected credit loss” (ECL) model based on the concept of providing for expected losses at the inception of a contract; this requires judgement in quantifying the impact of forecast economic factors. For financial assets for which there has not been a significant increase in credit risk since initial recognition, the loss allowance should represent ECLs that would result from probable default events within 12 months from the reporting date (12-month ECLs). For financial assets for which there has been a significant increase in credit risk, the loss allowance should represent lifetime ECLs.

A simplified approach is allowed for contributions receivables, whereby lifetime ECLs can be recognised from inception.

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

**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 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.
- 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.

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.

**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

**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.

The trustees have made no assumptions and there are, in their opinion, 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.

**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.

**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

**e) Plan investments (continued)**

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.

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.

**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

**h) Financial instruments (continued)**

**Financial assets (continued)**

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 due 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.

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

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).

**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

**Financial assets (continued)**

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.

**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.

**i) 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.

**j) 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            |

**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

**k) 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.

**l) 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.

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><b>Rate %</b></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.

**m) 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.

**NOTES (CONTINUED)**

**1. Significant accounting policies (continued)**

**n) 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.

**o) Non-current assets held-for-sale**

Non-current assets are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

**p) 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.

**q) Comparatives**

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

**NOTES (CONTINUED)**

| <b>2. Dealing with members</b>                           | <b>2019<br/>Shs</b> | <b>2018<br/>Shs</b> |
|----------------------------------------------------------|---------------------|---------------------|
| <b>a) Contributions</b>                                  |                     |                     |
| Employers - exempt                                       | 81,254,058          | 76,069,300          |
| Employers - non exempt                                   | 103,714,386         | 160,252,599         |
| Employees - exempt                                       | 89,862,888          | 95,723,192          |
| Employees - non exempt                                   | 2,884,237           | 22,459,020          |
| Employees additional voluntary contribution - exempt     | 4,178,091           | 2,558,725           |
| Employees additional voluntary contribution - non exempt | 752,309             | 629,575             |
|                                                          | <u>282,645,969</u>  | <u>357,692,411</u>  |
| <b>b) Transfers in</b>                                   | <u>2,180,880</u>    | <u>874,001</u>      |
| <b>c) Benefits paid</b>                                  |                     |                     |
| Pension paid                                             | -                   | 96,000              |
| Annuity purchase for pensioners                          | 22,133,371          | 37,709,577          |
| Commutation and lump sum retirement benefit              | 22,589,822          | 27,583,992          |
| Payment on death                                         | 8,212,546           | 32,786,273          |
|                                                          | <u>52,935,739</u>   | <u>98,175,842</u>   |
| <b>d) Refunds to leavers</b>                             | <u>57,101,923</u>   | <u>28,168,225</u>   |
| <b>3. Investment income</b>                              |                     |                     |
| Net rental income (Note 3(a))                            | 15,983,304          | 16,600,958          |
| Fixed and time deposits interest                         | 7,972,137           | 9,783,016           |
| Treasury bond interest                                   | 153,734,157         | 132,650,048         |
| Treasury bills interest                                  | 21,943,294          | 15,887,161          |
| Corporate bonds interest                                 | 13,547,101          | 14,621,490          |
| Euro bond interest                                       | -                   | 2,200,466           |
| Dividend on quoted shares                                | 34,353,780          | 25,188,559          |
| Gain/(loss) on disposal of financial assets (Note 11)    | 616,937             | (3,208,101)         |
| Other income                                             | 3,459,676           | 51,433              |
|                                                          | <u>251,610,386</u>  | <u>213,775,030</u>  |
| <b>a) Rental income</b>                                  |                     |                     |
| Rent received                                            | 27,982,507          | 25,529,178          |
| <b>less:</b>                                             |                     |                     |
| Land rent and rates                                      | 91,875              | 94,631              |
| Legal fees                                               | 176,640             | 69,600              |
| Valuation fees                                           | 135,690             | 209,310             |
| MURBS operational expenses                               | 11,594,998          | 8,554,679           |
|                                                          | <u>11,999,203</u>   | <u>8,928,220</u>    |
| <b>Net rental income</b>                                 | <u>15,983,304</u>   | <u>16,600,958</u>   |

**NOTES (CONTINUED)**

|                                                                                                                                   | <b>2019<br/>Shs</b> | <b>2018<br/>Shs</b> |
|-----------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>4. Investment management expenses</b>                                                                                          |                     |                     |
| Management fees                                                                                                                   | 5,928,175           | 5,187,397           |
| Custodial fees                                                                                                                    | 3,745,703           | 3,222,034           |
| Investment committee                                                                                                              | 705,950             | 701,880             |
|                                                                                                                                   | <u>10,379,828</u>   | <u>9,111,311</u>    |
| <b>5. Administrative expenses</b>                                                                                                 |                     |                     |
| Trustee expenses                                                                                                                  | 4,630,032           | 5,817,476           |
| Administration and processing                                                                                                     | 18,913,049          | 17,198,729          |
| Seminar and trainings                                                                                                             | 323,840             | 410,856             |
| Audit fees                                                                                                                        | 661,340             | 612,700             |
| RBA levy                                                                                                                          | 4,148,128           | 3,778,865           |
| Depreciation on property and equipment                                                                                            | 1,197,613           | 547,698             |
| Provision for impairment - corporate bond                                                                                         | -                   | 10,000,000          |
| Members education                                                                                                                 | 1,254,719           | 1,148,408           |
| General office expenses                                                                                                           | 48,002              | 2,760               |
| Annual general meeting                                                                                                            | 2,238,818           | 1,947,574           |
| Foreign exchange loss                                                                                                             | -                   | 289,965             |
| Software license fees                                                                                                             | 2,354,800           | -                   |
|                                                                                                                                   | <u>35,770,341</u>   | <u>41,755,031</u>   |
| <b>6. Tax</b>                                                                                                                     |                     |                     |
| Tax charge-on non-exempt fund income                                                                                              | <u>7,626,391</u>    | <u>5,731,413</u>    |
| Tax is charged on investments income earned from the non-exempt portion net of associated expenses at the rate of 30% (2018: 30%) |                     |                     |
| <b>7. Reserves</b>                                                                                                                |                     |                     |
| Reserves comprise of the following:                                                                                               | <b>2019<br/>Shs</b> | <b>2018<br/>Shs</b> |
| General reserve                                                                                                                   | 145,451,451         | 209,791,979         |
| Administrative reserve                                                                                                            | 108,498,884         | 100,336,740         |
| Trust fund reserve                                                                                                                | 49,722,000          | 44,345,610          |
|                                                                                                                                   | <u>303,672,335</u>  | <u>354,474,329</u>  |
| <b>General reserve</b>                                                                                                            |                     |                     |
| At start of year                                                                                                                  | 209,791,979         | 168,851,018         |
| (Decrease)/increase during the year                                                                                               | <u>(64,340,528)</u> | <u>40,940,961</u>   |
| At end of year                                                                                                                    | <u>145,451,451</u>  | <u>209,791,979</u>  |

**NOTES (CONTINUED)**

| <b>7. Reserves</b>                                                 | <b>2019<br/>Shs</b>  | <b>2018<br/>Shs</b>  |
|--------------------------------------------------------------------|----------------------|----------------------|
| <b>Administrative reserve</b>                                      |                      |                      |
| At start of year                                                   | 100,336,740          | 96,622,323           |
| Additions                                                          | 22,907,170           | 19,685,761           |
| Less: payment for group life insurance                             | (10,631,545)         | (9,323,899)          |
| Land related costs payments                                        | (4,113,481)          | (6,647,445)          |
| At end of year                                                     | <u>108,498,884</u>   | <u>100,336,740</u>   |
| <b>Trust fund reserve</b>                                          |                      |                      |
| At start of year                                                   | 44,345,610           | -                    |
| Additions                                                          | 21,572,281           | 44,345,610           |
| Increase during the year                                           | 4,479,622            | -                    |
| Less: payments during the year                                     | (20,675,513)         | -                    |
| At end of year                                                     | <u>49,722,000</u>    | <u>44,345,610</u>    |
|                                                                    | <u>303,672,335</u>   | <u>310,128,719</u>   |
| <b>8. Members balance and reserves</b>                             |                      |                      |
| At start of year                                                   | 2,674,390,194        | 2,250,823,718        |
| Net increase during the year                                       | <u>420,065,486</u>   | <u>423,566,476</u>   |
| At end of year                                                     | 3,094,455,680        | 2,674,390,194        |
| Reserves                                                           | <u>303,672,335</u>   | <u>354,474,329</u>   |
|                                                                    | <u>3,398,128,015</u> | <u>3,028,864,523</u> |
| The movement in the members' balances and reserves are as follows: |                      |                      |
| At start of year                                                   | 3,028,864,523        | 2,516,297,059        |
| Contributions for the year (Note 2(a))                             | 282,645,969          | 357,692,411          |
| Transfers in (Note 2(b))                                           | 2,180,880            | 874,001              |
| Benefits paid (Note 2(c))                                          | (52,935,739)         | (98,175,842)         |
| Refunds to leavers (Note 2(d))                                     | (57,101,923)         | (28,168,225)         |
| Investment income (Note 3)                                         | 251,610,386          | 213,775,030          |
| Changes in fair value of financial assets (Note 11)                | (13,418,433)         | 73,357,816           |
| Changes in fair value of investment property (Note 9)              | 1,000,000            | 1,750,000            |
| Investment property management expenses (Note 4)                   | (10,379,828)         | (9,111,311)          |
| Administrative expenses (Note 5)                                   | (35,770,341)         | (41,755,030)         |
| Tax (Note 6)                                                       | (7,626,391)          | (5,731,413)          |
| Administrative reserves movement                                   | 8,162,144            | 3,714,417            |
| Net movement in trust fund reserve (Note 7)                        | <u>896,768</u>       | <u>44,345,610</u>    |
| At end of year                                                     | <u>3,398,128,015</u> | <u>3,028,864,523</u> |
| <b>9. Investment properties</b>                                    |                      |                      |
| At start of year                                                   | 482,000,000          | 480,250,000          |
| Fair value gains                                                   | <u>1,000,000</u>     | <u>1,750,000</u>     |
| At end of year                                                     | <u>483,000,000</u>   | <u>482,000,000</u>   |

**NOTES (CONTINUED)**

**9. Investment properties (continued)**

The fair value of investment properties were 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 2019.

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

|                                                                                             | <b>2019<br/>Shs</b>  | <b>2018<br/>Shs</b>  |
|---------------------------------------------------------------------------------------------|----------------------|----------------------|
| Rental income                                                                               | 27,982,507           | 25,529,178           |
| Less: direct rental expenses arising from investment properties that generate rental income | <u>(11,999,203)</u>  | <u>(8,928,220)</u>   |
| Net rental income (Note 3)                                                                  | <u>15,983,304</u>    | <u>16,600,958</u>    |
| Fair value gain                                                                             | <u>1,000,000</u>     | <u>1,750,000</u>     |
| <b>10. Assets held for sale</b>                                                             |                      |                      |
| At start of year                                                                            | -                    | 19,609,284           |
| Additions                                                                                   | -                    | 337,600              |
| Transfer to inventories (Note 13)                                                           | <u>-</u>             | <u>(19,946,884)</u>  |
| At end of year                                                                              | <u>-</u>             | <u>-</u>             |
| <b>11. Plan investments</b>                                                                 |                      |                      |
| <b>Non-current</b>                                                                          |                      |                      |
| Shares                                                                                      |                      |                      |
| - Quoted shares (Kenya)                                                                     | 675,983,872          | 739,520,754          |
| - Quoted shares (Uganda)                                                                    | 5,197,222            | 6,508,788            |
| - Unquoted shares                                                                           | 2,080,000            | 2,080,000            |
| Kenya Government securities: Treasury bonds                                                 | 1,660,459,476        | 1,002,290,019        |
| Corporate bonds                                                                             | 61,824,235           | 100,561,540          |
| Offshore investments                                                                        | <u>31,112,760</u>    | <u>142,668,210</u>   |
|                                                                                             | <u>2,436,657,566</u> | <u>1,993,629,311</u> |
| <b>Current</b>                                                                              |                      |                      |
| Kenya Government securities: Treasury bonds                                                 |                      |                      |
| - Maturing within 91 days (Note 14)                                                         | 13,530,362           | 81,909,861           |
| - Maturing after 91 days                                                                    | 46,953,253           | -                    |
| Kenya Government securities: Treasury bills                                                 |                      |                      |
| - Maturing within 91 days (Note 14)                                                         | 100,692,853          | 241,309,425          |
| - Maturing after 91 days                                                                    | 48,475,600           | -                    |
| Corporate bonds                                                                             |                      |                      |
| - Maturing within 91 days (Note 14)                                                         | 18,947,118           | 852,668              |
| - Maturing after 91 days                                                                    | 18,878,274           | 8,053,376            |
| Fixed term bank and time deposits                                                           | <u>114,384,481</u>   | <u>59,217,841</u>    |
|                                                                                             | <u>361,861,941</u>   | <u>391,343,171</u>   |
|                                                                                             | <u>2,798,519,507</u> | <u>2,384,972,482</u> |

**NOTES (CONTINUED)**

**11. 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 2018 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.

| <b>Plan investments</b>  | <b>2019<br/>Shs</b>         | <b>2018<br/>Shs</b>         |
|--------------------------|-----------------------------|-----------------------------|
| Gross investment         | 2,808,519,507               | 2,384,972,482               |
| Provision for impairment | <u>(10,000,000)</u>         | <u>(10,000,000)</u>         |
|                          | <u><u>2,798,519,507</u></u> | <u><u>2,374,972,482</u></u> |

**NOTES (CONTINUED)**

**11. Plan investments (continued)**

| <b>Year ended 30 June 2019</b>    | <b>Value at start<br/>of year<br/>Shs</b> | <b>Purchases and<br/>accrued interest<br/>Shs</b> | <b>(Sales)/<br/>redemption<br/>proceeds<br/>Shs</b> | <b>Change in<br/>fair value<br/>Shs</b> | <b>Gain/(loss)<br/>on disposal<br/>Shs</b> | <b>Provision for<br/>impairment<br/>Shs</b> | <b>Value at end<br/>of year<br/>Shs</b> |
|-----------------------------------|-------------------------------------------|---------------------------------------------------|-----------------------------------------------------|-----------------------------------------|--------------------------------------------|---------------------------------------------|-----------------------------------------|
| Shares                            |                                           |                                                   |                                                     |                                         |                                            |                                             |                                         |
| - Quoted shares (Kenya)           | 739,520,754                               | 53,617,602                                        | (34,026,232)                                        | (83,852,882)                            | 724,630                                    | -                                           | 675,983,872                             |
| - Quoted shares (Uganda)          | 6,508,788                                 | -                                                 | (1,311,566)                                         | -                                       | -                                          | -                                           | 5,197,222                               |
| - Unquoted shares                 | 2,080,000                                 | -                                                 | -                                                   | -                                       | -                                          | -                                           | 2,080,000                               |
| Kenya Government securities       |                                           |                                                   |                                                     |                                         |                                            |                                             |                                         |
| - Treasury bonds                  | 1,084,199,880                             | 660,533,250                                       | (88,668,082)                                        | 64,983,032                              | (104,988)                                  | -                                           | 1,720,943,091                           |
| - Treasury bills                  | 241,309,425                               | 170,776,374                                       | (262,917,345)                                       | -                                       | -                                          | -                                           | 149,168,455                             |
| Corporate bonds                   | 109,467,584                               | (103,382,000)                                     | (9,715,177)                                         | 3,269                                   | (2,667)                                    | -                                           | 99,649,627                              |
| Offshore investments              | 142,668,210                               | -                                                 | (117,003,598)                                       | 5,448,148                               | -                                          | -                                           | 31,112,760                              |
|                                   | <u>2,325,754,641</u>                      | <u>884,823,844</u>                                | <u>(513,641,999)</u>                                | <u>(13,418,433)</u>                     | <u>616,974</u>                             | <u>-</u>                                    | <u>2,684,135,027</u>                    |
| Fixed term bank and time deposits | 59,217,841                                | 1,317,666,640                                     | (1,262,500,000)                                     | -                                       | -                                          | -                                           | 114,384,481                             |
| <b>Total</b>                      | <u>2,384,972,482</u>                      | <u>2,202,490,483</u>                              | <u>(1,776,141,999)</u>                              | <u>(13,418,433)</u>                     | <u>616,974</u>                             | <u>-</u>                                    | <u>2,798,519,507</u>                    |
| <b>Year ended 30 June 2018</b>    |                                           |                                                   |                                                     |                                         |                                            |                                             |                                         |
| Shares                            |                                           |                                                   |                                                     |                                         |                                            |                                             |                                         |
| - Quoted shares (Kenya)           | 483,153,838                               | 232,989,171                                       | (38,026,793)                                        | 67,244,885                              | (5,840,347)                                | -                                           | 739,520,754                             |
| - Quoted shares (Uganda)          | 9,920,724                                 | -                                                 | -                                                   | (3,411,936)                             | -                                          | -                                           | 6,508,788                               |
| - Unquoted shares                 | 2,340,000                                 | -                                                 | -                                                   | (260,000)                               | -                                          | -                                           | 2,080,000                               |
| Kenya Government securities       |                                           |                                                   |                                                     |                                         |                                            |                                             |                                         |
| - Treasury bonds                  | 1,057,197,096                             | 189,647,608                                       | (176,018,358)                                       | 11,432,725                              | 1,940,809                                  | -                                           | 1,084,199,880                           |
| - Treasury bills                  | 58,073,790                                | 276,726,074                                       | (93,490,439)                                        | -                                       | -                                          | -                                           | 241,309,425                             |
| Corporate bonds                   | 151,110,555                               | 2,903,153                                         | (35,238,257)                                        | 696                                     | 691,437                                    | (10,000,000)                                | 109,467,584                             |
| Offshore investments              | 81,094,373                                | 144,316,764                                       | (81,094,373)                                        | (1,648,554)                             | -                                          | -                                           | 142,668,210                             |
|                                   | <u>1,842,890,376</u>                      | <u>846,582,770</u>                                | <u>(423,868,220)</u>                                | <u>73,357,816</u>                       | <u>(3,208,101)</u>                         | <u>(10,000,000)</u>                         | <u>2,325,754,641</u>                    |
| Fixed term bank and time deposits | 177,522,996                               | 1,351,595,273                                     | (1,469,900,428)                                     | -                                       | -                                          | -                                           | 59,217,841                              |
| <b>Total</b>                      | <u>2,020,413,372</u>                      | <u>2,198,178,043</u>                              | <u>(1,893,768,648)</u>                              | <u>73,357,816</u>                       | <u>(3,208,101)</u>                         | <u>-</u>                                    | <u>2,384,972,482</u>                    |

The carrying amounts of the above plan investments are as follows:

|                            | <b>2019</b>            |                            | <b>2018</b>          |                        |                            |                      |
|----------------------------|------------------------|----------------------------|----------------------|------------------------|----------------------------|----------------------|
|                            | <b>Current<br/>Shs</b> | <b>Non-current<br/>Shs</b> | <b>Total<br/>Shs</b> | <b>Current<br/>Shs</b> | <b>Non-current<br/>Shs</b> | <b>Total<br/>Shs</b> |
| Fair value at market value | 98,309,007             | 2,374,833,331              | 2,473,142,338        | 90,815,905             | 1,893,067,771              | 1,983,883,676        |
| Ultimate redemption value  | 263,552,934            | 61,824,235                 | 325,377,169          | 300,527,266            | 100,561,540                | 401,088,806          |
|                            | <u>361,861,941</u>     | <u>2,436,657,566</u>       | <u>2,798,519,506</u> | <u>391,343,171</u>     | <u>1,993,629,311</u>       | <u>2,384,972,482</u> |

**NOTES (CONTINUED)**

**11. Plan investments (continued)**

|                                                                            |                         |                         |
|----------------------------------------------------------------------------|-------------------------|-------------------------|
| Weighted average effective interest rates at the year-end were as follows: | <b>2019</b><br><b>%</b> | <b>2018</b><br><b>%</b> |
| - Treasury bonds                                                           | 12.03%                  | 12.03%                  |
| - Treasury bills                                                           | 8.00%                   | 8.00%                   |
| - Trust fund treasury bills                                                | 8.00%                   | -                       |
| - Fixed deposits                                                           | 7.09%                   | 8.38%                   |
| - Corporate bonds                                                          | 12.49%                  | 12.37%                  |

**12. Property and equipment**

**Year ended 30 June 2019**

|                                 | <b>Computers<br/>Shs</b> | <b>Office<br/>partitions<br/>Shs</b> | <b>Motor<br/>vehicle<br/>Shs</b> | <b>Fittings and<br/>equipment<br/>Shs</b> | <b>Total<br/>Shs</b> |
|---------------------------------|--------------------------|--------------------------------------|----------------------------------|-------------------------------------------|----------------------|
| <b>Cost</b>                     |                          |                                      |                                  |                                           |                      |
| 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           |
| <b>Accumulated depreciation</b> |                          |                                      |                                  |                                           |                      |
| 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           |
| <b>Net book value</b>           | 187,400                  | -                                    | -                                | 628,913                                   | 816,313              |

**Year ended 30 June 2018**

|                                 |           |           |           |           |            |
|---------------------------------|-----------|-----------|-----------|-----------|------------|
| <b>Cost</b>                     |           |           |           |           |            |
| At start of year                | 1,787,283 | 3,280,783 | 1,762,528 | 3,673,981 | 10,504,575 |
| Additions                       | 539,600   | -         | -         | 223,000   | 762,600    |
| At end of year                  | 2,326,883 | 3,280,783 | 1,762,528 | 3,896,981 | 11,267,175 |
| <b>Accumulated depreciation</b> |           |           |           |           |            |
| At start of year                | 1,667,783 | 3,280,783 | 1,762,528 | 3,627,083 | 10,338,177 |
| Charge for the year             | 389,300   | -         | -         | 158,398   | 547,698    |
| At end of year                  | 2,057,083 | 3,280,783 | 1,762,528 | 3,785,481 | 10,885,875 |
| <b>Net book value</b>           | 269,800   | -         | -         | 111,500   | 381,300    |

**NOTES (CONTINUED)**

|                                              | <b>2019<br/>Shs</b> | <b>2018<br/>Shs</b> |
|----------------------------------------------|---------------------|---------------------|
| <b>13. Inventories</b>                       |                     |                     |
| At start of year                             | 19,946,884          | -                   |
| Transfer from assets held for sale (Note 10) | -                   | 19,946,884          |
| At end of year                               | <u>19,946,884</u>   | <u>19,946,884</u>   |

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

|                                      | <b>2019<br/>Shs</b> | <b>2018<br/>Shs</b> |
|--------------------------------------|---------------------|---------------------|
| <b>14. Cash and cash equivalents</b> |                     |                     |
| Cash at bank                         | 22,044,707          | 24,464,923          |
| Custodian current accounts           | 2,406,709           | 27,207,825          |
| Receipts                             | 12,112              | 446                 |
|                                      | <u>24,463,528</u>   | <u>51,673,194</u>   |

The weighted average effective interest rates at the year-ended was 7.09% (2018: 8.38%)

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

|                                                    | <b>2019<br/>Shs</b> | <b>2018<br/>Shs</b> |
|----------------------------------------------------|---------------------|---------------------|
| Cash and cash equivalents                          | 24,463,528          | 51,673,194          |
| Fixed term bank and time deposits                  | 114,384,481         | 59,217,841          |
| Financial assets maturing within 91 days (Note 11) | 133,170,333         | 117,889,058         |
|                                                    | <u>272,018,342</u>  | <u>228,780,093</u>  |

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

|                                                           | <b>2019<br/>Shs</b> | <b>2018<br/>Shs</b> |
|-----------------------------------------------------------|---------------------|---------------------|
| <b>15. Contributions and other receivables</b>            |                     |                     |
| Employer contribution                                     | 79,598,712          | 86,612,527          |
| Employee contribution                                     | 8,426,455           | 8,854,004           |
| Employee contribution - additional voluntary contribution | -                   | 317,650             |
| Contributions due                                         | 88,025,167          | 95,784,181          |
| Accrued income                                            | 5,748,176           | 3,564,677           |
| Other receivables                                         | 28,285,421          | 23,803,932          |
| Less: impairment of other receivables                     | (5,650,335)         | (5,631,085)         |
| Net other receivables                                     | <u>22,635,086</u>   | <u>18,172,847</u>   |
| <b>Total contributions and other receivables</b>          | <u>116,408,429</u>  | <u>117,521,705</u>  |

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

**NOTES (CONTINUED)**

**15. Contributions and other receivables (continued)**

| <b>Contributions due</b>            | <b>2019<br/>Shs</b> | <b>2018<br/>Shs</b> |
|-------------------------------------|---------------------|---------------------|
| Contributions due:                  |                     |                     |
| - Outstanding for less than 30 days | 25,197,427          | 32,956,441          |
| - Outstanding for more than 30 days | 62,827,740          | 62,827,740          |
|                                     | <u>88,025,167</u>   | <u>95,784,181</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.

In determining the basis of measurement of the contributions, the trustees have assessed whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected and the period of such cash flows. The trustees have considered the settlement history by the Government in respect to contributions arising from salary arrears. The overdue contributions are attributed to 20% employer portion for the 2013-2017 salary arrears which has not yet been received from the Government of Kenya. The trustees are pursuing the matter with the respective Government Ministry.

| <b>16. Other payables</b>    | <b>2019<br/>Shs</b> | <b>2018<br/>Shs</b> |
|------------------------------|---------------------|---------------------|
| Land creditors               | 469,025             | 504,225             |
| Sundry creditors             | 23,534,410          | 16,772,426          |
| Other payables               | 21,439,602          | 11,537,554          |
| Payable for annuity purchase | 1,744,384           | 2,104,519           |
|                              | <u>47,187,420</u>   | <u>30,918,724</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:

| <b>Year ended 30 June 2019</b> | <b>0 to 1<br/>month<br/>Shs</b> | <b>2 to 3<br/>months<br/>Shs</b> | <b>4 to 12<br/>months<br/>Shs</b> | <b>Total<br/>Shs</b> |
|--------------------------------|---------------------------------|----------------------------------|-----------------------------------|----------------------|
| Land creditors                 | -                               | -                                | 469,025                           | 469,025              |
| Sundry creditors               | 4,706,882                       | 9,413,764                        | 9,413,764                         | 23,534,410           |
| Other payables                 | 4,287,920                       | 8,575,841                        | 8,575,841                         | 21,439,602           |
| Payable for annuity purchase   | 1,744,384                       | -                                | -                                 | 1,744,384            |
|                                | <u>10,739,186</u>               | <u>17,989,605</u>                | <u>18,458,629</u>                 | <u>47,187,420</u>    |

**NOTES (CONTINUED)**

| 16. Other payables (continued) | 0 to 1<br>month<br>Shs | 2 to 3<br>months<br>Shs | 4 to 12<br>months<br>Shs | Total<br>Shs      |
|--------------------------------|------------------------|-------------------------|--------------------------|-------------------|
| <b>Year ended 30 June 2018</b> |                        |                         |                          |                   |
| Land creditors                 | -                      | -                       | 504,225                  | 504,225           |
| Sundry creditors               | 3,354,485              | 6,708,970               | 6,708,970                | 16,772,426        |
| Other payables                 | 2,307,511              | 4,615,022               | 4,615,022                | 11,537,554        |
| Payable for annuity purchase   | 2,104,519              | -                       | -                        | 2,104,519         |
|                                | <u>7,766,515</u>       | <u>11,323,992</u>       | <u>11,828,217</u>        | <u>30,918,724</u> |

**17. 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.

|                                                        | 2019<br>Shs      | 2018<br>Shs       |
|--------------------------------------------------------|------------------|-------------------|
| Effect on net assets available for benefits - increase | <u>3,630,998</u> | <u>14,917,700</u> |

*- Interest rate risk*

During the year ended 30 June 2019, 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. 16,982,849 (2018: Shs.14,824,678) 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

**NOTES (CONTINUED)**

**17. Financial risk management objectives and policies (continued)**

- *Price risk (continued)*

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.

|                         | <b>2019<br/>Shs</b> | <b>2018<br/>Shs</b> |
|-------------------------|---------------------|---------------------|
| Market price - increase | <u>123,657,117</u>  | <u>99,194,184</u>   |

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.

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.

**NOTES (CONTINUED)**

**17. Financial risk management objectives and policies (continued)**

**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 16 discloses the maturity analysis of other payables respectively.

Undiscounted maturity is not materially different from maturity disclosure on note 16.

**18. 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.

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.

**19. Contingent liability**

The scheme is a defendant in various legal actions. In the opinion of the trustees and after taking appropriate legal advice, the outcome of such actions will not give rise to any significant loss

**20. Presentation currency**

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