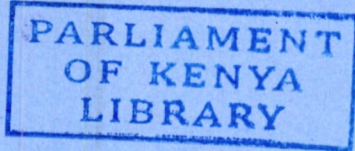


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



REPORT

*Paper laid by
hom on 13/4/2016 (pm)
GZR*

OF



THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA BROADCASTING CORPORATION

FOR THE YEAR
ENDED 30 JUNE 2015



Kenya (



YOUR NATIONAL BROADCASTER

KENYA BROADCASTING CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE, 2015

**Prepared in accordance with the Accrual Basis of Accounting Method under the
International Financial Reporting Standards**



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1. KEY ENTITY INFORMATION AND MANAGEMENT

Background information

The Kenya Broadcasting Corporation was formed in 1989 through an Act of parliament. The Corporation has a Board of Directors that is responsible for the general policy and strategic direction of the organization. It falls under the Ministry of Information, Communications and Technology.

Principal Activities

The principal activity of KBC is to transmit objective, informative, educative and entertaining content to the public through high quality broadcasts.

Key Management

The KBC's day-to-day management is under the following key organs:

- Managing Director,
- Heads of departments, and
- Assistant heads of departments.

Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2015 and who had direct fiduciary responsibility were:

| NO. | DESIGNATION | NAME |
|-----|-------------------------------------|-------------------|
| 1 | MANAGING DIRECTOR | WAITHAKA WAIHENYA |
| 2 | CORPORATION SECRETARY | PAUL JILANI |
| 3 | FINANCE & ADMINISTRATION MANAGER | H.M ISINTA |

| | | |
|----|--|------------------|
| 4 | TELEVISION PROGRAMMES MANAGER | MONICA WACHEKE |
| 5 | MARKETING MANAGER | FLORENCE MIGUNDE |
| 6 | ADVERTISING MANAGER | CAROLYNE MUTUNGA |
| 7 | PROCUREMENT MANAGER | ROBERT WEKESA |
| 8 | MANAGER ICT AND TECHNICAL SERVICES | AYUB IMBIRA |
| 9 | MANAGER CORPORATE PLANNING, RESEARCH AND DEVELOPMENT | SAMWEL OTIENO |
| 10 | CORPORATE AFFAIRS MANAGER | EVELYNE MWAKINA |
| 11 | EDITOR IN-CHIEF | SAMUEL MAINA |
| 12 | PRINCIPAL INTERNAL AUDITOR | SAMWEL NJERU |
| 13 | AG.RADIO PROGRAMMES MANAGER | JONAH KUSERO |
| 14 | AG.HUMAN RESOURCES MANAGER | DANIEL OKOTH |

Fiduciary Oversight Arrangements

KBC reports to the Public Investments Committee of parliament on unresolved matters raised by the Kenya National Audit Office.

The Corporation is also answerable to the Parliamentary Committee on Information, Energy and Public works on budgetary issues and any other policy matters raised in the floor of the National Assembly.

Entity Headquarters
P.O. Box 30456-00100,
Broadcasting House,
Harry Thuku Road,
Nairobi, KENYA.

Entity Contacts

Telephone: (254) 020-318823

Email: finance@kbc.co.ke

Website: www.kbc.co.ke

Entity Bankers

1. Citibank N.A.,
Citibank House, Upper Hill Road,
P.O Box 30711-00100,
Nairobi, Kenya.
2. Kenya Commercial Bank,
Moi Avenue,
Kencom House,
P.O. Box 30081-00100,
Nairobi, Kenya.
3. Commercial Bank Of Africa,
CBA Centre,
Mara and Ragati Roads, Upper Hill,
P.O. Box 30437-00100,
Nairobi, Kenya.


Auditors

Auditor- General,
Anniversary Towers, University way,
P.O. Box 30084-00100,
Nairobi, Kenya.

Principal Legal Advisor

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya.

2. THE BOARD OF DIRECTORS

| | |
|--|--|
|  <p>Eng. Edward Musebe Chairman</p> | <p>Currently GM ADIL, MD Chemelil sugar Company, projects Manager Unga Ltd, production Manager EAC, Engineering Manager EABL (Glass), Adjunct Lecturer USIU.</p> |
|  <p>Rev. Symon Kiuta</p> | <p>Master of Divinity(M.Div) Africa International University(AIU) Currently a Lecturer at Kabarak University Serving a second term as board member KBC</p> |
|  <p>Ms. Violet Chesang</p> | <p>Doctor of Philosophy (PHD) in English and Communication from Egerton University</p> |



Mr. Mohammed Jabane

Master of Arts (International Relations) Nairobi University
 Advanced Public Administration (K.I.A)
 Bachelor of Arts, political Science-Nairobi University
 Currently head of secretariat, Cabinet nominees
 Policy formulation and review on State Corporations.



Mr. Joseph Tiampati Ole Musuni

Mr. Joseph Tiampati Musuni is the Principal Secretary, Ministry of Information, Communications and Technology in the Government of Kenya.

Before his appointment to the Ministry in 2013, Mr. Tiampati worked as the General Manager in charge of Social Security with the National Social Security Fund (NSSF).

Prior to NSSF, Mr. Tiampati had served under various capacities with Kenya Commercial Bank (KCB) where he was a Head of Department in Credit and also served briefly as chairman of the Kenya Bankers Association (KBA) credit sub-committee. He was also a member of the KBA/CBK taskforce which introduced Credit Information Sharing in Kenya. An alumnus of Alliance Boys' High School. His Education includes an executive MBA from ESAMI/MSM and a Bachelor of Science (Hons) Degree in Mathematics from the University of Nairobi.



Ms. Joanne Mwangi

Ms. Mwangi was appointed as a director on March 25, 2013. She is the chair of the Finance and Marketing Committee of the KBC Board.

Holds a Bachelor of Arts Degree from the University of Nairobi, and an MBA, Strategic Management from the United States International University as well as numerous other professional accolades. She graduated with distinction in the Corporate Governance Training in 2014.

Ms Mwangi is the founder and Group Chief Executive Officer of Professional Marketing Services Group. She is also founder and chair of the Federation of Women Entrepreneur Associations (FEWA), which represents Kenya and chairs the board of FEMCOM at COMESA through Ms. Mwangi.



Mr. Waithaka Waihenya

Managing Director

Bachelors degree from Kenyatta University

Masters in Communication (Ongoing) from Leicester University

Previously Editor in Chief KBC, 3 and a half years associate Editor standard newspapers, in charge of day to day running of KBC as Managing Director



Mr. Paul Jilani
Corporation Secretary

Bachelors of Law (LLB) and Masters in Business Administration(MBA)

Diploma in Law, Kenya school of Law

Certified public Secretaries(CPS)



Member Law society of Kenya(LSK)

Member Institute of Certified Public Secretaries of Kenya(ICPSK)

Corporation Secretary, Telkom Orange upto 2010

Corporation Secretary, KBC (currently)

3. MANAGEMENT TEAM

| | |
|---|--|
|  | <p>Bachelors degree from Kenyatta University</p> <p>Masters in Communication (Ongoing) from Leicester University</p> <p>Previously Editor in Chief KBC,3 and a half years associate Editor standard newspapers, in charge of day to day running of KBC as Managing Director</p> |
| <p>Mr. Waithaka Waihenya Managing Director</p> | <p>Bachelors of Law (LLB) and Masters in Business Administration(MBA)</p> <p>Diploma in Law, Kenya school of Law</p> <p>Certified public Secretaries(CPS)</p> <p>Member Law society of Kenya(LSK)</p> <p>Member Institute of Certified Public Secretaries of Kenya(ICPSK)</p> <p>Corporation Secretary, Telkom Orange upto 2010</p> <p>Corporation Secretary,KBC (currently)</p> |
|  | |
| <p>Mr. Paul Jilani Corporation Secretary</p> | |



Mr. H.M Isinta
Finance and Administration Manager

- MBA (Finance)
- Bachelor of Commerce(Accounting)
- CPA(K)



Ms. Monica Waceke
Television Programmes Manager

- 2011 September - 2012 September
University of Westminster, United Kingdom
- **Post Graduate MA in Communication Policy**
- 2009 September Korea Advance Institute of Science and Technology South Korea
- **Certificate in Media and Contents Policy in Convergence Era**
- 2006 November - International (CFI), Uganda
- **Certificate in Schedule Building and Programming**
- 1999 - 2003 June - Daystar University, Kenya
- **B.A., Communication (Electronic Media)**
- 1995-1998 - Loreto High School Kiambu
Kenya Certificate of Secondary Education



Mr. Robert Wekesa
Procurement Manager

- Member- Chartered Institute of Purchasing and supplies-UK(MCIPS)
- Masters Degree Human Resources and Labour Laws
- Degree in Political science
- More than 15years experience in Procurement and Sourcing.



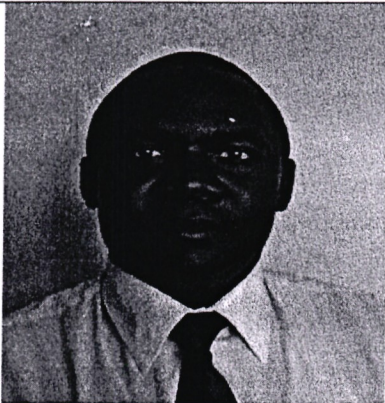
Mr. Samwel Otieno
Manager Corporate planning, Research and Development

- Bsc. in Electrical Engineering (Light Current Option)
- Registered Graduate Engineer with ERB
- Registered Graduate Member with IEK
- Member of IEEE



Ms. Everlyn Mwakina
Corporate Affairs Manager

Holds a Bachelor of Arts in Philosophy, Literature and Kiswahili (Kenyatta University), a Post Graduate Diploma in Mass Communication (University of UON) and an Executive Masters of Business Administration Eastern and Southern African Management Institute (ESAMI) & Maastricht School of Management (MsM). She also holds a certificate in Strategic Leadership Development from Kenya School of Government and a host of other professional certificates.



Mr. Ayub Imbira
Manager Information communications
Technology and Technical Services

- Bachelor of Science Degree in Computer
 - Master of Science Degree in Information Systems
- Short Courses training include
- ICT Hardware Maintenance
 - Databases and Database Management Systems
 - Project Management
 - Information Systems Security and Control
 - Corporate governance
 - More than 15 years experience at senior management levels in public service



Ms. Carolyne Mutunga

Advertising Manager

- MBA: Strategic Management
- Bachelor of Commerce: Marketing and Business Administration.
- KCSE: Pangani Girls High School



Ms. Florence Migunde

Marketing Manager

Holds a Bachelor of Commerce (Marketing) and a Masters in Strategic Management from the University of Nairobi as well as a CIM Post-Graduate Diploma.



Mr. Samuel Njeru
Principal Internal Auditor

- Bachelor of Commerce Degree (Accounting) from the University of Nairobi and
- CPA (K).
- Currently pursuing MBA from U.O.N.



Mr. Jonah Kusero
Ag. Radio Programmes Manager

EDUCATION

- MA (Project planning and Management) University of Nairobi
- BA (HONS) Economics. University of Punjab, India
- Dip Marketing Management
- Certificate in Radio and TV production.
- Certificate in Broadcast Journalism.
- Certificate in Management Skills
- Certificate in managing the training and development functions



Mr. Daniel Okoth

Ag. Human Resource Manager

- Bachelor of Arts in Government and Public Administration
- Post graduate Diploma in Human Resource Management

CHAIRMAN'S STATEMENT

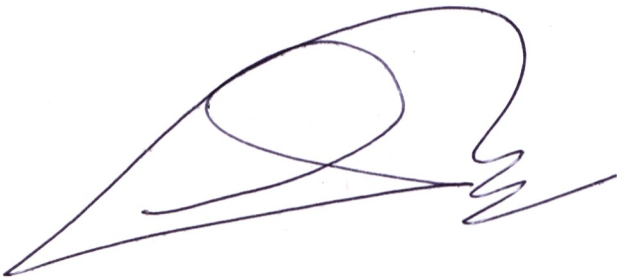
The financial year 2014/2015 marks twenty six years of existence of Kenya Broadcasting Corporation. Since the liberalization of media industry in Kenya in the 1990s, Kenya Broadcasting Corporation has consistently worked hard to be relevant in the competitive business environment. To date, the Corporation's rich portfolio of brands comprises of two TV channels and fifteen radio services.

The total revenue realized increased by 31% from Kshs 2.0 billion last year to Kshs 2.6 billion this year. The Corporation benefited significantly by 200% increase in dividends from Ksh.160m last year to ksh.480m. The dividends are from Multichoice Kenya Ltd where the Corporation owns 40% shareholding. Government grant increased by 28% from kshs 0.842 billion last year to Kshs 1.084 billion this year.

The total expenditure increased by 7% from Kshs 7.5 billion last year to Kshs 8.1 billion this year. This increase is attributed to higher interest that the Government charged KBC on account of repaying Japanese loan amounting to kshs 5.9 billion this year compared to Kshs 5.5 billion last year and increased employee costs. Loss after tax decreased by 2% from Kshs 5.5 billion to Kshs 5.3 billion due to improved revenue performance.

The Corporation revamped news presentation and programming in both television and radio services. After installing a TV graphics system that has greatly improved our TV outlook last year, we have now embarked on modernization of studios and transmitter equipments with the objective of improving our signal and picture quality in the TV and Radio brands. Digital TV transmission migration roll-out countrywide has

progressed well. Both urban and rural areas are receiving Digital Tv transmissions except for a few areas in North Eastern Kenya where implementation is going on.



ENG. Edward Musebe

Chairman

REPORT OF THE CHIEF EXECUTIVE OFFICER

The year 2014/2015 was quite delightful for us as KBC family and the entire Kenya citizenry for televising live the world cup from Brazil. I therefore take this opportunity to thank all the staff for giving their best in ensuring successful transmission of the matches and also the individual and corporate customers for patronizing the event.

We continued to fulfill our public broadcasting mandate of informing, educating and entertaining the public through radio and television services and thereby propagating all that consolidates national unity, peace, love and development. This is evidenced by the live transmission of National Assembly and the Senate House proceedings. Cumulatively, we have fifteen high power TV transmitters countrywide, seventeen low power TV transmitters, thirty nine high power FM radio transmitters, thirty seven low power FM radio transmitters and twelve medium wave transmitters countrywide. We remained committed to realizing our mission of transmitting objective and quality content. Our signal quality, news and programming improved by procuring modern equipments and recruiting new presenters. During the year, we promoted the various TV and radio brands via road-shows, outside interaction events, billboards and print media.

KBC through SIGNET implemented digital Tv transmission countrywide save for some areas in North Eastern Kenya where the process of sites development and installing transmitters is going on. Currently, we are hosting twenty three clients in the digital TV platform compared to twenty one last year. The number of Kenyans watching digital TV transmission has been growing with increasing availability of set-top boxes in the market, increasing awareness and the continuing drop in the prices of set-top boxes.

The Corporation has been working towards ISO certification for the last two years. We have been able to comply with the necessary initial phases in the journey towards



certification comprising of steps A-E. We completed the final part of step E involving the certification to ISO 9001:2008 and KBC was ISO certified in August 2014.

During the financial year, management was able to award staff a salary increment of 22% to appreciate, recognize their work effort, motivate them and reviewed upwards staff subsistence allowance in line with SRC rules. In the same direction, staff were also provided with monetary Christmas token and shopping vouchers in December 2014.

As stated in another section of these financial statements, we were able to undertake a number of corporate social responsibility activities and we intend to do more in the forthcoming year.

A handwritten signature in black ink, appearing to be "Waithaka Waihenya", written in a cursive style.

MR. Waithaka Waihenya

Chief Executive Officer

CORPORATE GOVERNANCE STATEMENT

The Corporation complies with corporate governance principles. We have Board of Directors in place that oversees the policy issues of the institution. The management team in existence is responsible for the day to day management of the institution. The following committees of the Board are in existence:

1. Finance & Marketing committee.
2. Editorial & Technical committee.
3. Human Resources committee.
4. Audit committee.

Management has also put in place various management committees the apex of which is the senior management committee that meets weekly on Tuesdays.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Kenya Broadcasting Corporation is committed to adopting the best practice in Corporate Social Responsibility (CSR), a concept through which organizations integrate social and environmental concerns into their operations and interaction with their stakeholders on a voluntary basis. Besides forging profit making partnerships with her stakeholders, the national broadcaster recognizes the need to contribute towards social and environmental objectives.

In 2014/2015, KBC Board approved the Corporate Communication and Corporate Social Responsibility (CSR) Policy to guide and enhance partnerships with our stakeholders through the delivery of services that are mutually beneficial to the Corporation and the society at large. While conducting our business in line with the expectations of diverse clientele, KBC also sees Corporate Social Responsibility as a discipline that helps to manage emerging and often unprecedented risks presented to us in a changing world.

Since its establishment, KBC has been associated with exemplary work in partnering with individuals, institutions, communities and Government to ensure societal or communal needs are urgently addressed. KBC has been recognized as a Corporation that is transparent and ethical in all its dealings as well as making a positive contribution to the community in which it operates.

KBC will generally cover the marginalized communities / areas where it has its business operations. As a part of the national broadcaster's CSR strategy, and in line with the objectives specified above and the Vision 2030 and the Millennium Development Goals (MDGs) launched by the United Nations (UN) and adopted by Government of Kenya. The scope of CSR activities cover the following areas: Education/literacy enhancement

to disadvantaged groups; Health; Drinking Water/Sanitation; Environment; Community Development and Social Empowerment; Promotion of Sports and traditional forms of Art and Culture; and any other activity as may be identified by the Corporate Communication Department or the CSR Advisory Committee.

Apart from implementing CSR, KBC closely monitors and evaluates activities to ensure desirable achievement and analyze the impact.

Finally, the Corporation participated in the Kenya Communication Sports Annual Event (KECOSO) in September 2014 at Eldoret

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2015 which show the state of Kenya Broadcasting Corporation's affairs

Principal activities

The principal activities of Kenya Broadcasting Corporation are broadcasting and provision of digital television transmission infrastructure platform.

Results

The results of Kenya Broadcasting Corporation for the year ended June 30, 2015 are set out on pages 1 to 4

Auditors

The Auditor General is responsible for the statutory audit of the Kenya Broadcasting Corporation in accordance with the Public Finance Management (PFM) Act, 2012.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Public Management Act, 2012 and the State Corporations Act, requires the Directors to prepare financial statements in respect of Kenya Broadcasting Corporation, which give a true and fair view of the state of affairs of Kenya Broadcasting Corporation at the end of the financial year and the operating results of Kenya Broadcasting Corporation for that year. The Directors are also required to ensure that Kenya Broadcasting Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of Kenya Broadcasting Corporation. The Directors are also responsible for safeguarding the assets of Kenya Broadcasting Corporation.

The Directors are responsible for the preparation and presentation of the Kenya Broadcasting Corporation's financial statements, which give true and fair view of the state of affairs of Kenya Broadcasting Corporation for and as at the end of financial year ended on June 30, 2014. This responsibility includes:

- i. Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- ii. Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of Kenya Broadcasting;
- iii. Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- iv. Safeguarding the assets of Kenya Broadcasting Corporation;
- v. Selecting and applying appropriate accounting policies; and
- vi. Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Kenya Broadcasting Corporation financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International

Financial Reporting Standards, and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Kenya Broadcasting Corporation financial statements give a true and fair view of the state of Kenya Broadcasting Corporation's transactions during the financial year ended June 30, 2015, and of the Kenya Broadcasting Corporation financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for Kenya Broadcasting Corporation, which have been relied upon in the preparation of Kenya Broadcasting Corporation financial statements as well as the adequacy of the systems of internal financial control.

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

ENG. EDWARD MUSEBE

CHAIRMAN OF THE BOARD.

MR. WAIHAKA WAIHENYA

MANAGING DIRECTOR.

REPUBLIC OF KENYA

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E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke

P.O. Box 30084-00100
NAIROBI



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA BROADCASTING CORPORATION FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Broadcasting Corporation set out on pages 1 to 24 which comprise the statement of financial position as at 30 June 2015, and the statement of comprehensive income, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about 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 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 Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Basis for Qualified Opinion

1. Property, Plant and Equipment

1.1 Generators

In July 2000, and as previously reported in 2013/2014, the Corporation made an arrangement with Kenya Electricity Generating Company Ltd (KenGen) whereby the Corporation loaned KenGen five (5) generators which were subsequently installed at Jomo Kenyatta University and University of Nairobi under an Emergency power supply project. The generators which had an estimated value of Kshs.29 million are part of the Corporation's portfolio of assets. However, and as observed in the previous years, no compensation for use of generators appears to have been paid to the Corporation during the year under review and no explanation has been provided for the anomaly.

1.2 Property, Plant and Equipment

Land and Building

Included in the property, plant and equipment balance of Kshs.16,293,768,000 as at 30 June 2015 is land and buildings balance of Kshs.12,857,874,000 and Kshs.909,693,000 respectively totalling Kshs.13,767,567,000. The balance of Kshs.13,767,567,000 also includes land and building valued at Kshs.5,712,992,000 with letters of allotment and Kshs.903,767,000 in respect of un-surveyed and un-adjudicated land all totalling Kshs.6,616,759,000 whose ownership documents were not availed for audit review. The balance also excludes the unvalued land LR No 75893/111/66A situated at Voi Township measuring 3.7 acres which the valuer could not locate during the time of valuation of assets in November 2014. In addition, the Corporation's land LR. No. 75893/111/64A measuring 0.7413 acres located at Voi Township and valued at Kshs.1,600,000 had been taken over by the Ministry of Mining and on which a building was being erected. Further, a parcel of land No LR.No.11773 - Ngong TX station located at Kajiado County differed in size as the letter of allotment indicates that the land is 33.419 acres (13.53 hectares) while information available indicates that the actual size on the ground is 124.79055 acres valued at Kshs.2,700,000,000.

Further, the Corporation's Jamhuri Park land LR. No 15090 measuring 100 acres was allegedly grabbed, out of which 60 acres was recovered by Kenya Anti-Corruption Commission and was allocated/reverted to Kenya Forest service while the Corporation was reallocated 29 acres leaving Land measuring 11 acres which has not been accounted for as at the date of this report. It is not clear and management has not explained why part of the recovered land was given to Kenya Forest Service. Available information also reveals that the Corporation's Sauti house in Mombasa which houses Mombasa office, has a pending court case and part of its land was grabbed by Housing Finance Company of Kenya (HFCK) while, the Corporation land in Nyali TX LR.No 1476/1 measuring approximately 22.8 hectares was encroached into by squatters. It was further noted that most of the Corporation's land had unresolved cases pending in court. Although indications are that the Corporation has made attempts at the Ministry of lands, Housing and Urban Development to have the outstanding issues resolved, no meaningful progress appears to have been achieved as at the date of this report.

In the circumstances, it has not been possible to confirm that the property plant and equipment balance of Kshs.13,767,567,000 as at 30 June 2015 is fairly stated.

2. Trade and Other Payables

Included in the trade and other payables balance of Kshs.1,480,332,000 is an amount of Kshs.788,288,000 in respect to statutory and other deductions which had not been remitted to their respective institutions as detailed below:-

| Particulars | Amount Kshs |
|------------------------|------------------------------|
| VAT | 368,693,000.00 |
| Statutory Deductions | 18,108,000.00 |
| Pension | 212,135,000.00 |
| SAYE | 14,000.00 |
| Insurance | 1,879,000.00 |
| Cooperative Deductions | 3,159,000.00 |
| Medical Fund | 176,102,000.00 |
| Other Deductions | <u>8,198,000.00</u> |
| Total | <u>788,288,000.00</u> |

It is not clear and management has not explained if and when the amount of Kshs.788,288,000 will be remitted to the respective authorities. The Corporation is therefore in breach of the law and the unremitted amounts may attract fines and penalties. The Corporation has also not made provisions for possible penalties in the financial statements.

3. Japanese loan

The Corporation's statement of financial position as at 30 June 2015 reflects a loan from Overseas Economic Cooperation Fund (OECF) of Japan as disclosed in note 19(a) and

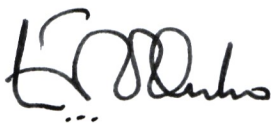
19(b) of the financial statement. The OECF loan which was guaranteed by the Government in 1989 funded the Corporation's modernization programme, a project mooted out of a study by the government in February 1988. The Corporation contracted a Japanese firm to undertake the modernisation project at a sum of Japanese Yen.11,904,566,500 with a Kenya Currency portion of Kshs.98,507,000. The loan was interest bearing and as at 30 June 2015 the loan balance was Kshs.10,690,577,000 and interest thereof Kshs.34,514,726,000. Although, the Parliamentary Investment Committee discussed the issue concerning the loan when the Corporation appeared before the committee, no definite resolution was reached and the Corporation has continued to carry the loan and interest balance in their financial statements. Although management has explained that there are on-going negotiations with the Government to convert the Government of Kenya Loan into equity, it is not certain when the process will be completed. The management has not been servicing the loan which had been guaranteed by National Treasury and has accumulated to the tune of Kshs.45,205,303,000 as at 30 June 2015.

4. Going Concern

As in the previous year, the Corporation recorded a loss of Kshs.5,347,434,000 (2014 – loss Kshs.5,500,806,000) thereby raising the cumulative losses to Kshs.41,735,114,000 as at 30 June 2015. Further, the statement of financial position reflects current liabilities balance of Kshs.46,735,779,000 which exceeds the current assets balance of Kshs.1,000,162,000 resulting to a negative working capital of Kshs.45,735,217,000 and a negative net worth of Kshs.29,190,452,000. The Corporation is therefore technically insolvent and its continued existence as a going concern is dependent upon the financial support of the Government and its creditors.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Corporation as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenya Broadcasting Act, Cap. 221 of the Laws of Kenya.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

10 March 2016

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2015

| | NOTES | 2014/2015 Kshs'000' | 2013/2014 Kshs'000' |
|---|-------|---------------------------|---------------------------|
| Revenue from non-exchange transactions | | | |
| Transfers from other governments | 1 | 1,084,199 | 842,874 |
| Total revenue from non-exchange | | 1,084,199 | 842,874 |
| Revenue from exchange transactions | | | |
| Rendering of services (sales) | 2 | 1,116,805 | 1,024,343 |
| Finance income-external investments | 3 | 937 | 144 |
| Other income | 4 | 502,961 | 172,849 |
| Total revenue from exchange transactions | | 1,620,703 | 1,197,336 |
| TOTAL REVENUE | | <u>2,704,902</u> | <u>2,040,210</u> |
| EXPENSES | | | |
| Bulk purchases of water and electricity | 5 | 208,645 | 186,368 |
| Employee costs | 6 | 946,189 | 823,619 |
| Remuneration of directors | 7 | 10,671 | 5,443 |
| Depreciation and amortization expense | 8 | 209,452 | 384,651 |
| Repairs and maintenance | 9 | 77,309 | 50,451 |
| General expenses | 10 | 659,175 | 576,446 |
| Finance costs | 11 | 5,947,014 | 5,520,652 |
| TOTAL EXPENSES | | <u>8,058,455</u> | <u>7,547,630</u> |
| | | (5,353,553) | (5,507,420) |
| Other gains | | | |
| Gain on foreign exchange transactions | 12 | 6,119 | 6,614 |
| LOSS BEFORE TAXATION | | (5,347,434) | (5,500,806) |
| LOSS AFTER TAXATION | | <u>(5,347,434)</u> | <u>(5,500,806)</u> |

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

| ASSETS | NOTES | 2014/2015 Kshs '000' | 2013/2014 Kshs '000' |
|---|--------------|---------------------------------|---------------------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalent | 13 | 34,827 | 6,801 |
| Trade and other Receivables | 14 | 899,683 | 817,762 |
| Inventories | 15 | 65,652 | 78,440 |
| TOTAL CURRENT ASSETS | | 1,000,162 | 903,003 |
| NON CURRENT ASSETS | | | |
| Property, Plant and Equipment | 16(a) | 16,293,768 | 5,940,578 |
| Investments | 17 | 400 | 400 |
| Total Non-current Assets | | 16,294,168 | 5,940,978 |
| TOTAL ASSETS | | <u>17,294,330</u> | <u>6,843,981</u> |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade Payables | 18 | 1,480,332 | 1,912,080 |
| GOK Loan (principal) | 19(a) | 10,690,577 | 10,027,059 |
| GOK (Loan interest) | 19(b) | 34,514,726 | 28,570,675 |
| Bank Overdraft | 20(a) | 50,144 | 18,039 |
| TOTAL CURRENT LIABILITIES | | 46,735,779 | 40,527,853 |
| Borrowings | 20(b) | (250,997) | 412, 520 |
| Total Non-Current Liabilities | | (250,997) | 412,520 |
| TOTAL LIABILITIES | | 46,484,782 | 40,940,373 |
| Share capital | 21 | 928,488 | 928,488 |
| Revaluation reserve | 22 | 11,616,174 | 1,729,692 |
| Accumulated surplus /losses | 23 | (41,735,114) | (36,754,572) |
| Total Capital and Reserves | | (29,190,452) | (34,096,392) |
| Total Net Assets And Liabilities | | <u>17,294,330</u> | <u>6,843,981</u> |

Signed:



Chief Executive Officer

Date _____



Chairman

Date: _____

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 30 JUNE 2015

| | Share Capital Kshs'000' | Revaluation Reserve Kshs '000' | Accumulated surplus/Losses Kshs '000' | Totals Kshs "000" |
|--|----------------------------|-----------------------------------|--|----------------------|
| 1/7/2013 | 928,488 | 1,729,692 | (31,253,766) | (28,595,586) |
| Loss for the year | | | (5,500,806) | (5,500,806) |
| 30/06/2014 | <u>928,488</u> | <u>1,729,692</u> | <u>(36,754,572)</u> | <u>(34,096,392)</u> |
| 1/7/2014 | <u>928,488</u> | <u>1,729,692</u> | <u>(36,754,572)</u> | <u>(34,096,392)</u> |
| Acc depreciation (building) as at 1/7/2014 | | (366,892) | 366,892 | - |
| Loss for the year | | | (5,347,434) | (5,347,434) |
| Revaluation reserve 16(b) | | 10,253,374 | - | 10,253,374 |
| 30/06/2015 | 928,488 | 11,616,174 | (41,735,114) | (29,190,452) |

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2015**

| Cash Flow from Operating Activities | 2014/ 2015 | 2013/2014 |
|--|-------------------------|-------------------------|
| | Kshs'000' | Kshs'000' |
| Cashflow from operating activities | | |
| Operating surplus or deficit | (5,347,434) | (5,500,806) |
| Adjustments: | | |
| Depreciation | 209,452 | 384,651 |
| Interest on gok loan | 5,944,051 | 5,517,947 |
| Interest income | (937) | (144) |
| Dividends | (480,000) | (160,000) |
| Gain from foreign exchange | (6,119) | (6,614) |
| Provision for bad debts | 29,294 | 26,925 |
| Other income | (28,529) | (29,435) |
| Operating surplus or deficit before working capital | 319,778 | 232,524 |
| Changes in working capital | | |
| Decrease /(increase) in debtors | (81,921) | 307,952 |
| Decrease /(increase) in stock | 12,788 | 42,881 |
| (Decrease) /increase in creditors | (431,748) | (773,517) |
| Net cash flows from changes in working capital | (500,881) | (422,684) |
| Net cash flow from operating activities | <u>(181,103)</u> | <u>(190,160)</u> |
| Cash flows from investing activities: | | |
| Purchase of property plant and equipment's | (309,268) | (70,434) |
| Dividends | 480,000 | 160,000 |
| Interest | 173 | 144 |
| Exchange gain | 6,119 | 6,614 |
| Net Cash flow used in investing activities | <u>177,024</u> | <u>96,324</u> |
| Cash flow from financing activities | | |
| Proceeds from borrowings | 663,517 | 735,425 |
| Repayment of borrowings | (663,517) | (735,425) |
| Bank overdraft | 50,144 | 18,039 |
| | 50,144 | 18,039 |
| Net increase/ decrease in cash and cash equivalents | 46,065 | (75,797) |
| Cash and cash equivalent as at 1st July | (11,238) | 82,598 |
| Cash and cash equivalent at the end | <u>34,827</u> | <u>(11,238)</u> |

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

i. Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement at revalued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the entity's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the entity and all values are rounded to the nearest thousand(kshs.000)

The financial statements have been prepared in accordance with the PFM Act, the state Corporations Act, and International Financial Reporting Standards. The accounting policies adopted have been consistently applied to all years presented.

ii. Revenue Recognition

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the entity and the revenue can be reliably measured. Revenue is recognized at the fair value of consideration received or expected to be received in the ordinary course of the KBC'S activities, net of value added tax (VAT), where applicable, and when specific criteria have been met for each of KBC'S activities as described below

- a. Revenue from the sale of goods and services is recognized in the year in which KBC delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- b. Grants from National Government are recognized in the year in which the KBC actually receives such grant
- c. Finance Income comprises interest receivable from bank deposits and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.
- d. Dividend Income is recognized in the income statement in the year in which the right to receive the payment is established
- e. Rental Income is recognized in the income statement as it accrues using the effective lease agreements.
- f. Other Income is recognized as it accrues

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

iii. In-Kind Contributions

In-kind contributions are donations that are made to KBC in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the entity includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

iv. Property, Plant and Equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at revalued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at revalued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

v. Depreciation and impairment of property, plant and equipment

The principal accounting policies in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years reported on.

a. Basis of preparation

The financial statements are prepared in accordance with the international financial reporting standards. The historical cost basis of accounting is applied.

b. Depreciation

- Depreciation is provided for on the cost /valuation of assets on reducing balance method with effect from 1st July 1998.
- A full year's depreciation is provided for on fixed assets acquired at least nine (9) months prior to the end of the financial year.
- The corporation's equipments are divided into eleven (11) classes listed below and depreciated at the rate shown against each class.

| <u>ASSETS CLASS</u> | <u>DEPRECIATION RATE</u> |
|------------------------------|--------------------------|
| 1) Buildings | 2.0% |
| 2) Plant and machinery | 6.5% |
| 3) Transmitter equipment | 10% |
| 4) Studio equipments | 10% |
| 5) Ob equipments | 10% |
| 6) Portable equipments | 10% |
| 7) Program links | 6.0% |
| 8) Furniture and fittings | 12.5% |
| 9) Motor vehicles | 20.0% |
| 10) Office equipments | 12.5% |
| 11) Computer and accessories | 30.0% |

c. Intangible assets

Intangible assets comprise purchased computer software licenses, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

costs are amortized over the estimated useful life of the intangible asset from the year that they are available for use, usually over three years.

d. Amortization and impairment of intangible assets

Amortization is calculated on the straight line basis over the estimated useful life of computer software of three years.

e. Investment property

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

f. Finance and operating Leases

Leases which confer substantially all the risks and rewards of ownership to entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognized in the statement of financial position to the extent of prepaid lease rentals at the end of the year.

g. Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under central bank of Kenya (CBK) long term infrastructure bonds and other corporate bonds with the

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

intention of earning interest income upon the bond's disposal or maturity. The bonds are measured at fair value through profit or loss.

h. Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

i. Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

j. Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

k. Trade And Other Receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

l. Taxation

Current income tax assets and liabilities for the current and prior period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

m. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the central bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and /or branch offices which were not surrendered accounted for at the end of the financial year.

n. Borrowings

Interest bearing loans and overdraft are initially recorded at fair value being received, net of issue costs associated with borrowing. Subsequently, these are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption are accounted for on

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

vi. Trade And Other Payables

Trade and other payables are non-interest bearing and are carried at amortized cost, which is measured at a fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

vii. Retirement Benefits Obligations

The entity operates a defined contribution scheme for all fulltime employees from July 1, 2013. The scheme is administered by an in-house team and is funded by contributions from both the corporation and its employees. The corporation also contributes to the statutory national social security fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The corporation's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs 200 per employee per month.

viii. Provision for staff leaves pay

Employees' entitlements to annual leave are recognized as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date.

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ix. Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which KBC operates Kenya shillings. Transactions in the foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or variations where items are re-measured. Any foreign gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

x. Comparative Figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

xi. Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June, 30th 2015.

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

| | 2014/2015 | 2013/2014 |
|---|------------------|----------------|
| | Kshs'000' | Kshs'000' |
| 1. Transfers from other governments | | |
| Recurrent grant | 485,500 | 592,500 |
| Capital grant | 598,699 | 250,374 |
| Total | 1,084,199 | 842,874 |
| 2. Rendering of services | | |
| Advertising sales and others | 1,116,805 | 1,024,343 |
| 3. Finance income – external investments | | |
| Interest income | 937 | 144 |
| 4. Other income | | |
| Dividend income | 480,000 | 160,000 |
| Miscellaneous income | 8,882 | 6,148 |
| Disposal | | |
| Parking fees | 14,079 | 6,701 |
| Total | 502,961 | 172,849 |
| 5. Bulk purchases of water and electricity | | |
| Cost of water and electricity for transmitting | 208,645 | 186,368 |
| 6. Employee costs | | |
| Salaries and Wages of Permanent Employees | 888,054 | 788,019 |
| Compulsory National Social Security Schemes | 14,357 | 2,430 |
| Other Pension Contributions | 32,921 | 8,927 |
| Leave Pay and Gratuity Provisions | 8,862 | 13,236 |
| Staff Welfare and training | 1,995 | 11,007 |
| Total | 946,189 | 823,619 |
| 7. Remuneration of Directors | | |
| Sitting Allowance | 9,916 | 4,920 |
| Honorarium | 745 | 535 |
| Lunch | 641 | 724 |
| Travel | 413 | 749 |
| Tax | (1,044) | |
| Total | 10,671 | 5,443 |
| 8. Depreciation and amortization expense | | |
| Depreciation of all assets excluding land (note 16) | 209,452 | 384,651 |
| 9. Repairs and maintenance | | |
| Cost of repairing & maintaining equipments | 77,309 | 50,451 |

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

| | 2014/2015 | 2013/2014 |
|---|------------------|------------------|
| | Kshs '000' | Kshs'000' |
| 10 General expenses | | |
| Advertising | 42,634 | 40,451 |
| Audit fees | 580 | 580 |
| Consulting fees | 21,832 | 10,868 |
| consumables | 12,443 | 11,083 |
| Fuel and oil | 21,773 | 20,548 |
| Insurance | 12,878 | 12,112 |
| Legal expenses | 21,185 | 24,284 |
| Licenses & permits (software licenses) | 718 | 2,474 |
| Postage | 2,894 | 1,979 |
| Printing & stationery | 6,195 | 6,826 |
| Security costs/miscellaneous | 3,388 | 2,369 |
| telecommunication | 9,708 | 10,562 |
| Training | 15,768 | 9,059 |
| Others | | |
| Program Production Expenses | 183,490 | 181,813 |
| Program Telephone Lines | 138,536 | 24,225 |
| News production | 11,427 | 9,932 |
| Provision for doubtful debts | 29,294 | 26,925 |
| Travelling & subsistence | 34,319 | 42,681 |
| Agency commissions | 70,309 | 119,211 |
| Other charges | 19,804 | 18,464 |
| Total | 659,175 | 576,446 |
| 11 Finance costs | | |
| Interest charged by Government on account | 5,944,051 | 5,517,947 |
| Bank charges | 2,963 | 2,705 |
| Total | 5,947,014 | 5,520,652 |

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

| | <u>2014/2015</u> Ksh '000' | <u>2013/2014</u> Ksh 000 |
|---|-------------------------------|-----------------------------|
| 12 Gain on foreign exchange transactions | | |
| Gain from foreign currency fluctuations on | 6,119 | 6,614 |

GAIN AND LOSS ON FOREIGN CURRENCY

We have the following clients that we transact with in US Dollars thus because of the fluctuations of exchange rate at various times of billing and payment we end up with gain and loss in foreign currency

China Central TV, China Radio International, France Radio International, Loren Davis

DROPPING OF PROVISION FOR BAD DEBTS

The figure for provision for bad debts has decreased because of the write off of bad debts which reduces the balance of the over 270 days which provision is at a higher rate of 2.5% as compared to provision of current balance which provision is zero or that of 30 days which is at 0.5%

13. CASH AND CASH EQUIVALENTS

| | 2014/2015 Kshs "000" | 2013/2014 Kshs "000" |
|--------------|-------------------------|-------------------------|
| Cash At Bank | 33,828 | 5,030 |
| Cash At Hand | 999 | 1,771 |
| | <u>34,827</u> | <u>6,801</u> |

14. TRADE AND OTHER RECEIVABLES

| | | |
|--|----------------|----------------|
| Trade Receivables | 1,283,952 | 1,163,242 |
| Staff Receivables | 22,611 | 31,527 |
| Other Receivables | 5,102 | 5,681 |
| Gross Trade And Other Receivables | 1,311,665 | 1,200,450 |
| Provision for Bad and Doubtful | (411,982) | (382,688) |
| Net Trade and Other Receivables | 899,683 | 817,762 |

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

| 15. INVENTORIES | 2014/2015 | 2013/2014 |
|-------------------------------|------------------|------------------|
| | Kshs"000" | Kshs"000" |
| Engineering Stores | 57,713 | 71,680 |
| Fuel, Oil, And Lubricants | 2,227 | 1,819 |
| Stationery And General Stores | 5,712 | 4,941 |
| | 65,652 | 78,440 |

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2015
NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5(a). PROPERTY, PLANT AND EQUIPMENT

| DISCLOSURE | LAND Kshs 000 | BUILDING Kshs 000 | PLANT & EQUIPMENT Kshs 000 | TRANSMITTER EQUIPMENT Kshs 000 | STUDIO EQUIPMENT Kshs 000 | OB EQUIPMENT Kshs 000 | PORTABLE EQUIPMENT Kshs 000 | PROGRAM LINKS Kshs 000 | FURNITURE & FITTINGS Kshs 000 | MOTOR VEHICLES Kshs 000 | OFFICE EQUIPMENT Kshs 000 | COMPUTER EQUIPMENT Kshs 000 | TOTALS Kshs 000 |
|-----------------|------------------|----------------------|----------------------------------|--------------------------------------|---------------------------------|-----------------------------|-----------------------------------|------------------------------|-------------------------------------|-------------------------------|---------------------------------|-----------------------------------|--------------------|
| At 30 June 2013 | 2,001,375 | 904,501 | 341,230 | 9,560,630 | 867,827 | 235,403 | 149,616 | 609,168 | 30,763 | 170,254 | 33,823 | 188,605 | 15,093,194 |
| At 1 July 2013 | 2,001,375 | 902,713 | 340,988 | 9,155,836 | 461,086 | 232,667 | 149,603 | 282,167 | 25,183 | 151,490 | 32,151 | 147,142 | 13,882,410 |
| At 30 June 2014 | 2,001,375 | 908,410 | 341,230 | 9,464,705 | 924,442 | 235,533 | 150,327 | 609,168 | 31,550 | 170,254 | 37,419 | 189,062 | 15,163,475 |
| At 1 July 2013 | | 355,841 | 249,873 | 7,283,980 | 290,030 | 222,417 | 79,984 | 81,846 | 15,823 | 124,207 | 22,082 | 112,163 | 8,838,246 |
| At 30 June 2014 | | 11,051 | 5,938 | 228,073 | 63,441 | 1,312 | 7,034 | 31,639 | 1,966 | 9,210 | 1,917 | 23,070 | 384,651 |
| At 1 July 2013 | | 366,892 | 255,811 | 7,512,053 | 353,471 | 223,728 | 87,018 | 113,486 | 17,789 | 133,416 | 23,999 | 135,232 | 9,222,899 |
| At 30 June 2014 | | 541,517 | 85,419 | 2,052,653 | 570,971 | 11,805 | 63,308 | 495,682 | 13,760 | 36,838 | 13,419 | 53,829 | 5,940,578 |
| At 1 July 2013 | | 908,410 | 341,230 | 9,564,705 | 924,442 | 235,533 | 150,327 | 609,168 | 31,550 | 170,254 | 37,419 | 189,062 | 15,163,475 |
| At 30 June 2014 | | 14,201 | 305 | 248,271 | 29,046 | | 1,715 | | 3,296 | 150 | 4,106 | 8,178 | 309,268 |
| At 1 July 2013 | | 12,857,874 | 913,767 | 1,793,235 | 444,076 | 24,801 | 2,068 | 41,610 | 19,102 | - | 7,212 | 12,631 | 16,157,115 |
| At 30 June 2014 | | 12,857,874 | 927,968 | 1,793,540 | 692,347 | 24,801 | 3,783 | 41,610 | 22,398 | 36,987 | 11,318 | 20,809 | 16,503,220 |
| At 1 July 2013 | | 366,892 | 255,811 | 7,512,053 | 353,471 | 223,729 | 87,018 | 113,485 | 17,789 | 133,417 | 23,999 | 135,233 | 9,222,897 |
| At 30 June 2014 | | 18,275 | 116,580 | 44,408 | 6,979 | 2,480 | 378 | 2,497 | 2,800 | 7,397 | 1,415 | 6,243 | 209,452 |
| At 1 July 2013 | | 385,167 | 372,391 | 7,556,461 | 360,450 | 226,209 | 87,396 | 115,982 | 20,589 | 140,814 | 25,414 | 141,476 | 9,432,349 |
| At 30 June 2014 | | 909,693 | 1,676,960 | 647,939 | 62,807 | 22,321 | 3,405 | 39,113 | 19,598 | 29,590 | 9,903 | 14,566 | 16,293,768 |
| At 1 July 2013 | | 541,517 | 85,419 | 2,052,653 | 570,971 | 11,805 | 63,308 | 495,682 | 13,760 | 36,838 | 13,419 | 53,829 | 5,940,578 |

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- The additions of building of Ksh.14,201,000 does not qualify for depreciation.
- The additions of transmitter equipment of Ksh.248,271,000 does not qualify for depreciation.
- The motor vehicle is depreciated under the cost model.
- Valuation was done by Ark consultants and valuation report was signed on 30th November 2014.
- Total valuation was kshs.16,157,115 excluding the value of motor vehicle which was not valued.

16(b): REVALUATION RESERVE

| | | |
|--|-----------------|--------------------|
| Total valuation | | 16,157,115 |
| Less; Total NBV as at 30 th June 2014 | 5,940,578 | |
| Less nbv (motor vehicle) as at 30 th Nov 2014 | <u>(36,837)</u> | <u>(5,903,741)</u> |
| Revaluation reserve | | <u>10,253,374</u> |

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

17. INVESTMENTS

The corporation owns 40% of the shareholding in Multi choice which manages DSTV. Multi choice has a paid up Ordinary Share Capital of Kshs. 1,000,000. The shares are valued at cost.

| 18 TRADE AND OTHER PAYABLES | 2014/2015 | 2013/2014 |
|------------------------------------|------------------|------------------|
| | Kshs'000' | Kshs'000' |
| Trade creditors | 692,044 | 1,049,748 |
| Vat | 368,693 | 335,412 |
| Statutory Deduction | 18,108 | 121,780 |
| Medical | 176,102 | 133,178 |
| Insurance | 1,879 | 2,308 |
| Pension | 212,135 | 235,003 |
| Coop liabilities | 3,159 | 25,801 |
| S.A.Y.E | 14 | 28 |
| Other deductions | 8,198 | 8,822 |
| | 1,480,332 | 1,912,080 |

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

19a. G.O.K. Loan

The corporation undertook Radio MW Modernization Project under the Japanese Loan guaranteed by the Government of Kenya. However, due to its inability to meet loan repayment obligation, the Corporation requests Treasury to pay. Once the Treasury pays, it treats it as a loan to Kenya Broadcasting Corporation and therefore expects reimbursement with interest at market rates. This financial year a provision has been made on the interest

| YEAR | <u>AMOUNT PAID</u> KSHS '000' |
|--------------|--|
| 1993/94 | 133,912 |
| 1994/95 | 208,706 |
| 1995/96 | 165,151 |
| 1996/97 | 194,427 |
| 1997/98 | 174,094 |
| 1998/99 | 177,075 |
| 1999/2000 | 431,617 |
| 2000/2001 | 797,091 |
| 2001/2002 | NIL |
| 2002/2003 | 881,095 |
| 2003/2004 | 702,825 |
| 2004/2005 | 134,287 |
| 2005/2006 | NIL |
| 2006/2007 | 271,808 |
| 2007/2008 | 568,713 |
| 2008/2009 | 422,465 |
| 2009/2010 | 1,210,865 |
| 2010/2011 | 965,807 |
| 2011/2012 | 989,526 |
| 2012/2013 | 862,171 |
| 2013/2014 | 735,425 |
| 2014/2015 | 663,517 |
| TOTAL | <u>10,690,577</u> |

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(b) G.O.K LOAN INTEREST

Treasury has charged interest of Kshs.28, 570,674,688 over the years on the loan repaid by GOK on behalf of K.B.C. This interest has been charged per Year as follow

| <u>Year</u> | <u>Interest Charge</u> <u>Kshs 000'</u> |
|---------------|--|
| 1993/1994 | 57,110 |
| 1994/1995 | 127,337 |
| 1995/1996 | 179,085 |
| 1996/1997 | 173,435 |
| 1997/1998 | 150,220 |
| 1998/1999 | 172,753 |
| 1999/2000 | 225,227 |
| 2000/2001 | 329,832 |
| 2001/2002 | 499,058 |
| 2002/2003 | 624,239 |
| 2003/2004 | 876,480 |
| 2004/2005 | 494,746 |
| 2005/2006 | 1,186,470 |
| 2006/2007 | 1,182,516 |
| 2007/2008 | 1,346,256 |
| 2008/2009 | 1,851,137 |
| 2009/2010 | 2,120,966 |
| 2010/2011 | 2,513,676 |
| 2011/2012 | 4,374,748 |
| 2012/2013 | 4,567,434 |
| 2013/2014 | 5,517,948 |
| 2014/2015 | 5,944,051 |
| TOTALS | 34,514,726 |

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OECD Loan (Japan)

Kenya Broadcasting Corporation Modernization Project was mooted out of study by the government in 1987. A request was sent to various donors for funding and the Japanese Government agreed to fund it at Japanese Yen 15.441 billion (8,287,588,398). The terms are as follows:-

10 Years Grace Period (1989-June 1999)

20 Years Repayment Period (1999-2019)

| | | | |
|-----|-----------------------|---------------|---------------|
| 20a | Bank Overdraft | 2014/2015 | 2013/2014 |
| | | Kshs"000" | Kshs "000" |
| | Citibank (Main) | 46,097 | 7,866 |
| | KCB Nairobi | 4,047 | 10,172 |
| | KCB MERU | 0.8 | 1 |
| | KCB KISII | 0.2 | 0 |
| | Total | 50,144 | 18,039 |
| | | | |
| 20b | Borrowings | 2014/2015 | 2013/2014 |
| | | Kshs"000" | kshs"000" |
| | Opening bal | 412,520 | 1,147,945 |
| | Loan repayment | (663,517) | (735,425) |
| | Closing balance | (250,997) | 412,520 |

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (Continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

21. SHARE CAPITAL

Kenya broadcasting corporation is 100% owned by the government. The share capital figure reported in the financial statement is carried forward since the formation of KBC. We don't have the share certificate but the share value is ksh.928,488.

22. REVALUATION RESERVE

The revaluation reserve relates to the reevaluation of certain items of property plant and equipment. As indicated in the statement of changes in equity, the revaluation surplus is not distributable.

Reserves comprise of accumulated losses that KBC has made over the years.

23. ACCUMMULATED SURPLUS OR LOSSES

The figure is big because of the interest of the government charges KBC on the amounts it pays to wards the Japanese loan on behalf of KBC. The interest charged in the year 2014/2015 alone is Kshs. 5.5 billion.

| | <u>2014/2015</u> Kshs'000' | <u>2013/2014</u> Kshs'000' |
|------------------|-------------------------------|-------------------------------|
| Balance B/D | (36,754,572) | (31,253,766) |
| Acc depreciation | 366,892 | - |
| Deficit | (5,347,434) | (5,500,806) |
| | (41,735,114) | (36,754,572) |