

**KENYA FORESTRY RESEARCH INSTITUTE  
DEFINED CONTRIBUTION RETIREMENT  
BENEFITS SCHEME**

**ANNUAL REPORT  
AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2014**

Kenya Forestry Research Institute  
Defined Contribution Retirement Benefits Scheme

Annual report and financial statements  
For the year ended 30 June 2014

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**Kenya Forestry Research Institute  
Defined Contribution Retirement Benefits Scheme**

**Statutory and corporate information  
For the year ended 30 June 2014**

**Trustees** : Dr. Mercy W Gichora - Chairperson  
: Ms. Juliana K Makau - Secretary  
: Mr. Jonathan E Ochieng  
: Mrs. Loise G. Ruhu  
: Mr. Joseph K. Koech  
: Dr. Ben E N Chikamai  
: Mr. Paul K. Tuwei  
: Prof. Daniel N. Mugendi

**Administrator** : Aon Kenya Insurance Brokers Limited  
: Aon House, Off Nyerere Road  
: P.O Box 20102 - 00200  
: Nairobi.

**Registered office** : Kenya Forestry Research Institute Headquarters  
: Muguga, KEFRI-KARI Road, Off Nairobi-Naivasha Highway  
: P.O Box 20412-00200  
: Nairobi

**Investment managers**

**Appointed on 1 April 2014**

: British - American Asset Managers Limited  
: Britam Centre, 5th Floor  
: Mara/Ragati Road  
: P.O Box 30375-00100  
: Nairobi

**Ceased on 31 March 2014**

: Genesis Kenya Investment Management Ltd  
: 1st Floor, Arlington Block  
: 14 Riverside Business Park, Off Riverside Drive  
: P.O Box 79217-00200  
: Nairobi

**Custodian** : Standard Chartered Bank Kenya Limited  
: Standard Chartered Custody Services  
: 48 Westlands Road  
: P.O Box 40984-00100  
: Nairobi

**Independent auditor**

: King'ori Kimani & Company  
: Certified Public Accountants (K)  
: 4th Floor, Worldwide Printing Centre, Mushembi Road  
: P.O Box 31234-00600  
: Nairobi

**Kenya Forestry Research Institute  
Defined Contribution Retirement Benefits Scheme**

**Report of the Trustees  
For the year ended 30 June 2014**

The trustees present their report together with the audited financial statements for the year ended 30 June, 2014 which disclose the state of affairs of the scheme.

**1 Establishment**

Kenya Forestry Research Institute Defined Contribution Retirement Benefits Scheme was established effective 1 July, 2011 and is governed by a trust deed dated 13 June, 2011.

The main purpose of the scheme is the provision of pensions and other retirement benefits for members upon their retirement, and relief of the dependants of deceased members as defined in the trust deed and rules. It is a defined contribution scheme.

**2 Membership**

	2014	2013
<b>Contributing members</b>		
Members as at 1 July	885	887
New entrants during the year	28	13
	<u>913</u>	<u>900</u>
Withdrawals from the scheme	(21)	(15)
Members as at 30 June	<u>892</u>	<u>885</u>
<b>Deferred members</b>		
Members as at 1 July	39	39
New entrants during the year	5	-
	<u>44</u>	<u>39</u>
Withdrawals from the scheme	(6)	-
Members as at 30 June	<u>38</u>	<u>39</u>

**3 Contributions**

The trust deed and rules provide for contributions to the scheme by both the employer and employees at 12% and 6% respectively of the individual members' pensionable salary.

**4 Results for the year**

The increase in net assets for the year amounted to Shs 261,109,988 (2013: Shs 1,099,089,979) resulting in net assets of the scheme as at 30 June 2014 of Shs 1,360,199,967 (2013: Shs 1,099,089,979).

**5 Investment**

We confirm that there is no self investment, nor have any assets been used as security or collateral on behalf of the employer or any connected business or individual.

The day to day administration is dealt with by the administrator, Aon Kenya Insurance Brokers Limited, while schemes' investments are managed by British-American Asset Managers Limited.

Investments at 30 June 2014 were spread as follows:

	2014 Shs	2014 % of portfolio	2013 Shs	2013 % of portfolio
Treasury bonds	763,454,248	61.0%	645,790,199	58.2%
Investment in quoted shares	351,920,726	28.0%	313,408,068	28.2%
Corporate bonds	58,256,406	4.7%	57,180,913	5.2%
Fixed and call deposits	47,186,608	3.8%	81,812,439	7.4%
Offshore investments	12,273,903	1.0%	10,610,891	1.0%
Commercial papers	19,100,467	1.5%	-	-
	<u>1,252,192,358</u>	<u>100%</u>	<u>1,108,802,510</u>	<u>100%</u>

Kenya Forestry Research Institute  
Defined Contribution Retirement Benefits Scheme

Report of the Trustees (continued)  
For the year ended 30 June 2014

**6 Statutory aspects**

The scheme is registered in Kenya under both the Income Tax Act and the Retirement Benefits Act

**7 Trustees**

The current members of the board of trustees are shown on page 2.


**8 Independent Auditor**

V C Karani & Associates ceased to be auditors of the scheme during the year.

Kingori Kimani & Company, Certified Public Accountants (Kenya) were appointed the new auditors of the scheme and have expressed their willingness to continue in office.

Signed on behalf of the trustees

  
..... Trustee

  
..... Trustee  
13/08/2014

**Kenya Forestry Research Institute  
Defined Contribution Retirement Benefits Scheme**

**Statement of trustees' responsibilities  
For the year ended 30 June 2014**


The Kenyan Retirement Benefits Act requires the Trustees to prepare financial statements for each financial year which show a true and fair view of the financial transactions of the Kenya Forestry Research Institute Defined Contribution Retirement Benefits Scheme for the year and of disposition at year end of its assets and liabilities. It also requires the Trustees to ensure that the Kenya Forestry Research Institute Defined Contribution Retirement Benefits Scheme keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the scheme. They are also responsible for safeguarding the assets of the Kenya Forestry Research Institute Defined Contribution Retirement Benefits Scheme.

The Trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Retirement Benefit Act, and for such internal controls as Trustees determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Trustees certify that to the best of their knowledge and belief, the information furnished to the auditors for the purposes of the audit was correct and complete in every respect.

Nothing has come to the attention of the Trustees to indicate that the scheme will not be able to meet its obligations for at least the next twelve months from the date of this statement.

  
..... Trustee.

  
..... Trustee.

  
....., 2014.

**Kenya Forestry Research Institute  
Defined Contribution Retirement Benefits Scheme**

**Report of the independent auditor to the members of Kenya Forestry Research Institute  
Defined Contribution Retirement Benefits Scheme  
For the year ended 30 June 2014**

We have audited the accompanying financial statements for the year ended 30 June 2014 set out on pages 7 to 19. These financial statements comprise statement of changes in net assets available for benefits, statement of net assets available for benefits for the year then ended and a summary of significant accounting policies and other explanatory notes.

**Trustees' responsibility for the financial statements**

The trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Retirement Benefits 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, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' responsibility**

Our responsibility is to express an independent opinion on the 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 our audit to obtain reasonable assurance that 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 auditors' 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 internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the schemes' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustees, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the accompanying financial statements give a true and fair view of the financial transactions of the Kenya Forestry Research Institute Defined Contribution Retirement Benefits Scheme during the year ended 30 June, 2014 and of the disposition at that date of its assets and liabilities, in accordance with International Financial Reporting Standards and the requirements of the Kenyan Retirement Benefits Act.

The engagement partner responsible for the audit resulting in this independent auditor's report was CPA Joseph Kimani, Practising Certificate No. 1460.

*King'ori Kimani & Company*  
King'ori Kimani & Company, Certified Public Accountants (K)  
4<sup>th</sup> Floor, Worldwide Printing Centre  
Mushembi Road  
P.O Box 31234-00600, Nairobi  
Email: info@kingorikimanicompany.com



*14/8/14*  
....., 2014

Kenya Forestry Research Institute  
Defined Contribution Retirement Benefits Scheme

Statement of changes in net assets  
For the year ended 30 June 2014

	Note	2014 Shs	2013 Shs
<b>Contributions and benefits</b>			
Contributions receivable	2 (a)	62,557,486	60,739,581
Transfers in	2 (b)	94,016,819	942,742,304
Benefits to seceding members	2 (c)	(11,771,363)	(20,646,479)
<b>Net surplus from dealings with members</b>		<u>144,802,942</u>	<u>982,835,406</u>
<b>Returns on investment</b>			
Investment income	3	114,598,019	54,509,521
Fair value gain on investments	4	19,627,621	78,798,874
Investment management expenses	5	(8,580,695)	(7,776,823)
<b>Net returns on investments</b>		<u>125,644,945</u>	<u>125,531,572</u>
Administrative expenses	6	<u>(9,272,843)</u>	<u>(9,230,107)</u>
Increase in net assets before taxation		261,175,044	1,099,136,871
Income tax expense	7 (a)	(65,056)	(46,892)
Increase in net assets for the year		<u>261,109,988</u>	<u>1,099,089,979</u>
Allocated as follows:			
Members' funds		<u>261,109,988</u>	<u>1,099,089,979</u>

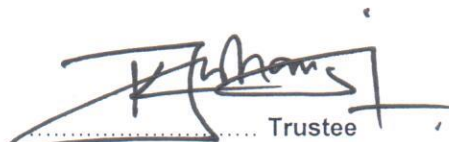


Kenya Forestry Research Institute  
Defined Contribution Retirement Benefits Scheme

Statement of net assets  
For the year ended 30 June 2014

	Note	2014 Shs	2013 Shs
<b>Investments</b>			
Office equipment	8	3,700	87,750
Investments in equity shares	19	351,920,726	313,408,068
Treasury bonds	9	763,454,248	645,790,199
Corporate bonds	10	58,256,406	57,180,913
Commercial papers	11	19,100,467	-
Fixed and call deposits	12	47,186,608	81,812,439
Offshore investments	13	12,273,903	10,610,891
		<u>1,252,196,058</u>	<u>1,108,890,260</u>
<b>Current assets</b>			
Receivables and accrued income	14	110,574,091	804,256
Prepaid tax	7 (b)	180,183	188,469
Cash in hand and at bank	15	13,064,388	11,170,881
		<u>123,818,662</u>	<u>12,163,606</u>
<b>Current liabilities</b>			
Benefits payable		1,499,045	1,822,849
Payables and accruals	16	14,315,708	20,141,038
		<u>15,814,753</u>	<u>21,963,887</u>
<b>Net current assets/(liabilities)</b>		<u>108,003,909</u>	<u>(9,800,281)</u>
<b>Net assets available</b>		<u>1,360,199,967</u>	<u>1,099,089,979</u>
Financed by:			
Members' balances		<u>1,360,199,967</u>	<u>1,099,089,979</u>

The financial statements on pages 7 to 19 were approved for issue by the trustees on 13/08 2014 and signed on their behalf by:

  
..... Trustee

  
..... Trustee

Kenya Forestry Research Institute  
Defined Contribution Retirement Benefits Scheme

Statement of cash flows  
For the year ended 30 June 2014

	Notes	2014 Shs	2013 Shs
<b>Operating activities</b>			
Contributions received		63,048,182	61,225,642
Interfund transactions		(14,656,129)	958,758,024
Benefits paid		(12,095,167)	(18,823,630)
Withholding tax recovered/(paid)		90,203	(90,203)
Purchase of office equipment		-	(175,500)
Corporate tax paid		(56,770)	(235,361)
Administrative expenses		(5,038,115)	(7,167,296)
Net cash from operating activities		<u>31,292,204</u>	<u>993,491,676</u>
<b>Investing activities</b>			
Investment income received		100,588,778	46,441,392
Investment management expenses paid		(8,546,429)	(6,112,627)
Purchase of treasury bonds		(223,047,068)	(693,433,284)
Purchase of corporate bonds		(5,000,000)	(55,824,591)
Purchase of equity shares		(103,211,282)	(308,615,337)
Purchase of offshore investments		-	(11,256,772)
Purchase of commercial papers		(18,518,410)	-
Purchase of office equipment		(7,400)	-
Proceeds on sale of equity shares		110,690,987	59,908,673
Proceeds on sale of corporate bonds		3,603,860	-
Proceeds on sale of treasury bonds		79,422,436	68,384,190
Net cash used in investing activities		<u>(64,024,528)</u>	<u>(900,508,356)</u>
Increase/(decrease) in cash and cash equivalents		<u>(32,732,324)</u>	<u>92,983,320</u>
Cash and cash equivalents at 1 July		92,983,320	-
Cash and cash equivalents at 30 June	17	<u>60,250,996</u>	<u>92,983,320</u>

#### Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards and the Retirement Benefits Act. The principal accounting policies are set out below.

#### Basis of accounting

The financial statements have been prepared on the historical cost basis of accounting, modified to include revaluation of certain assets.

#### Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates of exchange ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates of exchange ruling at that date. The resulting differences from conversion and translation are dealt with in the statement of changes in net assets in the year in which they arise.

#### Income from investments

##### *Interest income*

Interest income is recognised for all interest bearing instruments on an accruals basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discount and premium on treasury bills and other discounted instruments.

##### *Dividend income*

Dividends declared on ordinary shares are recognised if the ex-dividend date falls within the financial year.

#### Taxation

The Scheme is a registered pension fund and is exempt from income tax. Income generated by segregated funds above the statutory limit of tax-exempt contributions are taxable at the prevailing statutory tax rates.

#### Financial instruments

##### *Financial assets*

Financial assets are recognised initially at cost using settlements data accounting. Held to maturity investments are subsequently measured at amortised cost while financial assets held for trading and available for sale are measured at fair value. Gains or losses on changes in fair value of each category of asset are reported in the income statement in the year in which they arise. All financial assets are subject to review for impairment at the year end.

##### *Financial liabilities*

Financial liabilities are recognised initially at cost.

##### *Investments*

All purchases and sales of investments are recognised on the trade date, which is the date the Scheme commits to purchase or sell the asset. The cost of purchase includes transaction costs. The Scheme subsequently determines the appropriate classification of its investments and re-evaluates such designation on a regular basis; the classification is dependent on the purpose for which the investments are acquired.

Investments 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, are classified as available-for-sale and are carried at fair value. Investments are classified and measured as follows:

Kenya Forestry Research Institute  
Defined Contribution Retirement Benefits Scheme

Accounting policies (continued)

For the year ended 30 June 2014

- (i) Investments in equity instruments quoted on the Nairobi Securities Exchange or other equity markets are stated at market values ruling as at the year-end date. Their fair value is calculated by reference to the securities exchange quoted bid prices at the close of business on the reporting date. Gains or losses on revaluation of equity instruments are dealt with in the statement of changes in net assets.
- (ii) Treasury and corporate bonds are classified as held at fair value through profit or loss and are carried at market values ruling at the reporting date. Gains or losses on revaluation of equity instruments are dealt with in the statement of changes in net assets.
- (iii) Fixed and call deposits are classified as originated loans. These are carried at amortised cost (i.e. cost plus accrued income), using the effective yield method.

**Receivables**

Accounts receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on the review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps to recover them have failed.

**Payables**

Liabilities are carried at cost which is the fair value of the consideration to be paid in future for goods and services received whether billed or not.

**Benefits payable**

Benefits payable are taken into account in the period in which they fall due.

**Impairment of assets**

The carrying amounts of the Scheme's assets are reviewed annually at the balance sheet date to determine if there is any indication of impairment. If such condition is identified, the asset's net recoverable amount is estimated. Where the asset's carrying amount exceeds its net recoverable amount, it is written down immediately to the recoverable amount and the resulting impairment loss is treated as an expense in the statement of changes in net assets.

**Equipment and depreciation**

All categories of equipment are initially recorded at cost.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the scheme and the cost can be measured reliably. All other repairs and maintenance are charged to the statement of changes in net assets available for benefits during the financial period in which they are incurred.

Depreciation is calculated on a straight line method to write down their cost to their residual values over their expected useful lives using the following annual rates:

	Rate
Office equipment	50%

**Contributions receivable**

Current service and other contributions are accounted for in the period in which they fall due.

**Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

**Critical judgements in applying the Scheme's accounting policies**

In the process of applying the Scheme's accounting policies, the Trustees have made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Notes to the financial statements  
 For the year ended 30 June 2014

**1 Financial risk management**

The Scheme generates revenues for the members by investing in various income generating activities, which involve trading in the securities exchange, trading in government securities and offshore investments. These activities expose the fund to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates.

The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the investment managers and the Trustees under policies approved by the trustees. Investment managers review the market trends and information available to evaluate the potential exposures. They then arrive at strategies to mitigate against market risks.

The Trustees provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

**A Market risk**

**i) Foreign exchange risk**

The scheme invests regionally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar . Foreign exchange risk arises from offshore investments.

The scheme's evaluation of currency risk is low because the funds are held for a long term period and any currency losses are expected to be recouped through interest income received and which comprises the value of the scheme. The scheme manages foreign risk by limiting offshore investments to strategic range of 5% - 15% of total portfolio.

At 30 June 2014, if the Kenya Shilling had weakened/strengthened by 5% against the US Dollar with all the other variables held constant, the increase or decrease respectively in net returns on investments would amount to approximately Shs 613,695 (2013: Shs 530,545).

Since the above do not constitute trading activities, the Scheme does not manage foreign exchange risk arising from future commercial activity but only revalues the assets and liabilities at the prevailing exchange rates at the end of the year

**ii) Price risk**

The scheme is exposed to equity securities price risk because of investments in quoted shares classified at fair value through the statement of changes in net assets. The scheme is not exposed to commodity price risks. To manage its price risks arising from investments in equity and debt securities, the scheme diversifies its portfolio. Diversification of the portfolio is done in accordance with investment policy statement which is reviewed after every three years. All quoted shares held by the scheme are traded on the Nairobi Securities Exchange(NSE).

		2014 Shs	2013 Shs
Effect on returns from investment	5% appreciation	17,596,036	15,670,403
	5% depreciation	(17,596,036)	(15,670,403)
Effect on fund balance	5% appreciation	17,596,036	15,670,403
	5% depreciation	(17,596,036)	(15,670,403)

**B Credit risk**

Credit risk arises from cash and cash equivalents, fixed deposits, interest bearing investments, deposits with banks and receivables As part of the credit risk management system, the Investment manager and the Trustees monitor and review information on significant investments, Trustees have approved larger portfolio investments with the Government of Kenya which has a high credit rating and has the lowest default record.

Kenya Forestry Research Institute  
Defined Contribution Retirement Benefits Scheme

Notes to the financial statements (continued)

For the year ended 30 June 2014

The amount that best represents the Scheme's exposure to credit risk as at 30 June 2014 and 30 June 2013 is made up as follows:

At 30 June 2014

	Fully performing Shs	Past due Shs	Impaired Shs	Total Shs
Treasury bonds	763,454,248	-	-	763,454,248
Corporate bonds	58,256,406	-	-	58,256,406
Bank balances	13,064,388	-	-	13,064,388
Fixed and call deposits	47,186,608	-	-	47,186,608
Commercial papers	19,100,467	-	-	19,100,467
Receivables	110,574,091	-	-	110,574,091
Prepaid tax	180,183	-	-	180,183
	<u>1,011,816,391</u>	<u>-</u>	<u>-</u>	<u>1,011,816,391</u>

	Fully performing Shs	Past due Shs	Impaired Shs	Total Shs
Treasury bonds	645,790,199	-	-	645,790,199
Corporate bonds	57,180,913	-	-	57,180,913
Bank balances	11,170,881	-	-	11,170,881
Fixed and call deposits	81,812,439	-	-	81,812,439
Receivables	804,256	-	-	804,256
Prepaid tax	188,469	-	-	188,469
	<u>796,947,157</u>	<u>-</u>	<u>-</u>	<u>796,947,157</u>

**C Liquidity risk**

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, and the availability of funding from an adequate amount of committed credit facilities.

The table below analyses the Scheme's financial assets and liabilities analysed into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

	Up to 3 months Shs	3 - 12 months Shs	Over 1 year Shs	Total Shs
<b>2014</b>				
<b>Financial Assets</b>				
Treasury bonds	35,204,051	79,549,591	648,700,606	763,454,248
Corporate bonds	-	14,251,882	44,004,524	58,256,406
Fixed and call deposits	47,186,608	-	-	47,186,608
Bank balances	13,064,388	-	-	13,064,388
Commercial papers	19,100,467	-	-	19,100,467
Receivables and accrued income	110,574,091	-	-	110,574,091
Prepaid tax	-	180,183	-	180,183
	<u>225,129,605</u>	<u>93,981,656</u>	<u>692,705,130</u>	<u>1,011,816,391</u>
<b>Financial Liabilities</b>				
Other payables and accruals	11,650,126	2,665,582	-	14,315,708
Benefits payable	1,499,045	-	-	1,499,045
	<u>13,149,171</u>	<u>2,665,582</u>	<u>-</u>	<u>15,814,753</u>
<b>Net liquidity gap</b>	<u>211,980,434</u>	<u>91,316,074</u>	<u>692,705,130</u>	<u>996,001,638</u>

Kenya Forestry Research Institute  
Defined Contribution Retirement Benefits Scheme

Notes to the financial statements (continued)  
For the year ended 30 June 2014

	Up to 3 months Shs	3 - 12 months Shs	Over 1 year Shs	Total Shs
<b>2013</b>				
<b>Financial Assets</b>				
Treasury bonds	8,060,621	50,450,623	587,278,955	645,790,199
Corporate bonds	5,288,940	-	51,891,973	57,180,913
Fixed and call deposits	81,812,439	-	-	81,812,439
Bank balances	11,170,881	-	-	11,170,881
Receivables and accrued income	804,256	-	-	804,256
Prepaid tax	-	188,469	-	188,469
	<u>107,137,137</u>	<u>50,639,092</u>	<u>639,170,928</u>	<u>796,947,157</u>
<b>Financial Liabilities</b>				
Other payables and accruals	18,165,977	1,975,061	-	20,141,038
Benefits payable	1,822,849	-	-	1,822,849
	<u>19,988,826</u>	<u>1,975,061</u>	<u>-</u>	<u>21,963,887</u>
<b>Net liquidity gap</b>	<u>87,148,311</u>	<u>48,664,031</u>	<u>639,170,928</u>	<u>774,983,270</u>

**D Fair Value of financial assets and liabilities**

The table below shows an analysis of financial instruments at fair value by level of the fair value hierarchy. The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices ( unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 Shs	Level 2 Shs	Level 3 Shs	Total Shs
<b>30 June 2014</b>				
Held for trading through profit or loss:				
Local equity investments	351,920,726	-	-	351,920,726
Treasury bonds	763,454,248	-	-	763,454,248
Corporate bonds	8,995,224	-	-	8,995,224
	<u>1,124,370,198</u>	<u>-</u>	<u>-</u>	<u>1,124,370,198</u>
	Level 1 Shs	Level 2 Shs	Level 3 Shs	Total Shs
<b>30 June 2013</b>				
Held for trading through profit or loss:				
Local equity investments	313,408,068	-	-	313,408,068
Treasury bonds	645,790,199	-	-	645,790,199
Corporate bonds	10,727,430	-	-	10,727,430
	<u>969,925,697</u>	<u>-</u>	<u>-</u>	<u>969,925,697</u>

There were no transfers between levels 1, 2 and 3 during the year.

Kenya Forestry Research Institute  
Defined Contribution Retirement Benefits Scheme

Notes to the financial statements (continued)  
For the year ended 30 June 2014

	2014 Shs	2013 Shs
<b>2 Contributions receivable and benefits payable</b>		
<b>a) Contributions receivable</b>		
Employer	41,736,592	40,536,185
Employees	20,820,894	20,203,396
	<u>62,557,486</u>	<u>60,739,581</u>
<b>b) Transfers in</b>		
Group transfers in from other scheme	<u>94,016,819</u>	<u>942,742,304</u>
The above represents funds transferred from Kenya Forestry Research Institute Staff Retirement Benefits Scheme		
<b>c) Benefits to leavers</b>		
Lump sum payments		
Withdrawals	<u>11,771,363</u>	<u>20,646,479</u>
<b>3 Investment income</b>		
Dividends income on equity shares	10,405,975	7,291,776
Interest and discounts receivable		
- Treasury bonds	72,409,877	34,702,989
- Corporate bonds	7,128,645	2,454,317
- Commercial papers	582,057	-
- Fixed and call deposits	11,822,115	1,878,849
- Rebates	3,125	827,514
Realised gain/(loss) on disposal of investments		
- Treasury bonds	(1,426,982)	(1,335,887)
- Corporate bonds	(98,977)	-
- Quoted shares	3,388,781	8,689,963
Income due from KEFRI Defined Benefits Scheme	10,383,403	-
	<u>114,598,019</u>	<u>54,509,521</u>
The investment income analysed by categories of financial assets is as follows:-		
Held to maturity	19,433,840	5,160,680
Held at fair value	84,780,776	49,348,841
Other	10,383,403	-
	<u>114,598,019</u>	<u>54,509,521</u>
<b>4 Fair value gain/(loss) on investments</b>		
Quoted shares	42,603,582	56,011,441
Treasury bonds	(24,533,601)	22,076,992
Offshore investments	1,663,012	(645,881)
Corporate bonds	(105,372)	1,356,322
	<u>19,627,621</u>	<u>78,798,874</u>
<b>5 Investment management expenses</b>		
Management fees	6,115,517	5,636,509
Custodial fees	2,465,178	2,140,314
	<u>8,580,695</u>	<u>7,776,823</u>



Kenya Forestry Research Institute  
Defined Contribution Retirement Benefits Scheme

Notes to the financial statements (continued)  
For the year ended 30 June 2014

	2014 Shs	2013 Shs
<b>6 Administrative expenses</b>		
RBA Levy	2,540,302	1,850,941
Administrators' fees	3,452,755	3,857,078
AGM expenses	727,781	895,742
Bank charges	26,736	276,352
Audit fees	125,280	124,120
Education & training	609,094	139,098
Trustees allowances	1,193,113	1,293,671
Printing & stationery	141,315	118,905
Travelling & accommodation	314,762	393,744
General office expenses	50,255	192,706
Depreciation on equipment	91,450	87,750
	<u>9,272,843</u>	<u>9,230,107</u>
<b>7 a) Income tax expense</b>		
Net investment income on unregistered portion of the scheme	<u>216,853</u>	<u>156,307</u>
Current tax at 30%	<u>65,056</u>	<u>46,892</u>
<b>b) Tax payable/(recoverable)</b>		
At beginning of year	(188,469)	-
Tax paid during the year	(56,770)	(235,361)
Tax charge for the year	65,056	46,892
At end of year	<u>(180,183)</u>	<u>(188,469)</u>
<b>8 Office equipment</b>		
<b>Cost</b>		
As at 1 July	175,500	-
Additions	7,400	175,500
As at 30 June	<u>182,900</u>	<u>175,500</u>
<b>Depreciation</b>		
As at 1 July	87,750	-
Charge for the year	91,450	87,750
As at 30 June	<u>179,200</u>	<u>87,750</u>
<b>Net book value</b>		
As at 30 June	<u>3,700</u>	<u>87,750</u>

Kenya Forestry Research Institute  
Defined Contribution Retirement Benefits Scheme

Notes to the financial statements (continued)  
For the year ended 30 June 2014

	2014 Shs	2013 Shs
<b>9 Treasury bonds - Held at fair value</b>		
As at 1 July	645,790,199	-
Additions	223,047,068	693,433,284
Disposal proceeds	(79,422,436)	(68,384,190)
Loss on disposal	(1,426,982)	(1,335,887)
Fair value gain/(loss)	(24,533,601)	22,076,992
Market value at 30 June	<u>763,454,248</u>	<u>645,790,199</u>

The weighted average interest rate on treasury bonds was 12.21% (2013 - 11.48%) as at end of year.

**10 Corporate bonds**

As at 1 July	57,180,913	-
Additions	5,000,000	55,824,591
Disposal	(3,603,860)	-
Gain/(loss) on disposal	(98,977)	-
Fair value gain/(loss)	(105,372)	1,356,322
Accrued interest adjustment	(116,298)	-
Value at 30 June	<u>58,256,406</u>	<u>57,180,913</u>

All corporate bonds are held at amortised cost except for Kengen PIBO which is carried at market value.  
The weighted average interest rate on corporate bonds was 11.52% (2013 - 10.81%) as at end of year.

**11 Commercial papers**

As at 1 July	-	-
Additions	18,518,410	-
Accrued interest	582,057	-
Market value at 30 June	<u>19,100,467</u>	<u>-</u>

The weighted average interest rate on corporate bonds was 11.16% as at end of year.

**12 Fixed and call deposits**

Chase Bank Limited	15,789,364	-
Eco Bank Limited	3,100,685	1,021,699
Family Bank Limited	5,169,521	-
NBK Bank Limited	1,027,123	1,000,397
Housing Finance Co Limited	22,099,915	-
Diamond Trust Limited	-	1,011,096
Imperial Bank Limited	-	7,013,425
Commercial Bank of Africa Limited	-	26,125,193
Development Bank of Kenya Limited	-	13,017,808
Equity Bank Limited	-	1,001,972
I & M Bank Limited	-	31,620,849
	<u>47,186,608</u>	<u>81,812,439</u>

The weighted average interest rate on fixed and call deposits was 10.28% (2013- 8.34%) as at end of year.

**13 Offshore investments**

As at 1 July	10,610,891	-
Additions	-	11,256,772
Fair value gain/(loss)	1,663,012	(645,881)
Market value at 30 June	<u>12,273,903</u>	<u>10,610,891</u>

Kenya Forestry Research Institute  
Defined Contribution Retirement Benefits Scheme

Notes to the financial statements (continued)  
For the year ended 30 June 2014

	2014 Shs	2013 Shs
<b>14 Receivables and accrued income</b>		
Dividends receivable	2,011,310	714,053
Withholding tax recoverable	-	90,203
Due from the KEFRI Defined Benefits Scheme	108,562,781	-
	<u>110,574,091</u>	<u>804,256</u>
<b>15 Cash in hand and at bank</b>		
Barclays Bank of Kenya Ltd - Administrative account	12,129,862	2,211,942
Standard Chartered Bank - Custody account	934,526	8,219,365
Cash in hand and in transit	-	739,574
	<u>13,064,388</u>	<u>11,170,881</u>
<b>16 Payables and accruals</b>		
RBA Levy	2,540,302	1,850,941
Audit fees	125,280	124,120
Management fees	1,506,367	1,466,958
Custodian fees	192,095	197,238
Administration	3,452,756	-
Contributions overpaid by sponsor	976,758	486,061
Due to KEFRI SRBS (defined benefit scheme)	5,522,150	16,015,720
	<u>14,315,708</u>	<u>20,141,038</u>
<b>17 Cash and cash equivalents</b>		
For the purposes of the cash flow statement, cash and cash equivalents include cash at bank, and short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired		
Cash at bank	13,064,388	11,170,881
Fixed and call deposits	47,186,608	81,812,439
	<u>60,250,996</u>	<u>92,983,320</u>
<b>18 Currency</b>		
The financial statements are presented in Kenya Shillings (Shs)		

Kenya Forestry Research Institute  
Defined Contribution Retirement Benefits Scheme

Notes to the financial statements (continued)  
For the year ended 30 June 2014

19 Investments in equity shares - Held at fair value

At 1.7.13	Additions	Disposals	Bonus	At 30.6.14	Description	Market value at 1.7.2013 Shs	Additions Shs	Proceeds on disposal Shs	Gain/(loss) on disposals Shs	Net market gain/(loss) on revaluation Shs	Market value as at 30.6.2014 Shs
84,370	-	-	-	84,370	Bamburi Cement Ltd	18,139,550	-	-	-	(3,459,170)	14,680,380
241,657	-	(241,657)	-	-	Barclays Bank Ltd	3,794,015	-	(3,901,433)	107,418	-	-
9,710	-	(72,825)	63,115	-	Carbacid Investments Ltd	1,359,400	-	(2,259,383)	899,983	-	-
192,253	-	(192,253)	-	-	CMC Holdings Ltd	2,595,416	-	(2,499,289)	(96,127)	-	-
1,380,729	200,000	(245,000)	189,288	1,525,017	Co-op Bank of Kenya Ltd.	21,194,190	3,559,685	(5,526,913)	1,766,163	8,439,703	29,432,828
39,132	3,700	-	-	42,832	Diamond Trust Bank Ltd	6,652,440	887,999	-	-	2,739,241	10,279,680
1,207,216	-	(547,000)	-	660,216	Equity Bank Ltd	37,725,500	-	(22,279,261)	5,185,511	9,738,186	30,369,936
80,696	-	-	-	80,696	East African Breweries Ltd	26,871,768	-	-	-	(4,034,800)	22,836,968
1,117,789	-	(467,000)	-	650,789	Kenya Comm Bank Ltd	41,358,193	-	(22,955,247)	5,676,247	9,111,046	33,190,239
1,803,911	-	(1,803,911)	-	-	Kengen Co. Ltd	27,329,251	-	(17,819,545)	(9,509,706)	-	-
1,831,473	-	-	-	1,831,473	Kenya Power & L Co. Ltd	26,556,359	-	-	-	(2,197,768)	24,358,591
93,214	-	(93,214)	-	-	Kenya Airways Ltd	927,479	-	(1,180,495)	253,016	-	-
975,934	-	(975,934)	-	-	Mumias Sugar Co. Ltd	4,098,923	-	(3,037,094)	(1,061,829)	-	-
95,790	-	(40,000)	-	55,790	Nation Media Group Ltd	28,832,790	-	(12,502,088)	462,088	502,110	17,294,900
566,747	-	(200,000)	56,675	423,422	NIC Bank Ltd	30,037,591	-	(11,651,296)	1,051,296	4,909,174	24,346,765
3,043,466	2,000,000	-	-	5,043,466	Safaricom Ltd	19,934,702	25,815,098	-	-	17,041,352	62,791,152
19,808	20,000	(39,808)	-	-	Scangroup Ltd	1,198,384	1,040,712	(1,815,782)	(423,314)	-	-
36,993	38,000	-	-	74,993	Standard Chartered B Ltd	10,616,991	11,823,966	-	-	731,880	23,172,837
90,981	-	(90,981)	-	-	Tourism Promotion Serv Ltd.	4,185,126	-	(3,263,161)	(921,965)	-	-
-	5,500	-	-	5,500	I & M Holdings Ltd	-	698,223	-	-	60,777	759,000
-	323,000	-	-	323,000	Athi River Mining Cement Ltd	-	26,729,665	-	-	(889,665)	25,840,000
-	1,550,000	-	-	1,550,000	Kenol Kobli	-	14,062,694	-	-	(500,194)	13,562,500
-	732,600	-	-	732,600	Kenya Re Ins. Corp. Ltd	-	14,006,735	-	-	95,815	14,102,550
-	59,800	-	-	59,800	Umeme (Uganda) Ltd	-	704,165	-	-	73,235	777,400
-	100,000	-	-	100,000	Centum Investment Co Ltd	-	3,882,340	-	-	242,660	4,125,000

313,408,068      103,211,282      (110,690,987)      3,388,781      42,603,582      351,920,726