

**KENYA FORESTRY RESEARCH INSTITUTE
STAFF RETIREMENT BENEFITS SCHEME**

**ANNUAL REPORT
AND FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2014

Kenya Forestry Research Institute
Staff Retirement Benefits Scheme

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

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Kenya Forestry Research Institute
Staff Retirement Benefits Scheme

Statutory and corporate information
For the year ended 30 June 2014

Trustees	: Dr. Mercy W Gichora : Ms. Juliana K Makau : 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	- Chairperson - Secretary
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 Limited : 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	

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 Staff Retirement Benefits Scheme was established and is governed by a trust deed dated 1 December 1989.

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 benefits scheme.

2 Membership

	2014	2013
Contributing members		
Members as at 1 July	37	37
New entrants during the year	-	-
	<u>37</u>	<u>37</u>
Withdrawals from the scheme	(3)	-
Members as at 30 June	<u>34</u>	<u>37</u>

3 Contributions

Members contribute to the scheme at the rate of 5% of their respective basic salaries while sponsor contributes at a rate periodically determined by the scheme actuary to meet the remainder of the cost of providing benefits under the scheme. The sponsors' monthly contribution rate for the year was 13.2% of members basic salaries.

4 Results for the year

The decrease in net assets for the year amounted to Shs 74,080,954 (2013: decrease Shs 787,355,491) resulting in net assets of the scheme as at 30 June 2014 of Shs 100,106,649 (2013: Shs 174,187,603).

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	187,520,723	91.4%	96,796,342	65.6%
Investment in quoted shares	1,330,250	0.6%	15,207,424	10.3%
Corporate bonds	6,882,777	3.4%	7,014,029	4.7%
Fixed and call deposits	5,437,393	2.6%	28,648,815	19.4%
Commercial papers	4,071,766	2.0%	-	-
	<u>205,242,909</u>	<u>100%</u>	<u>147,666,610</u>	<u>100%</u>

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

6 Actuarial position

The last actuarial valuation of the scheme was completed as at 30 June, 2011 by Alexander Forbes Financial Services (E.A) Limited, an independent firm of actuaries using the projected unit credit method. The main aim of actuarial valuation is to compare the value of assets as at the valuation date against the value of accrued benefits to determine the financial solvency of the scheme.

The valuation results showed the actuarial value of liabilities exceeded the assets as at 30 June, 2011 by Shs 72.9 million. The funding level was 93% which is below the Retirement Benefits Act minimum funding requirement of 100%.

Remedial action plan

Pursuant to the provisions of Regulations 4(2) of the Retirement Benefits (Minimum Funding Level and Winding up of Schemes) Regulations 2000 under the Retirement Benefits Act 1997 as amended, the trustees together with the sponsor submitted a remedial action plan to the Retirement Benefits Authority.

The remedial action plan indicated the sponsors' commitment to settle the actuarial deficit by quarterly contributions of Shs 7,069,000 within three years with the first payment due by 30 September 2011. During the year, the sponsor contributed Shs 25,623,998 (2013: Shs 19 million) towards settlement of the deficit.

Actuarial valuation as at 30 June, 2014 is currently in progress.

7 Statutory aspects

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

8 Trustees

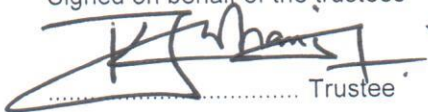
The current members of the board of trustees are shown on page 2.

9 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
2014

**Kenya Forestry Research Institute
Staff 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 Staff 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 Staff 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 Staff 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.

13/08
.....,2014.

Kenya Forestry Research Institute
Staff Retirement Benefits Scheme

Report of the independent auditor to the members of Kenya Forestry Research Institute Staff 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 Staff 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.

Kingori Kimani & Company

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



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Kenya Forestry Research Institute
Staff Retirement Benefits Scheme

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

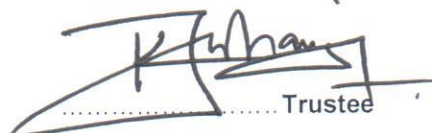
	Note	2014 Shs	2013 Shs
Contributions and benefits			
Contributions receivable	2 (a)	1,939,854	1,912,652
Actuarial deficit funding	2 (b)	25,623,998	19,000,000
Benefits to seceding members	2 (c)	(5,222,058)	(440,756)
Transfers out	2 (d)	(94,016,819)	(942,742,304)
Net withdrawal from dealings with members		<u>(71,675,025)</u>	<u>(922,270,408)</u>
Returns on investment			
Investment income	3	8,043,470	126,769,970
Fair value gain/(loss) on investments	4	(4,879,237)	9,462,889
Investment management expenses	5	(1,494,780)	(751,174)
Net returns on investments		<u>1,669,453</u>	<u>135,481,685</u>
Administrative expenses	6	<u>(4,075,382)</u>	<u>(566,768)</u>
Decrease in net assets for the year		<u><u>(74,080,954)</u></u>	<u><u>(787,355,491)</u></u>
Allocated as follows:			
Members' funds		<u><u>(74,080,954)</u></u>	<u><u>(787,355,491)</u></u>

Kenya Forestry Research Institute
Staff Retirement Benefits Scheme

Statement of net assets
For the year ended 30 June 2014

	Note	2014 Shs	2013 Shs
Investments			
Office equipment	12	-	31,230
Investments in equity shares	18	1,330,250	15,207,424
Treasury bonds	7	187,520,723	96,796,342
Corporate bonds	8	6,882,777	7,014,029
Commercial paper	9	4,071,766	9,838,515
Fixed and call deposits	10	5,437,393	28,648,815
Investments for benefits held in trust	11	87,706,122	70,291,705
		<u>292,949,031</u>	<u>227,828,060</u>
Current assets			
Receivables and accrued income	13	5,670,673	16,637,315
Bank balances	14	48,411	787,166
		<u>5,719,084</u>	<u>17,424,481</u>
Current liabilities			
Benefits held in trust	Appendix 2	87,706,122	70,291,705
Payables and accruals	15	109,853,030	667,689
Benefits payable		1,002,314	105,544
		<u>198,561,466</u>	<u>71,064,938</u>
Net current liabilities		<u>(192,842,382)</u>	<u>(53,640,457)</u>
Net assets available		<u>100,106,649</u>	<u>174,187,603</u>
Financed by:			
Members' balances		<u>100,106,649</u>	<u>174,187,603</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
Staff Retirement Benefits Scheme

Statement of cash flows
For the year ended 30 June 2014

	Notes	2014 Shs	2013 Shs
Operating activities			
Contributions received		27,563,852	20,163,672
Benefits paid		(4,325,288)	(335,212)
Administrative expenses		(3,463,765)	(2,038,068)
Interfund transactions		25,500,438	(959,623,789)
Net cash from/(used in) operating activities		<u>45,275,237</u>	<u>(941,833,397)</u>
Investing activities			
Investment income received		6,829,029	57,357,161
Investment management expenses paid		(1,452,605)	(1,969,203)
Purchase of treasury bonds		(98,172,661)	(142,579,071)
Purchase of offshore investments		-	(20,695)
Purchase of equity shares		-	(22,208,768)
Purchase of corporate bonds		-	(21,969,095)
Purchase of commercial paper		(13,728,550)	(42,792,810)
Proceeds on sale of treasury bonds		2,719,506	601,584,145
Proceeds on sale of offshore investments		-	11,256,772
Proceeds on sale of quoted shares		14,485,225	318,545,454
Proceeds on sale of corporate bonds		94,642	63,305,674
Proceeds on sale of commercial paper		20,000,000	38,875,600
Net cash from/(used) in investing activities		<u>(69,225,414)</u>	<u>859,385,164</u>
Decrease in cash and cash equivalents		(23,950,177)	(82,448,233)
Cash and cash equivalents at 1 July		29,435,981	111,884,214
Cash and cash equivalents at 30 June	16	<u>5,485,804</u>	<u>29,435,981</u>

Kenya Forestry Research Institute
Staff Retirement Benefits Scheme

Accounting policies
For the year ended 30 June 2014

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.

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, and subsequently measured at amortised 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:

- (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.

Accounting policies(continued)
For the year ended 30 June 2014

- (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

Pensions and other 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.

Kenya Forestry Research Institute
Staff Retirement Benefits Scheme

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) 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 investments	5% appreciation	66,512	760,371
	5% depreciation	(66,512)	(760,371)
Effect on fund balance	5% appreciation	66,512	760,371
	5% depreciation	(66,512)	(760,371)

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.

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	187,520,723	-	-	187,520,723
Corporate bonds	6,882,777	-	-	6,882,777
Fixed and call deposits	5,437,393	-	-	5,437,393
Commercial papers	4,071,766	-	-	4,071,766
Receivables	5,670,673	-	-	5,670,673
Bank balances	48,411	-	-	48,411
	<u>209,631,743</u>	<u>-</u>	<u>-</u>	<u>209,631,743</u>

Kenya Forestry Research Institute
Staff Retirement Benefits Scheme

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

At 30 June 2013	Fully performing Shs	Past due Shs	Impaired Shs	Total Shs
Treasury bonds	96,796,342	-	-	96,796,342
Corporate bonds	7,014,029	-	-	7,014,029
Commercial paper	9,838,515	-	-	9,838,515
Bank balances	787,166	-	-	787,166
Fixed and call deposits	28,648,815	-	-	28,648,815
Receivables	16,637,315	-	-	16,637,315
Bank balances	787,166	-	-	787,166
	<u>160,509,348</u>	<u>-</u>	<u>-</u>	<u>160,509,348</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
2014				
Financial Assets				
Treasury bonds	6,116,504	632,557	180,771,662	187,520,723
Corporate bonds	332,075	5,131,818	1,418,884	6,882,777
Fixed and call deposits	5,437,393	-	-	5,437,393
Commercial papers	4,071,766	-	-	4,071,766
Receivables and accrued income	5,670,673	-	-	5,670,673
Bank balances	48,411	-	-	48,411
	<u>21,676,822</u>	<u>5,764,375</u>	<u>182,190,546</u>	<u>209,631,743</u>
Financial Liabilities				
Other payables and accruals	109,581,655	271,375	-	109,853,030
Benefits payable	1,002,314	-	-	1,002,314
	<u>110,583,969</u>	<u>271,375</u>	<u>-</u>	<u>110,855,344</u>
Net liquidity gap	<u>(88,907,147)</u>	<u>5,493,000</u>	<u>182,190,546</u>	<u>98,776,399</u>
	Up to 3 months Shs	3 - 12 months Shs	Over 1 year Shs	Total Shs
2013				
Financial Assets				
Treasury bonds	260,020	1,567,869	94,968,453	96,796,342
Corporate bonds	-	-	7,014,029	7,014,029
Commercial paper	9,838,515	-	-	9,838,515
Fixed and call deposits	28,648,815	-	-	28,648,815
Bank balances	787,166	-	-	787,166
Receivables and accrued income	16,637,315	-	-	16,637,315
	<u>56,171,831</u>	<u>1,567,869</u>	<u>101,982,482</u>	<u>159,722,182</u>

Kenya Forestry Research Institute
Staff 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
Financial Liabilities				
Other payables and accruals	249,714	417,975	-	667,689
Benefits payable	105,544	-	-	105,544
	<u>355,258</u>	<u>417,975</u>	<u>-</u>	<u>773,233</u>
Net liquidity gap	<u>55,816,573</u>	<u>1,149,894</u>	<u>101,982,482</u>	<u>158,948,949</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);
- 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
30 June 2014				
Held for trading through profit or loss:				
Local equity investments	1,330,250	-	-	1,330,250
Treasury bonds	187,520,723	-	-	187,520,723
Corporate bonds	326,387	-	-	326,387
	<u>189,177,360</u>	<u>-</u>	<u>-</u>	<u>189,177,360</u>

	Level 1 Shs	Level 2 Shs	Level 3 Shs	Total Shs
30 June 2013				
Held for trading through profit or loss:				
Local equity investments	15,207,424	-	-	15,207,424
Treasury bonds	96,796,342	-	-	96,796,342
Corporate bonds	390,979	-	-	390,979
	<u>112,394,745</u>	<u>-</u>	<u>-</u>	<u>112,394,745</u>

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

Kenya Forestry Research Institute
Staff Retirement Benefits Scheme

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

	2014 Shs	2013 Shs
2 Contributions receivable and benefits payable		
a) Contributions receivable		
Employer	1,378,677	1,358,954
Employees	561,177	553,698
	<u>1,939,854</u>	<u>1,912,652</u>
b) Actuarial deficit funding		
Employer contributions towards actuarial deficit	<u>25,623,998</u>	<u>19,000,000</u>
c) Benefits to leavers		
Lump sum payments		
Withdrawals	<u>5,222,058</u>	<u>440,756</u>
d) Transfers out		
Group transfers out to other scheme	<u>94,016,819</u>	<u>942,742,304</u>
The above represents funds transferred to Kenya Forestry Research Institute Defined Contribution Retirement Benefits Scheme		
3 Investment income		
Dividends income on equity shares	57,277	5,894,398
Interest and discounts receivable		
- Treasury bonds	10,750,165	35,781,363
- Corporate bonds	834,464	6,922,142
- Commercial papers	504,701	-
- Fixed and call deposits	5,512,364	9,882,555
- Rebates	16,835	89,945
Realised gain/(loss) on disposal of investments		
- Treasury bonds	(34,294)	11,472,621
- Offshore investment	-	1,339,257
- Quoted shares	788,968	55,387,689
- Corporate bonds	(3,607)	-
- Income due to KEFRI DC Scheme	(10,383,403)	-
	<u>8,043,470</u>	<u>126,769,970</u>
The investment income analysed by categories of financial assets is as follows:-		
Held to maturity	6,851,529	16,894,642
Held at fair value	11,575,344	109,875,328
Other	(10,383,403)	-
	<u>8,043,470</u>	<u>126,769,970</u>
4 Fair value gain/(loss) on investments		
Quoted shares	(180,917)	4,289,882
Corporate bonds	(3,840)	11,789
Treasury bonds	(4,694,480)	5,161,218
	<u>(4,879,237)</u>	<u>9,462,889</u>

Kenya Forestry Research Institute
Staff Retirement Benefits Scheme

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

	2014 Shs	2013 Shs
5 Investment management expenses		
Management fees	962,997	499,731
Custodian fees	531,783	251,443
	<u>1,494,780</u>	<u>751,174</u>
6 Administrative expenses		
RBA Levy	200,615	348,375
Administrators' fees	726,986	23,148
AGM expenses	727,781	27,703
Bank charges	-	584
Audit fees	70,760	69,600
Education & training	609,095	4,302
Trustee expenses	1,193,113	40,010
Printing & stationery	191,570	3,678
General office expenses	9,470	5,960
Travelling & accommodation	314,761	12,178
Depreciation on equipment	31,231	31,230
	<u>4,075,382</u>	<u>566,768</u>
7 Treasury bonds - Held at fair value		
As at 1 July	96,796,342	539,167,577
Additions	98,172,661	142,579,071
Disposal proceeds	(2,719,506)	(601,584,145)
Gain/(loss) on disposal	(34,294)	11,472,621
Fair value gain/(loss)	(4,694,480)	5,161,218
	<u>187,520,723</u>	<u>96,796,342</u>
Market value at 30 June		
The weighted average interest rate on treasury bonds was 11.68% (2013 - 11.44%) as at end of year.		
8 Corporate bonds		
As at 1 July	7,014,029	47,344,250
Additions	-	21,969,095
Disposal proceeds	(94,642)	(63,305,674)
Loss on disposal	(3,607)	-
Fair value gain/(loss)	(3,840)	11,789
Accrued interest adjustment	(29,163)	994,569
	<u>6,882,777</u>	<u>7,014,029</u>
Value at 30 June		
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 12.36% (2013 - 11.68%) as at end of year.		
9 Commercial paper		
As at 1 July	9,838,515	4,821,563
Additions	13,728,550	42,792,810
Disposal proceeds	(20,000,000)	(38,875,600)
Accrued interest adjustment	504,701	1,099,742
	<u>4,071,766</u>	<u>9,838,515</u>
Market value at 30 June		
The weighted average interest rate on corporate bonds was 11% as at end of year.		

Kenya Forestry Research Institute
Staff Retirement Benefits Scheme

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

	2014 Shs	2013 Shs
10 Fixed and call deposits		
Maturing within 90 days:		
Equity Bank Limited	-	5,334,076
CFC Stanbic Bank Limited	-	3,287,342
Development Bank of Kenya Limited	-	20,027,397
Chase Bank Limited	1,825,509	-
Family Bank Limited	2,584,760	-
National Bank Limited	1,027,124	-
	<u>5,437,393</u>	<u>28,648,815</u>
<p>The weighted average interest rate on fixed and call deposits was 10.88% (2013 - 16.63%) as at end of year.</p>		
11 Investments for benefits held in trust		
Net investments held (Appendix 2)	<u>87,706,122</u>	<u>70,291,705</u>
12 Office equipment		
Cost		
As at 1 July	963,110	963,110
Additions	-	-
At 30 June	<u>963,110</u>	<u>963,110</u>
Depreciation		
As at 1 July	931,880	900,650
Charge for the year	31,230	31,230
At 30 June	<u>963,110</u>	<u>931,880</u>
Net Book Value		
At 30 June	<u>-</u>	<u>31,230</u>
13 Receivables and accrued income		
Dividends receivable	15,180	27,345
Withholding tax recoverable	31,815	31,815
Due from KEFRI DC Scheme	5,522,150	16,015,720
Due from KEFRI Trust fund	-	460,907
Other receivables	101,528	101,528
	<u>5,670,673</u>	<u>16,637,315</u>
14 Cash in hand and at bank		
Standard Chartered Bank Ltd- Custody account	48,411	654,025
Cash in hand and transfer in transit	-	133,141
	<u>48,411</u>	<u>787,166</u>

Kenya Forestry Research Institute
Staff Retirement Benefits Scheme

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

	2014 Shs	2013 Shs
15 Payables and accruals		
RBA Levy	200,615	348,375
Audit fees	70,760	69,600
Management fees	253,260	208,330
Custodian fees	38,628	41,384
Administration fees	726,986	-
Due to KEFRI DC Scheme	108,562,781	-
	<u>109,853,030</u>	<u>667,689</u>

16 Cash and cash equivalents

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	48,411	787,166
Fixed and call deposits	5,437,393	28,648,815
	<u>5,485,804</u>	<u>29,435,981</u>

17 Currency

The financial statements are presented in Kenya Shillings (Shs)

Kenya Forestry Research Institute
Staff Retirement Benefits Scheme

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

18 Investments in equity shares - Held at fair value

At 1.7.13	Addition	Disposal	Bonus/ Split	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
2,530	-	-	-	2,530	Bamburi Cement Ltd	543,950	-	-	-	(103,730)	440,220
12,463	-	(12,463)	-	-	Barclays Bank Ltd	195,669	-	(210,898)	15,228	-	-
290	-	(2,175)	1,885	-	Carbacid Investments	40,600	-	(70,389)	29,789	-	-
5,747	-	(5,747)	-	-	CMC Holdings Ltd	77,585	-	(74,711)	(2,874)	-	-
86,271	-	(86,271)	-	-	Co-operative Bank Of Kenya	1,324,260	-	(1,511,111)	186,851	-	-
4,170	-	(4,136)	-	34	Diamond Trust Bank Ltd	708,900	-	(781,758)	78,638	2,380	8,160
62,084	-	(62,084)	-	-	Equity Bank Ltd	1,940,125	-	(2,058,184)	118,059	-	-
4,744	-	(4,744)	-	-	East African Breweries Ltd	1,579,752	-	(1,408,399)	(171,353)	-	-
80,411	-	(80,411)	-	-	Kenya Commercial Bank Ltd	2,975,207	-	(3,560,945)	585,738	-	-
53,920	-	(53,920)	-	-	Kengen Ltd	816,888	-	(588,112)	(228,776)	-	-
136,206	-	(69,900)	-	66,306	Kenya Power & Lighting Co	1,974,987	-	(1,033,396)	19,846	(79,567)	881,870
2,786	-	(2,786)	-	-	Kenya Airways Ltd	27,721	-	(33,754)	6,034	-	-
30,666	-	(30,666)	-	-	Mumias Sugar Co Ltd	128,797	-	(114,578)	(14,220)	-	-
2,863	-	(2,863)	-	-	Nation Media Group Ltd	861,763	-	(874,393)	12,630	-	-
25,940	-	(25,940)	-	-	NIC Bank Ltd	1,374,820	-	(1,540,013)	165,193	-	-
2,534	-	(2,534)	-	-	Safaricom Ltd	16,598	-	(19,327)	2,729	-	-
592	-	(592)	-	-	Scangroup Ltd	35,816	-	(27,000)	(8,815)	-	-
1,599	-	(1,599)	-	-	Standard Chartered Bank Ltd	458,913	-	(466,715)	7,802	-	-
2,719	-	(2,719)	-	-	Tourism Promotion Services	125,074	-	(111,542)	(13,531)	-	-
						15,207,424	-	(14,485,225)	788,968	(180,917)	1,330,250

Kenya Forestry Research Institute
Staff Retirement Benefits Scheme

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

	2014 Shs	2013 Shs
Benefit receipts and payments		
Receipts	17,612,942	24,301,689
Payments	(11,048,440)	(20,956,917)
Net surplus from dealing with members	<u>6,564,502</u>	<u>3,344,772</u>
Investment income		
- Interest from treasury bonds	9,839,105	5,993,590
- Interest from corporate bonds	528,039	552,018
- Interest on fixed and call deposits	960,677	446,071
- Rebates	4,529	7,346
- Realised gains on disposal of treasury bonds	185,316	661,725
	<u>11,517,666</u>	<u>7,660,750</u>
Less: Investment management expenses		
- Management fees	(406,437)	(346,764)
- Custody fees	(233,546)	(148,236)
- Bank charges	(27,768)	(23,572)
	<u>(667,751)</u>	<u>(518,572)</u>
Net investment income	10,849,915	7,142,178
Increase in net assets for the year	<u><u>17,414,417</u></u>	<u><u>10,486,950</u></u>

Kenya Forestry Research Institute
Staff Retirement Benefits Scheme

Benefits held in trust
Statement of net assets
For the year ended 30 June 2014

	2014 Shs	2013 Shs
Assets		
Investments		
Treasury bonds	73,878,433	57,867,770
Corporate bonds	6,595,687	3,131,318
Fixed and call deposits	3,261,739	6,143,644
Cash at bank current account	3,903,519	3,001,527
Cash at custody account	181,044	717,412
Total assets	<u>87,820,422</u>	<u>70,861,671</u>
Liabilities		
Investment management fees payable	(98,400)	(93,078)
Custodian fees payable	(15,900)	(15,981)
Due to KEFRI SRBS	-	(460,907)
	<u>(114,300)</u>	<u>(569,966)</u>
Net assets available	<u>87,706,122</u>	<u>70,291,705</u>
Financed by:		
Members' balances	<u>87,706,122</u>	<u>70,291,705</u>