

KENTOURS SACCO SOCIETY LIMITED

C/S 4053



ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

**VC KARANI & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
FORTE GRANITE FLATS
BISHOPS ROAD
P.O. BOX 45481- 00100
NAIROBI**

KENTOURS SACCO SOCIETY LIMITED
C/S 4053
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SOCIETY INFORMATION

THE BOARD AND SUPERVISORY COMMITTEE MEMBERS

BOARD OF DIRECTORS

Mr. Benjamin Ngunga	Chairman
Mr. Johannah Muiruri	Vice Chairman (Resigned on 17th September 2014)
Mrs. Betty Omolo - Ouko	Hon. Secretary
Mr. Joseph Kagema	Treasurer
Mr. John Ng'ang'a	Member
Mrs. Juliana Wambua - Kalu	Member
Mr. Edwin Omondi	Member
Ms. Lilian Weru	Member
Mr. Fred Odipo	Member

SUPERVISORY COMMITTEE

Mr. Elijah Ochiel	Chairman
Mrs. Anne Mwaura	Secretary
Mr. Joseph Karu	Member

CHIEF EXECUTIVE OFFICER

Mrs. Susan Chege

REGISTERED OFFICE

Kentours SACCO Society Limited
Commodore Office Suites, Kindaruma Road
P.O. Box 79333 - 00200
NAIROBI
Tel: 2227192 Fax: 2218188 Email: info@kentours.co.ke

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SOCIETY INFORMATION (CONTINUED)

PRINCIPAL BANKERS

Co-operative Bank of Kenya Ltd
Parliament Road Branch
P.O. Box 5772 - 00200
NAIROBI

CUSTODIAN

Standard Chartered Bank Kenya Ltd
Chiromo, Level 5, 48 Westlands Road
P.O. Box 40984 - 00100
NAIROBI

INVESTMENT MANAGERS

INVESTMENT MANAGER
Genesis Kenya Investment Management Limited
1st Floor, Arlington Block, 14 Riverside Business Park
Off Riverside Drive
P.O.Box 79217 - 00200
NAIROBI

AUDITORS

VC Karani & Associates
Certified Public Accountants
P.O. Box 45481 - 00100
NAIROBI

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STATISTICAL INFORMATION AS AT 31 DECEMBER 2014

Membership Movement	2014	2013
Membership as at 1st January	3,100	2,892
New entrants	537	528
Leavers	(574)	(320)
Membership as at 31st December	3,063	3,100

Employees of the SACCO	7	6
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Financial Highlights	Kshs	Kshs	% Change
Total Assets	958,287,870	848,210,918	13%
Members' deposits	764,653,103	692,871,641	10%
Loans and advances to members	783,630,526	695,652,038	13%
Investments	80,393,895	61,255,169	31%
Core capital	90,949,358	68,355,365	33%
Institutional capital	36,631,609	15,995,956	129%
Total Revenue	137,903,237	113,578,839	21%
Total Interest income	112,615,919	108,452,875	4%
Total operating expenses	23,472,129	21,084,836	11%
Interest on members deposits	80,288,576	69,233,837	16%
General Provision for Bad loans	7,915,460	-	100%

Key ratios:

Capital Adequacy Ratio

Core Capital/Total Assets	9.49%	8.06%
Core Capital/Total Deposits	11.89%	9.87%
Institutional Capital/ Total Assets	3.82%	1.89%

Liquidity Ratio

Liquid Assets/Total deposits & Long term liabilities	7.41%	7.61%
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Operating Efficiency/ Loan Quality Ratios

Total Expenses/ Total Revenue	17.02%	18.56%
Interest on member deposits/ Total revenue	58.22%	60.96%
Interest rate on member's deposits	10.50%	10.00%
Dividend rate on members' share capital	12.50%	12.00%

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REPORT OF THE DIRECTORS

The Directors submit their annual report together with the audited financial statements for the year ended 31 December 2014.

INCORPORATION

The society is incorporated in Kenya under the Co-operative Societies Act, Cap 490 and licensed under the Sacco Societies Act No. 14 of 2008.

PRINCIPAL ACTIVITY

The Society continued with its principal activity of receiving savings from and provision of loans to its members.

RESULTS

	2014	2013
	Kshs	Kshs
Net operating surplus before tax	25,132,909	22,328,698
Income tax expense	(432,973)	(494,838)
Net surplus after tax	<u>24,699,936</u>	<u>21,833,859</u>
Retained surplus for the year	<u>7,078,366</u>	<u>11,837,282</u>
Interest on members' deposits	<u>80,288,576</u>	<u>69,233,837</u>

DIVIDEND/ INTEREST ON MEMBERS' DEPOSITS

The Directors recommend payment of first and final dividend of 12.5% on share capital (2013 - 12%). They also recommend interest on members' deposit of 10.5% (2013 - 10%).

The recommendation in monetary terms is as follows:

Dividend on share capital Kshs.4,578,951 (2013 - Kshs.1,919,515)

Interest on members deposits Kshs.80,288,576 (2013 - Kshs. 69,287,164).

BOARD OF DIRECTORS

The Directors who served during the year and to the date of this report are as listed on page 1.

NEW PREMISES

The SACCO now occupies its own offices at Commodore Office Suites, Kilimani Nairobi,

AUDITORS

The SACCO's auditors, VC Karani & Associates, Certified Public Accountants, were appointed during the year and have expressed their willingness to continue in office.

BY ORDER OF THE BOARD OF DIRECTORS

SIGNATURE.....

DATED2015

HON. SECRETARY

KENTOURS SACCO SOCIETY LIMITED
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STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

The Co-operative Societies Act, Cap 490 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the society as at the end of the financial year and of its operating results for that year in accordance with International Financial Reporting Standards (IFRS). It also requires the Directors to ensure that the society keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the society. They are also responsible for safeguarding the assets of the society and ensuring that the business of the society has been conducted in accordance with its objectives, By-laws and any other resolutions made at the society's annual general meeting.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates, in conformity with IFRS and in the manner required by the Co-operative Societies Act, Cap 490. 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 society and of its operating results in accordance with the IFRS.

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 control.

Nothing has come to the attention of the Directors to indicate that the society will not remain a going concern for at least twelve months from the date of this statement.

Approved by the Board of Directors on2015 and signed on its behalf by:

..... **Chairman**
Signature

..... **Treasurer**
Signature

..... **Board member**
Signature

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF KENTOURS SACCO SOCIETY LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Kentours Sacco Society Limited, set out on pages 7 to 20 which comprise the statement of financial position as at 31 December 2014, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Directors' Responsibility for the Financial Statements

The Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Sacco Societies 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 misstatement.

Auditor's Responsibility

Our responsibility is to express an independent 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 comply with ethical requirements and plan and perform the 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 the auditor's 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, the auditor considers the internal control relevant to the society'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 society's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of 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 audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Society's financial affairs at 31 December 2014 and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Sacco Societies Act.

Report on other Legal Requirements

As required by the Kenyan Co-operative Societies Act we report to you that the financial statements are in agreement with the books of account kept by the Society and that, based on our audit, nothing has come to our attention that causes us to believe that the Society's business has not been conducted:

- a) in accordance with the provisions of the Co-operative Societies Act.
- b) in accordance with the Co-operative Society's objectives, By-laws and any other resolutions made by the Society at a general meeting.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Vincent Charles Karani —P/No 1318

**CERTIFIED PUBLIC ACCOUNTANTS
NAIROBI**

Dated:.....2015

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STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 Kshs	2013 Kshs
REVENUE:			
Interest on loans	2.a	109,729,433	105,153,952
Other interest income	2.b	2,886,486	3,298,923
Total interest		112,615,919	108,452,875
Interest expenses	3	(80,961,880)	(69,713,913)
Net interest income		31,654,039	38,738,962
Other operating income	4	5,737,036	3,965,841
Other gains and losses	5	19,550,283	1,160,123
Administration expenses	6.a	(21,887,763)	(19,334,800)
Other operating expenses	6.b	(9,920,685)	(2,201,428)
Net operating surplus before income tax		25,132,909	22,328,698
Income tax expense	7	(432,973)	(494,838)
Net surplus after income tax		24,699,936	21,833,859
APPROPRIATION OF SURPLUS			
Transfer to statutory reserve		4,939,987	3,907,077
Transfer to general reserve		4,939,987	2,557,036
Proposed dividends on shares		4,578,951	1,233,988
Proposed honararia		3,162,645	2,298,476
		17,621,570	9,996,577
Retained surplus for the year		7,078,366	11,837,282

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STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Notes	2014 Kshs	2013 Kshs
ASSETS			
Cash in hand and bank	8.a	11,140,294	3,164,610
Receivables and prepayments	9	38,102,787	42,600,628
Tax recoverable	7	203,629	251,393
Inventory	10	199,873	101,895
Loans to members	11	783,630,526	695,652,038
Financial assets	12	80,393,895	61,255,169
Intangible asset	13	1,189,718	1,487,148
Property, plant and equipment	14	43,427,148	43,698,037
Total Assets		<u>958,287,870</u>	<u>848,210,918</u>
LIABILITIES AND EQUITY			
Liabilities			
Members' deposits	15	764,653,103	692,871,641
Payables and accrued expenses	16	16,103,442	14,905,615
Interest payable	17	81,799,712	69,893,432
Dividends payable	18	4,782,254	2,184,866
		<u>867,338,512</u>	<u>779,855,553</u>
Total liabilities		<u>867,338,512</u>	<u>779,855,553</u>
Equity			
Share capital	19	36,631,609	15,995,956
Bonus issue		-	15,000,000
Reserves	Page 9	54,317,749	37,359,409
Total Equity		<u>90,949,358</u>	<u>68,355,365</u>
Total Liabilities and Equity		<u>958,287,870</u>	<u>848,210,918</u>

The financial statements on pages 7 to 20 were authorized for issue by the Board of Directors on2015 and signed on its behalf by:

Chairman.....

Treasurer.....

Board Member.....

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

<u>YEAR 2013</u>	SHARE CAPITAL Kshs.	STATUTORY RESERVE Kshs.	GENERAL RESERVE Kshs.	BONUS ISSUE Kshs.	RETAINED EARNINGS Kshs.	TOTAL Kshs.
At 1 January 2013	10,730,330	20,855,707	-	-	13,887,832	45,473,869
Changes in equity in 2013						
Net surplus for the year	-	-	-	-	21,833,859	21,833,859
Transfer during the period	-	3,907,077	2,557,036	-	(6,464,113)	-
Bonus Issue	-	-	-	15,000,000	(15,000,000)	-
Share capital received	5,265,626	-	-	-	-	5,265,626
Dividends						
- Proposed 2013	-	-	-	-	(1,919,515)	(1,919,515)
Proposed Honoraria	-	-	-	-	(2,298,476)	(2,298,476)
At 31 December 2013	15,995,956	24,762,784	2,557,036	15,000,000	10,039,589	68,355,365

YEAR 2014

At 1 January 2014	15,995,956	24,762,784	2,557,036	15,000,000	10,039,589	68,355,365
Changes in equity in 2014						
Net surplus for the year	-	-	-	-	24,699,936	24,699,936
Transfer during the period	15,000,000	4,939,987	4,939,987	(15,000,000)	(9,879,974)	-
Share capital received	5,635,653	-	-	-	-	5,635,653
Dividends						
- Proposed 2014	-	-	-	-	(4,578,951)	(4,578,951)
Proposed Honoraria	-	-	-	-	(3,162,645)	(3,162,645)
At 31 December 2014	36,631,609	29,702,771	7,497,023	-	17,117,955	90,949,358

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 Kshs	2013 Kshs
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Interest receipts		109,729,433	105,153,952
Other operating income receipts		5,130,090	3,548,429
Interest payments		(68,989,609)	(54,151,658)
Payments to employees and suppliers		(18,208,360)	(25,658,368)
		<u>27,661,554</u>	<u>28,892,356</u>
<i>(Increase)/ decrease in operating assets</i>			
- Loans to members		(95,893,947)	(128,416,728)
- Receivables and prepayments		4,497,841	(2,975,686)
- Inventory		(97,978)	29,617
<i>Increase/ (decrease) in operating liabilities</i>			
- Deposits from members		71,781,462	116,472,435
- Payables and accrued expenses		(6,023,734)	4,358,375
<i>Net cash flows from operating activities before income taxes</i>		<u>1,925,198</u>	<u>18,360,369</u>
Income tax paid		(385,209)	(1,303,325)
Net cash flows from operating activities		<u>1,539,989</u>	<u>17,057,044</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Purchase of property and equipment		(1,016,047)	(44,115,840)
Incidental costs on investment		(107,337)	-
Purchases of investment securities		(58,694,397)	-
Sales of investment securities		55,100,025	1,831,784
Investment income received		3,493,432	3,716,335
Net cash flows from investing activities		<u>(1,224,323)</u>	<u>(38,567,721)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Share capital contributions received		5,635,653	5,265,626
Dividends paid		(1,981,563)	(968,637)
Net cash flows from financing activities		<u>3,654,089</u>	<u>4,296,990</u>
Net (decrease)/increase in cash and cash equivalents		3,969,756	(17,213,688)
Cash and cash equivalents at the beginning of the year		52,705,631	69,919,319
Cash and cash equivalents at the end of the year		<u>56,675,387</u>	<u>52,705,631</u>
Available cash and cash equivalents at the end of the year 8.b		<u>56,675,387</u>	<u>52,705,631</u>

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NOTES

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Statement of compliance and basis of preparation

These financial statements have been prepared on going concern basis and in accordance and compliance with the International Financial Reporting Standards (IFRSs). These financial statements are presented in the functional currency, Kenya shillings (Kshs) and prepared under the historical cost convention, as modified by revaluation of certain assets as prescribed by IFRSs.

(b) Revenue recognition

Interest on loans to members is calculated on a reducing balance method based on rates applicable to each loan category. Total interest and loan repayment is by equal monthly instalments over the loan period.

(c) Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Full year's depreciation is provided for in the year the asset is purchased and none in the year of disposal.

Depreciation is calculated on a reducing balance method using the following annual rates:

Asset	Rate (%)
Buildings	2.0%
Fixtures and Fittings	12.5%
Motor cycle	12.5%
Office equipment	30.0%
Computer Equipment	30.0%
Computer Software	20.0%

The assets' residual values and lives are reviewed, and adjusted if appropriate at each balance sheet date.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of a revalued asset, the amount in the revaluation reserve relating to that asset is transferred to retained earnings.

(d) Financial assets

The Sacco has classified its financial instruments into the following categories:

i) Held-to-maturity investments - These comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the Sacco has a positive intention and ability to hold to maturity.

ii) Loans and receivables - These comprise of non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and excludes assets which the Sacco intends to sell immediately or in the near term or those which the Sacco upon initial recognition designates as at fair value through profit or loss or as available-for-sale financial assets.

iii) Available-for-sale financial assets - These comprise of non-derivative financial assets that are not classified under any of the other categories of financial assets.

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(d) Financial assets (Continued)

Held-to-maturity investments, loans and receivables are carried at amortised cost using the effective interest method while the Available-for-sale investments are carried at their fair values or at cost for those that are not quoted in an active financial market and whose fair value cannot be reliably measured.

Gains and losses arising from acquisition and disposal of financial assets including changes in fair value of financial assets are recognized through the statement of comprehensive income.

Receivables are recognized at fair value. A provision for impairment is recognised in the statement of comprehensive income in the year when the recovery of the amount due as per the original terms is doubtful.

Receivables not collectible are written off against the related provision. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income in the year of recovery.

Derecognition of financial assets

The SACCO derecognises a financial asset when the contractual rights to receive the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

(e) Financial liabilities and equity instruments

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Sacco are recorded as the proceeds received net of direct issue costs. The capital comprise primarily of minimum share capital prescribed under the By-laws of the Sacco. Currently, each member is required to hold a minimum of 250 shares and a maximum of 7,500 shares with par value of Kshs. 20 per share.

Financial liabilities

Financial liabilities are recognized at fair value of the consideration given plus the transaction cost.

Derecognition of financial liabilities

Financial liabilities are derecognized only when the obligation specified in the contract is discharged or cancelled or expires.

(f) Investment property

Investment property comprise land held for sale and is measured at cost including transaction costs.

On disposal of the investment property, the difference between net proceeds and the carrying amount is charged or credited to the statement of comprehensive income.

(g) Dividends and interest on members deposits

Dividend and interest on members' share capital and deposits are payable at rates determined annually depending on the financial performance for the that particular year. The rates are subject to approval at the Annual General Meeting.

(h) Employee entitlements

Employee entitlement to long service awards are recognized when they accrue to employees. Provision is made for the estimated liability of such entitlements as a result of services rendered by employees up to the reporting date. The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognized as an expense accrual.

(i) Retirement Benefit Obligations

The Society contributes to the mandatory statutory defined contribution pension scheme, the National Social Security Fund (NSSF) at varying values for its employees as legislated from time to time.

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(j) Tax

Current tax is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.

(k) Statutory reserve

Transfers are made to the statutory reserve fund at a rate of 20% of net operating surplus after tax in compliance with the provisions of section 47 (1 & 2) of the Cooperative Societies Act, Cap 490.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value net of bank overdrafts.

(m) Provisions for liabilities and other charges

Provisions are recognized when the Sacco has a present obligation (legal or constructive) as a result of a past event, it is probable that the Sacco will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(n) Adoption of new and revised standards

The society has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) that are relevant to its operations.

The new Financial Reporting template developed by the Institute of Certified Public Accountants of Kenya (ICPAK), in conjunction with officials of Ministry of Industrialization and Enterprise Development has been adopted in these financial statements. This adoption resulted in the following changes in accounting policies:

(i) Entrance fees is credited to the statement of comprehensive income.

(ii) Committee honoraria is dealt with in the appropriation of surplus. Previously, it was charged to administration expenses.

(O) General reserve

Transfers are made to the general reserve fund at a rate of 25% of net operating surplus after tax and statutory reserve.

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2. (a) Interest income	2014	2013
	Kshs	Kshs
Normal loans	102,320,305	97,583,828
Super School fees loan	1,082,397	878,069
Emergency loans	1,374,735	1,042,359
School fees loans	564,443	613,645
Instant loans	4,298,594	4,981,873
Salary advances	88,959	54,179
Total	109,729,433	105,153,952
(b) Other interest income	2014	2013
	Kshs	Kshs
Money market Investments	2,241,183	2,536,419
Fixed income investments	645,303	762,504
Total	2,886,486	3,298,923
3. Interest expenses	2014	2013
	Kshs	Kshs
Members' deposits	80,288,576	69,233,837
Members' demand savings	107,182	211,444
Bank overdraft interest	566,122	268,632
	80,961,880	69,713,913
4. Other operating income	2014	2013
	Kshs	Kshs
Entrance fees	373,773	528,000
Dividends	606,946	417,412
Sundry income	165,298	226,994
Rental Income	624,400	-
Bridging and consolidated fee	3,948,619	2,793,435
Interest on car Loan	18,000	-
	5,737,036	3,965,841
5. Other gains and losses	2014	2013
	Kshs	Kshs
Gain/(loss) on sale of investments	51,471	(210,484)
Change in fair value of equities	19,498,812	1,370,607
	19,550,283	1,160,123

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6. Administration and other operating expenses	2014	2013
	Kshs	Kshs
a) Administration expenses		
<u>Personnel expenses</u>		
Salaries and wages	6,708,725	6,301,917
Staff house allowances	938,187	851,361
Staff medical expenses	859,002	771,455
Staff retirement benefits	495,404	1,090,521
Staff end year bonus	966,290	401,952
Staff education	66,183	100,856
Staff Insurance	299,265	248,692
Staff leave and travel expenses	786,561	735,794
	11,119,617	10,502,547
<u>Governance/member related expenses</u>		
Committee sitting allowances	1,072,650	1,058,296
Committee travelling allowances	987,405	978,732
Other committee expenses	381,672	410,151
Annual General Meeting expenses	2,059,554	1,244,176
Board retirement expense	100,000	100,000
Committee training and seminars	689,368	80,250
Members' education	1,155,543	739,660
Unit representative expenses and allowances	781,600	442,816
	7,227,791	5,054,081
<u>Marketing expenses</u>		
Public relations and advertisements	552,389	536,942
<u>Other administrative expenses</u>		
General office and other expenses	361,195	361,508
Telephone, postage and internet	511,946	539,783
Repairs and maintenance	655,608	390,037
Motor cycle expenses	30,149	23,123
Office relocation expense	-	267,524
Legal fees	100,000	347,760
Auditors' remuneration	104,400	91,600
Registration and supervision fees to the Commissioner	9,200	10,400
Printing and stationery	458,163	310,516
Rent and service charge	457,600	785,301
Insurance of assets (Office equipment and Motor Cycle)	138,270	113,678
Software Maintenance costs	161,436	-
	2,987,966	3,241,230
Total administration expenses	21,887,763	19,334,800

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b) Other operating expenses	2014	2013
	Kshs	Kshs
<u>Depreciation and amortization</u>		
Depreciation of Property, Plant and Equipment	1,286,936	1,378,249
Amortization of intangible assets	297,430	371,787
	<u>1,584,366</u>	<u>1,750,036</u>
<u>Financial Costs</u>		
Investments costs	113,781	123,055
Bank charges	307,079	328,337
	<u>420,860</u>	<u>451,392</u>
General Provision for doubtful loans	7,915,460	-
Total Other operating expenses	<u>9,920,685</u>	<u>2,201,428</u>

The General provision of 1% on the loans book is in line with financial sector industry practice under prudential guidelines in the banking sector.

7. Income tax Charge	2014	2013
	Kshs	Kshs
Current tax	<u>432,973</u>	<u>494,838</u>

The tax of the society differs from the theoretical amount that would arise using the basic rate on surplus before tax because tax is calculated at the rate of 30% on 50% of interest other than interest from members and KUSCCO savings and is as follows:

Computation of the tax expense	2014	2013
	Kshs	Kshs
50% of interest income from banks and investments	1,443,243	1,649,462
Tax charge for the year at 30%	432,973	494,838
Balance brought forward	(251,393)	557,094
Tax paid	-	(557,094)
Withholding Tax	(385,209)	(746,231)
Tax payable	<u>(203,629)</u>	<u>(251,393)</u>

8. a. Cash in hand and bank	2014	2013
	Kshs	Kshs
Cash in hand	18,679	40,000
Cash at bank - Co-operative Bank	10,791,562	2,863,472
- Standard Chartered Bank - Custody Account	30,052	261,138
- Co-operative Bank Deposits	300,000	-
	<u>11,140,294</u>	<u>3,164,610</u>

b. Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand, cash at bank, fixed and call deposits and short term marketable securities (money market investments)

Cash in hand and bank	11,140,294	3,164,610
Money markets Investments	44,534,709	49,541,021
Fixed and call deposits	1,000,384	-
	<u>56,675,387</u>	<u>52,705,631</u>

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9. Receivables and prepayments	2014	2013
	Kshs	Kshs
Employer deductions due	34,366,020	39,870,327
Debtors and prepayments	3,707,082	2,700,616
Deposits for services	29,685	29,685
Total	<u>38,102,787</u>	<u>42,600,628</u>
10. Inventory	2014	2013
	Kshs	Kshs
Polo shirts, sweaters and umbrellas	<u>199,873</u>	<u>101,895</u>
11. Loans to members	2014	2013
	Kshs	Kshs
At the start of the year	695,652,038	567,483,384
Loans granted during the year	608,647,577	378,748,217
Repayment during the year	<u>(512,753,629)</u>	<u>(250,579,567)</u>
At year end as per members' listing	<u>791,545,986</u>	<u>695,652,038</u>
Provision for doubtful loans	<u>(7,915,460)</u>	<u>-</u>
	<u>783,630,526</u>	<u>695,652,038</u>
12. Financial assets	2014	2013
	Kshs	Kshs
Money market investment	44,534,712	45,630,624
Government securities	4,137,472	3,910,397
Quoted Equities	6,326,816	6,130,104
Corporate bonds	625,000	-
Available for sale financial assets - Unquoted equities	24,714,895	5,529,044
Debentures	55,000	55,000
	<u>80,393,895</u>	<u>61,255,169</u>

Money market investments were with Britam, CIC, and STANLIB at average interest rates.
Fixed Income investments were with Government securities and Fixed deposits with Bank of Africa.
Corporate bond was with Kengen.
Unquoted equities were mainly with Co-operative Bank and CIC Ltd.
Debenture was with Uchumi supermarket.

Quoted equities were stated at market values while unquoted investments were stated at directors' valuation.

13. Intangible assets: Computerization and software	2014	2013
	Kshs	Kshs
At start of year	1,487,148	24,135
Addition	-	1,834,800
Amortization charge	<u>(297,430)</u>	<u>(371,787)</u>
At end of year	<u>1,189,718</u>	<u>1,487,148</u>

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14. Property, plant and equipment

	Buildings Kshs. 2.00%	Furniture, Fittings & Equipment Kshs. 12.50%	Motor Cycle Kshs. 12.50%	Computer Equipment Kshs. 33.30%	Total Kshs.
COST					
As at 1 January 2014	42,496,704	1,699,855	148,012	2,712,490	47,057,061
Additions	852,213	54,400	-	109,434	1,016,047
Disposal	-	-	-	-	-
As at 31 December 2014	<u>43,348,917</u>	<u>1,754,255</u>	<u>148,012</u>	<u>2,821,924</u>	<u>48,073,108</u>
Depreciation					
As at 1 January 2014	849,934	438,225	18,502	2,052,363	3,359,024
Charge for the period	849,980	164,504	16,189	256,264	1,286,936
Disposal	-	-	-	-	-
As at 31 December 2014	<u>1,699,914</u>	<u>602,729</u>	<u>34,690</u>	<u>2,308,627</u>	<u>4,645,960</u>
Net Book Value					
As at 31 December 2014	<u>41,649,003</u>	<u>1,151,526</u>	<u>113,322</u>	<u>513,297</u>	<u>43,427,148</u>
As at 31 December 2013	<u>41,646,770</u>	<u>1,261,630</u>	<u>129,510</u>	<u>660,127</u>	<u>43,698,037</u>

15. Members' deposits

	2014 Kshs	2013 Kshs
At the start of the year	692,871,641	576,399,206
Net contributions during the year	71,781,462	116,472,435
Total members' deposits as per members' listing	<u>764,653,103</u>	<u>692,871,641</u>

16. Payables and accrued expenses

	2014 Kshs	2013 Kshs
Members' demand savings	4,307,414	4,621,279
Unidentified bankings	961,603	928,796
Overpayment by employer companies	146,352	211,017
Amounts due to ex-members	2,283,109	2,333,667
Proposed honoraria	3,162,645	2,298,476
Auditors' remuneration	104,400	91,600
Supervision and registration fees	9,200	10,400
Interest on members demand savings	183,300	117,310
Legal fees	525,000	450,000
Members education	327,030	150,000
Staff leave and travel allowances	782,070	832,071
Unit representative allowance	290,300	63,350
Investments cost	24,025	17,581
Board retirement	350,000	320,000
Retained member deposits	1,518,921	476,690
Kentours software cost	543,826	977,026
Other payables and accruals	584,249	1,006,353
Total	<u>16,103,442</u>	<u>14,905,615</u>

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17. Interest payable on members' deposits	2014	2013
	Kshs	Kshs
Outstanding interest for the previous year	69,893,432	54,757,925
Interest paid during the year	(68,382,295)	(54,151,658)
Proposed interest for the current year	80,288,576	69,287,164
	<u>81,799,712</u>	<u>69,893,432</u>
18. Dividends payable on members' shares	2014	2013
	Kshs	Kshs
Outstanding dividends for the previous year	2,184,866	1,233,988
Dividends paid during the year	(1,981,563)	(968,637)
Proposed dividends for the current year	4,578,951	1,919,515
	<u>4,782,254</u>	<u>2,184,866</u>
19. Share capital	2014	2013
	Kshs	Kshs
Balance brought forward	15,995,956	10,730,330
Bonus share capital	15,000,000	-
Net contributions for the year	5,635,653	5,265,626
Total	<u>36,631,609</u>	<u>15,995,956</u>

Members hold full and part shares with a par value of Kshs. 20 per share. Every member of the SACCO is required to hold a minimum of 250 shares and a maximum of 7,500 shares.

20. Related party transactions	2014	2013
	Kshs	Kshs
a) Board and supervisory committee remuneration		
Committee allowances	1,072,650	1,058,296
Proposed honoraria	3,162,645	2,298,476
Total	<u>4,235,295</u>	<u>3,356,772</u>
b) Loans to Board of Directors		
At the start of the year	12,604,850	14,712,374
Granted during the year	18,734,879	9,292,158
Repaid during the year	(13,312,956)	(11,399,682)
At the end of the year	<u>18,026,773</u>	<u>12,604,850</u>

Loans are provided to the Board of Directors at arms length transactions like other Sacco members.

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21. Financial risk management

The Sacco's operations are exposed to financial risks. These risks include market risk (including currency risk, fair value, interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Sacco's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Sacco's financial performance.

Risk management is carried out by the manager under policies approved by the Board of Directors. The risk management identifies, evaluates and manages financial risks in close co-operation with the Board of Directors. The Board of Directors provides written policies covering specific areas such as interest rate risk, credit risk and investment of excess liquidity.

The manager reports regularly to the Board of Directors on all aspects of risks and measures instituted to mitigate risk exposures.

(i) Interest rate risk

The Sacco is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by minimizing borrowings. The Sacco's exposure to interest rate risk mainly relates to bank overdraft. The Board of Directors has approved a bank overdraft facility with Co-operative Bank of Kenya of Kshs. 25 million at a fixed interest rate.

(ii) Price risk

The Sacco is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Sacco does not actively trade these investments.

(iii) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Sacco and arises principally from the Sacco's loans and advances to its members. The amounts presented in the statement of financial position are net of impairment for doubtful debts, estimated by the Board of Directors based on prior experience and assessment of the current economic environment.

The Sacco has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, guarantors where appropriate, as a means of mitigating the risk of financial loss from defaults. The Sacco has also structured the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower.

Receivables consist mainly of monthly member deductions due from employer companies. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The amount that best represents the Sacco's maximum exposure to credit risk at 31 December 2014 is made up as follows:

	2014	2013
	Kshs	Kshs
Loans to members	791,545,986	695,652,038
Receivables	38,102,787	42,600,628
	<u>829,648,773</u>	<u>738,252,666</u>

iv) Liquidity risk

The Sacco manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.