MUSIC COPYRIGHT SOCIETY OF KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended

30 JUNE 2020

Kreston KM & Co. LLP
Certified Public Accountants (K)
Surveyors Court, Suite B6 Woodvale Grove, Westlands
PO Box 66837 – 00800 Nairobi

CONTENTS

COMPANY INFORMATION

Board of Directors	Japhet Kasanga	National Chairman up to 4th May 2020
	Desmond Katana	National Vice Chairman up to 4th May 2020
	Lazarus Muli	National Chairman from 5th May 2020
	Joseph Wasira	National Vice Chairman from 5th May 2020
	Paul Maina	
	John Mwangi	
	James Likembe	
	Simon K. Nderitu	
Key Management Staff	Khakayi, Milcah Kulali	Chief Executive Officer
	Peter Enyenze	Operations Manager
	Ndegwa, Raphael Muriithi	Finance manager
	Jackline Achieng	Ag. Human Resource & Administration Manager
Company Secretary	Hezekiel Oira Bayshill Court, Off Riara RD P.O Box 51862-00200 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. LLP Certified Public Accountants (K) Surveyors Court, Suite B6 Woodvale Grove, Westlands P.O. Box 66837- 00800 Nairobi, Kenya	
Principal Bankers	Absa Bank Kenya PLC African Banking Corporation Ltd Family Bank Limited	

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30 June 2020, 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 surplus for the year of Kshs 875,947 (2019 deficit: Kshs 124,484,821) has been added to the accumulated losses.

Impact of COVID-19

In March 2020, the World Health Organization declared the outbreak of COVID-19, a pandemic negatively affecting worldwide manufacturing and trade and posing the threat of significant disruption to global supply chains, global manufacturing, travel and tourism, investment and consumer spending. COVID-19 did not have major impact on the Company's financial statements during the year ended 30 June 2020 but the fact that the COVID-19 crisis is ongoing and dynamic in nature, we continue to assess the evolving impact of COVID-19 on the Company.

Statement as disclosure to the Company's auditors

With respect to each director at the time this report was approved:
a) There is, so far as the director is aware, no relevant audit information of which the auditors are unaware; and
b) The person has taken all steps that ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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. LLP, 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 26. 1. 2021

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
(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 2020 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 26. 1. 2021 and signed on its behalf by:

Director LAZARUS MULI Signature
(Name)

Director S. K. NDERITU Signature
(Name)

Director JOSEPH SHISIA 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 2020, 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 2020 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 21 in the financial statements which indicates that the company's current liabilities exceeded its current assets by Kshs. 202,573,862 (2019: Kshs. 203,454,216). At the same time accumulated losses as at 30 June 2020 amount to Kshs. 195,120,063 (2019: Kshs. 195,996,010). 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 throughout the audit. We also:

*Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

*Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

*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 Company to cease to continue as a going concern.

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

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

Report on other legal requirements

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that:

(i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
(ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
(iii) the company's balance sheet and profit and loss account are in agreement with the books of account.

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. LLP
Certified Public Accountants (K)
Nairobi

27th January 2021

KRESTON KM & CO.
Certified Public Accountants (K)
P. O. Box 66537-00800 NAIROBI
Tel: 020-240-1880, 0720 018 ...

Statement of comprehensive income

	Note	2020 KShs	2019 KShs
Gross income	6	174,576,314	112,216,833
Direct costs	7	7,107,863	8,504,532
Board and members expenses	8	27,040,381	9,648,100
Staff costs	9	71,990,681	64,305,374
Administration costs	10	32,109,163	101,470,350
Finance costs	11	1,407,644	1,090,255
Total expenses		**139,655,732**	**185,018,611**
Surplus/(deficit) before distribution		34,920,582	(72,801,778)
Provision for local distribution		(19,487,576)	(43,507,890)
Provision for foreign distribution		(10,750,459)	(8,180,062)
Surplus/(deficit) after distribution		**4,682,547**	**(124,489,730)**
Other income			
Gain on disposal of motor vehicles		-	3,860,787
Less transfer to socio-cultural fund		(3,806,600)	(3,855,878)
Surplus/(deficit) for the year		**875,947**	**(124,484,821)**

Statement of financial position

	Note	2020 KShs	2019 KShs
Non -current assets			
Property and equiptment	13	5,632,049	6,622,797
Intagible assets	14	4,814,475	3,828,134
		10,446,524	**10,450,931**
Current assets			
Trade and other receivables	15	2,606,828	44,923,944
Deposits and prepayments	16	2,849,023	1,928,796
Cash and bank balances	17	10,504,983	2,991,214
		15,960,834	**49,843,954**
Total assets		**26,407,358**	**60,294,885**
Equity and liabilities			
General reserves		2,992,725	2,992,725
Accumulated losses		(195,120,063)	(195,996,010)
		(192,127,338)	**(193,003,285)**
Current liabilities			
Trade and other payables	18	177,049,170	150,410,283
Royalties payable	19	41,485,526	102,887,887
		218,534,696	**253,298,170**
Total equity and liabilities		**26,407,358**	**60,294,885**

The financial statements on pages 5 to 20 were approved for issue by the board of directors on ...26...January... 2021 and were signed on their behalf by:

Director LAZARUS MUU **Signature**..........
(Name)

Director S.K NDERITU **Signature**..........
(Name)

Director JOSEPH SHISIA **Signature**..........
(Name)

Statement of changes in funds

	SOCIAL FUND Kshs	GENERAL RESERVE Kshs	ACCUMULATED LOSSES Kshs	TOTAL Kshs
2019				
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)**
2020				
Balance as at 1 July 2019	-	2,992,725	(195,996,010)	(193,003,285)
Additions	(3,806,600)			(3,806,600)
Payments in the year	3,806,600			3,806,600
Surplus for the year	-	-	875,947	875,947
Balance as at 30 June 2020	-	**2,992,725**	**(195,120,063)**	**(192,127,338)**

Statement of cash flows	Note	2020 Kshs	2019 Kshs
Changes in operating activities			
Surplus/ (deficit) after distribution and before tax		4,682,547	(124,489,730)
Adjustments for:			
Finance costs		1,407,644	1,090,255
Amortization of intangible assets	14	1,203,619	957,034
Depreciation	13	1,424,740	1,698,048
Opearting surplus/(deficit) before working capital changes		8,718,550	(120,744,393)
Working Capital Changes			
Decrease in accounts receivable		42,317,116	25,829,172
Increase in deposits and prepayments		(920,227)	(493,452)
Increase in accounts payable		26,638,887	55,922,399
		68,035,776	81,258,119
Cash generated from operations		76,754,326	(39,486,274)
(Decrease)/Increase in royalties payable		(61,402,361)	40,160,672
Cash generated from operations		15,351,965	674,398
CASH FROM INVESTING ACTIVITIES			
Socio cultural payments		(3,806,600)	(3,855,878)
Purchase of fixed assets		(433,992)	(1,724,401)
Disposal of fixed assets	13	-	3,890,000
Purchase of intangible assets	14	(2,189,960)	(945,168)
		(6,430,552)	(2,635,447)
CASH FROM FINANCING ACTIVITIES			
Finance charges paid		(1,407,644)	(1,090,255)
Total cash from finacing activities		(1,407,644)	(1,090,255)
NET CASH INFLOW/OUTFLOW		7,513,769	(3,051,304)
CASH AND CASH EQUIVALENTS BALANCE AS AT 30 JUNE 2019		2,991,214	6,042,518
CASH AND CASH EQUIVALENTS BALANCE AS AT 30 JUNE 2020	17	**10,504,983**	**2,991,214**

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, 2015 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 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.

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 circumstances.

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.

d 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

6. INCOME

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

		2020	2019
6(a)	**DISTRIBUTABLE INCOME**	Kshs	Kshs
	General licensing income	150,877,971	102,115,437
	Mechanicals rights	11,397,325	8,610,592
	Broadcasting income	8,233,063	-
		170,508,359	110,726,029
6(b)	**NON-DISTRIBUTABLE INCOME**		
	These included incomes from the following sources during the year : -		
	Member entrance fees/registration income	2,370,177	1,140,150
	Income from surcharge	774,654	316,281
	Other Income	923,124	34,373
		4,067,955	1,490,804
	Total Income	174,576,314	112,216,833
7	**DIRECT COSTS - COLLECTION COSTS**		
	Marketing and licensing expenses mapping	2,748,507	536,075
	Security on collection	962,526	934,962
	Agents commissions	561,830	6,933,495
	Advocacy	2,835,000	100,000
		7,107,863	8,504,532
8	**BOARD AND MEMBERS EXPENSES**		
	Other board expenses	4,999,550	1,988,186
	AGM and seminar costs	6,575,995	2,624,994
	Finance, human resource and administrative	2,451,425	587,750
	Honorarium, gratuity and arrears	11,721,431	1,467,138
	Membership approval	1,291,980	2,980,032
		27,040,381	9,648,100
9	**STAFF COSTS**		
	Salaries and wages	60,685,541	59,595,892
	Pension employers contributions	4,501,989	4,528,980
	Pension employers (NSSF contributions)	163,800	168,400
	Medical insurance premiums	6,639,351	12,102
		71,990,681	64,305,374

The average number of the employees during the year was 70 (2019:91).

	2020 Kshs	2019 Kshs
10 ADMINISTRATIVE COSTS		
Rent and rates	5,918,581	8,288,430
Repairs and maintanance	130,539	356,860
Depreciation	1,424,740	1,698,048
Disturbance and terminal benefits	406,540	349,885
Telephone, postage and internet	2,331,750	2,135,949
Printing and stationery	907,247	2,418,421
Office expenses	974,270	900,465
Transport, travel and accomodation	4,720,786	3,642,056
Audit fees - external	796,328	723,917
- internal	290,000	245,000
Legal fees	4,523,288	1,256,562
Newspapers and periodicals	30,520	14,320
Licenses and permits	2,179,389	449,085
Subscriptions	27,906	-
Motor vehicles expenses	1,171,840	1,349,186
Publications and advertisements	170,151	1,603,209
Water and electricity	89,798	325,474
Security expenses	4,000	171,841
Training	1,313,779	1,962,736
Cleaning expenses	83,063	170,693
IT related expenses	1,680,397	927,514
Amortization costs	1,203,619	957,034
Unexplained debits in closed bank accounts written off	1,254,664	-
Impaired debts provision	-	70,153,621
Discount allowed	-	1,307,194
Consultancy	85,868	-
MCSK foundation/benevolent expenses	390,100	62,850
	32,109,163	101,470,350
11 FINANCE COSTS		
Bank charges/finance costs	1,407,644	1,090,255

12 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.

13 PROPERTY AND EQUIPMENT	Furniture and fittings Kshs	Office Equipments Kshs	Computer and printers Kshs	Motor Vehicles Kshs	TOTAL Kshs
COST	12.5%	12.5%	30%	25%	
Balance as at 1 July 2019	7,697,085	1,618,267	11,227,395	2,528,395	23,271,142
Additions	3,045	-	430,947	-	433,992
Cost as at 30 June 2020	7,700,130	1,618,267	11,658,342	2,528,395	23,705,134
Accumulated Depreciation					
As at 1 July 2019	4,661,906	1,129,086	9,128,958	1,728,395	16,648,345
Charge for the year	379,778	86,147	758,815	200,000	1,424,740
As at 30 June 2020	5,041,684	1,215,233	9,887,773	1,928,395	18,073,085
Net Book Value as at 30 June 2020	**2,658,446**	**603,034**	**1,770,569**	**600,000**	**5,632,049**
Net Book Value as at 30 June 2019	3,035,179	689,181	2,098,437	800,000	6,622,797
YEAR END JUNE 2019					
Cost					
Balance as at 1 July 2018	7,028,484	1,618,267	10,171,595	23,518,388	42,536,734
Additions during the year	668,601	-	1,055,800	-	1,724,401
Disposals	-	-	-	(20,989,993)	(20,989,993)
Cost as at 30 June 2019	7,697,085	1,618,267	11,227,395	2,528,395	23,271,142
Accumulated 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**

NOTES TO THE FINANCIAL STATEMENTS - Continued

	2020 Kshs	2019 Kshs
14 INTANGIBLE ASSETS		
Cost	9,545,168	8,600,000
Additions	2,189,960	945,168
	11,735,128	9,545,168
Less: Amortization		
Balance as at 01 July	5,717,034	4,760,000
Charge for the year	1,203,619	957,034
	6,920,653	5,717,034
Net Book Value as at 30 June	**4,814,475**	**3,828,134**

	2020 Kshs	2019 Kshs
15 TRADE AND OTHER RECEIVABLES		
Trade and other debtors	70,481,643	70,895,053
KPM receivables	2,014,454	43,845,272
Staff debtors	289,604	362,492
	72,785,701	115,102,817
Impairment loss provision	(70,178,873)	(70,178,873)
	2,606,828	**44,923,944**

	2020 Kshs	2019 Kshs
16 DEPOSITS AND PREPAYMENTS		
Deposits - dropping zone	25,299	25,299
Rent deposit	1,872,710	1,862,822
Security deposit	35,175	35,175
Electricity deposit	5,500	5,500
Prepaid license	910,339	-
	2,849,023	**1,928,796**

NOTES TO THE FINANCIAL STATEMENTS - Continued

	2020 Kshs	2019 Kshs
17 CASH AND BANK BALANCES		
Cash in hand	2,366	8,377
Absa Bank Kenya PLC	1,670,542	99,305
Absa Bank Kenya PLC - Mombasa	-	(441)
Absa Bank Kenya PLC - Nairobi	-	77,475
Absa Bank Kenya PLC - Nyeri	-	13,310
Absa Bank Kenya PLC - Bungoma	-	28,789
Absa Bank Kenya PLC - Eldoret	-	25,681
Absa Bank Kenya PLC - Machakos	-	34,795
Absa Bank Kenya PLC - Kisumu	-	(2,797)
Equity Bank Ltd OP	-	5,331
ABC Bank	720,601	566,322
KCB Royalty distribution	-	(3,358)
Family Bank	237,011	117,104
Mpesa Paybill	168,798	97,502
Mpesa paybill 504641	64,328	138,173
NCBA Joint Account	738,944	1,785,646
ABC Bank - Fixed Deposit Account	6,902,393	-
	10,504,983	**2,991,214**
18 TRADE AND OTHER PAYABLES		
Trade payables	123,058,264	112,104,427
Provisions	39,537,407	23,531,103
KAMP payable	534,604	534,604
Foreign royalties	10,648,737	10,613,611
Other payables	2,473,830	2,316,067
Audit fees	796,328	1,310,471
	177,049,170	**150,410,283**
19 ROYALTIES PAYABLE		
Royalties brought forward	83,387,335	43,226,663
Add: Royalties provided for the year	21,671,074	47,363,768
	105,058,409	**90,590,431**
Less: Royalties paid to members during the year	(83,425,208)	(3,347,218)
Less: Socio-cultural payments	(3,806,600)	(3,855,878)
	17,826,601	**83,387,335**
Tax on royalties brought forward	19,500,552	19,500,552
Tax on royalties for current year	4,158,373	-
Total Royalties and tax payable	**41,485,526**	**102,887,887**

20 CONTINGENT LIABILITIES

According to the confirmations from the lawyers acting for the Company there are various matters pending in court which may lead to liabilities if decided against the Company. No provision has been made in these accounts in respect of any liabilities that may arise out of those cases as the directors are of the view that these liabilities will not crystalise in the foreseeable future.

21 GOING CONCERN

The Company's current liabilities exceeded its current assets by Kshs. 202,573,862 (2019 Kshs. 203,464,216). As at 30 June accumulated losses amount to Kshs. 195,120,063 (2019 - Kshs. 195,996,010). The Regulator through a letter dated 10th December 2020 withdrew the Company's operating licence. However, through a court order in the High Court of Machakos dated 28th December 2020 a conservatory order suspending the decision of the Regulator was granted pending interparties hearing or directions. All these matters make the going concern of the company doubtful. Going concern of the business is highly dependent on continued support by the members, creditors and financiers and the reinstatement of the Company's operating license by the Regulator after final determination of the pending court case.

The Board plans to return the Company back to profitability through various strategies, key of which are:

1. Following through on all the strategies that were put in place for 2020 but were suspended due to the COVID-19 pandemic in 2020 and have them fully executed in 2021.

2. Operationalization of the already executed partnership between the CMOs, through KECOBO and NTSA in which MCSK will have mobile offices/desks at all the NTSA Motor Vehicle Inspection Centers across the country. This will greatly reduce the costs of operations and at the same time raising revenues from the transport sector;

3. Reducing operational costs through the conversion of the field staff to commission-based agents, thus reducing the fixed costs element;

4. Enforcing compliance by the Broadcasters that had been suspended due to the Covid pandemic in 2020, which will generate more revenue for MCSK;

5. Implementing the already negotiated partnership with the police effective from January 2021 which will considerably enhance compliance by the licensees;

6. Continued engagement with the unpaid suppliers and other creditors to agree on suitable negotiated settlements, and also negotiate and have the cases in court settled out of court;

7. Aggressively enhancing marketing and other public awareness campaigns in the new year 2021. This to also be done through close collaboration with all the relevant government agencies; KECOBO, Ministry of ICT and the police.

8. Pursuing full restoration of the operating license by the Regulator.

In view of the foregoing, the directors consider it appropriate to prepare the financial statements on a going concern basis.

22 IMPACT OF COVID-19

In March 2020, the World Health Organization declared the outbreak of COVID-19, a pandemic negatively affecting worldwide manufacturing and trade and posing the threat of significant disruption to global supply chains, global manufacturing, travel and tourism, investment and consumer spending. While COVID-19 did not have a major impact on the Company's financial statements during the year ended 30 June 2020, the fact that the COVID-19 crisis is ongoing and dynamic in nature, the directors continue to assess the evolving impact of COVID-19 on the Company.

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).