MUSIC COPYRIGHT SOCIETY OF KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended

30 JUNE 2019

Kreston KM & Co.
Certified Public Accountants (K)
Surveyors Court, Suite B6 | Woodvale Grove, Westlands
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COMPANY INFORMATION

Board of Directors	Japhet Kasanga	National Chairman w.e.f 06/12/2018
	Lazarus Muli	Ag. National Chairman up to 06/12/2018
	Desmond Katana	National Vice chairman -w.e.f 06/12/2018
	Simon K. Nderitu	Re-elected on 06/12/2018
	Paul Maina	W.e.f. 06/12/2018
	Joseph Wasira	W.e.f. 06/12/2018
	John Mwangi	W.e.f. 06/12/2018
	James Likembe	W.e.f. 06/12/2018
	Albert Gacheru	up to 06/12/2018
	Aidan Sango	up to 06/12/2018
	Pamela Binale	up to 06/12/2018
	Henry Mungai	up to 06/12/2018
	Tom Kodiyo	up to 06/12/2018
Key Management Staff	Khakayi, Milcah Kulati	Ag. Chief Executive Officer
	Peter Enyenze	Operations manager
	Ndegwa, Raphael Munithi	Financial Manager
	Khakayi, Milcah Kulati	Ag. Human resource & administration manager

Company Secretary

Damaris W. Gitonga
Kindaruma Business Centre
P.O BOX 20876 - 00202
Nairobi

Registered Office and Principal Place of Business

Music Copyright Society of Kenya Ltd
P.O BOX 14806 - 00800
Slip Road, Waiyaki way, Westlands
Nairobi, Kenya

Independent Auditors

Kreston KM & Co
Certified Public Accountants (K)
Surveyors Court, Suite B6
Woodvale Grove, Westlands
P.O. Box 66837- 00800
Nairobi, Kenya

Principal Bankers

Kenya Commercial Bank Ltd
P.O Box 14959 - 00800
Sarit Centre Branch
Nairobi

Barclays Bank of Kenya Ltd.
P.O Box 30120-00100,
Westlands Branch,
Nairobi.

Equity Bank Ltd.
P.O BOX 751 - 00200
Community Centre
Nairobi

African Banking Corporation Ltd
P.O BOX 46452 - 00100
Koinange street branch
Nairobi, Kenya

Family Bank of Kenya Limited
P.O Box 741145-00200
Westlands Branch
Nairobi

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 30 June 2019, which disclose the state of affairs of the Company.

Principal activities

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 net deficit for the year of Kshs 124,484,821 (2018: Kshs 72,517,722) has been added to the retained earnings.

Directorate

The directors who held office during the year and to the date of this report are set out on page 1.

Auditors

The company's auditors, Messrs Kreston KM & Co, have expressed their willingness to continue in office in accordance with section 719(2) of the Kenyan Companies Act, 2015.

By order of the Board of Directors

....
Company Secretary

Date 25. 11. ....**2019**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors 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 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 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 as at 30 June 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Kenyan Companies Act.

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

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

Approved by the board of directors on .... 2019 and signed ~~on its behalf by~~:

Director JAPHETH KASANGA Signature ....
(Name)

Director Paul Mauri Mukogi Signature ....
(Name)

Director Desmond Katana Signature ....
(Name)

Opinion

We have audited the accompanying financial statements of Music Copyright Society of Kenya Limited set out on pages 5 to 20 which comprise the statement of financial position as at 30 June 2019, the statement of comprehensive income, the statement of changes in fund, and statement of cash flows for the year then ended, and a summary of significant accounting policies and and other explanatory notes.

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the Company as at 30 June 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the Kenyan Companies Act.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for Audit of the Financial Statements section of our report. We are independent of the company 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 responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to note 22 in the financial statements which indicates that the company incurred a net loss of Kshs 124,484,821 during the year ended 30th June 2019 and, as of that date the company's current liabilities exceeded its current assets by Kshs 203,454,216. These events or conditions indicate that a material uncertainity exists that may cast significant doubt on the company's ability to continue as a going concern. Our audit opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. Other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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

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

Directors' responsibilities for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Kenyan Companies Act, and for such internal control as the management determine 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 directors are responsible for assessing the company'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 directors either intend to liquidate the company 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the 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 ISAs, we exercise professional judgment and maintain professional skepticism throughtout 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

*Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosurers made by management.

*Conclude on the appropriateness of management's 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 Company'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

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.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Dr. George Kimeu – P/No. 603.

Kreston KM & Co
Certified Public Accountants (K)
Nairobi

26th November 2019

Statement of comprehensive income

	Note	2019 KShs	2018 KShs
Gross income	7	112,216,833	91,292,002
Direct costs	8	8,504,532	12,173,547
Board & members expenses	9	9,648,100	10,649,866
Staff costs	10	64,305,374	94,787,786
Administration costs	11	101,470,350	38,348,093
Finance costs	12	1,090,255	980,097
Total expenses		**185,018,611**	**156,939,389**
Deficit before distribution		(72,801,778)	(65,647,387)
Provision for local distribution		(43,507,890)	-
Provision for foreign distribution		(8,180,062)	-
Deficit after distribution		**(124,489,730)**	**(65,647,387)**
Other comprehensive income/(expense)			
Gain on disposal of motor vehicles		3,860,787	-
Less transfer to socio-cultural fund		(3,855,878)	(6,870,335)
Deficit for the year		**(124,484,821)**	**(72,517,722)**

Statement of financial position

	Note	2019 KShs	2018 KShs
Non -current assets			
Property and equiptment	20	6,622,797	6,625,657
Intagible assets	15	3,828,134	3,840,000
		10,450,931	**10,465,657**
Current assets			
Trade and other receivables	14	44,923,944	70,753,116
Deposits and prepayments	16	1,928,796	1,435,344
Cash and bank balances	19	2,991,214	6,042,518
		49,843,954	**78,230,978**
Total assets		**60,294,885**	**88,696,635**
Equity and liabilities			
General reserves		2,992,725	2,992,725
Accumulated losses		(195,996,010)	(71,511,189)
		(193,003,285)	**(68,518,464)**
Current liabilities			
Trade and other payables	18	150,410,283	94,487,884
Royalties payable	17	102,887,887	62,727,215
		253,298,170	**157,215,099**
Total equity and liabilities		**60,294,885**	**88,696,635**

The financial statements on pages 5 to 20 were approved for issue by the board of directors on ………………………… 2019 and were signed on their behalf by:

Director JAPHETH KASANGA Signature……………
(Name)

Director Paul mania Mbaya Signature……………
(Name)

Director Desmond Katana Signature……………
(Name)

Statement of changes in funds

2019	SOCIAL FUND Kshs	GENERAL RESERVE Kshs	ACCUMULATED LOSSES Kshs	TOTAL Kshs
Balance as at 1 July 2018	-	2,992,725	(71,511,189)	(68,518,464)
Additions	3,855,878	-	-	3,855,878
Deficit for the year	-	-	(124,484,821)	(124,484,821)
Payments in the year	(3,855,878)	-	-	(3,855,878)
Balance as at 30 June 2019	-	2,992,725	(195,996,010)	(193,003,285)
2018				
Balance as at 1 July 2017	-	2,992,725	1,006,533	3,999,258
Additions	6,870,335	-	-	6,870,335
Deficit for the year	-	-	(72,517,722)	(72,517,722)
Payments in the year	(6,870,335)	-	-	(6,870,335)
Balance as at 30 June 2018	-	2,992,725	(71,511,189)	(68,518,464)

Statement of cash flows	Note	2019 KShs	2018 KShs
Changes in operating activities			
Deficit after distribution and before tax		(124,489,730)	(65,647,387)
Adjustments for:			
Finance costs		1,090,255	980,097
Amortization of intangible assets	15	957,034	960,000
Depreciation	20	1,698,048	1,710,109
Opearting surplus/(deficit) before working capital changes		(120,744,393)	(61,997,181)
Working Capital Changes			
Changes in accounts receivable		25,829,172	1,865,750
Changes in deposits and prepayments		(493,452)	10,600
Changes in accounts payable		55,922,399	58,238,865
		81,258,119	60,115,215
Cash generated from operations		(39,486,274)	(1,881,966)
Increase in royalties payable		40,160,672	-
Cash generated from operations		674,398	(1,881,966)
CASH FROM INVESTING ACTIVITIES			
Royalties paid		-	(1,790,150)
Socio cultural payments		(3,855,878)	(6,870,335)
Purchase of fixed assets		(1,724,401)	-
Disposal of fixed assets	20	3,890,000	4,190,000
Purchase of intangible assets	15	(945,168)	(800,000)
		(2,635,447)	(5,270,485)
CASH FROM FINANCING ACTIVITIES			
Finance charges paid		(1,090,255)	(980,097)
Total cash from finacing activities		(1,090,255)	(980,097)
NET CASH INFLOW/OUTFLOW		(3,051,304)	(8,132,548)
CASH AND CASH EQUIVALENTS BALANCE AS AT 30 JUNE 2018		6,042,518	14,175,066
CASH AND CASH EQUIVALENTS BALANCE AS AT 30 JUNE 2019	19	**2,991,214**	**6,042,518**

The notes and schedules set out on pages 9 to 20 form an integral part of the financial statements.

1. **General Information**

Music Copyright Society of Kenya Limited is incorporated in Kenya under the Kenyan Companies Act as a private company limited by guarantee, and is domiciled in Kenya. The address of its registered office and principal place of business is Slip Road, Waiyaki Way, Westlands P.O. Box 14806-00800, Nairobi. The principal activity of the company is the collection and distribution of royalties to members.

2. **Basis of preparation and summary of significant accounting policies**

These financial statements have been prepared on a going concern basis and in compliance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board. They are presented in Kenya Shillings (Kshs). The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

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.

(a)Revenue recognition

Revenue from sales of goods is recognised when the goods are delivered and title has passed. Revenue is measured at the fair value of the consideration receivable net of discounts and sale related taxes collected on behalf of the Government of Kenya.

(b)Borrowing costs

All borrowing costs are recognised in profit or loss in the year in which they are incurred.

(c)Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year, determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences). Deferred tax liabilities are recognised for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognised for all temporary differences that are expected to reduce taxable profit in the future and any unused tax losses or unused tax credits. Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered.

The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are recognised in the income statement.

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 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 arc 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

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 basis, or to realize the asset and settle the liability simultaneously.

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.

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.

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

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.

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

5 FINANCIAL RISK MANAGEMENT

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.

NOTES TO THE FINANCIAL STATEMENTS - Continued

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.

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. ***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**

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

7. INCOME

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

		2019	2018
7(a)	**DISTRIBUTABLE INCOME**	KShs	KShs
	General licensing income	102,115,437	85,690,066
	Mechanicals rights	8,610,592	4,319,455
	Broadcasting income	-	240,000
		110,726,029	90,249,521
7(b)	**NON-DISTRIBUTABLE INCOME**		
	These included incomes from the following sources during the year : -		
	Membrance entrance fees/ registration income	1,140,150	737,485
	Income from surcharge	316,281	65,880
	Other Income	34,373	239,116
		1,490,804	1,042,481
	Total Income	**112,216,833**	**91,292,002**
8	**DIRECT COSTS-COLLECTION COSTS**		
	Marketing and licensing expenses mapping	536,075	1,819,899
	Security on collection	934,962	958,272
	Agents commissions	6,933,495	5,510,736
	Advocacy	100,000	3,884,640
		8,504,532	**12,173,547**
9	**BOARD & MEMBERS EXPENSES**		
	Board expenses	7,023,106	7,850,417
	Membership approval	-	1,003,287
	AGM and seminar costs	2,624,994	1,796,162
		9,648,100	**10,649,866**
10	**STAFF COSTS**		
	Salaries and wages	52,662,397	80,960,801
	Pension employers contributions	4,528,980	6,507,404
	Pension employers (NSSF contributions)	168,400	185,800
	Perfomance bonus & commissions	6,933,495	5,510,736
	Medical insurance premiums	12,102	1,623,045
		64,305,374	**94,787,786**

The average number of the employees during the year was 91 (2018 77). Some employees were hired after the company was issued with an operating license during the year.

	2019 KShs	2018 KShs
11 ADMINISTRATIVE COSTS		
Rent and rates	8,288,430	9,592,096
Repairs and maintanance	356,860	128,910
Depreciation	1,698,048	1,710,109
Disturbance and terminal benefits	349,885	188,750
Telephone, postage and internet	2,135,949	3,091,621
Printing and stationery	2,418,421	1,042,074
Office expenses	900,465	1,559,401
Transport, travel and accomodation	3,696,305	2,590,382
Audit fees - external	669,668	640,803
'- internal	245,000	-
Legal fees	1,256,562	9,086,192
Newspapers and periodicals	14,320	82,660
Licenses & permits	449,085	83,770
Subscriptions	-	85,600
Motor vehicles expenses	1,349,186	2,385,105
Publications and advertisements	1,603,209	1,783,756
Water and electricity	325,474	321,834
Security expenses	171,841	662,863
Training	1,962,736	331,880
Cleaning expenses	170,693	158,166
IT related expenses	927,514	779,135
Amortization costs	957,034	960,000
Provision for doubtful debts	70,153,621	-
Discount allowed	1,307,194	1,082,986
MCSK foundation/benovelent expenses	62,850	-
	101,470,350	**38,348,093**
12 FINANCE COSTS		
Bank charges/inance costs	**1,090,255**	**980,097**

NOTES TO THE FINANCIAL STATEMENTS - Continued

13 TAXATION

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

	2019	2018
14 TRADE AND OTHER RECEIVABLES	**KShs**	**KShs**
Trade and other debtors	70,895,053	70,554,277
KAMP & PRISK	43,845,272	-
Staff debtors	362,492	198,839
	115,102,817	70,753,116
Impairment loss provision	(70,178,873)	-
Total trade receivables	**44,923,944**	**70,753,116**
15 INTANGIBLE ASSETS		
Cost	8,600,000	7,800,000
Additions	945,168	800,000
	9,545,168	8,600,000
Less: Amortization		
Balance as at 01.07.2018	4,760,000	3,800,000
Charge for the year	957,034	960,000
	5,717,034	4,760,000
Net Book Value 30.06.2019	**3,828,134**	**3,840,000**
16 DEPOSITS AND PREPAYMENTS		
Deposits - dropping zone	25,299	25,299
Rent deposit	1,862,822	1,369,370
Security deposit	35,175	35,175
Electricity deposit	5,500	5,500
	1,928,796	**1,435,344**

NOTES TO THE FINANCIAL STATEMENTS - Continued

	2019	2018
17 ROYALTIES PAYABLE	KShs	KShs
Royalties brought forward	43,226,663	45,016,813
Add local royalties provided for the year	47,363,768	6,870,335
	90,590,431	51,887,148
Less Royalties paid to members during the year	(3,347,218)	(1,790,150)
Less Socio-Cultural payments	(3,855,878)	(6,870,335)
	83,387,335	43,226,663
Tax on royalties brought forward	19,500,552	19,500,552
Total royalties	**102,887,887**	**62,727,215**
18 TRADE AND OTHER PAYABLES		
Trade payables	112,104,427	68,225,413
Provisions	23,531,103	19,569,780
KAMP Payable	534,604	534,604
Foreign royalties	10,613,611	2,433,549
Other Payable	2,316,067	2,414,067
Audit Fees	1,310,471	1,310,471
	150,410,283	**94,487,884**
19 CASH AND BANK BALANCES		
Cash in hand	8,377	45,428
Barclays Bank Ltd	99,305	14,622
Barclays Bank Ltd - Mombasa	(441)	16,077
Barclays Bank Ltd - Nairobi	77,475	190,205
Barclays Bank Ltd - Nyeri	13,310	4,041
Barclays Bank Ltd - Bungoma	28,789	38,873
Barclays Bank Ltd - Eldoret	25,681	31,627
Barclays Bank Ltd - Machakos	34,795	91,377
Barclays Bank Ltd - Kisumu	(2,797)	-
Equity Bank Ltd OP	5,331	32,556
ABC Bank Ltd	566,322	416,711
KCB Royalty distribution	(3,358)	8,945
Family Bank	117,104	1,444
Mpesa Paybill	97,502	37,505
Mpesa paybill 504641	138,173	2,520
CBA Joint Account	1,785,646	5,110,587
	2,991,214	**6,042,518**

20 PROPERTY AND EQUIPMENT

	Furniture and Fittings Kshs 12.5%	Office Equiptments Kshs 12.5%	Computer and Printers Kshs 30%	Motor Vehicles Kshs 25%	TOTALS Kshs
COST					
Balance as at 1 July 2018	7,028,484	1,818,267	10,171,595	23,518,388	42,536,734
Additions	668,601	-	1,055,800	-	1,724,401
Disposals	-	-	-	(20,989,993)	(20,989,993)
Cost as at 30 June 2019	7,697,085	1,818,267	11,227,395	2,528,395	23,271,142
Accumalated Depreciation					
As at 1 July 2018	4,228,309	1,030,632	8,229,628	22,422,508	35,911,077
Disposals	-	-	-	(20,960,780)	(20,960,780)
Charge for the year	433,597	98,454	899,330	266,667	1,698,048
As at 30 June 2019	4,661,906	1,129,086	9,128,958	1,728,395	16,648,345
Net Book Value as at 30 June 2019	**3,035,179**	**689,181**	**2,098,437**	**800,000**	**6,622,797**
Net Book Value as at 30 June 2018	2,800,175	787,635	1,941,967	1,095,880	6,625,657
YEAR END JUNE 2018					
Cost					
Balance as at 1 July 2017	7,028,484	1,818,267	10,171,595	27,708,388	46,726,734
Additions during the year	-	-	-	(4,190,000)	(4,190,000)
Cost as at 30 June 2018	7,028,484	1,818,267	10,171,595	23,518,388	42,536,734
Accumalated Depreciation					
As at 1 July 2017	3,828,284	918,113	7,397,357	22,057,214	34,200,968
Charge for the year	400,025	112,519	832,271	365,294	1,710,109
As at 30 June 2018	4,228,309	1,030,632	8,229,628	22,422,508	35,911,077
Net Book Value as at 30 June 2018	2,800,175	787,635	1,941,967	1,095,880	6,625,657

21 CONTINGENT LIABILITIES

The total disclosed contingent liabilities in the lawyers' confirmations amount to Kshs. 23,000,000 by Okubasu & Munene Advocates and Kshs. 4,370,000 by Rombo & Company Advocates in respect of potential claims.

22 GOING CONCERN

The company incurred a net loss for the year ended 30 June 2019 of Kshs. 124,484,821 (2018 Kshs. 72,517,722). Also, the company's current liabilities exceeded its current assets by Kshs. 203,454,216 (2018 Kshs. 78,984,121). The directors, have assessed the company's ability to continue as a going concern and they have no reason to believe that the company will not remain a going concern for at least twelve months from the date of this statement.

23 INCORPORATION

The company is incorporated in Kenya under the Kenyan Companies Act as a private company limited by guarantee and is domiciled in Kenya

24 CURRENCY

The financial statements are expressed in Kenya Shillings (Kshs).