MUSIC COPYRIGHT SOCIETY OF KENYA LTD

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2014

Reporting Accountants:

Maritimes Associates

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COMPANY INFORMATION

DIRECTORS	: Michael Maganzo Njehia	- Chairman
	: Tom M. Kodiyo	- Vice Chairman
	: C.D.M Kiratu, OGW	
	: Naomi Nyongesa	
	: Albert Gacheru	
	: James Mutisya	
	: Benard Mukaisi	
	: Aidan Sango	
KEY MANAGEMENT STAFF	: Maurice Okoth - Chief Executive Officer	
	: Raphael Ndegwa - Finance and Distribution Manager	
	: Merit Simiyu - Operations Manager	
	: Milcah Kulati - HR and Admin. Manager	
	: Anne Jalang'o - Internal Auditor	
BANKERS	: Kenya Commercial Bank Ltd,	NIC Bank Ltd
	: Sarit Centre Branch,	Westlands Branch,
	: Nairobi.	Nairobi
	: Equity Bank Ltd,	
	: P.O.Box 75104 - 00200	
	: Community Centre	
	: Nairobi.	
	: Standard Bank Ltd	
	: P.O.Box 30003-00100,	
	: Ukay Centre Branch,	
	: Nairobi.	
	: Standard Bank Ltd	
	: 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.	
COMPANY SECRETARY	: Martha Maina,	
	: Martha Maina & Associates	
	: P.O. Box 19743 - 00202	
	: Nairobi.	
EXTERNAL AUDITORS	: Maritimes Associates	
	: P.O. Box 816 - 00200	
	: Odyssey Plaza, South B	
	: Nairobi	

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the financial year ended 30th June 2014.

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

________________________2014

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 _________________2014 and were signed by:-

Director _______________________________ Signature______________________

Director _______________________________ Signature______________________

Director _______________________________Signature________________________

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF MUSIC COPYRIGHT SOCIETY OF KENYA LTD AS AT 30TH JUNE 2014

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 30th June 2014, 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 2014

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 2014, 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.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Samuel K. Maritim -Practising certificate No: 1548.

Maritimes Associates
Certified Public Accountants
Nairobi

Date: ______________________

STATEMENT OF COMPREHENSIVE INCOME

	NOTES	2014 Kes	2013 Kes
GROSS INCOME	7(a),(b)	**326,277,860**	**273,650,930**
Excess of Receipts over payments	Page 18	**139,796,001**	98,483,503
Less Transfer to Socio-Cultural Fund		**(13,703,670)**	(11,493,339)
Less Transfer to General Reserves		**762,840**	-
Surplus before Provision for Royalties		**126,855,171**	**86,990,164**
Less Provision for Royalties	17	**(120,512,412)**	(82,640,656)
Surpluses/(Deficit) for the Year	Page 8	**6,342,759**	4,349,508
Less Tax Provision on Royalties		**(6,025,621)**	(4,132,033)
Surpluses/(Deficit) c/f		**317,138**	217,475

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

STATEMENT OF FINANCIAL POSITION

ASSETS	NOTES	2014 Kes	2013 Kes
NON-CURRENT ASSETS			
Property and Equipment	22	**13,664,079**	14,210,106
Intangible Asset	15	**741,111**	1,470,659
		14,405,190	**15,680,765**
CURRENT ASSETS			
Accounts receivable	14	**45,237,927**	35,500,506
Deposits and Prepayments	16	**11,291,761**	24,447,344
Cash and Bank balances	20	**24,727,253**	14,548,756
		81,256,941	**74,496,606**
TOTAL ASSETS		**95,662,131**	**90,177,371**
CAPITAL AND LIABILITIES			
CAPITAL AND RESERVES			
General Reserve		**2,992,725**	3,755,565
Donation Fund		**97,863**	97,863
Fixed Assets Fund		**3,831**	6,129
Retained Earnings		**293,502**	(10,710)
		3,387,921	**3,848,847**
CURRENT LIABILITIES			
Trade Creditors and Accruals	18	**16,540,017**	40,944,769
Royalties Payable	17	**75,734,192**	45,383,755
		92,274,209	86,328,524
TOTAL CAPITAL AND LIABILITIES		**95,662,131**	**90,177,371**

The financial statements were approved by the Board of Directors on ….…………….…….2014
and were signed on its behalf by:

Name____________________________Signature______________________) Chairman
)
Name Signature) Vice Chairman
)
Name____________________________Signature______________________) Director

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

STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITI	NOTES	2014 Kes	2013 Kes
Surpluses before Distribution and Tax		**126,855,171**	86,990,164
Adjustments for:			
Finance Costs		**817,110**	1,308,367
Loss on Disposal of Asset		**239,375**	-
Prior Year Adjustments		**-**	(11,034,608)
Depreciation		**3,897,716**	4,956,445
Operating Surpluses (Deficit) before working capital changes		**131,809,371**	**82,220,368**
Working capital changes			
Changes in accounts receivable		**(9,737,421)**	(2,894,117)
Changes in Deposits and Prepayments		**13,155,583**	(938,000)
Changes in accounts payable		**(24,404,752)**	18,022,994
		(20,986,590)	**14,190,877**
Cash generated from operations		**110,822,781**	96,411,245
Tax Paid on Royalties		**(1,443,172)**	-
Cash generated from operations		**109,379,609**	96,411,245
CASH FROM INVESTING ACTIVITIES			
Royalties Paid		**(92,280,549)**	(93,148,610)
Socio Cultural Payments		**(1,753,490)**	(3,900,654)
Proceeds from Insurance Compensation		**520,000**	-
Purchase of fixed assets		**(4,111,063)**	(4,553,711)
		(97,625,101)	**(101,602,975)**
CASH FROM FINANCING ACTIVITIES			
Finance Charges paid		**(817,110)**	(1,308,367)
Increase General Reserve		**(762,840)**	-
Total Cash from Financing Activities		**(1,579,950)**	**(1,308,367)**
NET CASH INFLOW /(OUTFLOW)		**10,178,497**	(6,500,097)
CASH AND CASH EQUIVALENTS BALANCE AS AT 30TH JUNE 2013		**14,548,755**	**21,048,852**
CASH AND CASH EQUIVALENTS BALANCE AS AT 30TH JUNE 2014	20	**24,727,252**	**14,548,755**

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

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

(i) 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.

(ii) 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. The Company though duly registered is annually given an operating license by Kenya Copyrights Board.

(iii) Domicile

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

(iv) Statement of Compliance

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

2 BASIS OF PREPARATION

(i) 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).

(ii) 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.

(iii) 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.

NOTES TO THE FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES

a. Assets Held for Sale and Investment Property

Property held on operating leases are depreciated as the lessor has a right to eventually assume ownership of the assets.

b. Appropriation of Surpluses

Subject to withholding tax on Royalties at applicable rates, surplus is distributed to members as royalties based on scientific logs of music played by broadcasters. Additionally some amount is transfered to Socio cultutural account based on a predetermined copyright methodology.

c. Income

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

(i) Incomes constitute license fees and royalties and are recognised when there is contractual evidence that they have been earned or received, which evidence include invoices, direct bank deposits and cash collected.

(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.

d. 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.

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

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.

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.

e. 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

f. 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.

g. 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.

h. 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.

i. 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.

j. 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

k. Finance charges

Finance charges represent bank and other charges.

l. Comparatives

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

m. Employee Benefits

Company employees contribute to the National Social Security Fund (NSSF) an amount of Ksh 200 per month, an amount similarly contributed by the company for each employee. Additionally, it runs a contributory pensions scheme where an employee contributes 7.5% of their basic salary while the company contributes 12.5% of the employee's basic salary.

n. 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.

4 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. The company understakes, based on historical assesments, an estimate on an amount that is collectable from debtors and accounts for it appropriately.

a. 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.

b. 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

5 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

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

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.

a. 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

b. 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.

c. 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.

6 FINANCIAL RISK MANAGEMENT

a. 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.

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.

b. Capital Risk Management

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

7 INCOME

Turnover represents proceeds from license fees received by the company during the year.

		2014 Kes	2013 Kes
7(a)	**DISTRIBUTABLE INCOME**		
	General Licensing Income	**279,006,941**	243,993,615
	Syncronization-Rights	**898,634**	-
	Foreign Royalties Income	**1,289,102**	1,241,392
	Mechanicals Rights	**2,779,849**	4,389,516
	Broadcasting Income	**31,160,539**	11,457,295
		315,135,064	**261,081,818**
7(b)	**NON-DISTRIBUTABLE INCOME**		
	These included incomes from the following sources during the year:-		
	Members Entrance Fees	**2,269,575**	1,623,000
	Income from Surcharge	**8,851,254**	10,395,712
	Other Incomes	**21,967**	550,400
		11,142,796	**12,569,112**
	Total Income	**326,277,860**	**273,650,930**
8.	**DIRECT COSTS-COLLECTION COSTS**		
	Marketing and Licensing Expenses Mapping	**4,993,747**	2,308,447
	Security on Collection	**11,879,370**	11,360,548
		16,873,117	**13,668,995**
9.	**BOARD AND MEMBERS EXPENSES**		
	Board Expenses	**12,849,794**	11,656,731
	AGM and Seminar Costs	**1,870,654**	3,817,866
		14,720,448	**15,474,597**
10	**STAFF COSTS**		
	Salaries and Wages - Non Management Staff	**57,682,010**	52,020,696
	Salaries and Wages - Management Staff	**23,560,258**	24,169,791
	Pensions Employers(NSSF) Contributions	**236,200**	249,600
	Casual Labour Wages	**1,204,300**	-
	Pensions Employers Contributions	**6,674,398**	6,142,875
	Medical Insurance Premiums	**6,821,973**	6,304,719
		96,179,139	**88,887,681**

The average number of employees during the year was 97, (2013, 104).

NOTES TO THE FINANCIAL STATEMENTS - Continued		2014 Kes	2013 Kes
11	**ADMINISTRATIVE COSTS**		
	Rent and Rates	**7,346,420**	6,254,875
	Repairs and Maintenance	**1,185,285**	1,736,560
	Depreciation	**3,897,716**	4,232,583
	Disturbance and terminal benefits	**320,505**	-
	Telephone, Postage and Internet	**5,777,049**	3,144,345
	Printing and Stationery	**3,918,496**	3,015,890
	Office Expenses	**2,489,055**	1,508,508
	Transport, Travel and Accommodation	**8,800,537**	9,953,185
	Audit Fees	**650,059**	601,349
	Legal Fees	**5,279,686**	3,480,240
	Newspapers and Periodicals	**136,924**	94,783
	Subscriptions	**1,131,810**	121,323
	Motor Vehicles Expenses	**9,206,306**	13,037,105
	Car Hire Charges	**-**	1,408,342
	Professional fees	**650,592**	-
	Publications and Advertisements	**1,134,560**	1,444,806
	Water and Electricity	**466,176**	303,832
	Security Expenses	**239,785**	290,054
	Training	**2,615,444**	2,428,916
	Cleaning Expenses	**261,866**	100,291
	Software and Antivirus Programmes	**379,140**	433,040
	General Insurance	**817,358**	1,513,900
	Amortization Costs	**947,901**	723,862
	Loss on Disposal of Asset	**239,375**	-
		57,892,045	**55,827,787**
12	**FINANCE COSTS**		
	Bank charges	**817,110**	1,308,367
	Total Finance Costs	**817,110**	**1,308,367**
	Total Costs	**186,481,859**	**175,167,427**
	Excess of Receipts over payments	**139,796,001**	**98,483,503**

NOTES TO THE FINANCIAL STATEMENTS - Continued

13. 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.

	2014	2013
	Kes	Kes
14. ACCOUNTS RECEIVABLE		
Trade and Other Debtors	**45,237,927**	35,500,506
	45,237,927	**35,500,506**
15. INTANGIBLE ASSETS		
Cost	**3,159,671**	3,159,671
Additions	**-**	-
	3,159,671	**3,159,671**
Less: Depreciation		
Balance as at 01.07.2013	**1,470,658**	**746,796**
Charges for the Year	**947,901**	**723,862**
Net Book Value 30.06.2014	**741,111**	**1,470,659**

These relate to acquisition costs of the software.

16 Deposits and Prepayments

	2014	2013
Deposit-Akamba	**-**	30,000
Deposit-Dropping Zone	**25,300**	25,300
Fuel Deposit - Total and Kenya Shell	**-**	705,000
Rent Deposit	**1,072,636**	1,072,636
Advances To PRSK	**-**	27,840
Prepaid Foundation Receivables and Provision for Royalties	**7,678,302**	20,071,045
Magazine Project	**1,052,209**	1,052,209
Prepaid Rent	**1,428,139**	1,428,139
Security Deposit	**35,175**	35,175
Total of Deposits and Prepayments	**11,291,761**	**24,447,344**

NOTES TO THE FINANCIAL STATEMENTS - Continued

		2014	2013
17	**LOCAL ROYALTIES PAYABLE**	**Kes**	**Kes**
	Royalties Brought forward	**41,173,362**	59,234,146
	Add Royalties Provided for during the year	**114,486,792**	78,508,623
		155,660,153	137,742,769
	Less Royalties paid to Members during the year	**(85,062,971)**	(88,853,843)
	Less Royaties in Arrears Paid in the year	**(1,902,343)**	(3,814,910)
	Less Socio-Cultural Payments	**(1,753,490)**	(3,900,654)
		66,941,350	**41,173,362**
	Tax on Royalties B/F	**4,210,393**	106,760
	Less Total Tax Paid during the year	**(1,443,172)**	(28,400)
	Add Tax withheld on Royalties Provided during the year	**6,025,621**	4,132,033
	Tax on Royalties C/F	**8,792,842**	4,210,393
	Total Royalties and Tax Payable	**75,734,192**	**45,383,755**

18	**CREDITORS AND ACCRUALS**		
	Trade Payables	**9,155,413**	36,343,420
	KAMP Payable	**5,334,604**	-
	Foreign Royalties Payable	**1,200,000**	4,000,000
	Other Payable	**199,941**	-
	Audit Fees	**650,059**	601,349
	Totals	**16,540,017**	**40,944,769**

19	**CASH AND BANK BALANCES**		
	Cash in hand	**339,483**	364,206
	CFC Standbic Bank	**666,489**	371,146
	Standard Chartered Bank - General Reserve	**603**	755,565
	Standard Chartered Bank - Eldoret	**29,000**	15,493
	Standard Chartered Bank - Kisumu	**276,274**	114,344
	Standard Chartered Bank - Bungoma	**(80,459)**	6,519
	Standard Chartered Bank - Nyeri	**30,479**	25,803
	Standard Chartered Bank - Machakos	**175**	38,247
	Standard Chartered Bank - Nairobi	**24,446**	289,688
	Standard Chartered Bank - Mombasa	**(30,091)**	57,616
	Standard Chartered Bank -Ukay	**87,368**	2,053,284
	Kenya Commercial - Sarit Centre	**13,599,284**	2,537,979
	Standard Bank - Westlands	**25,376**	7,905,286
	Equity Bank Ltd	**34,511**	13,379
	NIC-Distribution Ac	**200**	200
	Barclays Bank Ltd	**1,647,752**	-
	Equity Bank Ltd	**2,765,607**	-
	ABC Bank Ltd	**2,329,339**	-
	ABC Bank Ltd-Fixed Deposit Account	**2,981,417**	-
		24,727,253	**14,548,756**

20 CONTIGENT LIABILITIES

There was a contingent liability of Ksh 4,046,900 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.

STATEMENT OF MOVEMENT IN FUNDS

	SOCIAL FUND Ksh	GENERAL RESERVE Ksh	FIXED ASSETS FUND Ksh	DONATION FUND Ksh	RETAINED EARNINGS Ksh	TOTAL Ksh
Balance as at 1st July 2013	-	3,755,565	6,129	97,863	(10,710)	**3,848,847**
	-	**3,755,565**	**6,129**	**97,863**	**(10,710)**	**3,848,847**
Balance as at 30th June 2013	**-**	**3,755,565**	**6,129**	**97,863**	**(10,710)**	**3,848,847**
Increase in the Year	13,703,670	(762,840)	(2,299)	-	2,299	**12,940,830**
Payments in the year	(13,703,670)	-	-	-	-	**(13,703,670)**
Prior Year Adjustment	-	-	-	-	(15,224)	**(15,224)**
Surplus/(Deficit) for the year	-	-	-	-	317,138	**317,138**
Balance as at 30th June 2014	**-**	**2,992,725**	**3,831**	**97,863**	**293,502**	**3,387,921**

Fixed Assets funds relates to balances of book value of assets previously donated to the Society.

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

FIXED ASSETS

COST	**Furniture and Fittings KSHS**	**Office Equipment KSHS**	**Computers and Printers KSHS**	**Motor Vehicles KSHS**	**TOTAL KSHS**
Balance as at 1st July 2013	4,747,530	876,716	3,877,082	24,720,720	**34,222,048**
Additions during the period	708,294	-	1,753,959	1,648,810	**4,111,063**
Disposal	-	-	-	(1,350,000)	**(1,350,000)**
Cost as at 30th June 2014	**5,455,824**	**876,716**	**5,631,041**	**25,019,530**	**36,983,111**
DEPRECIATION					
As at 1st July 2013	1,957,148	484,091	2,804,319	14,766,384	**20,011,942**
Charge for the period	437,335	49,078	848,017	2,563,287	**3,897,716**
Accumulated Dep KBD 921T	-	-	-	(590,625)	**(590,625)**
As at 30th June 2014	**2,394,483**	**533,169**	**3,652,336**	**16,739,046**	**23,319,033**
Net Book Value as at 30th June 2014	**3,061,342**	**343,547**	**1,978,706**	**8,280,485**	**13,664,079**
Net Book Value as at 30th June 2013	**2,790,382**	**392,625**	**1,072,763**	**9,954,336**	**14,210,106**