

MZIMA SPRINGS SACCO SOCIETY LTD

C/S 3982

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2010

MZIMA SPRINGS SACCO SOCIETY LIMITED
C/S 3982

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MZIMA SPRINGS SACCO SOCIETY LIMITED
C/S 3982

Society Information

The Management Committee Members:

Management Committee

- | | |
|----------------------|-----------------|
| Mr. Geoffrey Injeni | - Chairman |
| Mr. Benard Wanjala | - Vice Chairman |
| Mr. Edward Gitau | - Treasurer |
| Ms. Josephine Muli | - Secretary |
| Mrs. Lynnette Malago | - Member |

Registered Office:

MZIMA SPRINGS SACCO SOCIETY LIMITED

Postal Address:

P.O. BOX 59857-00200

NAIROBI

Telephone: 606940, 606955 Ext. 2336

Principal Bankers:

(a) Co-operative Bank of Kenya

Ukulima Branch

Nairobi.

Auditor:

Menya & Associates

Certified Public Accountants

P.O. Box 10055-00100

Nairobi

MZIMA SPRINGS SACCO SOCIETY LIMITED
C/S 3982

Auditor:

Menya & Associates

Certified Public Accountants

P.O. BOX 10055-00100

Nairobi

Statistical Information As At 31st December 2010

	2010	2009
Membership - active	336	318
- resignees	41	31
Financial	Kshs	Kshs
Share capital	-	-
Members' deposits	47,269,287	40,510,451
Core capital	5,788,407	4,798,732
Loans to members	43,137,031	40,271,447
Investments	10,000	-
Assets	53,576,453	45,425,079
Liabilities	47,783,046	40,626,347
Interest income	5,035,581	4,033,956
Key ratios:		
Liquidity ratio	1.12:1	1.11:1
Percentage of expenses to revenue	78.72%	64.27%
Interest on members' deposits	4.92%	2.55%

Report of the management committee

The members of the management committee submit their annual report together with the audited financial statements for the year ended 31st December 2010

Incorporation

The society is incorporated in Kenya under the Sacco Societies Act No 14 of 2008 and is domiciled in Kenya.

Principal Activity

The principal activity of the society continued to be receiving savings from and provision of loans to its members.

Results

	2010	2009
	KSHS.	KSHS.
Surplus(deficit) before tax	1,071,604	1,441,370
Income tax expense	(1,530)	(5,682)
Net Surplus(deficit)for the year	970,074	1,370,688
Retained surplus for the year	777,820	1,133,550
Interest on Members' Deposits	2,327,275	1,031,363

The management committee recommends an interest on members' deposit/shares of 4.92% (2.55%as at 31st December 2009)

The management committee

The members of the management committee who served during the year and to the date of this report is as listed on page 3.

By order of the management committee

Signature...Jmuli..... date...4 March 2011.....

Secretary

Statement of Management Committees' Responsibilities

The SACCOs Act, No 14 of 2008 requires the management committee to prepare financial statements for each 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 IFRS. It also requires the management committee 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 general meeting.

The management committee accepts 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 in the manner required by the SACCO Societies Act No. 14 of 2008. The management committee is 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 management committee further accepts 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 management committee 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 Management Committee on..... and signed on its behalf by:

GInjeni.....Chairman

Signature

EGitau.....Treasurer

Signature

J Muli..... Management Committee Member

Signature

Report of the Independent Auditor to the members of MZIMA SPRINGS Sacco Limited

We have audited the accompanying financial statements of MZIMA SPRINGS Sacco Limited, set out on pages 10 to page22 which comprise the statement of financial position as at 31st December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Management Committee' Responsibility for the Financial Statements

The management committee 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's 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 management committee, 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.

MZIMA SPRINGS SACCO SOCIETY LIMITED
C/S 3982

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Society's financial affairs at 31st December 2010 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.

MENYA & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

NAIROBI

10 March 2011

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STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER 2010

	NOTES	2010 Kshs	2009 Kshs
INTEREST INCOME:			
Interest From Loans to Members		5,030,063	4,008,007
Other Interest Income	3	5,518	25,949
Net Interest Income		5,035,581	4,033,956
Administration expenses	4	(3,963,976)	(2,592,586)
Net operating surplus / (deficit) before income tax		1,071,604	1,441,370
Income tax expense		(1,530)	(5,682)
Donations		(100,000)	(65,000)
Net surplus/ (deficit) for the year		970,074	1,370,688
Other Comprehensive Income (OCI)			
Transfer to Statutory Reserve		(195,055)	(274,138)
Prior year adjustments:			
Member Loan adjustment		7,800	37,000
Overstated Audit Fee		(5,000)	-
Retained Surplus b/f		1,755,223	621,673
Comprehensive income for the year, net of tax		<u>2,533,043</u>	<u>1,755,223</u>

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2010

	NOTES	2010 KSHS	2009 KSHS
ASSETS			
Cash and cash equivalents	7	8,255,020	3,602,896
Prepayments and Trade receivables	8	1,643,650	1,031,380
Loans to members	9	43,137,031	40,271,447
Other financial assets	11	10,000	-
Property plant and equipment	12	530,752	519,356
Total assets		53,576,453	45,425,079
LIABILITIES			
Members' deposits	13	47,269,287	40,510,451
Current income tax payable	10	1,530	5,682
Trade payables and accrued expenses	14	517,228	110,214
Total liabilities		47,783,046	40,626,347
EQUITY			
Reserves	15	5,788,407	4,798,732
Total Equity		5,788,407	4,798,732
Total Liabilities and Equity		53,576,453	45,425,079

The financial statements on pages 10-21 were authorized for issue by the Management Committee on and signed on its behalf by:

- 1) Chairman.....
- 2) Treasurer.....
- 3) Management Committee Member.....

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2010

	Statutory Reserve	Entrance Fee	Revenue Reserve	Total
Year ended 2009				
At start of year	2,721,071	25,500	621,673	3,368,244
Adjustments resulting from changes in accounting policy	-	-	-	-
Restated balance	2,721,071	25,500	621,673	3,368,244
Changes in equity in 2009				
Revaluation surplus/deficit	-	-	1,376,370	
Income tax	-	-	(5,682)	
Transfers to equity	274,138	22,800	(274,138)	
Net gains/losses recognized directly in equity	-	-	37,000	
Surplus/deficit for the year	274,138	22,800	1,133,550	
At end of year	2,995,209	48,300	1,755,223	4,798,732
Year ended 2009				
At start of year	2,995,209	48,300	1,755,223	4,798,732
Adjustments resulting from changes in accounting policy	-	-	-	-
Restated balance	2,995,209	48,300	1,755,223	4,798,732
Changes in equity in 2009				
Revaluation surplus/deficit	-	-	971,604	
Income tax	-	-	(1,530)	
Transfers to equity	195,055	16,800	(195,055)	
Net gains/losses recognized directly in equity	-	-	2,800	
Surplus/deficit for the year	195,055	16,800	777,820	
At end of year	3,190,264	65,100	2,533,043	5,788,407

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER 2010

	2010	2009
	KSHS	KSHS
Cash flows from operating activities		
Interest receipts	5,035,581	4,033,956
Operating Expenses	(3,963,976)	(2,592,586)
Donations	(100,000)	(65,000)
Adjustments for:		
Depreciation	97,949	84,883
Understated opening balances	7,800	37,000
Understated Audit Fee	(5,000)	-
	<u>1,072,353</u>	<u>1,498,253</u>
(Increase) / decrease in operating assets		
Net Loans to members	(2,865,584)	(11,127,222)
Trade and other receivables	(612,270)	4,848,641
Increase / (decrease) in operating liabilities		
Deposits from members	6,758,836	8,197,077
Trade and accrued expenses	2,734,290	(2,358,930)
Net cash from operating activities before income taxes	7,087,626	1,057,819
Income tax paid	(5,682)	(7,607)
Net cash from operating activities	<u>7,081,944</u>	<u>1,050,212</u>
Cash flow from investing activities		
Purchase of property and equipment	(109,345)	(66,330)
Purchase of investments securities	(10,000)	-
Dividends received	-	-
Net cash from investing activities	<u>(119,345)</u>	<u>(66,330)</u>
Cash flow from financing activities		
Share capital contributions	-	-
Entrance fees	16,800	22,800
Dividends paid	(2,327,275)	(1,031,363)
Net cash from financing activities	<u>(2,310,475)</u>	<u>(1,008,563)</u>
Net (decrease)/increase in cash and cash equivalent	4,652,124	(24,681)
Cash and cash equivalent at the beginning of the	3,602,896	3,627,577

year

Cash and cash equivalents at the end of the year	<u>8,255,020</u>	<u>3,602,896</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 & basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRSs). These financial statements are presented in the functional currency, Kenya shillings (Kshs) rounded to

the nearest thousand (000) and prepared under the historical cost convention, except as specified below under fair value measurement in accordance with applicable IFRSs.

b) Revenue recognition

Interest on loans to members is calculated on a reducing balance method. Interest income is recognized

on a time proportion basis by reference to the principal outstanding and the effective interest rate applicable.

c) Property, plant and equipment

All property, plant and equipment are initially recorded at cost. Certain classes of property, plant and equipment are subsequently shown at revalued amounts, based on periodic valuations by the independent valuers, less subsequent. All other property plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

Increases in carrying value arising on revaluations are credited to other comprehensive income and accumulated in revaluation reserves in equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve. All other decreases are charged against the profit or loss.

Each year, the difference between the depreciation based on the revalued carrying amount of the asset (the depreciation charged to the income

Statement) and depreciation based on the assets original cost is transferred to retained earnings. Depreciation is calculated using the straight line method to write down the cost of each asset to its residual value over its estimated useful life. The annual depreciation rates in use are:

Asset	Rate (%)
Furniture, fittings and equipment	12.5
Computers, photocopiers and other accessories	30.0
Buildings	10.0%

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, amount in the revaluation reserve relating to that asset is transferred to retained earnings.

d) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest rate. A provision for impairment is recognised in the profit or loss in the year when the recovery of the amount due as per the original terms is doubtful. The provision is based on the difference between the carrying amount and the present value of the expected cash flows, discounted at the effective interest rate.

Receivables not collectible are written off against the related provision. Subsequent recoveries of amounts previously written off are credited to the profit or loss in the year of recovery.

e) Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

All financial liabilities are recognised initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through profit or loss, which are initially recognised at fair value and the transaction costs are expensed in the statement of comprehensive income.

Subsequently, all financial liabilities are carried at amortized cost using the effective interest method except for financial liabilities through profit or loss which are carried at fair value.

All financial liabilities are classified as non-current except financial liabilities at fair value through profit or loss, those expected to be settled in the company's normal operating cycle, those payable or expected to be paid within 12 months of the reporting date and those which the company does not have an unconditional right to defer settlement for at least 12 months after the reporting date.

f) 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. Note that for Sacco's, dividend and/or interest expense is deducted before computing/charging tax.

Income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the income tax is not accounted for if it arises from initial recognition of an asset or liability.

Currently enacted tax rates are used to determine income tax payable.

Income tax assets are recognized only to the extent that it is probable that the future taxable profits will be available against which temporary differences can be utilized.

g) Statutory reserves

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

h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and 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.

I) Provisions for liabilities and other charges

Provisions are recognised 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. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

3. Other Interest Income

	2010	2009
	KSHS	KSHS
Interest from Investment	54	18,939
Interest from bank	364	-
Other incomes from Members	5,100	7,010

MZIMA SPRINGS SACCO SOCIETY LIMITED
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Total	5,518	25,949
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4. Expenses	2010	2009
	KSHS	KSHS

Financial Expense

Distribution to members	2,327,275	1,031,363
Bank Charges and Commission Expense	26,210	28,105

Operating/Administrative Expenses

Salaries & Wages	590,866	548,898
Administration expenses	120,000	125,145
Printing & stationery	51,391	42,783
Telephone & postage	54,143	37,538
Sundry expenses	39,235	50,682
Depreciation and Amortisation	97,949	84,883
AGM expenses	79,958	58,870
CMC Expenses	396,000	292,696
Insurance expenses	112,750	196,143
Computer expenses (Website)	-	35,000
Disbursements	5,000	-
Supervision fees to the Commissioner	5,200	4,800
Auditors' remuneration	50,000	48,000
Auditors' remuneration (VAT)	8,000	7,680
Total	3,963,976	2,592,586

5. Net operating surplus

	2010	2009
	KSHS	KSHS
Net operating surplus before tax	1,071,604	1,441,370

The following items have been charged in arriving at net operating surplus:

a) Depreciation of property, plant and equipment	97,949	84,883
b) Employee benefits expense (Salaries & Wages)	590,866	548,898

6. Income tax	2010	2009
	KSHS	KSHS

Current Tax	1,530	5,682
Tax Expenses	1,530	5,682

Taxation is charged at 30% corporate rate on all other income except income derived from members.

7. Cash and cash equivalents	2010	2009
	KSHS	KSHS

Cash and cash equivalents at the end of the year comprise:-

Current	8,225,558	3,497,860
Savings	-	79,371
Cash in Hand	29,462	25,665
Total	8,255,020	3,602,896

8. Prepayments and sundry receivables	2010	2009
	KSHS	KSHS

Investment scheme	24,038	24,038
Resigned members loans	987,720	952,342
Resigned members	458,642	-
Prepayments	173,250	55,000

1,643,650	1,031,380
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Included in the Sacco's trade receivable balance are debtors with a carrying amount of Kshs. 1,643,650 (2010: KShs.1,031,380) which are past due at the reporting date for which the Sacco has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Sacco does not hold any collateral over these balances. .

9. Loan to members	2010	2009
	KSHS	KSHS

At the start of the year	40,271,447	29,144,223
Net disbursed loans during the year	2,865,584	11,127,224
At year end	43,137,031	40,271,447

10. Income Tax

Income tax is calculated using the enacted tax rate of 30% (2010: 30%).

Income tax assets and liabilities, deferred tax charge/(credit) in the profit or loss account and in other comprehensive income are attributable to the following items:

	2010	2009
	KSHS	KSHS
At the start of the year	5,682	-
Tax paid	(5,682)	-
Charge/(credit) to profit and loss account(see note 6)	1,530	5,682
At End of year	1,530	5,682

11. Other financial assets

	2010	2009
	KSHS	KSHS
Held to maturity financial Assets		
KUSCCO	10,000	-
	10,000	-

12. Property, plant and equipment

	Buildings	Furniture & fittings	Computer accessories	Total
	Kshs	Kshs	Kshs	Kshs
	10.00%	12.50%	30%	
Cost or valuation				
At 1 January 2009	456,024	69,543	263,200	788,767
Additions	-	24,500	41,830	66,330
Disposals	-	-	-	-
Balance as at 1 Jan. 2010	456,024	94,043	305,030	855,097
Additions	-	750	108,595	109,345
Disposals	-	-	-	-
Reclassified as held for sale				-
Balance at 31 Dec. 2010	456,024	94,793	413,625	964,442
Accumulated depreciation & impairment				
Balance as at 1 Jan.2009	19,001	31,849	200,008	250,858
Effects of prior year adjustment	-	-	-	-
Eliminated at disposal	-	-	-	-
Depreciation charge	45,602	7,774	31,507	84,883
Balance at 1 Jan 2010	64,603	39,623	231,515	335,741
Effect of prior year adjustment	-	-	-	-
Eliminated at disposal	-	-	-	-
Depreciation charge	39,142	6,888	51,918	97,949
Balance at 31 Dec.2010	103,745	46,511	283,433	433,690
Net Carrying amount				
As at 31 Dec. 2009	391,421	54,420	73,515	519,356

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As at 31 Dec.2010 **352,279 48,282 130,192 530,752**

13. Members' deposits	2010	2009
	Kshs	Kshs
At the start of the year	40,510,451	32,315,435
Net Contribution during the year	6,758,836	8,195,016
Total	47,269,287	40,510,451

14. Trade and other payables	2010	2009
	Kshs	Kshs
Dues to resigned members	434,449	35,155
Audit fees	50,000	48,000
VAT	8,000	7,680
Supervision fees	5,200	4,800
Disbursements	5,000	-
Sundry payables	14,579	14,579
Total	517,228	110,214

The average credit period on purchases of goods from suppliers is 1 month. No interest is charged on the trade payables for the first 30 days from the date of the invoice.

The Sacco has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. The average payment period during the year was 30 days. In the opinion of the management committee, the carrying amount of trade and other payables approximates to their fair value.

15. Reserves

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

The following are included in the computation of reserves.

	2010	2009
	Kshs	Kshs
Prior year's retained earnings	1,755,223	621,673
Current year's surplus	777,820	1,133,550
Statutory reserve	3,190,264	2,995,209
Entrance fees	65,100	48,300
Total	5,788,407	4,798,732

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The financial statements were registered by the ministry of cooperative development on 14 March 2011.