

**MUSIC COPYRIGHT SOCIETY OF KENYA LTD**

**ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2011**

**Report by:**



***Music Copyright Society of Kenya Ltd***  
***Annual Report and Audited Financial Statements***  
***For the financial year ended 30th June 2011***

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**COMPANY INFORMATION**

**DIRECTORS**

: Habel Kifoto, HSC - Chairman  
 : Michael Maganzo Njehia  
 : Tom M. Kodiyo  
 : Stanley Kimaiyo  
 : Naomi Nyongesa  
 : Albert Gacheru  
 : C.D.M Kiratu, OGW  
 : James Mutisya  
 : Dorcas Odege (Department of Culture)  
 : Maurice Okoth - General Manager

**BANKERS**

: NIC Bank  
 : Westlands Branch  
 : Nairobi

: Equity Bank  
 : P.O.Box 75104 - 00200  
 : Community Centre  
 : Nairobi

: Standard Bank  
 : P.O.Box 30003-00100,  
 : Ukay Centre Branch,  
 : Nairobi

: Standard Bank  
 : P.O.Box 14438 - 00800,  
 : Westlands  
 : Nairobi

**REGISTERED OFFICE AND  
 PRINCIPAL PLACE OF BUSINESS**

: Music Copyright Society of Kenya Ltd  
 : P.o. Box 14806 - 00800  
 : Maua Close, Westlands  
 : Nairobi , Kenya.

**COMPANY SECRETARY**

: Martha Maina,  
: Martha Maina & Associates  
: P.O. Box 19743 - 00202  
: Nairobi.  
(With effect from 24th May 2011)

**EXTERNAL AUDITORS**

: Maritimes Associates  
: P.O. Box 816 - 00200  
: Odyssey Plaza, South B  
: Nairobi

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**DIRECTORS' REPORT**

The Directors submit their report together with the audited financial statements for the financial year ended 30th June 2011.

**PRINCIPAL ACTIVITY**

The company is a non-profit making organisation established to administer certain rights granted under the Copyrights Act on behalf of members. Its core mandate is the collection and distribution of royalties to members.

**RESULTS**

The results for the year are as set out on page 6.

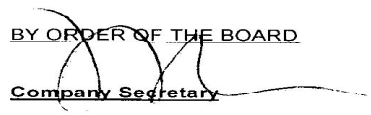
**DIRECTORS**

The directors of the company who served during the year are as shown on page 1.

**AUDITORS**

The company auditors, Messrs Maritimes Associates appointed during the year have expressed their willingness to continue in office in accordance with Section 159(2) of the Companies Act.

BY ORDER OF THE BOARD

  
Company Secretary

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**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

The Directors responsibility includes: determining that the basis of accounting described in note is an acceptable basis for preparing and presenting the financial statements in the circumstances; designing, implementing and maintaining internal control relevant to the preparation and presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial controls.

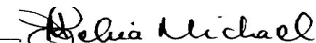
The Directors have made an assessment of the company's ability to continue as a going concern and have no reason to believe the company will not remain a going concern for at least the next twelve months from the date of this statement.

The financial statements were approved by the Directors for issue on \_\_\_\_\_ 2011 and were signed by:-

19-12-

Director

MICHAEL N. J. MAGANZO Signature \_\_\_\_\_



Director

ALBERT GACHERU KIARIE Signature \_\_\_\_\_



**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF MUSIC COPYRIGHT SOCIETY OF KENYA LTD AS AT 30th JUNE 2011**

This report is made solely to the members of Music Copyright Society of Kenya Ltd, (the “company”), as a body corporate, in accordance with Section 159 of the Companies Act (Cap 486). Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body corporate, for our audit work, for this report, or for the opinions we have formed.

**Report on the financial statements**

We have audited the financial statements of company set out on pages 6 to 21 which comprise the Statement of Financial Position as at 30<sup>th</sup> June 2011, and the Statement of Comprehensive Income, statement of changes in equity and Statement of Cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Directors’ responsibilities for the financial statements**

As stated on page 3, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and in compliance with the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Independent Auditor’s responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

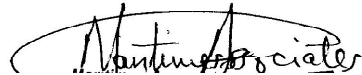
**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF MUSIC COPYRIGHT SOCIETY OF KENYA LTD AS AT 30th JUNE 2011****Opinion**

In our opinion, the financial statements as set out on pages 6 to 9 when read together with the notes thereon, give a true and fair view of the financial position of the company, as at 30th June 2011, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenya Companies Act.

**Report on Other Legal and Regulatory Requirements**

As required by the Kenyan Companies Act, based on our audit, we report to you that:-

- (i) We have obtained all the information and explanations which to the best our knowledge and belief were necessary for the purposes of our audit;
- (ii) In our opinion proper books of accounts have been kept by the company, as far as it appears from our examination of those books; and
- (iii) The financial statements of the company are in agreement with the books of account.



**Maritimes Associates**  
**Certified Public Accountants**  
Nairobi

**Date:** 20/12/2011

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**APPROPRIATION ACCOUNT**

	<b><u>NOTES</u></b>	<b>2011 Kes</b>	<b>2010 Kes</b>
<b>GROSS INCOME</b>	7(a),(b)	<b>216,970,983</b>	<b>185,551,521</b>
Excess of Receipts over payments	Page 18	<b>64,496,660</b>	47,911,691
Less Transfer to Socio-Cultural Fund		<b>(4,514,766)</b>	(3,854,890)
Surplus before Provision for Royalties		<b>59,981,894</b>	<b>44,056,801</b>
Less Provision for Royalties	17	<b>(59,843,930)</b>	(45,000,000)
Surpluses/(Deficit) for the Year	Page 8	<b>137,964</b>	(943,199)
<b>Surpluses/(Deficit) b/f</b>		<b>(3,771,493)</b>	(2,828,294)
<b>Surpluses/(Deficit) c/f</b>		<b><u>(3,633,529)</u></b>	<b><u>(3,771,493)</u></b>

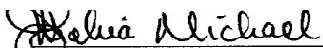

The notes and Schedules set out on pages 10 to 21 form an integral part of the financial statements.

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**STATEMENT OF FINANCIAL POSITION**

<b>ASSETS</b>	<b>NOTES</b>	<b>2011 Kes</b>	<b>2010 Kes</b>
<b><u>NON-CURRENT ASSETS</u></b>			
Property and Equipment	22	16,235,878	10,375,803
Intangible Asset	15	1,564,150	-
		<b>17,800,028</b>	<b>10,375,803</b>
<b><u>CURRENT ASSETS</u></b>			
Accounts receivable	14	31,369,248	16,359,102
Deposits and Prepayments	16	4,220,199	3,603,724
Cash and Bank balances	20	4,722,171	4,146,477
		<b>40,311,619</b>	<b>24,109,303</b>
<b>TOTAL ASSETS</b>		<b>58,111,647</b>	<b>34,485,106</b>
<b><u>CAPITAL AND LIABILITIES</u></b>			
<b><u>CAPITAL AND RESERVES</u></b>			
Socio-Cultural Fund	Page 8	10,138,248	6,685,560
General Reserve		1,109,319	1,849,174
Donation Fund		97,863	97,863
Fixed Assets Fund		15,323	21,890
Appropriation Account		1,489,059	1,344,528
		<b>12,849,811</b>	<b>9,999,015</b>
<b><u>CURRENT LIABILITIES</u></b>			
Creditors and Accruals	18	18,862,853	6,667,624
Royalties Payable	17	26,398,983	17,818,467
		<b>45,261,836</b>	<b>24,486,091</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>		<b>58,111,647</b>	<b>34,485,106</b>

The financial statements were approved by the Board of Directors on .....2011  
and were signed on its behalf by:

—  —  
—  —

)  
) DIRECTORS  
)

The notes and schedules set out on pages 10 to 21 form an integral part of the financial statements.

**Music Copyright Society of Kenya Ltd**  
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**STATEMENT OF CASH FLOWS**

	<b>NOTES</b>	<b>2011 Kes</b>	<b>2010 Kes</b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Surpluses(Deficit) before Appropriation		64,496,660	47,911,691
Adjustments for:			
Prior Year Adjustments		(739,855)	5,046,742
Depreciation		5,585,889	2,985,901
Operating Profit (Loss) before working capital changes		<b>69,342,694</b>	<b>55,944,334</b>
<u>Working capital changes</u>			
Changes in accounts receivable		(15,010,146)	(11,275,250)
Changes in Deposits and Prepayments		(616,475)	(2,605,116)
Changes in Provision for losses		-	-
Changes in accounts payable		12,195,229	5,178,922
		<b>(3,431,393)</b>	<b>(8,701,444)</b>
Cash generated from operations		<b>65,911,301</b>	47,242,890
Cash generated from operations		<b>65,911,301</b>	47,242,890
<b><u>CASH FROM INVESTING ACTIVITIES</u></b>			
Purchase of land for sale		(13,010,114)	(8,334,603)
Royalties Paid		(49,566,531)	(36,912,937)
Purchase of fixed assets		(10,775,614)	(57,900)
		<b>(73,352,259)</b>	<b>(45,305,440)</b>
<b><u>CASH FROM FINANCING ACTIVITIES</u></b>			
Royalties Payable provision		8,580,516	(2,285,948)
Members Fees Movements		(563,864)	-
<b>Total Cash from Financing Activities</b>		<b>8,016,652</b>	<b>(2,285,948)</b>
<b><u>NET CASH INFLOW /(OUTFLOW)</u></b>		<b>575,694</b>	<b>(348,498)</b>
<b><u>CASH AND CASH EQUIVALENTS</u></b>			
<b><u>BALANCE AS AT 30TH JUNE 2010</u></b>		<b>4,146,477</b>	<b>4,494,975</b>
<b><u>CASH AND CASH EQUIVALENTS</u></b>			
<b><u>BALANCE AS AT 30TH JUNE 2011</u></b>		<b>4,722,171</b>	<b>4,146,477</b>

The notes and schedules set out on pages 10 to 21 form an integral part of the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS**

**REPORTING ENTITY**

**Registered Office and Principal place of Business**

The reporting entity is Music Copyright Society of Kenya Ltd, whose registered office and principal place of business is as shown on page 1.

**Incorporation**

The company is registered as a limited liability company, limited by guarantee and is incorporated in Kenya under the Kenyan Companies Act (Cap. 486), Laws of Kenya.

**Domicile**

The company is domiciled in Kenya and carries out its business in Kenya.

**Statement of Compliance**

The financial statements are in compliance with the International Financial Reporting Standards (IFRS).

**BASIS OF PREPARATION**

**Basis of preparation**

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain property and equipment at fair value and are in compliance with International Financial Reporting Standards (IFRS).

**Use of estimates and judgments**

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events, actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

**Functional Currency, Presentation and Precision**

The financial statements are presented in Kenya Shillings, which is the company's functional currency. The financial statements have been stated to the nearest shilling.

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**NOTES TO THE FINANCIAL STATEMENTS**

**SIGNIFICANT ACCOUNTING POLICIES**

**Assets Held for Sale and Investment Property**

Property held for sale is not depreciated since they are held on a temporary basis.

**Revaluation reserve**

Gains or Losses arising on revaluation of equity investments are appropriated into the Revaluation Reserves account in the year they arise through the Income Statement. Those arising from revaluation of fixed assets are credited to the General Reserve Account.

**Income**

Income earned is brought into the accounting period on the following basis:-

- (i) Incomes constitute license fees and are recognised when there is contractual evidence that they have been earned. These are invoices raised, direct bank deposits and cash collected. For a period of three months the company lost a significant portion of incomes when their license was not issued by Kenya Copyright Board.
- (ii) Gains on disposal of fixed assets include income received and accrued during the accounting period.
- (iii) Other incomes include incomes from members entrance fees and other miscellaneous incomes from interest earned on bank deposits.

**Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another entity.

**- Held to Maturity**

*Held-to-maturity assets* are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity. Were the Company to sell, other than insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. These include treasury bills and bonds.

**- Available for sale**

*Available-for-sale assets* are financial assets that are not held for trading purposes, originated by the Company or held to maturity. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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**NOTES TO THE FINANCIAL STATEMENTS**

*Financial liabilities* are classified either as trading financial liabilities or other financial liabilities.

**- Recognition and measurement**

The Company recognizes assets on the date it commits to purchase the asset. From this date, any gains or losses arising from changes in fair value of the assets are recognized directly in the equity and for financial assets at fair value through profit and loss.

**- Derecognition**

A financial asset is derecognized when the company loses control over the contractual rights that comprise that asset. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Company commits to sell the assets. The Company uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments are derecognized on the day they are transferred by the Company.

**- Identification and measurement of impairment of financial assets**

At each balance sheet date the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.

The company considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by the company together for all financial assets (carried at amortized cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a debt by the company on terms that the company would otherwise consider, indications that a debtor will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of debtors in the market, or economic conditions that correlate with defaults in the market.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the expected recoverable amount based on the value of securities. Losses are recognized in profit or loss and reflected in an allowance account against the debts.

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**NOTES TO THE FINANCIAL STATEMENTS**

Impairment losses on available-for-sale investment securities are recognized by transferring the difference between the amortized acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

**Offsetting of financial assets and liabilities**

Financial assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to offset the recognized amount and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

**Taxation**

The company surpluses are not subjected to income tax but withholding tax is levied on royalties paid to members and returns to the tax authorities made appropriately.

**Impairment Losses**

Provisions are recognized when there is a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

**Impairment for non-financial assets**

The carrying amounts of the company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset that generates cash flows and are largely independent from other assets of company. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the units on a pro-rata basis.

For property and equipment, the fair value is determined by the company's contracted qualified valuers based on an open market value basis.

**Cash and cash equivalents**

Cash and cash equivalents are defined as cash on hand, demand deposits and short term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

**Related party transactions**

The company discloses the nature and amounts outstanding at the end of the financial year from transactions with related parties, which include transactions with directors, employees and related companies.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **Finance charges**

Finance charges represent bank and other charges.

### **Comparatives**

Where necessary comparative figures have been restated, redescribed and or reclassified to conform to changes in presentation in the current year.

### **New standards and interpretations**

The following are new standards and interpretations specifically affecting the presentations of the Financial Statement of the company.

**IFRS 8 Operating Segments** (Effective 1 January 2009) introduces the “management approach” to segment reporting. IFRS 8 does not have any impact on the company’s financial statements since the company does not operate in different business segments.

**IFRIC 12 Service Concession Arrangements** (Effective 1 January 2008) provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which is mandatory for the company’s 2009 financial statements, does not have any effect on the financial statements because the company has not entered into any public – to – private service concessions.

## **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

### **Critical accounting estimates and assumptions**

#### **Income taxes**

The company is subject to taxes in Kenya. Significant judgment is required in determining the company’s provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### **Critical judgments in applying the entity’s accounting policies**

In the process of applying the company's accounting policies, directors have made judgments in determining:-

- (i) assets;
- (ii) Leases;
- (iii) Impairment of assets;
- (iv) Non-current assets held to Maturity;
- (v) Non-current assets held for disposal

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FINANCIAL RISK MANAGEMENT**

The company has exposure to the following risks:-

- Credit risk
- Liquidity risk
- Market risk.
- Operational risks

The Directors have overall responsibility for the establishment and oversight of the company's risk management framework.

The company's risk management policies are established to identify and analyze the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities.

The company's directors oversee and monitor compliance with the risk management policies and procedures and review the adequacy of the risk management framework in relation to the risks faced by the company.

#### **Credit risk**

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's transactions with customers, other institutions and investment securities. For risk management reporting purposes, the company considers and consolidates all elements of credit risk exposure.

#### **Management of credit risk**

The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The directors have established a credit policy or standard under which each new customer is analyzed individually for creditworthiness before the company's business transactions are entered into and delivery terms and conditions are offered, initiated, executed or effected. The company's review includes external ratings, image profiling and public knowledge and in some cases references, where available. Credit limits are established for each customer, which includes a maximum open ceiling.

## **NOTES TO THE FINANCIAL STATEMENTS - Continued**

### **Liquidity risk**

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

Typically the company ensures that it has sufficient cash on demand to meet expected normal operational expenses. This excludes the servicing of financial obligations which are separately planned for. Also excluded are the potential impacts of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The responsibility for managing daily liquidity assessment resides with the directors. However, the balance sheet liquidity management is a companywide task.

### **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

### **Interest rate risk**

This is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates which affects the company's investments and borrowings.

Interest rate risk is managed principally through monitoring the company's interest rate risk exposure within self-imposed parameters over a range of possible changes in interest rates.

### **Equity prices**

The company is exposed to price risk in respect of its investments in quoted shares. The exposure to price risk is managed primarily by setting limits on the percentage of net assets available for benefits that may be invested in equity, and by ensuring sufficient diversity of the investment portfolio.

### **Currency risk**

The company operates wholly within Kenya and its assets and liabilities are carried in the local currency. The Company is not exposed to foreign currency risk.

## **FINANCIAL RISK MANAGEMENT**

**Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the company's operations.

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**NOTES TO THE FINANCIAL STATEMENTS - Continued**

The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The ultimate accountability for operational risk management within the company rests with the Directors. Consequently, the level of risk that the company accepts, together with the basis for managing those risks is assigned to the company's Chief Decision Maker. This responsibility is supported by the development of overall standards for the management of operational risk.

**Capital Risk Management**

- safeguard the company's ability to continue as a going concern and comply with the requirements of the Company's Act;
- provide optimum returns for its shareholders and benefits to other stakeholders;
- maintain an optimal gearing ratio both to support the development of its business and to reduce the cost of capital, when necessary.

The company is registered as a company limited by guarantee and hence no share capital. Therefore capital risk management requirement is not applicable.

**INCOME**

Turnover represents proceeds from license fees recorded from invoices, cash and cheques received by the company during the year. During the year the company had no operating license for three months at which time no income was accrued, hence the income recorded relates to a period of nine months only.

	<b>2011 Kes</b>	<b>2010 Kes</b>
<b>DISTRIBUTABLE INCOME</b>		
General Licensing	191,310,945	171,143,067
Foreign Loyalties	1,087,900	-
Mechanicals	6,572,695	-
Broadcasting	16,636,366	13,898,717
	<b>215,607,906</b>	<b>185,041,784</b>
<b>NON-DISTRIBUTABLE INCOME</b>		
These included incomes from the following sources during the year:-		
Members Entrance Fees	1,118,218	-
Disposal of Fixed Assets	97,000	-
Other Incomes	147,859	509,737
	<b>1,363,077</b>	<b>509,737</b>
Total Income	<b>216,970,983</b>	<b>185,551,521</b>

**DIRECT COSTS-COLLECTION COSTS**Marketing and Licensing Expenses  
Security on Collection

<b>2,438,028</b>	2,078,147
<b>16,356,123</b>	<u>18,377,290</u>
<b>18,794,151</b>	<b><u>20,455,437</u></b>

**DIRECTORS AND MEMBERS EXPENSES**Directors Allowances and other costs  
AGM and Seminar Costs

<b>10,143,240</b>	9,650,845
<b>4,779,496</b>	<u>6,495,338</u>
<b>14,922,736</b>	<b><u>16,146,183</u></b>

**STAFF COSTS**Salaries and Wages - Other Staff  
Salaries and Wages - Management Staff  
Pensions Contributions  
Medical Insurance Premiums

<b>51,054,135</b>	39,839,658
<b>13,724,115</b>	12,789,087
<b>2,947,892</b>	2,462,685
<b>4,099,171</b>	<u>2,674,114</u>
<b>71,825,313</b>	<b><u>57,765,544</u></b>

The average number of employees during the year was 110, (2010, 104).

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**NOTES TO THE FINANCIAL STATEMENTS - Continued**

**ADMINISTRATIVE COSTS**

	<b>2011</b>	<b>2010</b>
	<b>Kes</b>	<b>Kes</b>
Rent and Rates	4,487,597	3,006,688
Repairs and Maintenance	978,087	1,429,324
Depreciation	5,585,889	2,985,901
Telephone, Postage and Internet	1,721,797	1,264,104
Printing and Stationery	3,927,055	2,807,288
Office Expenses	971,814	1,242,933
Transport, Travel and Accommodation	5,394,803	5,338,666
Audit Fees	406,000	562,120
Legal Fees	2,594,056	2,509,940
Newspapers and Periodicals	52,483	68,745
Subscriptions	381,414	373,215
Motor Vehicles Expenses	9,741,777	4,515,621
Car Hire Charges	360,000	5,294,276
Public Relations and Advertisements	4,652,350	2,619,152
Water and Electricity	238,652	280,659
Security Expenses	182,562	177,620
Professional and Consultancy Fees	34,251	781,500
Restructuring and Recruitment Costs	-	450,000
Membership Prog/Training and Team Building	1,690,150	1,357,604
Impairment Losses	1,860,612	4,850,000
	<b>45,261,348</b>	<b>41,915,356</b>

**FINANCE COSTS**

Bank charges	1,670,775	1,357,310
<b>Total Finance Costs</b>	<b>1,670,775</b>	<b>1,357,310</b>
<b>Total Costs</b>	<b>152,474,323</b>	<b>137,639,830</b>
<b>Excess of Receipts over payments</b>	<b>64,496,660</b>	<b>47,911,691</b>

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**NOTES TO THE FINANCIAL STATEMENTS - Continued**

**TAXATION**

The company's operating surpluses/(loses) are not subjected to income tax instead withholding tax is retained from any distribution to members and returns filed appropriately.

**ACCOUNTS RECEIVABLE**

Trade and Other Debtors

<b>31,369,248</b>	16,359,102
<b>31,369,248</b>	<b>16,359,102</b>

**INTANGIBLE ASSETS**

Cost

-	-
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Additions

<b>2,234,500</b>	-
<b>2,234,500</b>	-

Depreciation

Balance as at 01.07.2010

-	-
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Charges for the Year

<b>670,350</b>	-
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Net Book Value 01.06.2011

<b>1,564,150</b>	-
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These relate to software costs paid for during the year.

**Deposits and Prepayments**

Deposit-Akamba

<b>30,000</b>	30,000
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Deposit-Dropping Zone

<b>25,300</b>	13,200
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Fuel Deposit - Total and Kenya Shell

<b>705,000</b>	635,000
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Rent Deposit

<b>916,536</b>	513,970
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Advances To PRSK

<b>27,840</b>	27,840
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Receivable-Magazine Project

<b>1,052,209</b>	697,504
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Prepaid Rent

<b>1,428,139</b>	1,399,835
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Security Deposit

<b>35,175</b>	35,175
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Overpayment - Jam City Motors

-	226,000
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Withholding Tax Receivable

-	25,200
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**Total of Deposits and Prepayments**

<b>4,220,199</b>	<b>3,603,724</b>
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**NOTES TO THE FINANCIAL STATEMENTS - Continued**

**LOCAL ROYALTIES PAYABLE**

Royalties Brought forward	12,556,026	7,377,385
Add Royalties Provided for during the year	59,843,930	45,000,000
	<u>72,399,956</u>	<u>52,377,385</u>
Less Royalties paid to Members during the year	(49,566,531)	(36,912,937)
Less Tax withheld on Royalties	(1,591,994)	(2,908,422)
	<u>21,241,431</u>	<u>12,556,026</u>
Tax on Royalties B/F	5,262,441	5,262,441
Less Tax Paid during the year	(104,889)	-
Tax on Royalties C/F	5,157,552	5,262,441
<b>Total Royalties and Tax Payable</b>	<b><u>26,398,983</u></b>	<b><u>17,818,467</u></b>

**CREDITORS AND ACCRUALS**

Trade Payables	18,456,853	5,543,384
Audit Fees	406,000	1,124,240
<b>Totals</b>	<b><u>18,862,853</u></b>	<b><u>6,667,624</u></b>

**SOCIO-CULTURAL FUND (BF)**

Balance Brought forward	6,685,560	4,446,954
Add Provisions for the Year	4,514,766	3,854,890
Less Payments in the Year	(1,062,079)	(1,616,284)
<b>Totals</b>	<b><u>10,138,247</u></b>	<b><u>6,685,560</u></b>

**CASH AND BANK BALANCES**

Cash in hand	22,865	131,190
Fixed Deposit - Standard Bank	375,485	227,626
Current Account - Standard Bank -Ukay	3,695,825	1,745,355
Standard Bank - Westlands	359,738	799,015
Equity Bank	98,823	1,243,291
NIC-Operations Ac	128,868	-
NIC-Distribution Ac	40,567	-
	<u>4,722,171</u>	<u>4,146,477</u>

For the purposes of the cash flow statement, the year cash and cash equivalents comprises of the following:

Cash and bank balances	4,722,171	4,146,477
	<u>4,722,171</u>	<u>4,146,477</u>

## **CONTINGENT LIABILITIES**

By the time of audit, there was a contingent liability of Ksh 14.0m made up of various court cases. The amount has not been dealt in these financial statements as Directors are of the view that they may not crystallize and individual cases are not material.

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## **FIXED ASSETS**

<b><u>COST</u></b>	<b>Furniture and Fittings KSHS</b>	<b>Equipment KSHS</b>	<b>and KSHS</b>	<b>Vehicles KSHS</b>	<b>TOTAL KSHS</b>
Balance as at 1st July 2010	3,221,562	755,185	2,338,077	10,789,020	<b>17,103,844</b>
Additions during the period	566,872	5,543	2,612,699	9,825,000	<b>13,010,114</b>
Cost as at 30th June 2011	<b>3,788,434</b>	<b>760,728</b>	<b>4,950,776</b>	<b>20,614,020</b>	<b>30,113,958</b>
<b><u>DEPRECIATION</u></b>					
As at 1st July 2010	792,516	324,026	1,581,031	4,030,468	<b>6,728,041</b>
Charge for the period	374,490	54,588	1,010,924	4,145,888	<b>5,585,889</b>
As at 30th June 2011	<b>3,788,434</b>	<b>760,728</b>	<b>4,950,776</b>	<b>20,614,020</b>	<b>30,113,958</b>
Net Book Value as at 30th June 2011	<b>(3,788,434)</b>	<b>(760,728)</b>	<b>(4,950,776)</b>	<b>(20,614,020)</b>	<b>(30,113,958)</b>
Net Book Value as at 30th June 2010	<b>2,429,046</b>	<b>431,159</b>	<b>757,046</b>	<b>6,758,552</b>	<b>10,375,803</b>