



**MZIMA SPRINGS  
NWDT SACCO**

— Your Personal Anchor —

# **2022 ANNUAL REPORT AND FINANCIAL STATEMENTS**

**Mzima Springs Regulated  
Non-WDT Sacco Society  
Limited  
CS/3981**

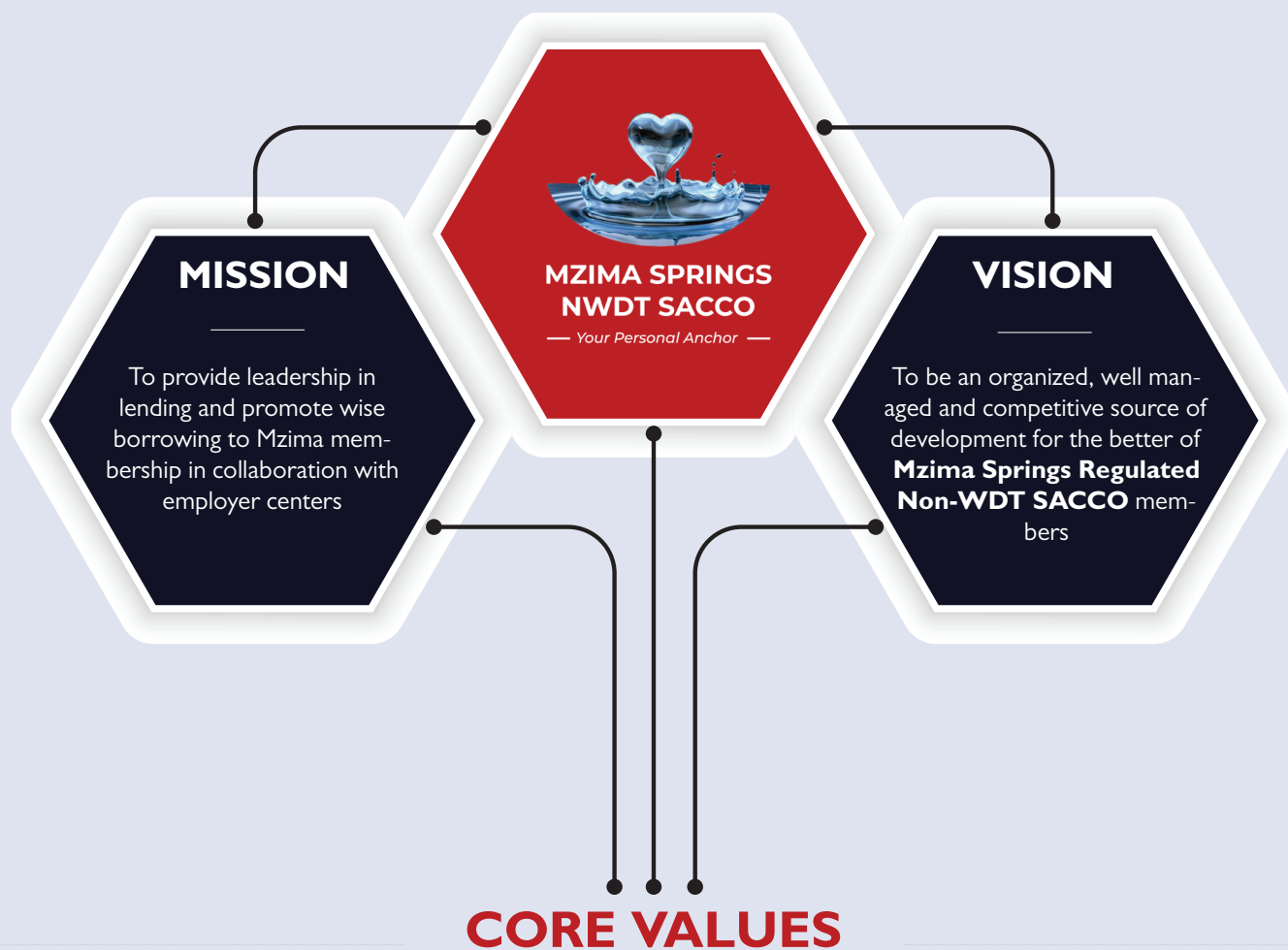
**Omambia & Associates  
Certified Public Accountants (Kenya)  
P.O. Box 40886-00100  
Nairobi**







## OUR VISION AND MISSION





## NOTICE OF THE 2022 ANNUAL GENERAL MEETING

Notice is hereby given that the 2023 Annual General Meeting (AGM) of Mzima Springs Regulated Non-WDT Sacco Ltd. will be held on:

<b>DATE</b>	<b>Saturday 25<sup>th</sup> March 2023</b>
<b>TIME</b>	<b>1:30 pm</b>
<b>VENUE</b>	<b>Blended AGM (Strathmore university auditorium/ virtual)</b>

### **Agenda:**

1. Confirmation of the Previous AGM Minutes.
2. The Chairman's Report
3. Supervisory Committee Report.
4. Presentation of 2022 Audited Financial Statements
5. Treasurer's Report and Budget Estimates for the year 2023/2024
6. Appropriation of Surplus of the year 2022
7. Message from the Regulator/ Ministry
8. Resolutions
9. Elections
10. AOB

**Note:** For the SACCO to conduct business, we need a third of the members as quorum. As indicated above, this meeting will be blended (In-person/ Virtual). The zoom link will be shared on the same day at 1pm. We highly encourage you to attend.

BY ORDER OF MANAGEMENT

### **Were Lwanga**

Hon. Secretary

**Email:** [mzimasprings@strathmore.edu](mailto:mzimasprings@strathmore.edu)

**Tel:** 0703034331 / 0797686484

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# SOCIETY INFORMATION

<b>Board Members</b>	Mr. Fredrick Odhiambo	Chairman
	Ms. Loice Orege	Vice Chairperson
	Mr. Were Lwanga	Secretary
	Dr. David Mathuva	Treasurer
	Mr. Fredrick Otieno	Credit Committee
	Mr. John Ouko	Credit Committee
	Ms. Perpetua Muema	Credit Committee
<b>Supervisory Committee</b>	Mr. Julius Mamicha	Chairperson
	Ms. Emily Cherono	Secretary
	Mr. Chrispin Oloo	Member
<b>Registered Office:</b>	Mzima Springs Sacco Society Ltd. Student Centre, 1st Floor Strathmore University Ole Sangale Road P.O. Box 59857 – 00200 Nairobi, Kenya Telephone: 0703034331 /0797686484 Email: mzimasprings@strathmore.edu Website: www.strathmore.edu/mzi- ma	
<b>Principal Bankers:</b>	Cooperative Bank of Kenya Limited Ukulima Branch P.O. Box 38666 - 00100 Nairobi	
<b>Auditor:</b>	Omambia & Associates Certified Public Accountants (Kenya) P.O. Box 40886-00100 Nairobi	
<b>The Manager</b>	Mr. Isaac Maingi (Acting) P. O Box 59857 – 001 00 GPO Nairobi	



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# MANAGEMENT TEAM

## Management Committee Members

The Management Committee members who served during the year are as follows:



### Fredrick Odhiambo, Chair, Management Committee

**Fredrick** is currently a Doctoral Fellow at Strathmore University. He holds a Masters in Communication from the University of Nairobi and has over 13 years of working experience as a teacher and has also served as a secretary of another SACCO. He joined Mzima in September 2014.



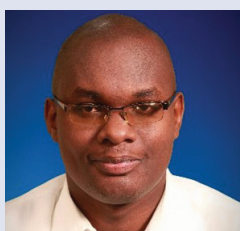
### Loice Orege, Vice Chair, Management Committee

**Loice** has a diverse experience in administrative aspects and currently working with Strathmore University Housekeeping Department. She holds a degree in Hospitality management and currently pursuing her Masters in Hospitality Business Management at Strathmore University.



### Were Lwanga, Secretary, Management Committee

**Were** currently works with Strathmore School as a Teacher with over 9 years of experience. He holds Post Experience Diploma in Education Management. Were has substantial administrative experience at Strathmore School.



### Dr. David Mathuva, Treasurer, Management Committee

**David** is currently a Senior Lecturer at Strathmore University and has previously worked with KPMG East Africa. He holds a Doctorate in Accounting and Finance, a Masters in Forensic Accounting and a Bachelor of Commerce, Finance. Dr. Mathuva is a member of the ICPAK.



### Fredrick Otieno, Chair, Credit Committee

**Fredrick** is currently a Doctoral Fellow at Strathmore University. He holds a Master of Commerce in Forensic Accounting and a Bachelor of Commerce. He is also a Certified public Accountant.



### **John Ouko, Member, Credit Committee**

**John** currently works with the Admissions Office at Strathmore University. He is pursuing his Bachelor of Commerce degree.



### **Perpetua Muema, Credit Sub-Committee**

**Perpetua** holds a degree in Business Management (Human Resource Option) and a Certificate in Food and Beverage Production and Service. She has a wide range of experience in management and cleaning. And serves in the Board of Management at Kyome Mixed Secondary School and also in the Board of Trustees of Kianda School Staff Retirement Benefit Scheme.

## **Supervisory Committee Members**

The Supervisory Committee members who served during the year are as follows:



### **Julius Mamicha, Chair, Supervisory Committee**

**Julius** is based at Strathmore School where he has served for over 15 years in administration. He holds a Diploma in ECDE (TSC No: 1007207) and Business Management



### **Emily Cherono, Member, Supervisory Committee**

**Emily Cherono** currently works Masai Technical Training Institute. She holds a Bachelor of Science in Hospitality and Tourism Management, an Advanced Diploma in Technical Education and a Diploma in Catering and Accommodation Management.



### **Chrispine Oloo, Member, Supervisory Committee**

**Chrispine** currently works as the Librarian at Strathmore School, Lavington and has previously worked for assorted public & private sector institutions, including: Infoman Consultants; the African Economic Research Consortium (AERC); the International Development Research Centre, Nairobi Office (IDRC ESARO); the University of Nairobi and the Kenya Institute of Management (KIM) among others. Chrispine prides in over 15 years' hands-on experience in information service provision. A graduate of the Catholic University for East Africa's BSc in LIS programme, **Chrispine** also holds a Diploma in Information Studies from the Kenya Polytechnic (now TUK) and Diploma in Business Information Technology (DBIT) from Strathmore University respectively.

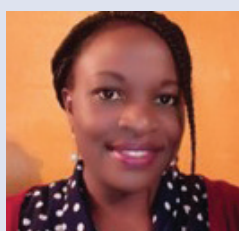
### **SACCO Management Team**

Below are the officers of Mzima Springs SACCO, their experience and qualifications.



### **Isaac Maingi, Senior Accountant**

**Isaac** is currently a Senior Accountant at Mzima Springs SACCO. He is pursuing his Certified Public Accountancy qualification. He has over 12 years of experience in Accounting and general administration. He has interests in Accountancy & Finance.



### **Hannah Muduya Kegehi, Administrator**

**Hannah** is currently an Administrator at Mzima Springs SACCO where she has worked for over ten years. She holds a Diploma in Front Office Management and a Diploma in Business Management. She is currently pursuing a Degree in International Public relations. She believes that Mzima has taught her how to place members at the center of everything.



### **Faith Kimani, Assistant Accountant & Loans Officer**

**Faith** is currently an Assistant Accountant at Mzima Springs SACCO. She holds a Bachelor of Business Information Technology and is currently pursuing her CPA and Cooperatives Diploma qualification. She has over 4 years of working experience.



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# OUR HISTORY

About fifteen employees of Strathmore School registered Mzima Springs SACCO in 1983. When it was registered, it was meant to only serve the subordinate staff. As Strathmore School expanded, more and more members joined in and by 1990 all employees of the School were eligible to join the SACCO.

The section of the college was moved over to Madaraka Estate in 1992 and this threatened the continuity of the SACCO. However it was agreed rather than register a new SACCO, the current members of the college will continue being members of Mzima Springs SACCO with an appropriate management structure put in place to serve the interest of both groups.

This agreement was vital as it led to the growth of the SACCO serving the Strathmore fraternity. This was because any person employed by any of the Strathmore institutions is eligible to be a member of the SACCO. These institutions included Kianda School, El Molo, Kibondeni and Tigoni. In 2021, the Sacco was licensed as Mzima Springs Regulated Non-Withdrawable Deposit-Taking (WDT) Sacco and is currently regulated by SASRA.

### Current position

Currently as a result of expansion of the institutions membership the SACCO is comprised of the following Centres:

- |                      |                                     |                              |
|----------------------|-------------------------------------|------------------------------|
| 1. Strathmore Café   | 15. Quest Works                     | 29. Mzima Investment         |
| 2. Creates           | 16. Strathmore Educational Trustees | 30. Imara Educational Center |
| 3. Eastlands College | 17. Roshani                         | 31. Mvule                    |
| 4. Elmolo            | 18. Samara Centre                   | 32. Alumni Staff             |
| 5. Ewaso Club        | 19. Satima                          | 33. Mzima Student            |
| 6. Faida             | 20. Strathmore Business School      | 34. Mzima Junior             |
| 7. Fanusi            | 21. SRCC                            |                              |
| 8. Fontana           | 22. Strathmore School               |                              |
| 9. Hodari            | 23. Strathmore University           |                              |
| 10. Karima           | 24. Thigiri                         |                              |
| 11. Kianda Catering  | 25. Tigoni                          |                              |
| 12. Kianda School    | 26. Watani                          |                              |
| 13. Kibondeni        | 27. Strathmore School Catering      |                              |
| 14. Kimlea           | 28. Mzima Sacco                     |                              |

As at 31<sup>st</sup> December 2022, the total active members were

**1,042**



# PRODUCTS AND SERVICES

Below are the loan products offered by the SACCO.

	Loan product	Purpose	Interest rate	Suggested limit, terms & incentives	Suggested maximum term
1.	Normal Loan	Granted as short-term loans for investment purposes and repayment through check off system	1% per month on reducing balance	<ul style="list-style-type: none"> <li>• Maximum of 3 times of member deposits or a limit of Kshs 4,000,000 (subject to 1/3 rule)</li> <li>• Only one normal 1 loan shall be granted at a time</li> <li>• Easy loan top up facility possible</li> </ul>	72 months
2.	Normal Loan 2 (Off Payroll)	Loan serviced through bank standing orders, bank debit advice and not through check-off system.	1 % per month on reducing balance. Interest rate for this loan shall be revised by the MC from time to time	<ul style="list-style-type: none"> <li>• Maximum of 3 times of member deposits or a limit of Kshs 3,000,000</li> <li>• Only one-off payroll loan shall be granted at a time</li> <li>• Easy loan top up facility possible</li> <li>• The minimum number of guarantors shall be four</li> </ul>	72 months
3.	Emergency loan	Granted due to unforeseen circumstances	1% p.m. on reducing balance	<ul style="list-style-type: none"> <li>• Maximum of 3 times of member deposits or a limit of Kshs. 250,000 (subject to 1/3 rule)</li> <li>• Only one emergency loan shall be granted at a time</li> <li>• Easy loan top up facility possible</li> </ul>	24 months
4.	School fees loan	Granted for educational purposes	1% per month on reducing balance	<ul style="list-style-type: none"> <li>• Maximum of 3 times of member's deposits up to a maximum of Kshs. 150,000 (subject to the 1/3 rule)</li> <li>• Only one school fees loan can be granted at a time</li> <li>• school fees invoice</li> <li>• Easy loan top up facility possible</li> </ul>	12 months
5.	Student loan	Targeted to Strathmore students who have borrowed funds to cater for their needs or for investment purposes	1% per month reducing balance	<ul style="list-style-type: none"> <li>• Maximum is equivalent to student member deposit.</li> <li>• The loan should be fully guaranteed (fellow students can guarantee)</li> <li>• Only one student loan can be granted at a time</li> <li>• Easy loan top up facility possible</li> </ul>	24 months
6.	Insurance premium finance loan	Advanced to members to pay insurance premiums	1.5% per month on declining balance	<ul style="list-style-type: none"> <li>• Amount shall be equivalent to the actual insurance requirement. The loan should be fully guaranteed</li> </ul>	6 months
7.	Salary advance	Shall be granted against a member's salary	A commission will be charged as follows: <ul style="list-style-type: none"> <li>• 5% on the first month</li> <li>• 6% on the second month</li> <li>• 7% on the third month</li> </ul>	<ul style="list-style-type: none"> <li>• One salary advance per month</li> <li>• No guarantors needed</li> </ul>	3 months



8.	Refinance Loan (TOP UP)	Loan is issued where a member is unable to finalize a project with the loan earlier taken, and needs a top up to finish his/her project	<ul style="list-style-type: none"> <li>• 1% per month</li> </ul>	<p>New/refinancing loan repayment period is determined by the previous loan repayment period.</p> <ul style="list-style-type: none"> <li>• 2% of the top up amount processing fees.</li> <li>• Refinancing is possible after servicing the older loan for a period of more than one year</li> </ul>	Period is equivalent to the remaining period of the old loan
9.	Karibu Loan	Granted to new members who have not attained the 6 months' probation period but have been in the SACCO for at least 3 months	<ul style="list-style-type: none"> <li>• 1% per month</li> </ul>	<ul style="list-style-type: none"> <li>• Maximum of 3 times of member's deposits up to a maximum of Kshs. 100,000 (subject to the 1/3 rule)</li> <li>• Only one Karibu loan can be granted at a time</li> <li>• Loan should be fully guaranteed.</li> <li>• Upon attainment of the 6-month period, a member cannot be offered the Karibu loan.</li> </ul>	12 months

## Our Savings Products

- Children' Savings (Mzima Junior)
- Special Savings
- Mzima Student Savings



## STATISTICAL INFORMATION AS AT 31<sup>ST</sup> DECEMBER 2022



<b>Membership</b>	Active	1,042	979
	Dormant	538	462
<b>Total</b>		<b>1,580</b>	<b>1,441</b>
<b>Financial</b>		<b>Kshs.</b>	<b>Kshs.</b>
Total assets		368,659,684	325,355,449
Members' deposits		321,730,294	288,729,040
External borrowing		-	-
Loans and advances to members		290,372,355	265,558,765
Investments		41,092,001	24,878,093
Core capital		24,823,414	17,993,212
Share capital		12,352,300	6,251,900
Institutional capital		12,535,114	11,805,312
Total revenue (income)		34,020,908	28,730,034
Total interest income		31,570,380	27,198,935
Total expenses		12,471,107	10,055,381
Employees of the Sacco (2 female, 1 male)		3	3
<b>Key ratios:</b>			
<b>Capital Adequacy Ratios</b>	<b>Minimum</b>		
Core capital/Total assets	8%	6.73%	5.53%
Core capital/Total deposits	5%	7.72%	6.23%
Retained earnings and disclosed reserves/Core capital	50%	50.50%	65.61%
<b>Liquidity Ratio (15%)</b>			
Liquid assets/Short term liabilities	10%	205%	155.71%
Operating Efficiency/Loan quality ratios			
Total expenses/Total revenue			
Interest on member deposits/Total revenue			
Interest rate on members' deposits			
Dividend rate on members share capital			
Total delinquent loans/Gross loan portfolio			
	<b>Maximum</b>		
Financial investments/Total deposits	30%	12.77%	8.62%



## CHAIRMAN'S REPORT YEAR 2023



It is my great pleasure to welcome you dear members to yet another physical annual general meeting (AGM) after the great global health threat.

### **The Sacco's 2022 Review**

The SACCO has continued to report sustainable performance over the years, with 2022 being a remarkable year. During the year, the SACCO managed to report improved recovery on its previously defaulted loans. This is in addition to an improvement in the share capital position for the SACCO following a resolution by members to increase share capital during the 2022 Annual General Meeting.

### **The Sacco's Financial Health**

As at 31st December 2022, the total asset base of the Sacco stood at Kshs. 368,659,684 up from Kshs. 325,355,449. The Sacco lent a total of Kshs. 205,886,315 up from Kshs. 195,206,813 in 2021.

### **Investments**

The Sacco has invested a gross of Kshs. 41,092,001 less interest accrued in the various money markets and a bit in fixed deposit accounts both of which have continued to generate for the Sacco some passive income. As of 31st December 2022, the interest income earned on these investments amounted to Kshs. 2,450,528.

### **Improved Corporate Governance Structure**

One of our silent but probably salient quests and strategic goals through the help of the Management Board and the Supervisory Committee was to install a self-regulating governance structure that is akin to African Customs: open and fair to both the young and the old, the strong and the weak. Indeed, we have seen such structures work well in our revered institutions like Strathmore.

- a. **Loans:** when we joined the Management Board, for one to get a loan, numerous phone calls to the office and probably an MCs intervention probably after a visit to the Sacco office was essential for the fast tracking of the process, we are glad to report that that the phone calls, the trips and the personal interventions have been eliminated. One needs not follow up the loan processing.
- b. **Loans Payment:** The loans applied for would be paid in two or more installments after a long wait; now the loans are paid for fully in a single installment. Further, the Sacco does payments twice in a week shortening the waiting period.
- c. **Interest on deposits:** commonly and loosely referred to as dividends was disbursed in two tranches; now all members are paid immediately and in a single tranche.
- d. **Easy access to personal profile:** members can easily access their Mzima Springs personal profiles (get to know their deposits, their loan repayment, and the people they have guaranteed among others) on any internet enabled gadget like their phones. One needs not visit the physical office. The mobile money banking and loaning is still a matter under serious scrutiny.

### **Interest Rebate and Dividend Payments**

A total of Kshs 19,000,000 has been set aside for rebates up from Kshs 16,000,000 the previous year. Similarly, Kshs 1,070,000 has been allocated for member dividends.



### **SASRA Compliance and Member Shareholding**

Mzima Springs Sacco has been inspected by the SASRA management and a certificate of compliance issued. The Sacco has since ensured that it complies with the SASRA requirements, except in the case of share capital and staffing (i.e., CEO and an internal auditor). In the last AGM, members passed a resolution to increase the minimum shareholding in the Sacco from the current Kshs. 5,000 to Kshs. 20,000 per member for approval. So far, the share capital of the SACCO has improved from Kshs 6,251,900 in 2021 to Kshs. 12,352,300 in 2022. The capital ratios for the SACCO have since improved over time. I am happy to note that the SACCO also reported an increase in active membership from 979 in 2021 to 1,042 in 2022.

### **Mzima Board and Staff Re-organization**

We included a budget (2023) for the Chief Executive Officer (CEO) of the Sacco as we work with SASRA's requirements. The Board plans to recruit a CEO this year, by 30th April 2023. Some of the Board and Supervisory Committee members' terms have their terms come to an end today. We would like to thank you most sincerely for the great support and the confidence you bestowed on us. As you vote in new office holders, kindly vote wisely.

### **Conclusion**

May God guide Mzima Sacco and bless its members. Thank you.

### **Fred Odhiambo**

Mzima Springs Sacco Chairman.





# SUPERVISORY COMMITTEE REPORT



## Preamble:

Distinguished members, representative from the line ministry, SASRA, and KUSCO here present, members of the board and to our dedicated Sacco staff, ladies and gentlemen, good afternoon!

Fellow “wana Mzima”, on this auspicious occasion when our Sacco marks four decades since its inception in 1983, I am enthused to stand before you on behalf of the Supervisory Committee team to share with you a few highlights from our supervisory audit work during the 2021-2022 financial year here under review. In this report, we are glad to share with you our observation on the running of the Sacco during the period in terms of “what went well and what we need to improve” as follows:

## WHAT WENT WELL

### i.) Sacco Revenue

Total revenue increased from Kshs. 28,730,033.51 in 2021 to Kshs. 34,020,908.49 in 2022 representing a growth margin of 18.42%.

### ii.) Loan Portfolio

The Sacco remained robust in its lending activities posting a loan book growth of Kshs 284,040,877.35 up from Kshs. 265,558,765.34 in 2021. This represents a 6.96% increment. Above all we noted that all loans advanced to the MC, SC and staff (insider lending) were all procedurally processed in line with the loan policy and are all being diligently serviced by the loanees - which is a very commendable example by the team.

### iii.) Member Deposits

Total members' deposits increased from Kshs 288,729,039.79 in 2021 to Kshs. 292,881,480.62 in 2022 representing a 1.44% growth margin.

### iv.) Share Capital

Total share capital by members recorded a significant leap, closing at Kshs. 13,174,950/- by 31st December, 2022 compared to Kshs. 6, 251,900/- on 31st December, 2021, representing a growth margin of 110%.

### v.) Capacity Building for Sacco Officials and Staff

During the year under review, the board, supervisory committee members and staff attended different relevant training seminars/workshops as part of capacity building to enable then contribute effectively to the success of the Sacco.

### vi.) Loan Defaulters

By close of the year under review, non- performing loans stood at Kshs 16,346,459/- compared to Kshs 19,033,853.74 recorded as of 31st December 2021, which represents a marginal yet commendable drop in non-performing loans (NPLs) ratio of 14.14% in 2022 hence pointing to improved loan collection efforts by the board and staff during the year under review. There is however room for improvement this year to further bring the level down to a negligible point, if possible by the close of this financial year.

## WHAT WE NEED TO IMPROVE ON

### i.) Membership

The membership marginally grew, closing at 1042 members by 31st December 2022 compared to 979 members in 2021, which represents a 6.44% growth rate of 63 new members. We however noted that during the same period under review, a total of 31 members left the Sacco, one by way of natural attrition (death) and 30 through resignation. This implies that while we registered 63 new members, we lost nearly half the number in the same period. In essence therefore, it is like we signed up approximately 2.5 new members every month during the year! With such a trend, the SC notes the need to introduce an exit interview for those resigning from the Sacco as a way of gathering data to help the Sacco better appreciate the underlying reasons for exit by members to enable the necessary corrective measures to be instituted to help curb the rate of resignations by members, where possible.

### ii.) Member Deposits

Total deposits by members grew by a marginal 1.44% in 2022, which is appreciably low and therefore wish to urge members to increase their monthly deposits to make more funds available for loaning and investment thereby leading to improved returns in 2023.

### iii.) Dormant Membership

The issue of dormant membership accounts, which the SC flagged in the last AGM report last year, still remains a major concern having rose to 538 in 2022 down from 462 in 2021. In this regard, we strongly urge the board to expedite action on this issue to avert possible exploitation of such accounts for fraudulent undertakings.

In line with the above concern over fraudulent abuse of dormant accounts, we wish to report to you of a case that came to our attention around 28th November last year, bordering on suspected case of impersonation that



is currently at an advanced stage of investigation by both the board and SC, where a member whom we shall refer to here as “member X”. On receiving the tip-off, the SC swiftly moved into action to investigate the matter and duly flagged the same with the board for their briefing.

Consequently, in our preliminary investigation, we visited the Sacco office on 3<sup>rd</sup> December 2022 to access crucial documents relating to the matter and engage with both staff and board members who handled the case in one way or another in order to have a better appreciation of the nature and dynamics of the case.

In brief, given the sensitivity of the case and the stage of investigation, allow to only share with you a glimpse of what our findings from the records accessed and engagement with the staff and board on the matter revealed so far, which includes:-

- i). That the member’s account (“member X”) had largely been inactive between 2009 and 2015 when there was a transition from the manual excel to automated system
- ii). That the account was suspiciously cleared without the member’s knowledge and the funds therein paid to a proxy account as advised in the cover letter written by the resignee and attached to the filled clearance form in 2019.
- iii). That the purported resignation clearance form and accompanying cover letter were received at the secretariat on 5th August, 2019
- iv). That the payment of the refund was approved and made after the lapse of the requisite notice period on the 9th October, 2019 into the proxy account provided in the cover letter
- v). That the case actually came up in November 2022 when the real “member X” personally showed up at the Sacco office to find out why he had not received his interest on deposits for two consecutive years since 2019 only to discover that he had been unknowingly cleared and refunds paid out two years back as per the documentation in the Sacco.
- vi). That all original records relating to the account could not be traced, including the member’s on-boarding membership application form. In addition, the profile in the system has no profile photo of the member and beneficiaries.
- vii). That the only record trail available is the migration transaction captured in 2015 when the balance B/F was moved into the automated system.
- viii). That the only other transactions captured in the account after the opening balance B/F in 2015 is the movement of Kshs. 5,000/ from deposits to shares in 2017 and thereafter, the processing of the refund in 2019. From the above trail, it is evident to the SC that the case traces its very roots to the transition period during which most of the current board and SC members were either not in office or fairly new. Never the less, we continue to keenly follow this case with the board and promise that nothing will stand on the way to unraveling the truth behind this case and requisite action being taken on those found culpable.

While we do register our unqualified satisfaction with the progress of the investigations so far and laud the continued briefing by the board on the matter, we however noted some lapses in the current clearance system from our preliminary investigation so far, which we have duly flagged with the board and made some recommendations for quick action even as the full investigation of the matter by the board and SC team progresses.

These include:-

a) Review of the prevailing clearance procedure to include among other things:

- i). Mandatory production of original ID by the member alongside the filled clearance form for authentication of identity by the receiving officer;
  - ii). Ensure complete matching of member details filled on the form (including the member’s gender) with those captured in the system before acknowledging receipt of the clearance form by the officer for further processing;
  - iii). Introduce serialized system generated clearance forms with a provision that captures the name of the issuing officer, and date and time of issue.
  - iv). Provide a safe custody for all membership files containing complete trail of records relating to all business transactions by the member in the Sacco kept under lock and key, with controlled access to avoid cases of loss of original copies of pertinent records from files. If possible, digitization of all transactional records be undertaken regularly for back-up purposes;
  - v). That all refunds to members be strictly made to the member’s account that is duly registered in the system and not to any proxy account whatsoever save for refund of claims to beneficiaries of a deceased member.
- b) Take immediate steps to conclusively resolve the issue of all dormant member accounts in the Sacco as a matter of priority.



Closely tied to the above case, the SC is also aware of and are keenly following another suspicious case where a dormant account that was apparently flagged after suspicious reactivation by a Sacco officer was noted to have recorded an initiation of a suspicious clearance process, which action has since seen the board take necessary precautionary step to temporarily restrict the access rights of the affected officer to deter further system interference during the investigation period. We hope to conclusively investigate this case and keep members updated of the findings and recommendations once done.

iv.) Incomplete KYC Data for Members

Some members still have incomplete KYC data in the Sacco system, a situation the SC notes requires a swift move by the board to resolve as a matter of urgency. Such incomplete data could cause unnecessary delays in processing of claims by beneficiaries in the event of a member's demise. We also encourage members to proactively take personal initiative where possible and reach out to the Secretariat to ensure that their full details are duly captured as required.

v.) Corporate Social Responsibility (CSR)

We generally noted a fairly transparent distribution of the CSR fund by the board but had issue with two things, namely: the timing of the disbursement in the last quarter of the year and the confinement of beneficiaries to the fund to Strathmore affiliate centres, which concerns we promptly raised with the board and strongly advised that going forward, the disbursement should be done not later than the second quarter of each year since the fund is usually approved in the budget during AGM. With regard to the current trend where beneficiaries to the fund are limited to Strathmore affiliate centres, we suggest a review in order to open it up to other needy and deserving cases outside the affiliate centres. This suggestion may require the development of a formal policy guideline on CSR by the Sacco to inform the management of the fund moving forward.

vi.) Share Capital Compliance by General Membership

Although we noted a significant leap in the total share capital since SASRA compliance requirement pushed the minimum shareholding per member from Kshs. 5,000/- to Kshs. 20,000/- last year, resulting in a Kshs 15,000/- gap which needed to be bridged by 31st December, 2022 as ratified by members during the 2022 AGM, we note that only a couple of members had successfully topped up their share capital gap by close of December 31, 2022. We however applaud the board and SC members for demonstrating commendable leadership in this area as the team has complied 100%! For the general membership, we suggest that since the deadline for bridging the share capital for compliance prescribed to us by SASRA is now past, all noncompliant members should expedite personal efforts towards bridge the gap for full compliance the soonest possible.

vii.) Statutory Deductions and Remittances by the Sacco

We noted that most of the statutory deductions by the Sacco, especially for payments made to staff and members were diligently computed and faithfully deducted for remission to the relevant government agencies as required. A notable lapse was however flagged on withholding income tax for some consultancy services, which we diligently raised with the board and hopes for corrective action going forward such that any payment above the stipulated aggregate amount shall attract the requisite withholding tax being withheld by the Sacco at source as stipulated in the income tax law.

## Conclusion

We conclude by noting that despite the many concerns that reigned in most members' minds when it became apparent last year that Mzima was to be regulated by SASRA, that our first year of operating under SASRA regulation has actually seen us maintain positive progress hopefully confirms the assurance given to us by the SASRA official who enlightened us on "the need for and implication of being SASRA regulated" during last year's education day! We therefore urge members to fully cooperate and support the board and staff in ensuring full compliance with SARRA requirements for even better growth prospects going forward. It is also our humble prayer that God will continue to guide the management and staff of Mzima to diligently continue stewarding the Sacco with dedication and sacrifice for continued success. God bless Mzima, God bless you all.



**MZIMA SPRINGS  
NWD T SACCO**  
— Your Personal Anchor —

Mzima Springs Regulated Non-WDT Sacco Society Limited - CS/3981  
Annual Report and Financial Statements for The Year Ended 31st December 2022



## **CORPORATE GOVERNANCE REPORT**

Previous research has shown that corporate governance in SACCO's in Kenya has not been effectively regulated and supervised. It is important to emphasize that good corporate governance practices in the SACCOs are imperative if the cooperative movement is to effectively play a key role in the overall development in Kenya. The Centre for Corporate Governance and SASRA have recommended good corporate governance principles that the SACCO has tried to adopt and implement. The governance of the Sacco is taken care by the Management Committee and the Supervisory Committee. The roles and functions of the 2 committees are independent of each other, and we usually have quarterly meetings to assess the progress of the Sacco jointly. The board is guided by the Mzima Springs Board Charter and responsible for ensuring adherence to the code of corporate governance or board charter. At the beginning of each year, the board agrees to a work plan and schedule of meetings and agenda, which is timeously communicated by the hon. Secretary ahead of time. All minutes of the board and supervisory committee meetings are kept. The reports of the supervisory committee are presented to the board for consideration and action. The same reports are presented to the members during the AGM, including actions taken by the board.

### Our Corporate Governance Principles

Mzima Springs SACCO lives by the following Cooperative values and principles:

Cooperative values	Cooperative Principles
<ul style="list-style-type: none"> <li>• Self-help</li> <li>• Self-responsibility</li> <li>• Democracy</li> <li>• Equality</li> <li>• Equity</li> <li>• Solidarity</li> </ul>	<ul style="list-style-type: none"> <li>• Voluntary and Open Membership</li> <li>• Democratic Member Control</li> <li>• Member Economic Participation</li> <li>• Autonomy and Independence</li> <li>• Education, Training, and Information</li> <li>• Cooperation among Cooperatives</li> <li>• Concern for Community</li> </ul>

### Our principles

At Mzima Springs Sacco, we are guided by the 7 global cooperative principles which include:

 Voluntary and Open membership	 Democratic Member Control	 Member's Economic Participation
 Autonomy and independence	 Education, Training and Information	 Cooperation Among Cooperatives
 Concern for the community		



## Sacco committees and their responsibilities

The roles of the two key committees in a SACCO are outlined below:

Management Committee Responsibilities	Supervisory Committee Responsibilities
<ul style="list-style-type: none"> <li>• Develop, review and uphold the bylaws.</li> <li>• Set and implement a strategic direction for the SACCO.</li> <li>• Ensure SACCO meets legislative requirements.</li> <li>• Develop SACCO policies and procedures and ensure they are documented and in a manual.</li> <li>• Manage SACCO resources, both financial and non-financial.</li> <li>• Manage membership.</li> <li>• Records and document management.</li> <li>• Deliver on delegated tasks and assignments.</li> <li>• Drive the SACCO strategy.</li> </ul>	<ul style="list-style-type: none"> <li>• Counterchecking, the effectiveness of the society's internal control systems through:               <ol style="list-style-type: none"> <li>a) Verification of all transactions of the SACCO society</li> <li>b) Writing periodic report to be tabled at board meetings</li> <li>c) Submission of its reports to the regulator</li> <li>d) Presenting its reports to general meeting.</li> </ol> </li> <li>• The supervisory committee shall not perform the duties or exercise any of the powers of the board.</li> </ul>

## Management sub-committees, composition and their responsibilities

The term of appointment into the board is 3 years after which board members can offer themselves for re-election for another maximum of 2 additional periods. Board members are first nominated using a pre-defined checklist which captures their years as Sacco members, level of savings, default status and shareholding. They are then subjected to the AGM for election by the members. Upon on boarding, the new members are taken through their responsibilities and work closely with other board members who orient them to the job and their responsibilities. Supervisory committee members are also elected on a rotational 2-year period through the AGM. Any resignations and co-opted members are disclosed during the AGM and the vacant positions filled using the criteria discussed above. Board members are subject to annual performance evaluation where the board members and subcommittees get to evaluate their performance individually and jointly as a board. Every year, the board and supervisory committee receives training on corporate governance. Board remuneration is approved by the members during the AGM as indicated on the budget. All board members are required to fill in the fit and proper test form and also provide wealth declaration by filling out the requisite forms. The board is usually committed to compliance with all applicable regulations and keeps updating its register of regulations and guidelines to ensure compliance at all times.

The following table shows the membership in the various sub-committees of the Management Committee.

Sub-committee	Members	Responsibilities
Executive Committee	<ul style="list-style-type: none"> <li>• Fredrick Odhiambo (Chair)</li> <li>• Loice Orege</li> <li>• Were Lwanga</li> <li>• Dr. David Mathuva</li> </ul>	<ul style="list-style-type: none"> <li>• This sub-committee is responsible for all administrative, finance, investment and strategic planning matters.</li> </ul>
Credit Committee	<ul style="list-style-type: none"> <li>• Fredrick Otieno (Chair)</li> <li>• John Ouko</li> <li>• Perpetua Muema</li> </ul>	<ul style="list-style-type: none"> <li>• This sub-committee is responsible of reviewing and overseeing the overall lending policy of the SACCO Society</li> </ul>
Education and Nomination Committee	<ul style="list-style-type: none"> <li>• Loice Orege (Chair)</li> <li>• Were Lwanga</li> <li>• John Ouko</li> </ul>	<ul style="list-style-type: none"> <li>• This sub-committee is responsible for marketing and providing education and training to the members, delegates, staff, management, and the board as well as ensuring the SACCO is governed in accordance with its code of corporate governance and all other relevant guidelines.</li> </ul>

### Management Committee Meetings during the year

The following table shows the attendance of the Management Committee to the scheduled meetings during the year ended 31<sup>st</sup> December 2022.

Name	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fredrick Odhiambo	√	√	√	√	√	√	√	√	√	√	√	√
Loice Orege	√	√	√	√	√	√	√	√	√	√	√	√
Were Lwanga	√	√	√	√	√	√	√	√	√	√	√	√
David Mathuva	√	√	√	√	√	√	√	√	√	√	√	√
Perpetua Muema	√	√	√	√	√	√	√	√	√	√	√	√
Owino, Fredrick Otieno	√	√	√	√	√	√	√	√	√	√	√	√
John Robert	√	√	√	√	√	√	√	√	√	√	√	√

### Supervisory Committee Meetings during the year

The following table shows the attendance of the Supervisory Committee members to the scheduled meetings during the year ended 31<sup>st</sup> December 2022.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Name	Jan. - Mar.	Apr. - Jun.	Jul. - Sept.	Oct. - Dec.
Julius Mamicha	√	√	√	√
Emily Cheronno	√	√	√	√
Chispine Oloo	√	√	√	√





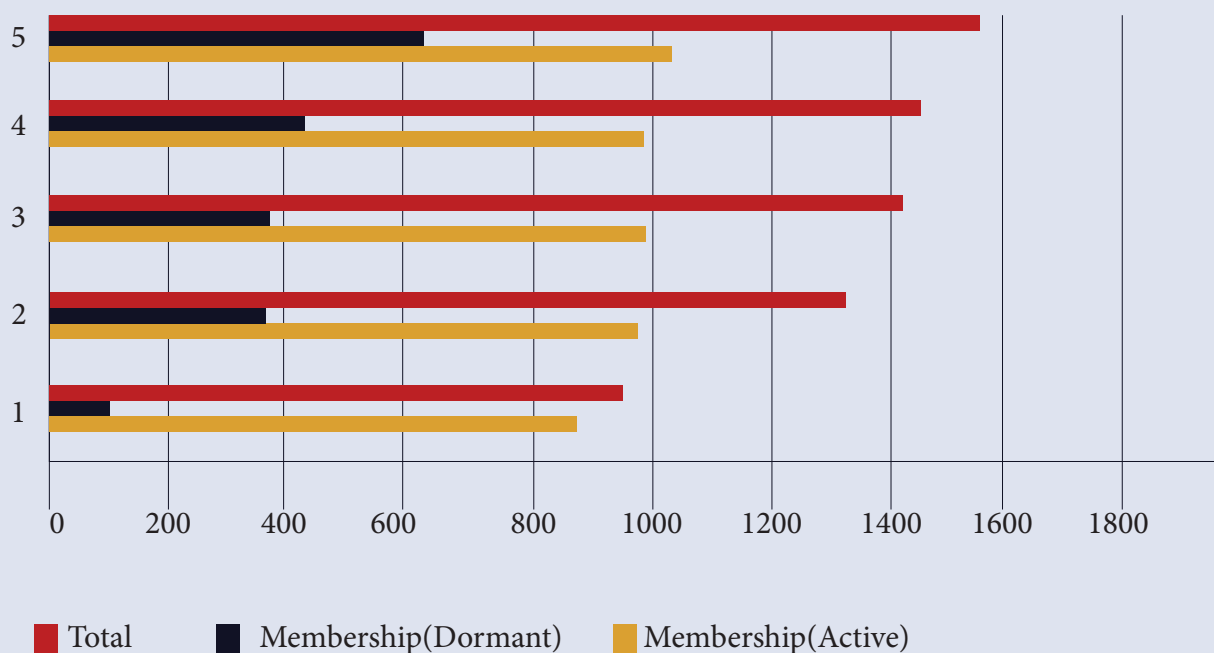
## Society's Five-Year Financial Performance Review

Year	2018	2019	2020	2021	2022
Membership (active)	853	951	998	979	1,042
Membership (dormant)	86	381	415	462	538
<b>Total</b>	<b>939</b>	<b>1,332</b>	<b>1,413</b>	<b>1,441</b>	<b>1,580</b>
(a) Statement of financial position					
Assets	Kshs	Kshs	Kshs	Kshs	Kshs
Loans to members	201,933,791	219,722,988	225,145,607	265,558,765	290,372,355
Cash and cash equivalents	12,450,306	29,286,952	57,403,820	28,914,627	4,046,091
Other assets	10,758,879	10,323,436	10,094,127	30,882,056	33,149,236
<b>Total assets</b>	<b>225,142,977</b>	<b>259,333,375</b>	<b>292,643,554</b>	<b>325,355,449</b>	<b>368,659,684</b>
Equity and liabilities					
Equity					
Share capital	4,749,900	5,495,900	5,933,400	6,251,900	12,352,300
Reserves	9,855,273	10,085,429	10,480,660	11,805,312	12,535,114
Total equity	14,605,173	15,581,329	16,414,060	18,057,212	24,887,414
Liabilities					
Member deposits	193,908,861	225,108,129	256,403,713	288,729,040	321,730,294
Other liabilities	16,628,943	18,643,917	19,825,782	18,569,197	22,041,976
Total liabilities	210,537,804	243,752,046	276,229,495	307,298,237	343,772,270
<b>Total equity and liabilities</b>	<b>225,142,977</b>	<b>259,333,375</b>	<b>292,643,554</b>	<b>325,355,449</b>	<b>368,659,684</b>
(b) Statement of profit or loss					
<b>Total income</b>	<b>18,424,419</b>	<b>21,961,791</b>	<b>21,805,189</b>	<b>28,730,034</b>	<b>34,020,908</b>
Interest income	18,226,062	21,563,973	21,196,247	27,198,935	31,570,380
<b>Other income</b>	<b>198,357</b>	<b>397,818</b>	<b>608,942</b>	<b>1,531,099</b>	<b>24,050,528</b>
<b>Profit after tax</b>	<b>1,311,486</b>	<b>1,135,454</b>	<b>1,413,194</b>	<b>2,674,652</b>	<b>2,549,802</b>
Other disclosures					
Interest rate on deposits (%)	7.50%	8.00%	7.00%	6.90%	7.40%
Dividend on shares (%)	10.00%	11.00%	11.00%	13.50%	14.5%
Dividend on shares Kshs)	430,000	500,000	500,000	700,000	1,070,000
Interest on deposits (Kshs)	10,732,323	14,100,000	14,400,000	16,000,000	19,000,000



## SACCO growth over the years

### Membership

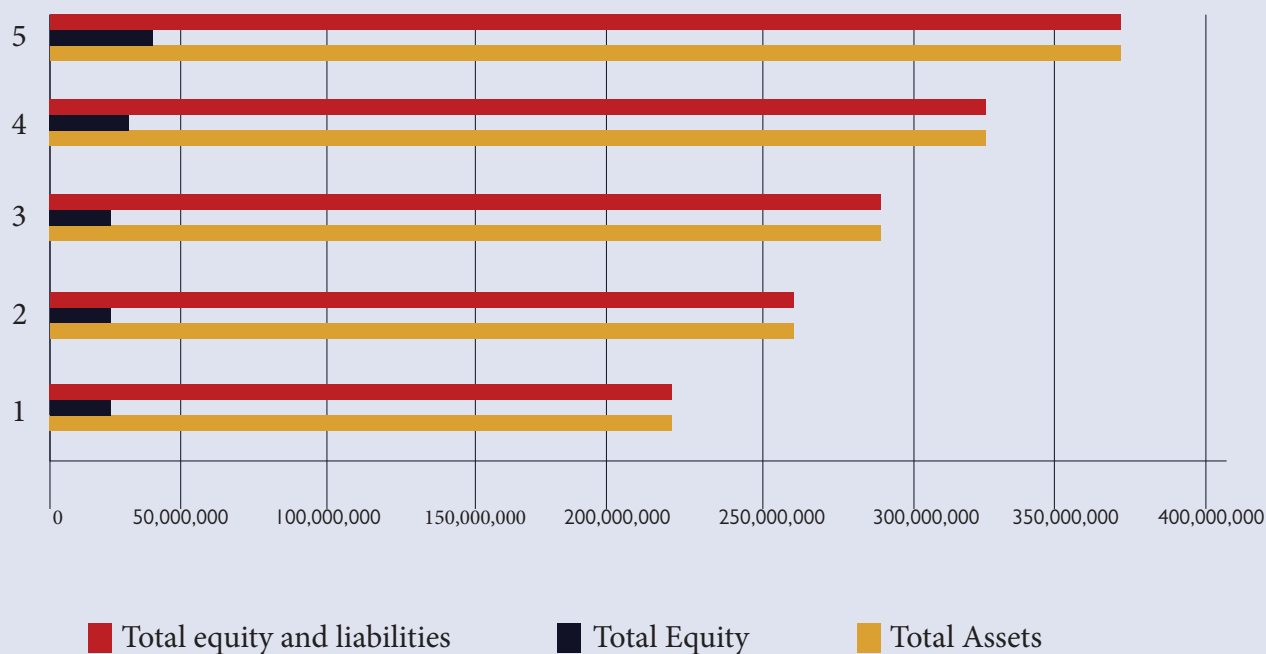


### Loans and deposits

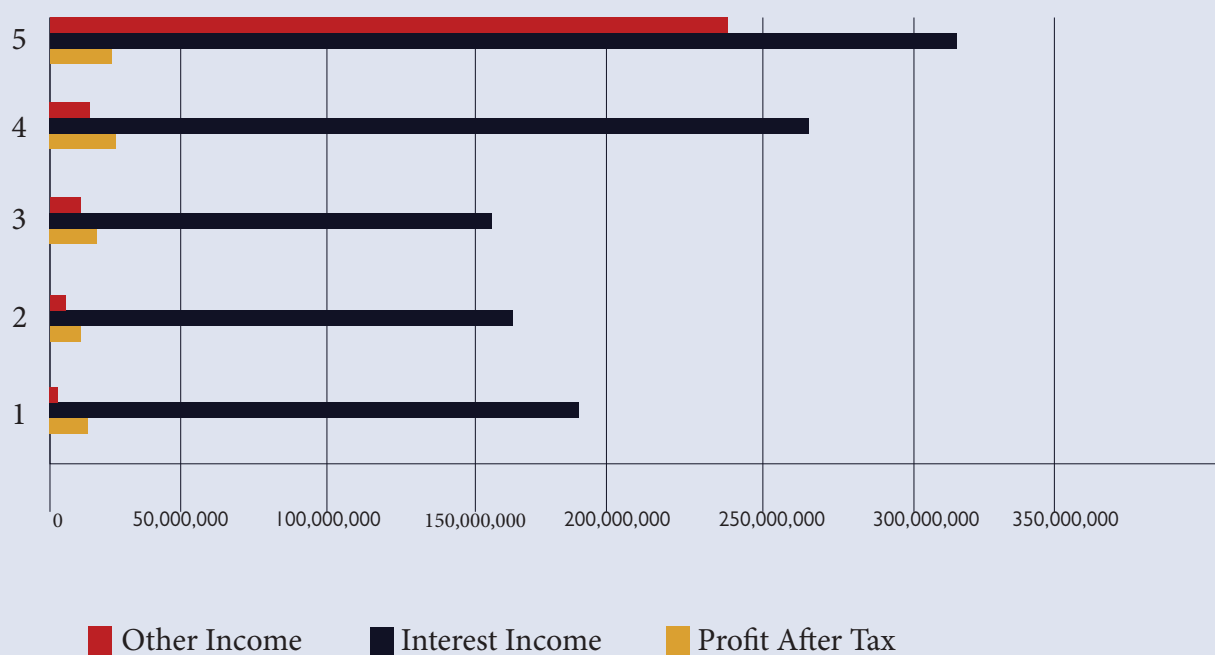




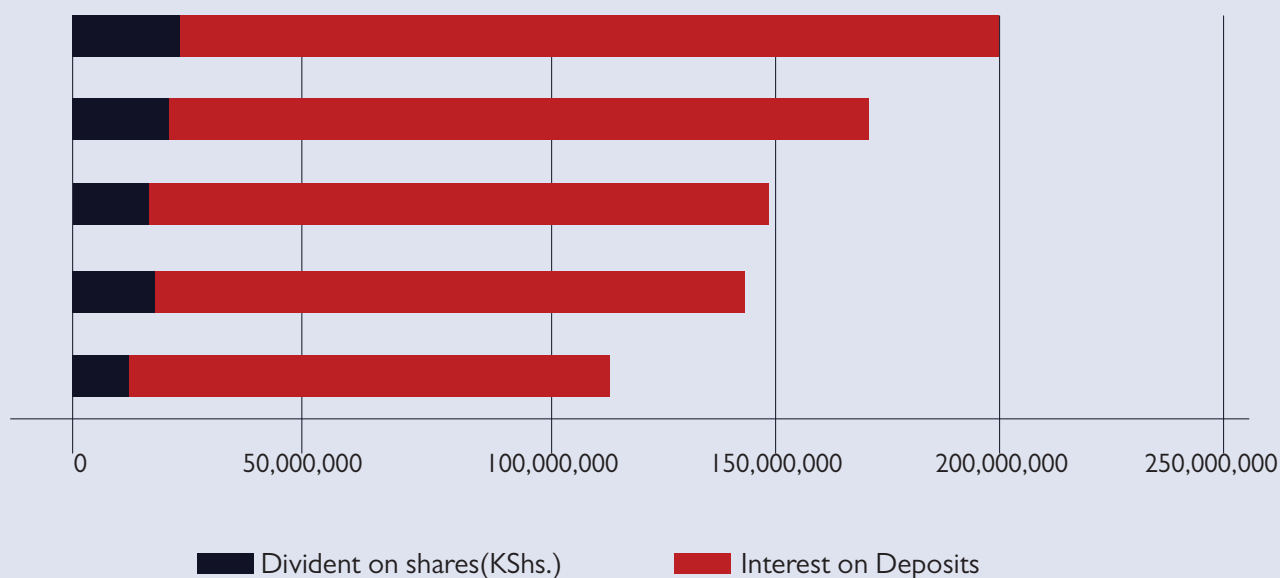
### Assets, liabilities and equity



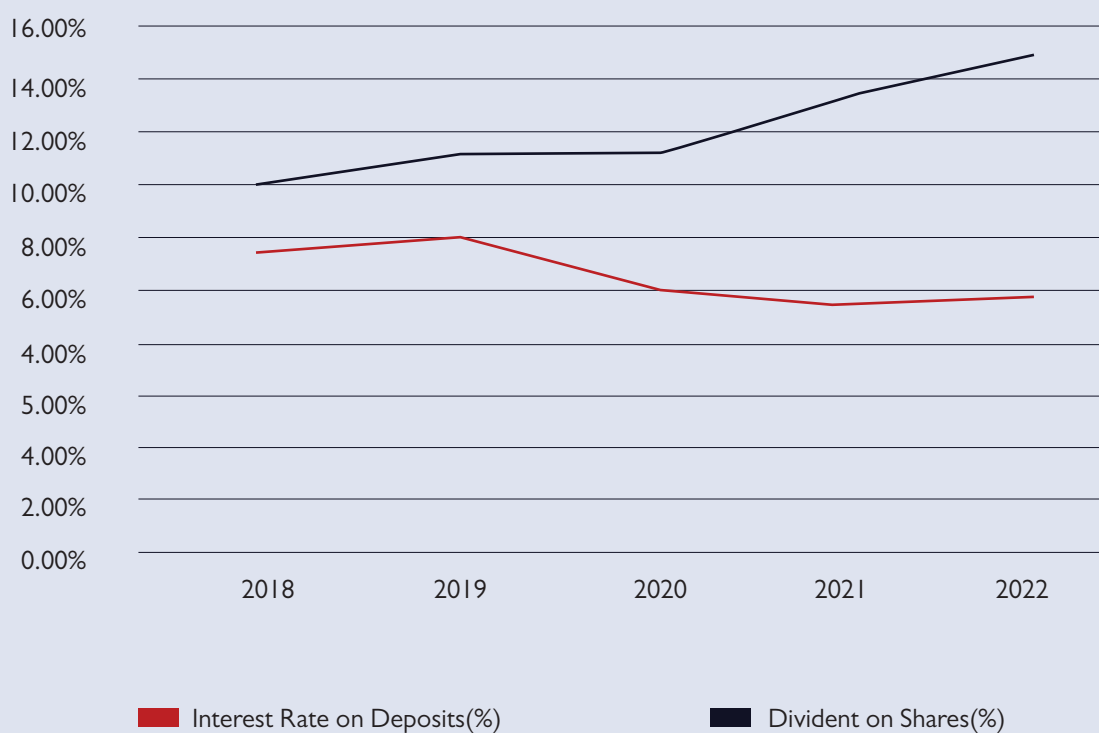
### Income and profits



## Dividend and interest rebate (Kshs)



## Dividend and interest rebate (percent)



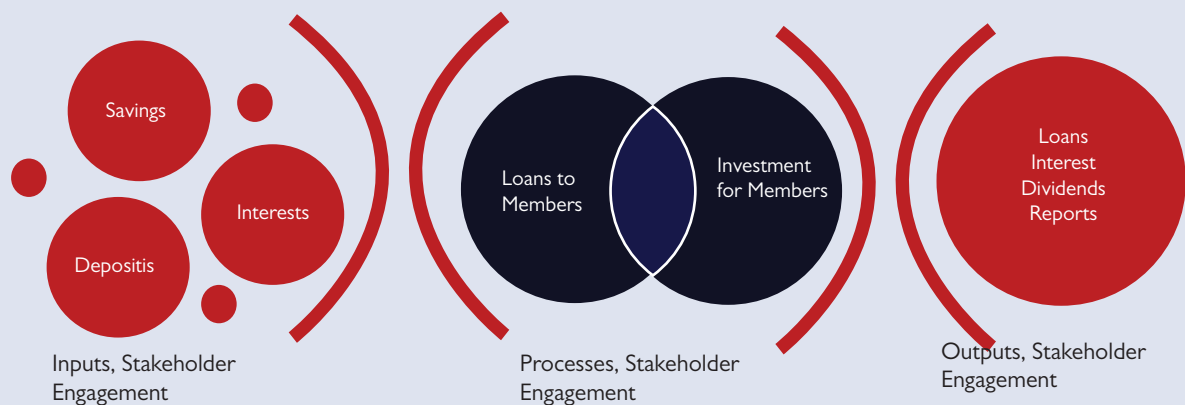


## Sustainability report and value creation for members

### Our business model

Mzima Springs Sacco is a Non-Withdrawable Deposit Taking Sacco that is regulated by SASRA.

It operates as BOSA (Back Office Services Activities) whereby a member makes a prescribed minimum contribution (non-withdrawable deposits) every month. This money is used as collateral for loans in which you borrow 3 times. The maximum allowable loan a member can take at any given point in time is Kshs. 4 million. At the end of December 2022, our average deposit per member was Kshs. 3,129 with our minimum deposit contribution being Kshs. 200 and the maximum being Kshs. 50,000. Our value creation processes are depicted as follows:

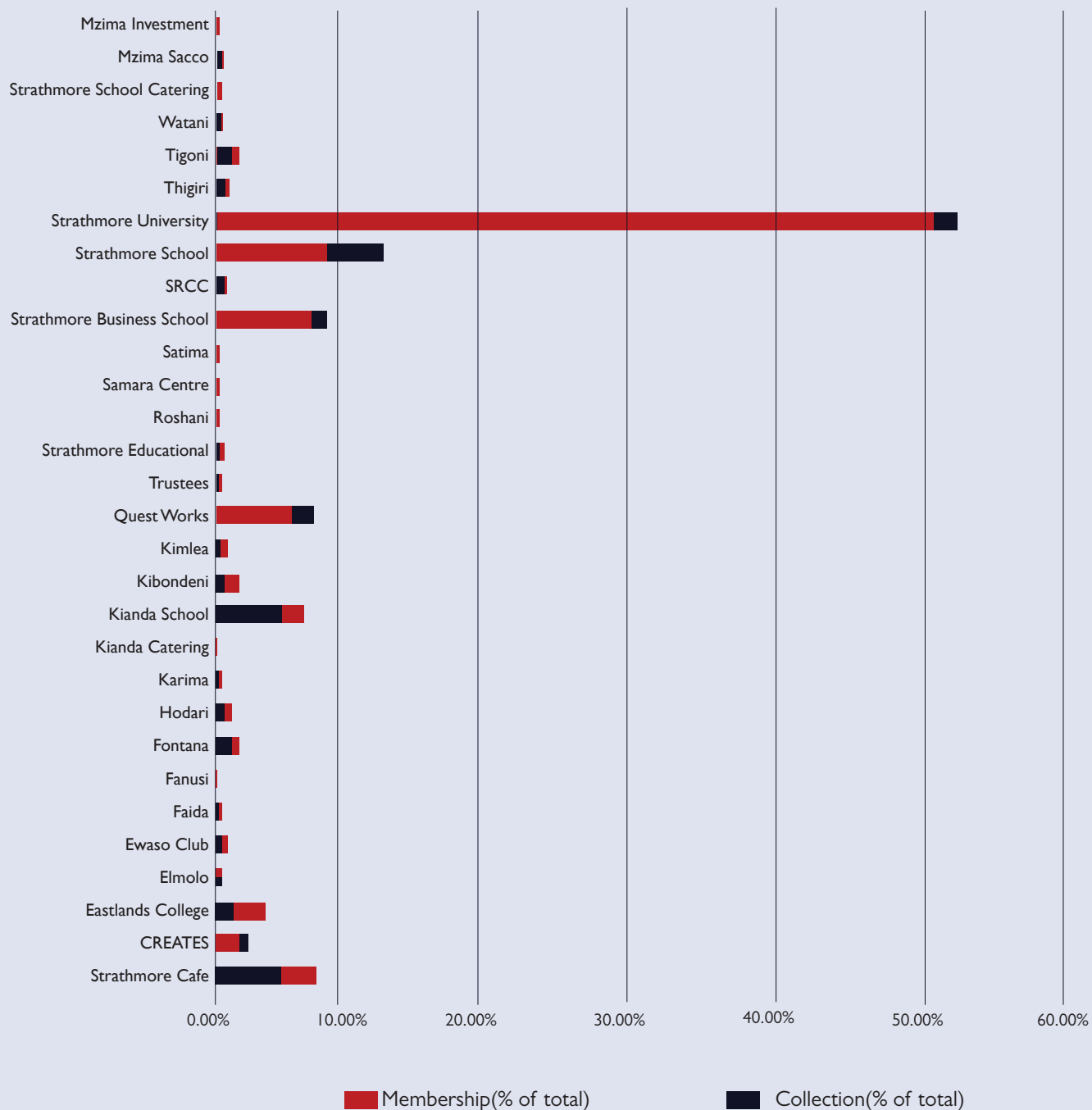


We believe that, to provide value to the member and our stakeholders, we have to constantly engage and find out ways of establishing sustainable relationships to sustain our business model. We also constantly engage our members throughout and using various means of communication such as email, SMS, Education days, or the AGM. At Mzima, we have adopted an “open door” policy where each staff member or members of the Sacco are free to communicate any matter affecting them at all times. Action is usually taken immediately to address the matter, while ensuring that law and human rights and dignity are upheld as far as possible. We also ensure that we communicate the relevant information (financial performance, updates etc.) on our website and also seek member views through the same. With this, we place members and our people at the very core of our operations and ensure that we make the most use of the resources availed to us for improved service to members. The Sacco continues to undertake measures such as:

- Sustained membership drives to boost deposits
- Encouraging members to take loans and faster processing of the same
- Growing the number of centers affiliated to Strathmore and its partners
- Constantly assessing and managing risks in the operating environment
- Revenue diversification through investing excess cash and creation of new products

Our membership in the various centers and collections is depicted in the figure below:

## Centre's Membership & Collections(%)





## Loan distribution in 2022

During the year ended December 2022, the members' loans grew by 9% owing to increased uptake of loans by members.

### Normal Loan

Emergency Loan

### Outside Payroll Loan

Member Karibu Loan

Salary Advance

Student Loan



Our deposits grew by 11% and having surpassed the minimum deposit base of Kshs. 100 million stipulated by SASRA, the SACCO applied for registration with SASRA. A certificate was issued on 14<sup>th</sup> October 2021 after paying Kshs. 50,000 for the initial license and subsequent renewal fees of Kshs. 30,000 have been paid since then.

Our strategy in summary 2022 and performance/achievements

During the Year ended 31<sup>st</sup> December 2022, the Sacco's membership stood at 1,042. Currently (March 2022), the active members are at 1,062. The Sacco was also able to revamp its strategic plan 2021-2024 and comply with most of SASRA's requirements and developed various policies and procedures (e.g., revamped credit, dividend, financial, human resource, investment, and procurement policies). The SACCO's 2021-2024 strategy envisages the following:

- To ensure growth of membership to 1,000 by 2024 through recruitment and retention.
- To ensure growth of the asset base to Kshs. 400 million by 2024 (15% growth p.a.)
- Grow annual income to Kshs. 26 million by 2024 (a 5% growth p.a.).
- Reduce liquidity gap by Kshs. 5 million by 2024.
- To build the SACCO's internal capacity for better internal controls, performance, and service delivery.
- Recruit a competent CEO.
- Build its share capital and reserve base.
- Explore the feasibility of becoming FOSA Sacco.

## Strategic achievements in 2022

Some of the achievements by the SACCO in the year just ended include:

- Sustained year on year growth in asset, loans and deposit base.
- Loans are dispensed bi-weekly
- Mzima Springs SACCO Limited was able to invest a total of Kshs. 41.09 million in the money market (Kshs. 2,450,528 earned as interest income to date).
- The SACCO revamped its website which has a new look with frequent updates.
- The SACCO was able to conduct an Internal Audit in compliance with SASRA requirements.
- The SACCO was able to grow shares progressively from a total of 6.25 million to 12.35 million.



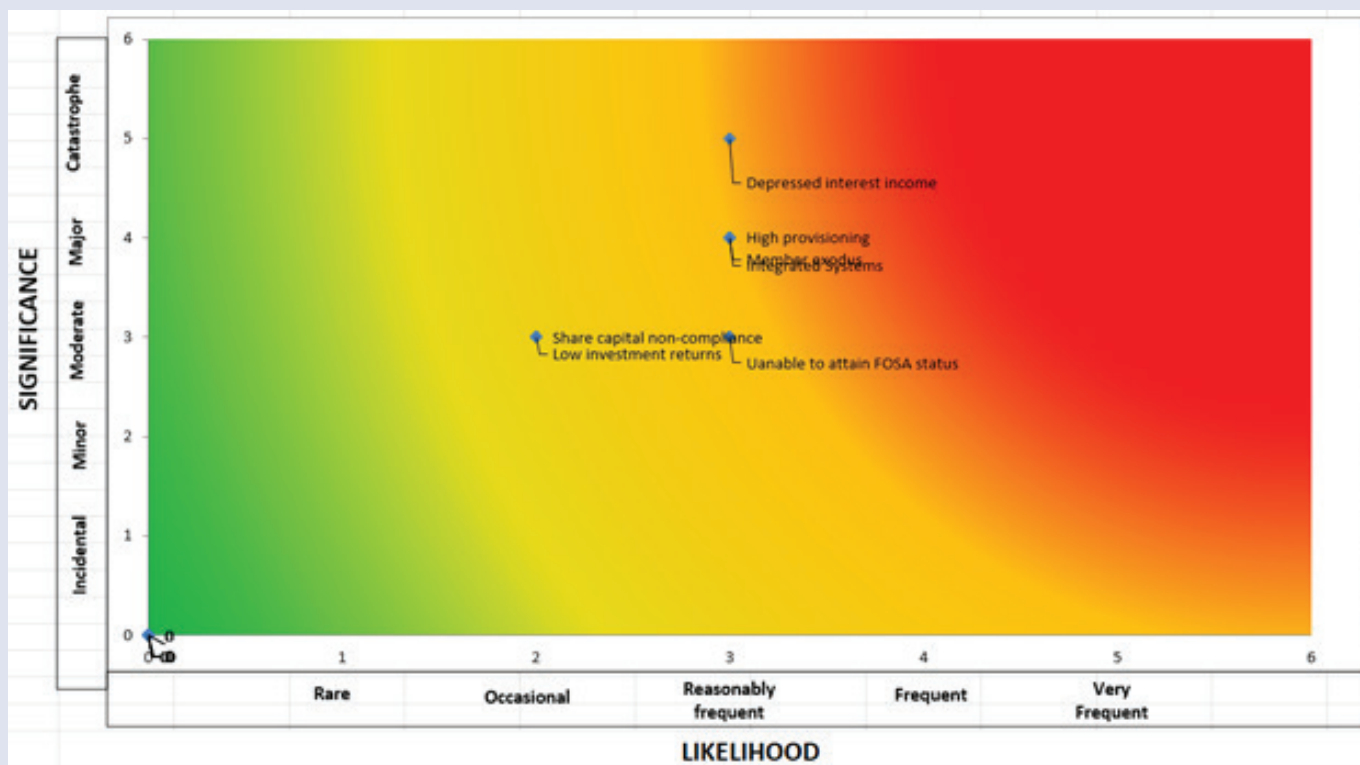
## **RISKS AND RISK MANAGEMENT**



The Sacco's management constantly reviews the risks facing the Sacco and has put in place a risk management framework to take care of the risks as assessed. Among the top risks facing the Sacco include:

Risk	How to mitigate
1. Depressed interest income due to increased default rates and amounts.	Follow up with the concerned members to repay, use of debt collectors, credit referencing with bureaus (Metropol), engaging guarantors
2. Depressed interest income due to high provisioning.	Gradual provisioning of NPLs, use of debt collectors, credit referencing with bureaus (Metropol), engaging guarantors
3. Low returns from other investment vehicles.	Selection of investment vehicles with reasonably higher returns, diversification of investments
4. Member exodus to other competitive Saccos.	Doing exit surveys, customer satisfaction surveys, striving to higher returns and higher maximum loan amount
5. Noncompliance with regulatory requirements on shareholding	Engaging the regulator closely to understand requirements, educating members on the need to increase shareholding for stability and returns, reviewing regulatory pieces periodically
6. Inability to attain the FOSA status due to dismal/underperformance	Encouraging members to help in recruitment, meeting SASRA threshold requirements, compliance with requirements
7. Lack of an integrated management information system to integrate lending and financial reporting processes	Engaging different providers for a possible solution, setting aside funds (budget) for the system

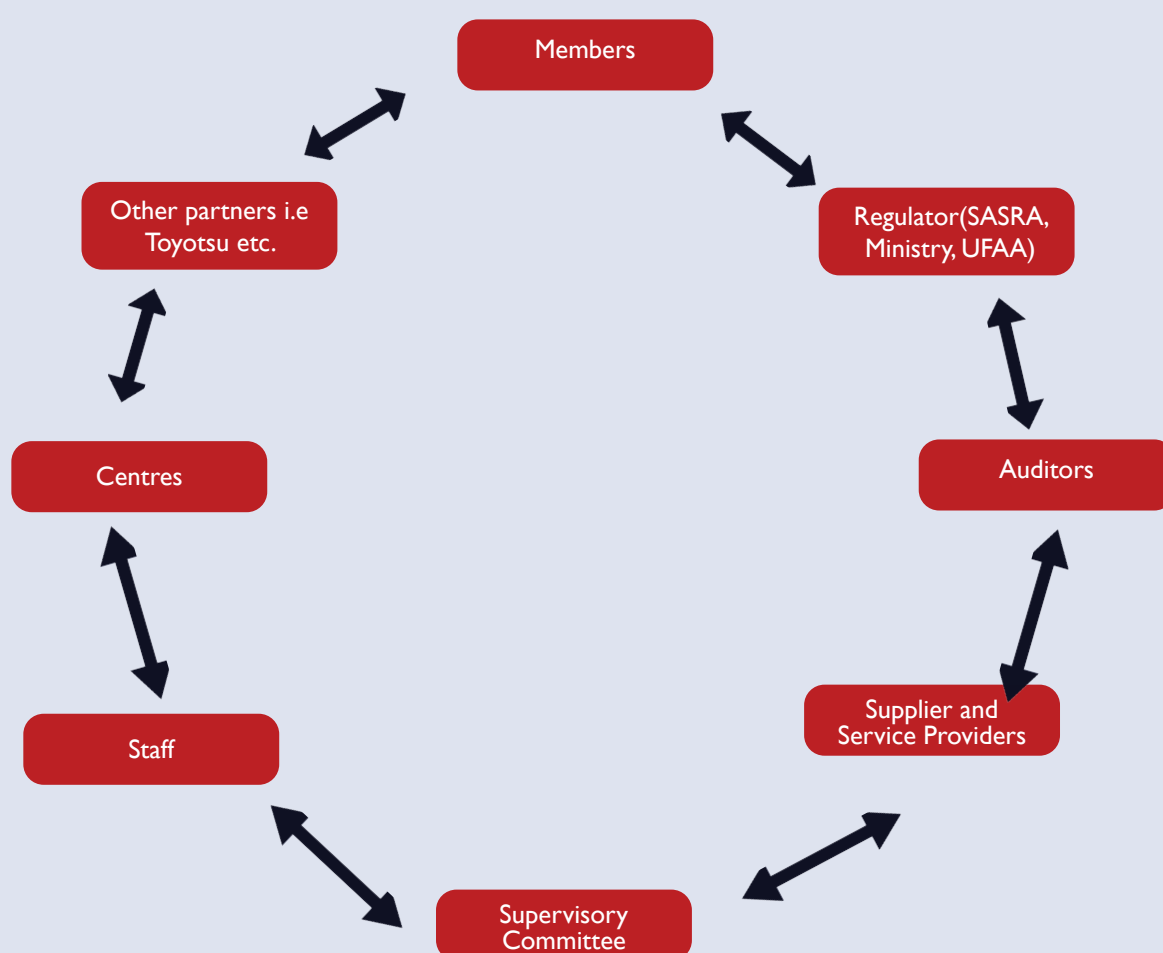
A risk heat map with top risks assessed is depicted below:



The Sacco continuously reviews its risk register and assesses the various risks affecting it while suggesting measures to deal with the risks.

## Sustaining our business model

At Mzima Springs Sacco, sustainability is very core as we execute our business model. We are committed to a sustainable enterprise, sustainable societies and people. To this end, the Sacco pays special attention to societal needs as well as those of its members, staff and other stakeholders. The figure below depicts the stakeholders the Sacco engages in its day-to-day operations:



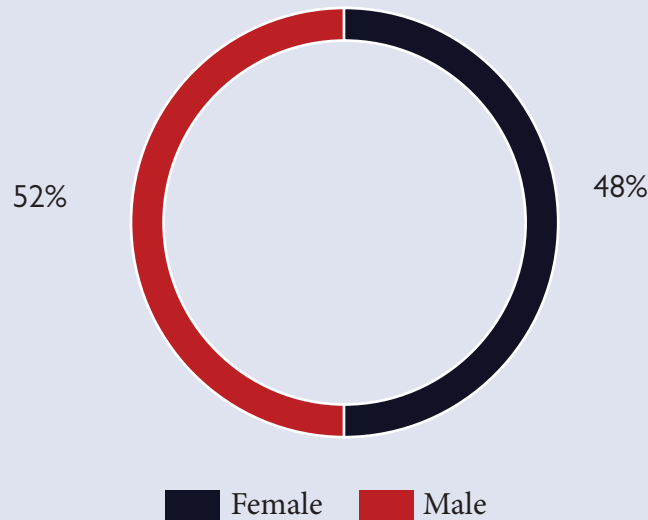
These stakeholders are critical to the continued existence of the Sacco and we therefore ensure that we map out our dealings with them as we work on how to partner with them for the benefit of the Sacco. Our existing policies ensure that all stakeholders are treated fairly and granted equal opportunity in line with the cooperative principles of equity and equality.

### (i) Members

Our member base continues to grow, and this means that we have to make deliberate efforts to serve them much better. To do this, we have invested in information systems, mobile based payments, and other activities to ensure that we reach out to our members conveniently and serve them better. As of 31<sup>st</sup> December 2022, we had a total of 1,580 members with 1,042 as active members. The gender distribution of our members as of 31<sup>st</sup> December 2022 is depicted below:



## Gender of active members



A total of 103 members joined the Sacco with 2% rejoining the Sacco and 98% being new members. In 2022 we lost three members, may their soul rest in eternal peace.

### (ii) Products and Services

Our products are tailored to meet our member needs. We constantly review the performance of the current product offering and look for ways of making the products value adding to our members. During the year then ended, the credit policy was revamped, and the Sacco products, offerings, terms and conditions revised to meet member needs in a convenient and timely manner. The loan processing periods were revised to twice a week as opposed to the weekly processing which was in place before.

### (iii) Human Resources

The Sacco developed and implemented a Human Resource Policy in 2021 in line with SAS-RA requirements. We ensure that our Human Resources are well qualified and adequately trained to meet the changing needs of members and the changing SACCO landscape. We also provide reasonably fair remuneration and benefits for our members, including training where necessary. The policy includes a depiction of the hiring, performance, and capacity building of employees of the Sacco. Over the years, we have consistently improved the salary and pay of our employees, including annual bonuses which is aligned with individual as well as Sacco performance. The Sacco has 3 staff members, 1 male and 2 female. Our staff's health and safety is of priority, and we ensure that the building occupied is OSHA compliant. All staff are entitled to 21-working day annual leave with full pay. In addition, we grant our staff study leave depending on the course being pursued. We also sponsor our staff on a merit basis, and on a case-by-case basis, depending on the importance of the training on service delivery in the Sacco. During the year ended, the Sacco was able to sponsor one of its staff members to pursue a Diploma in Cooperative Management in addition to granting other staff members study leave to pursue their various certifications. The staff welfare kitty has been in place and the management has ensured that staff health and other needs (e.g., meals) are catered for as and when they arise.

#### **(iv) The Society**

Over the past years Mzima Springs SACCO has been contributing to various Centers towards charitable activities. In 2022, the SACCO gave back a tot of Kshs. 180,000 to the various affiliate centres as donation.

#### **(v) Environment**

We are constantly conscious of the environment and ensure that we save on the printing paper and the water we utilize in our office. We also ensure that we conserve energy whenever there is no need to keep energy consuming equipment running. We ensure that our staff and members are served in a very clean environment, and we utilize the water dispenser to help minimize the use of plastics. We further utilize energy saving equipment such as UPS to conserve energy as far as possible. When the office is not in use, we encourage staff to ensure that they switch off the lights to conserve energy. Following the pandemic, we have largely moved our operations online, which has helped reduce our dependence on printed paper, which is a major boost to forest conservation. We are committed to cutting our reliance on printed paper by automating most of the loan application processes.

#### **(vi) Market place practices**

At Mzima, we ensure that the loan products and other savings products offered are developed in consultation with the members. For instance, the increment of maximum loan to Kshs. 4 million was arrived at following consultation with members, The “Karibu” loan facility was created to take care of members who had just joined the Sacco and have not met the required 6 months with the Sacco to be eligible for a normal loan. We partner and collaborate with all our centres and ensure that we have a good working relationship since we depend on each other. To achieve this, we have ensured that we have members who are representatives in each centre who inform us on the ongoing in the respective centre. In addition, the board is inclusive and takes care of the various centres we have, as far as possible. Mzima is committed to competitively sourcing and paying its suppliers in good time.

#### **(vii) Our systems**

Currently, the Sacco has a lending management system and an accounting module. The board is responsible for IT governance in the cooperative and takes responsibility in ensuring the operation, security and capacity of the systems. To this end, the Sacco has ensured that the current system is scalable, secure and capable of being upgraded to take care of emerging and growing needs of the Sacco.

Overall, the board has demonstrated its commitment to sustainability (and by extension, integrated reporting) by ensuring that the Sacco’s business model is aligned with the sustainability expectations. We have also ensured that our business practices, including the returns we offer to members, and the running of the cooperative takes into consideration the welfare and interests of the members while ensuring the long-term survival of the cooperative. This is a commitment made by the entire board, and the supervisory committee and we strive to educate members in this regard at all times.



## Our capitals and value creation

During the year just ended, the Sacco was able to create value for its members through its 6 capitals as follows:

Capital	How we created value in 2021
Financial capital	In 2022, our share capital grew from Kshs. 6.25 million to Kshs.12.35 million. Our total equity increased by 38% to Kshs. 24.9 million. Our loan to deposit ratio is 90% in 2022.
Manufactured capital	Our investments grew from Kshs. Kshs. 24 million to 41 million.
Natural capital	Our electricity cost increased from Kshs. 16,258 to Kshs.22, 313 owing to resumption to physical operations. Our printing and stationery also increased by 73% owing to the resumption of onsite operations. Our travel expense reduced by 52%.
Social and network capital	Our new members in 2022 were 103 with 1,042 active members.
Human Capital	The Sacco has a total of 3 staff members who are well qualified to carry out their roles. The Sacco spent Kshs. 66,920 in training the staff. The Sacco sponsored 1 staff member to undertake a Diploma in Cooperative Management which they have since completed.
Intellectual Capital	The Sacco system has been upgraded to incorporate an accounts module which keeps on being revamped periodically. The Sacco has also a revamped website with interactive pages.





## REPORT OF THE BOARD OF DIRECTORS



The members of the Board of Directors submit their annual report together with the audited financial statements for the year ended 31st December 2022.

### **Incorporation**

The society is incorporated in Kenya under the Cooperative Societies Act, Cap 490 and licensed 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**

	<b>2022</b>	<b>2021</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Surplus (deficit) before tax	2,549,802	2,674,652
Net surplus (deficit) after tax (but before donations)	2,549,802	2,674,652
Retained surplus for the year	2,549,802	2,674,652
Interest on members' deposit	19,000,000	16,000,000
Dividend on members' shares	1,070,000	700,000

### **Dividend/Interest on members' deposits**

The Board of Directors recommends payment of first and final dividend of Kshs. 8.66 per share (2021, Kshs. 6.75 per share) on time-weighted shares as of 31st December 2022. They also recommend interest on members' deposit of 7.40% (2021, 6.90%) on time-weighted deposits as at 31st December 2022.

By order of the Board

.....  
Wanga

Date: 24/03/2023




## Statement of The Board of Directors' Responsibilities

The SACCOs Act, no 14 of 2008 requires the Board of Directors 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 Board of Directors to ensure that the society keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the society. They are also responsible for safeguarding the assets of the society and ensuring that the business of the society has been conducted in accordance with its objectives, by-laws and any other resolutions made at the society's general meeting. The Board of Directors accepts responsibility for the annual 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 SACCO Societies Act No. 14 of 2008.

The Board of Directors 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 Board of Directors 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 Board of Directors to indicate that the society will not remain a going concern for at least twelve months from the date of this statement.

Approved by the Board of Directors on 24/3/2023 and signed on its behalf by:

 ..... Chairman  
Signature

 ..... Treasurer S. F. C.  
Signature

 ..... Board Member  
Signature



## Report of the Independent Auditor to the members of Mzima Springs Sacco Limited

### Opinion

Mzima Springs Regulated Non-WDT-Sacco Society Ltd. Financial statements comprise the Statement of Financial Position as at 31st December 2022 and the Statement of Profit or Loss and other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the annual report and financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the annual report and financial statements present fairly, in all material respects, the financial position of Mzima Springs Regulated Non-WDT Sacco Society Ltd. as at 31st December 2022 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Co-operative Societies Act Cap 490.

### Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual report and financial statements section of our report. We are independent of the Sacco in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA code. We believe that the audit evidence has obtained is sufficient and appropriate to provide a basis for the opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significant in our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This comprises of the following:

Key audit matter	How we addressed it during our audit
<i>Valuation of other financial instruments</i>  The values of these assets are based on entity developed internal models and not on quoted market prices in an active market. Given the significance of their value and significant measurement uncertainties involved in their valuation, valuation of these instruments was significant to our audit.	We assessed and tested the design and operating effectiveness of controls over valuation and model. In those cases, where external information and confirmation was required, we contacted the relevant institutions. Overall, our view in spite of the inherent uncertainties we were able to conclude that the other financial assets are fairly stated.

### Other Information

The Directors are responsible for the other information. The other information comprises the Directors' Report as required by the Co-operative Societies Act Cap 490 which we obtained prior to the date of this report. Our opinion on the Annual report and financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the annual report and financial statements, our responsibility



is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual report and financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Board's Responsibility for the Annual Report and Financial Statements**

The Board and the management are responsible for the preparation and fair presentation of the annual report and financial statements in accordance with International Financial Reporting Standards and the requirements of the Co-operative Societies Act Cap 490, and for such internal control as the directors determine is necessary to enable the preparation of Annual report and financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual report and financial statements, the directors are responsible for assessing the Sacco's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Sacco or to cease operations, or have no realistic alternative but to do so. The directors are responsible for overseeing the Sacco's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Annual Report and Financial Statements**

Our objectives are to obtain reasonable assurance about whether the annual report and financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual report and financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Annual report and financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Sacco's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of ac-



counting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Sacco's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual report and financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Sacco to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Annual report and financial statements, including the disclosures, and whether the Annual report and financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

### Report on other Requirements

As required by the International Standards on Auditing, we report to you, based on our audit, that:

- i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
- ii) In our opinion proper books of accounts have been kept by the Sacco, so far as appears from our examination of those books.
- iii) In our opinion, the financial information given in the directors' report for the year ended 31 December 2022 is consistent with the Sacco's Annual report and financial statements; and
- iv) The Sacco's statement of financial position and statement of surplus or deficit and other comprehensive income are in agreement with the books of accounts.

The Engagement Partner responsible for the audit resulting in this Independent Auditor's Report is **CPA Kiphone O. Omambia - P/No 2364**.

**Omambia & Associates**  
**Certified Public Accountants**  
**Nairobi, Kenya**

Nairobi 24/31 2023



## Statement of Profit or Loss and Other Comprehensive Income

	Notes	2022	2021
		Kshs.	Kshs.
<b>Revenue</b>			
Interest on loans and advances	3	31,570,380	27,198,935
<b>Total interest income</b>		<b>31,570,380</b>	<b>27,198,935</b>
Interest expenses	4	(19,000,000)	(16,000,000)
<b>Net interest income</b>		<b>12,570,380</b>	<b>11,198,935</b>
Other operating income	5	2,450,528	1,531,099
Financial Expense	6a	(4,428,860)	(3,861,600)
Personnel Expenses	6b	(2,857,698)	(2,582,310)
Administration expenses	6c	(1,997,772)	(1,201,410)
Governance expenses (member related costs)	6d	(3,128,135)	(2,353,585)
Depreciation/Amortization	6e	(41,838)	(56,477)
Marketing expenses	6f	(16,804)	-
		(10,020,579)	(8,524,283)
<b>Net operating surplus/(deficit) before income tax</b>		<b>2,549,802</b>	<b>2,674,652</b>
<b>Net surplus/(deficit) for the year</b>		<b>2,549,802</b>	<b>2,674,652</b>
<b>Total comprehensive income</b>		<b>2,549,802</b>	<b>2,674,652</b>
<b>Profit less honorarium, staff bonus, dividends and statutory reserve fund (ultimate surplus)</b>		<b>219,841</b>	<b>989,722</b>



## Statement of Financial Position as at 31<sup>st</sup> December 2022

	Notes	2022	2021
		Kshs.	Kshs.
<b>Assets</b>			
Cash and cash equivalents	8	4,046,091	4,036,534
Prepayments and sundry receivables	9	15,458,136	10,940,010
Trade and other receivables	22	-	859,108
Loans to members - net	10	290,372,355	265,558,765
Unreconciled loans - net	21	17,539,717	18,889,717
Other financial assets (short-term)	11	41,092,001	24,878,093
Intangible assets - software	12	21,883	31,261
Property, plant and equipment	13	129,501	161,960
<b>Total Assets</b>		<b>368,659,684</b>	<b>325,355,449</b>
<b>Liabilities</b>			
Members' deposits	14	321,730,294	288,729,040
Dividends payable	24	1,070,000	700,000
Provision for interest on member deposits	23	19,000,000	16,000,000
Trade payables and accrued expenses	15(b)	1,015,201	912,422
Sundry creditors	15(a)	956,775	956,775
<b>Total liabilities</b>		<b>343,772,270</b>	<b>307,298,237</b>
<b>Equity</b>			
Share capital	16	12,352,300	6,251,900
Reserves	17	12,535,114	11,805,312
<b>Total equity</b>		<b>24,887,414</b>	<b>18,057,212</b>
<b>Total Liabilities and Equity</b>		<b>368,659,684</b>	<b>325,355,449</b>

Approved by the Board of Directors on 24/13/2023 and signed on its behalf by:

 ..... Chairman  
Signature

 ..... Treasurer S. F. C.,  
Signature

 ..... Board Member  
Signature

## Statement of Changes in Equity for the Year Ended 31st December 2022

	Notes	Share capital	Statutory reserve	Retained earnings	Total
		Kshs.	Kshs.	Kshs.	Kshs.
As at 1 <sup>st</sup> January 2021					
As previously reported		5,933,400	5,760,695	4,719,965	16,414,060
<b>As restated</b>		<b>5,933,400</b>	<b>5,760,695</b>	<b>4,719,965</b>	<b>16,414,060</b>
<b>Change in equity in 2021</b>					-
Profit/(loss) for the year		-	-	2,674,652	2,674,652
Total comprehensive income for the year		-	-	2,674,652	2,674,652
Statutory reserve fund			534,930	(534,930)	-
Additional shares		189,000			189,000
Transfer from deposits		129,500			129,500
Dividends:					-
Proposed for 2021				(700,000)	(700,000)
Honoraria				(500,000)	(500,000)
Staff bonus				(150,000)	(150,000)
<b>As at 31st December 2021</b>		<b>6,251,900</b>	<b>6,295,625</b>	<b>5,509,687</b>	<b>18,057,212</b>
<b>As at 1st January 2022</b>					
As previously reported		<b>6,251,900</b>	<b>6,295,625</b>	<b>5,509,687</b>	<b>18,057,212</b>
<b>As restated</b>		<b>6,251,900</b>	<b>6,295,625</b>	<b>5,509,687</b>	<b>18,057,212</b>
<b>Change in equity in 2022</b>					
Profit/(loss) for the year		-	-	2,549,802	2,549,802
Total comprehensive income for the year		-	-	2,549,802	2,549,802
Statutory reserve fund			509,960	(509,960)	-
Additional shares	16	1,510,500			1,510,500
Transfer from deposits	14	4,589,900			4,589,900
Dividends:					-
Proposed for 2022				(1,070,000)	(1,070,000)
Honoraria				(550,000)	(550,000)
Staff bonus				(200,000)	(200,000)
<b>As at 31st December 2022</b>		<b>12,352,300.00</b>	<b>6,805,585.64</b>	<b>5,729,528</b>	<b>24,887,414</b>



## Statement of Cash Flows for the year ended 31st December 2022

### Notes to the Financial Statements

#### 2. 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). IAS 21.55 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 (%)
Freehold land and buildings	2%
Plant and machinery	20%
Motor vehicles	25%
Furniture, fittings and equipment	10%
Computers, photocopiers, and other accessories	25%

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each reporting date.

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

### **Derecognition**

The carrying amount of an item of property, plant and equipment shall be derecognized:

- a) on disposal; or
- b) when no future economic benefits are expected from its use or disposal.



The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless IFRS 16 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue

#### **d) Leases**

Finance and operating leases recognized as assets by lessee shall be disclosed as required in IFRS 16, Leases:

##### **i) Finance lease**

Leases of property, plant and equipment where the society assumes substantially all the benefits and risks of ownership are classified as finance leases. Assets acquired under finance leases are capitalized at the inception of the lease at the lower of their fair values and the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rentals obligations, net of finance charges are included in non-current liabilities while the interest element of the finance charge is charged to the profit or loss account over the lease period.

##### **ii) Operating leases**

Leases of assets where a significant proportion of the risks and rewards are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight-line basis over the lease period. Prepaid operating lease rentals are recognized as assets and are subsequently amortized over the lease period. Under the new IFRS 16, Leases, operating leases shall be reported as right of use assets on the statement of financial position and depreciated accordingly.

#### **e) Financial Instruments**

The Sacco classifies its financial instruments into the following categories:

- i) Financial assets and financial liabilities at fair value through profit or loss, which comprise financial assets and financial liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term or to generate short-term profit-taking; AND/OR
- ii) Financial assets and financial liabilities at fair value through profit or loss, which comprise financial assets or financial liabilities designated by the company at fair value through profit or loss and which are managed and their performance evaluated on a fair value basis in accordance with the company's investment strategy.
- iii) Held-to-maturity investments, which comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the company has a positive intention and ability to hold to maturity.
- iv) Loans and receivables, which comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and excludes assets which the entity intends to sell immediately or in the near term or those which the entity upon initial recognition designates as at fair value through profit or loss or as available-for-sale financial assets.
- v) Available-for-sale financial assets, which comprise non-derivative financial assets that are designated as available-for-sale financial assets, and not classified under any of the other categories of financial assets.

## Financial assets

All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale. Financial assets carried at fair value through profit or loss are initially recognised at fair value and the transaction costs are expensed in the profit and loss account. All other categories of financial assets are recorded at the fair value of the consideration given plus the transaction cost.

Subsequently, held-to-maturity investments and loans and receivables are carried at amortised cost using the effective interest method, while all other financial assets are carried at their fair values, without deduction for transaction costs that may be incurred on sale.

Amortised cost is the amount at which the financial asset or liability is measured on initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility. Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. The fair value for quoted shares is determined using the quoted bid price at the reporting date while that of non-quoted shares is determined using valuation techniques AND/OR Investment in equity shares classified as available-for-sale assets for which there is no active market and whose fair value cannot be reliably measured are carried at cost.

## Impairment of Financial Assets

The entity assesses at each reporting date whether there is objective evidence that a financial asset is impaired. If any such evidence exists, an impairment loss is recognised. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. In the case of held-to-maturity investments and loans and receivables, the recoverable amount is the present value of the expected future cash flows, discounted using the asset's effective interest rate.

Changes in fair value of financial assets at fair value through profit or loss are recognised in the profit or loss account.

Changes in fair value for available-for-sale financial assets are recognised in other comprehensive income, except for impairment losses (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss), which are recognised in the profit and loss account. In the year of sale, the cumulative gain or loss recognised in other comprehensive income is recognised in the profit or loss account as a reclassification adjustment.

## Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the company has transferred substantially all risks and rewards of ownership. Effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset



and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

## **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

## **Financial liabilities and equity instruments issued by the Sacco**

### **Classification as debt or equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

### **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Sacco are recorded at the proceeds received, net of direct issue costs. The capital comprises primarily of minimum share capital prescribed under the By-laws of the Sacco.

### **Financial guarantee contract liabilities**

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

### **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 amortised 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.

### **Derecognition of Financial Liabilities**

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

### **Provision for liabilities and charges**

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

### **Other financial liabilities**

All other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

### **f) Investment property**

An investment property comprises a building or part of a building and land held for long term yields and /or capital appreciation and which are not occupied by the society and is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is carried at fair value representing market value determined annually by external independent valuers. Changes in fair values are recognised in the income statement.

On disposal of an investment property, the difference between the net disposals proceeds and the carrying amount is charged or credited to the profit or loss.

### **g) Intangible assets**

Software license costs are stated at historical cost less estimated accumulated amortization and accumulated impairment losses. Amortization is calculated using the straight-line method to write down the cost of the software to its residual value over the estimated useful life using an annual rate of 30%

### **h) Impairment of non-financial assets**

The carrying amounts of the society's tangible and intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such condition exists the recoverable amount of the asset is estimated to determine the extent of impair-



ment loss (if any). If the recoverable amount of an asset is estimated to be less than its carrying amount impairment loss is recognized immediately, unless the relevant asset is carried at revalued amount in which case the impairment loss is treated as a decrease in revaluation reserve. The respective asset is reduced to its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the carrying amount does not exceed the carrying amount that would have been determined had no impairment loss had been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as an increase in revaluation reserve.

#### **i) Employee entitlements**

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

#### **j) Retirement benefit obligations**

The Society operates a defined contribution scheme for all employees. A defined contribution plan is a pension plan under which the society pays fixed contributions into a separate entity. The assets of these schemes are held in a separately administered fund that is funded by contribution from the society and employees.

The Society has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior period. The society's contributions to the defined contribution schemes are charged to the profit or loss in the year to which they relate.

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

#### **k) 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 Saccos, dividend and/or interest expense is deducted before computing/charging tax.

Deferred 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 deferred 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 deferred income tax.

Deferred 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.

### **l) 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.

### **m) Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into Kenya shillings at rates ruling at the transaction dates. Assets and liabilities which are expressed in foreign currencies are translated into Kenya shillings at the exchange rates ruling at the reporting sheet date. The resulting differences from translation are dealt with in the profit or loss in the year in which they arise.

### **n) 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.

### **o) 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.

### **p) Non-Current Assets Held for Sale or Discontinued Operations**

#### **i) Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

For assets to be classified as held for sale the asset(s) (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

#### **ii) Non-current assets that are to be abandoned**

The Sacco does not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use. However, if the disposal group to be abandoned meets the criteria in paragraph 32(a)–(c), the entity shall present the results and cash flows of the disposal group as discontinued operations in accordance with paragraphs 33 and 34 at the date on which it ceases to be used. Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold.



iii) The Sacco discloses:

(a) a single amount in the statement of comprehensive income comprising the total of:

(1) the post-tax profit or loss of discontinued operations and

(2) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

iv) The Sacco presents non-current asset(s) classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position.

No depreciation (or amortisation) of a non-current asset takes place while it is classified as held for sale or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognised

#### **q) Collateral**

The Sacco discloses:

(a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with IFRS 9, Financial Instruments; and

(b) the terms and conditions relating to its pledge.

When the Sacco holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:

(a) the fair value of the collateral held;

(b) the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and

(c) the terms and conditions associated with its use of the collateral.

#### **r) Adoption of new and revised standards**

In the current year, the Society has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2009. These are:

Application of new and revised International Financial Reporting Standards (IFRSs)

*(i) Relevant new standards and amendments to published standards effective for the year ended 31st December 2021.*

#### **Impact of initial application of IFRS 9 Financial Instruments**

In the current year, the entity has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow

an entity not to restate comparatives. The entity has elected not to restate comparatives in respect of the classification and measurement of financial instruments.

The standard amends the classification and measurement models for financial assets as set out below:

a) Classification and measurement of financial assets

The entity has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 July 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 July 2018. Comparative amounts in relation to instruments that continue to be recognised as at 1 July 2018 have not been restated where appropriate in accordance with the transition provisions of the standard.

The Entity's statement of financial position contains the following financial assets:

- 1) Trade and other receivables
- 2) Bank balances

There have been changes in the measurement criteria for some of the entity's financial assets on adoption of IFRS 9 after the consideration of the business model and cash flow characteristics. Specifically, the other receivables typically held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost and are subject to impairment. See (b) below.

b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39.

Specifically, IFRS 9 requires the entity to recognise a loss allowance for expected credit losses on its financial assets as listed in (a) above. The Entity measured the loss allowance for other receivables at an amount equal to lifetime expected credit loss (ECL).

*(ii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2022 and future annual periods*

## **IFRS 16 Leases**

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified



asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The Management of the entity anticipate that the application of IFRS 16 in the future will not have a significant impact on amounts reported in respect of the Entity's financial assets and financial liabilities.

The Management of the entity do not anticipate that the application of the amendments in the future will have an impact on the entity's financial statements.

### **Annual Improvements to IFRS Standards 2015-2022 Cycle**

The Annual Improvements to IFRS Standards 2015-2022 cycle makes amendments to the following standards:

- IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in of income and expenditure, regardless of how the tax arises.
- IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.
- IFRS 16: Leases – entails the need to recognize right of use assets on the statement of fi-

financial position.

The Management do not anticipate that the application of the amendments in the future will have an impact on the entity's financial statements.

*(iii) Early adoption of standard*

The entity did not early-adopt any new or amended standards in the period.

s) New and revised standards and interpretations which have been issued but are not effective  
The following revised standards and interpretations have been published and was effective for the first time in the year ending 31st December 2021. The company has not early adopted any of these amendments or interpretations.

a) IFRS 17: Insurance Contracts

The Directors have assessed the potential impact of the above and expect that they will not have a significant impact on the company's financial statements for 2022.

### **3. Estimation uncertainty and significant judgments**

**(a) Key source of estimation uncertainty**

These are assumptions applied in estimating the carrying amounts and the underlying estimation uncertainty may lead to those amounts changing materially in the next 12 months. Examples of situations involving estimation uncertainty:

1. In the absence of recently observed market prices, future oriented estimates are necessary to measure the recoverable amounts of classes of property, plant and equipment.
2. The effect of technological obsolescence on inventories
3. Provisions subject to future outcome of litigation in progress
4. In determining the liability for long-service payments (explained in note 20), management must make an estimate of salary increases over the following five years, the discount rate for the next five years to use in the present value calculation, and the number of employees expected to leave before they receive the benefits

**(b) Significant judgment(s) in applying the Society's accounting policies**

Disclosure is made of significant judgments (apart from those involving estimations) made in applying the accounting policies that have the most significant effect on the amounts recognized in the financial statements. Examples of judgments:

1. When substantially all the significant risks and rewards of ownership of financial assets are transferred to other entities
2. Whether in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue
3. Whether the relationship with a special purpose entity indicates control of the Special Entity

### **4. Society income**



	2022	2021
	Kshs.	Kshs.
BOSA Loans	31,570,380	27,198,935
<b>Total</b>	<b>31,570,380</b>	<b>27,198,935</b>

## 5. Interest expense

	2022	2021
	Kshs.	Kshs.
Member's deposits (BOSA or Non-with-drawable)	19,000,000	16,000,000
<b>Total</b>	<b>19,000,000</b>	<b>16,000,000</b>

## 6. Other operating income

	2022	2021
	Kshs.	Kshs.
Entrance fee	103,000	56,300
Income from short term investments (money market)	2,347,528	1,474,799
<b>Total</b>	<b>2,450,528.13</b>	<b>1,531,099</b>

## 6 Expenses

	2022	2021
	Kshs.	Kshs.
<b>a. Financial Expense</b>		
Other Expense (bank charges)	338,157	272,346
Net Provision for Loan Losses	1,881,595	2,239,254
Provision on unreconciled loan item	1,350,000	1,350,000
Provision on doubtful Trade receivable from members	859,108	-
<b>Total</b>	<b>4,428,860</b>	<b>3,861,600</b>

The provision on doubtful trade receivable from members, is in relation to a balance in our books which does not have a movement for the last 5 years and SASRA advised us to write off by providing for it.

	2022	2021
	Kshs.	Kshs.
<b>b. Personnel Expenses</b>		
Salaries and wages	2,386,200	2,191,201
Staff benefits – (medical insurance covers)	231,198	257,909
Staff training	66,920	29,000
Lunch allowance	173,380	104,200
<b>Total</b>	<b>2,857,698</b>	<b>2,582,310</b>

	2022	2021
	Kshs.	Kshs.
<b>c. Administration expenses</b>		
Travelling and subsistence	2,532	5,240
Printing and stationery	87,799	50,808
Ushirika day celebrations	-	-
Insurance for loans - KUSCCO	1,091,252	438,197
Debt collection charges	21,105	43,565
Website maintenance	35,898	25,898
Supervision fees to SASRA	30,000	80,000
KUSCCO subscription	10,000	10,000
Auditors' remuneration	70,000	70,000
Legal fees	1,000	3,000
Donations	180,000	-
Electricity	22,313	16,258
Rent	235,700	233,309
Telephone and postage	74,000	57,000
Repairs	-	3,500
Internet charges	45,500	81,500
SMS charges	11,000	6,000
Sundry/office administration	3,826	2,005
Interest on deposits over-applied	1,507	75,130
Internal audit expense	74,340	-
	<b>1,997,772</b>	<b>1,201,410</b>



The interest on deposits over-applied relates to a member who had retired from the Sacco and his account was inactive at the point of pulling interest on deposit schedule from system. The member claimed the interest on deposits later and we had to pay him for we had his deposits to the close of the financial year 2021

	2022	2021
	Kshs.	Kshs.
<b>d. Governance expenses (member related costs)</b>		
Board meetings	16,800	7,000
Sitting allowance - supervisory committee	204,870	126,585
Members' education	27,100	32,000
Sitting allowance - board	1,839,750	1,480,000
Training - board members	41,000	53,000
AGM expenses	932,615	655,000
Auditorium charges	66,000	-
Total	3,128,135	2,353,585

### List of Board of directors year 2022 and allowance drawn.

Fredrick Odhiambo (Chairman)	324,000	264,000
David Mathuva (Treasurer)	324,000	264,000
Were Lwanga (Secretary)	252,000	192,000
John Robert ( Credit Committee)	241,500	192,000
Loice Orege(Vice chair)	246,750	192,000
Fredrick Otieno ( Credit Committee)	246,750	188,000
Anysia Nabangi (Credit Committee)	-	124,000
Muema, Perpetua (Credit Committee)	204,750	64,000
<b>Sub total</b>	<b>1,839,750</b>	<b>1,480,000</b>

### List of supervisory Committee members year 2022 & Allowance drawn

Julius Mamicha( Chairman)	68,290	42,195
Chrispin Oloo ( Secretary)	68,290	42,195
Emily Cheroni ( Committee Member)	68,290	42,195
<b>Sub total</b>	<b>204,870</b>	<b>126,585</b>

## e. Depreciation/Amortization

Depreciation - Computer equipment	20,939	29,913
Depreciation - Furniture	11,520	13,166
Amortization - Sacco software	9,378	13,398
<b>Total</b>	<b>41,838</b>	<b>56,477</b>

## f. Marketing expenses

Public relations and advertisements	16,804	-
	16,804	-
<b>Total</b>	<b>12,471,107</b>	<b>10,055,381</b>

## 7 a) Depreciation and amortization

Depreciation of property, plant and equipment	32,459	43,079
Amortization of intangible assets	9,378	13,398
<b>Total</b>	<b>41,838</b>	<b>56,477</b>
b) Employee benefits expense		
Salaries and wages	2,386,200	2,191,201
<b>Total</b>	<b>2,386,200</b>	<b>2,191,201</b>

## 8. Cash and cash equivalents

	<b>2022</b>	<b>2021</b>
	<b>KShs.</b>	<b>KShs.</b>
Cash and cash equivalents at the end of the year comprise:		
Cash in hand (verified)	8,356.00	5,602
Cash at bank - Co-operative Bank (Current Account)	4,007,460.41	4,010,117
Cash at bank - Co-operative Bank (Savings Account)	30,275.00	20,815
<b>Total</b>	<b>4,046,091.41</b>	<b>4,036,534</b>

The year-end cash and cash equivalents comprised cash in hand and deposits held at the bank



## 9. Prepayments and sundry receivables.

	2022	2021
	KShs.	KShs.
Prepayments - rent	95,669.00	95,669
Prepayments - NHIF	-	4,500
Prepayments - insurance	363,750.63	219,099
Deductions due from employers-net of provisions	14,714,770.47	10,224,273
Staff insurance medical fund	124,041.03	236,565
Prepaid withholding tax	148,318.00	148,318
Other, sundry receivables (rent - Mzima Investment Ltd.)	11,587.00	11,587
<b>Total</b>	<b>15,458,136.13</b>	<b>10,940,010</b>

## 10. Loans to members

	2022	2021
	KShs.	KShs.
At the start of the year	265,558,765	201,992,839
Granted during the year	205,886,315	195,206,813
Repayment during the year	(174,038,824)	(126,488,579)
Sub total	297,406,257	270,711,072
Provisions	(7,033,902)	(5,152,306)
At year end	290,372,355	265,558,765
Other, sundry receivables (rent - Mzima Investment Ltd.)	11,587.00	11,587
<b>Total</b>	<b>15,458,136.13</b>	<b>10,940,010</b>

## Loans ageing

		2022		2021
	No. of accounts	KShs.	No. of accounts	KShs.
0 days (Performing- 1% Provision)	738	278,990,425	700	254,653,743
1-30 days (Watch- 5%)	8	4,196,137	19	13,125,803
31- 180 days (Substan- dard-25%)	15	3,942,149	19	755,171
181- 360 days (Doubt- ful- 50%)	10	1,794,829	9	831,336
>360 days or 12 Instal- ments overdue (Loss Account- 100%)	19	2,151,239	27	1,345,018
<b>Loan Balances as per MPA</b>	<b>790</b>	<b>291,074,779</b>	<b>774</b>	<b>270,711,072</b>
<b>Loan Balances as per GL</b>		<b>297,406,257</b>		<b>270,711,072</b>

## Ageing of past due impaired

	2022	2021
	KShs.	KShs.
0 days (Performing- 1% Provision)	2,789,904.25	2,546,537
1-30 days (Watch- 5%)	209,806.86	656,290
31- 180 days (Substan- dard-25%)	985,537.26	188,793
181- 360 days (Doubt- ful- 50%)	897,414.30	415,668
>360 days or 12 Instal- ments overdue (Loss Account-100%)	2,151,239.16	1,345,018
Total	7,033,902	<b>5,152,306</b>

## Movement in the allowance for doubtful debts

	2022	2021
	KShs.	KShs.
Balance at beginning of the year	5,152,306	2,913,052
Provision for the year	1,881,595	2,239,254
Balance at end of the year	7,033,902	5,152,306

## Movement in the allowance for doubtful debts

	2022	2021
	KShs.	KShs.
Balance at beginning of the year	5,152,306	2,913,052
Provision for the year	1,881,595	2,239,254
<b>Balance at end of the year</b>	<b>7,033,902</b>	<b>5,152,306</b>

## Movement in the allowance for doubtful debts

	2022	2021
	KShs.	KShs.
Balance at beginning of the year	5,152,306	2,913,052
Provision for the year	1,881,595	2,239,254
<b>Balance at end of the year</b>	<b>7,033,902</b>	<b>5,152,306</b>



## Maximum Exposure to Credit Risk

	Loans & advances to members Kshs.	Loans & advances to members Kshs.
<b>31st December 2021</b>		
Neither Past due nor impaired	278,990,425	254,653,743
Past due but Not impaired	4,196,137	13,125,803
Past Due up to 90 Days	3,942,149	755,171
Past Due over 90 Days	3,946,068	1,760,686
Total	291,074,779	270,295,404
<b>Total Carrying Value</b>	<b>291,074,779</b>	<b>270,295,404</b>
<b>31st December 2020</b>	Loans & advances to members Kshs.	Loans & advances to members Kshs.
Neither Past due nor impaired	-	-
Past due but Not impaired	<b>291,074,779</b>	<b>204,905,891</b>
<b>Total Carrying Value</b>	<b>291,074,779</b>	<b>204,905,891</b>

## 11. Other Financial assets.

	2022	2021
	KShs.	KShs.
CIC Investment managers Ltd	26,349,538	10,296,045.98
Genghis Capital	3,339,949	2,152,281.29
Old Mutual	3,049,768	7,765,765.68
Co-operative Bank Ltd (FDA)	-	4,600,000.00
Madison Asset managers Ltd	8,288,747	-
Noncurrent - KUSCCO shares @ 100 par value	64,000	64,000
<b>Total</b>	<b>41,092,001</b>	<b>24,878,093</b>

## 12. Intangible assets: Computerization & Soft ware

	2022	2021
	KShs.	KShs.
At start of year	465,000.00	465,000
Additions	-	-
Amortization charge	(443,117)	(433,739)
At end of year	21,882.71	31,261

### I3 Property, plant and equipment

	Furniture & fittings	Computer, computer accessories, copier & faxes	Total
Cost or valuation	KShs.	KShs.	KShs.
<b>At 1 January 2020</b>	<b>278,393</b>	<b>719,641</b>	<b>998,034</b>
Additions	-	-	-
<b>Balance as at 1 January 2021</b>	<b>278,393</b>	<b>719,641</b>	<b>998,034</b>
Additions	-	-	-
<b>Balance at 31 December 2021</b>	<b>278,393</b>	<b>719,641</b>	<b>998,034</b>
Accumulated depreciation & impairment			-
<b>Balance as at 1 January 2020</b>	<b>158,016</b>	<b>577,199</b>	<b>735,215</b>
Reversal of impairment loss	-	-	-
Depreciation charge	15,047	42,733	57,780
<b>Balance at 1 January 2021</b>	<b>173,063</b>	<b>619,932</b>	<b>792,995</b>
Effect of prior year adjustment	-	-	-
Depreciation charge	13,166	29,913	43,079
<b>Balance at 31 December 2021</b>	<b>186,229</b>	<b>649,844</b>	<b>836,074</b>
<b>Carrying amount</b>			-
<b>As at 31 December 2020</b>	<b>105,330</b>	<b>99,709</b>	<b>205,039</b>
<b>As at 31 December 2021</b>	<b>92,164</b>	<b>69,797</b>	<b>161,960</b>
Balance as at 1 January 2022	278,393.00	719,641.00	998,034.00
Additions	-	-	-
<b>Balance at 31 December 2022</b>	<b>278,393.00</b>	<b>719,641.00</b>	<b>998,034.00</b>
Accumulated depreciation & impairment			
<b>Balance at 1 January 2022</b>	<b>186,229.28</b>	<b>649,844.48</b>	<b>836,073.76</b>
Depreciation charge	11,520.48	20,938.96	32,459.44
<b>Balance at 31 December 2022</b>	<b>197,749.76</b>	<b>670,783.44</b>	<b>868,533.20</b>
<b>Carrying amount</b>			
As at 31 December 2021	92,163.72	<b>69,796.52</b>	161,960.24
As at 31 December 2022	80,643.24	<b>48,857.56</b>	129,500.80



## 14. Member's deposits

	<b>2022 Kshs.</b>	<b>2021 Kshs.</b>
Savings deposits (special savings)	846,428	846,428
At the start of the year	-	-
Deposits during the year	2,879,147	-
Withdrawals/Refunds during the year	(2,538,713)	-
<b>Sub Total</b>	<b>1,186,863</b>	<b>846,428</b>
Non Withdrawable Deposits		
At the start of the year	288,729,040	256,403,713
Contribution during the year	75,291,597	50,042,776
Deposits chargeable to member statements (reconcilable)	1,706,591	545,631
Refunds during the year	(40,593,896)	(18,980,008)
Transfer to share capital	(4,589,900)	(129,500)
<b>Sub Total</b>	<b>320,543,431</b>	<b>287,882,612</b>
<b>Total</b>	<b>321,730,294</b>	<b>288,729,040</b>

Deposits chargeable to member statements relates to cash deposits made to our current account which do not have a narration to whom they belong we are awaiting on members to present deposits slips for them to be allocated appropriately - ( I have attached a schedule to support the closing balance

## 15 (a) Trade and other payables

	<b>2022 Kshs.</b>	<b>2021 Kshs.</b>
<b>31st December 2021</b>		
Trade payables (sundry)	956,775	956,775
<b>Sub total</b>	<b>956,775</b>	<b>956,775</b>

This balance of K.sh 956,775 has no movement in the books of account is a lump sum figure which do not have a breakdown of to whom the SACCO owes money - the SACCO does not owe anybody money as per the records we have maintained and nobody who has claim to claim money in respect of for the last five years.

## 15 (b). Payables to related parties

	2022 Kshs.	2021 Kshs.
	-	-
Due to Mzima Investment Ltd.	38,608	38,608
Accrued rent and service charge	9,481	9,481
Accrued internal audit fees	15,000	15,000
Accrued PAYE	94,132	71,633
Accrued NHIF	-	500
Accrued NSSF	1,200	1,200
Accrued professional fees	-	8,000
Accrued board allowance	-	48,000
Accrued staff bonus	200,000	150,000
Provision for audit fees	70,000	70,000
Provision for honoraria	550,000	500,000
Accrued Supervisory committee allowance	36,780	-
<b>Total</b>	<b>1,015,201</b>	<b>912,422</b>
<b>Provision for loan loss</b>	<b>7,033,902</b>	<b>5,152,306</b>

## 16. Share capital

	2022 Kshs.	2021 Kshs.
Balance brought forward (50 number of shares @ Kshs 100)	6,251,900	5,933,400
Contributions for the year	1,510,500	189,000
Transfer from member deposits	4,589,900	129,500
<b>Total</b>	<b>12,352,300.00</b>	<b>6,251,900</b>
	No. of ordinary shares Kshs.	No. of ordinary shares Kshs.
Share capital		
At 1st January 2021	5,933,400	5,495,900
Additional shares	318,500	437,500
<b>At 31st December 2021</b>	<b>6,251,900</b>	<b>5,933,400</b>

The total number of authorized ordinary shares is 12,352.3 (2021: 6,251.9) with a par value of Kshs. 100 each.

No share premium arose during the year.



## 17. Reserves

	<b>2022 Kshs.</b>	<b>2021 Kshs.</b>
Prior year's retained earnings	5,509,686.57	4,719,965
Current year's surplus	2,039,841	2,139,722
Statutory reserve	6,805,586	6,295,625.32
Proposed dividends	(1,070,000)	(700,000)
Honoraria	<b>(550,000)</b>	<b>(500,000)</b>
Provision for staff bonus	(200,000)	(150,000)
<b>Total</b>	<b>12,535,113.50</b>	<b>11,805,312</b>

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 properties revaluation reserve arises on the revaluation of land and buildings. Where re-valued land or Buildings are sold, the portion of the properties revaluation reserve that relates to that asset, and is effectively realized, is transferred directly to retained profits. This reserve is not available for distribution.

The investments revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold, the portion of the reserve that relates to that financial asset, and is effectively realized, is removed from other comprehensive income and recognized in profit or loss. Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is recognized in profit or loss.

Gains and losses transferred from equity into profit or loss during the period are included in other gains and losses.

The following should be included in the computation of reserves:

	<b>2022 Kshs.</b>	<b>2021 Kshs.</b>
Prior year's retained earnings	5,509,686.57	4,719,965
Current year's surplus	2,039,841	2,139,722
Statutory reserve	6,805,586	6,295,625.32
Proposed dividends	(1,070,000)	(700,000)
Honoraria	(550,000)	(500,000)
Provision for staff bonus	(200,000)	(150,000)
<b>Total</b>	<b>12,535,113.50</b>	<b>11,805,312</b>

## 18. Related party transactions

### a) Key management/supervisory committee remuneration

	2022 Kshs.	2021 Kshs.
Honorarium/allowances	550,000	500,000
<b>Total</b>	<b>550,000</b>	<b>500,000</b>

### b) Loans to the Board of Directors, Supervisory Committee and Staff

#### Loans to the Board of Directors

	2022 Kshs.	2021 Kshs.
At the start of the year	7,432,932	8,820,000
Granted during the period	4,932,000	4,600,476
Interest charged	816,085.55	885,751
Repayment	(3,939,747)	(5,987,544)
<b>Total</b>	<b>8,425,186</b>	<b>7,432,932</b>

#### b) Loans to Staff Members

	2022 Kshs.	2021 Kshs.
At the start of the year	858,566	1,027,000
Granted during the period	2,064,532	1,025,530
Interest charged	192,924	135,467
Repayment	(1,401,138)	(1,193,964)
<b>Total</b>	<b>1,521,959</b>	<b>858,566</b>

All the loans to the Board, Supervisory Committee and Staff are issued at arm's length and are performing.

The society has no commitments under non-cancellable leases.



## 19. Capital Risk management

The Sacco manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to members through the optimization of the debt and equity balance. The capital structure of the Sacco consists of net debt calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents and equity (comprising issued capital, reserves and retained earnings). The Board of Directors reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The Sacco has a target gearing ratio of x % determined as the proportion of net debt to equity. In order to maintain or adjust the capital structure, the Sacco may adjust the amounts of dividends paid to members or sell assets to reduce debt.

The Sacco's overall strategy remains unchanged from 2009. The debt-to-capital ratios at 31 December 2022 and 2021 were as follows:

	<b>2022 Kshs.</b>	<b>2021 Kshs.</b>
Total equity	30,594,141	18,057,212
Debt-to-adjusted capital ratio	0.00%	0.00%

The Sacco's debt adjusted capital ratio has been 0% since incorporation.

## 20. Financial risk management objectives

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

Risk management is carried out by the risk sub-committee under policies approved by the Board of Directors. The risk sub-committee identifies, evaluates and manage financial risks in close co-operation with various departmental heads. The Board of Directors 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, and investment of excess liquidity. The sub-committee reports quarterly to the Board of Directors on all aspects of risks including nature of risks, measures instituted to mitigate risk exposures etc.

### (a) Interest rate risk management

The Sacco is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed through maintaining an appropriate mix between fixed and floating rate borrowings. The Sacco's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

### Interest rate sensitivity analysis.

If interest rates had been 3% lower and all other variables were held constant, the post-tax profit would have been approximately Kshs. 815,969 (2020-KShs. 635,887) lower, arising mainly as a result of lower interest charge on borrowings.

If interest rates had been 3% higher and all other variables were held constant, the post-tax profit would have been Kshs. 454,256 (2020 - Kshs 365,176) higher, arising mainly as a result of higher interest charge on borrowings.

The Sacco's sensitivity to interest rates has remained relatively constant owing to the fixed interest rate on most of the loans offered by the Sacco.

### **(a) Other price risks**

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

### *Equity price sensitivity analysis*

The Sacco's sensitivity to equity prices has not changed significantly from the prior year.

### **(b) Credit risk management**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Sacco and arises principally from the Sacco's loans and advances to its members. The amounts presented in the statement of financial position are net of impairment for doubtful debts, estimated by the committee based on prior experience and assessment of the current economic environment. The Sacco has adopted a policy (as contained in its by-laws) of only dealing with creditworthy counterparties and obtaining sufficient collateral, guarantors where appropriate, as a means of mitigating the risk of financial loss from defaults. The Sacco also structures the level of credit risk it undertakes by placing limits on amount of risk accepted in relation to one borrower or group of borrowers.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The Sacco does not have any significant credit risk exposure to any single counterparty or any Sacco of Counterparties having similar characteristics.

### **(c) Liquidity risk management**

The committee has built an appropriate liquidity risk management framework for the management of the Sacco's short, medium and long-term funding and liquidity management requirements. The Sacco manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.



### *Liquidity and interest risk tables*

The following tables detail the Sacco's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Sacco can be required to pay. The table includes both interest and principal cash flows.

At the year-end it was not probable that the counterparty to the financial guarantee contract will claim under the contract. Consequently, the amount included above is nil.

The following table details the Sacco's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the

Group anticipates that the cash flow will occur in a different period:

The Sacco has access to financing facilities, the total unused amount which is KShs.10 million at the reporting date. The Sacco expects to meet its other obligations from

Operating cash flows and proceeds of maturing financial assets. The Sacco expects to maintain current debt to equity ratio, within 0% limits increasing it to 0%. This will be achieved through the issue of new debt and the increased use of secured bank loan facilities.

### **(d) Fair value of financial instruments**

A The Sacco classifies fair value measurements using a fair value hierarchy that reflects the Significance of the inputs used in making the measurements. The fair value hierarchy has the following levels,;

- a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices (Level 2); and

c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

## Assets Measured at Fair Value

### Fair Value Measurement at end of the reporting Period

	2022 Kshs.	Level 1 Kshs.	Level 2 Kshs.	Level 3 Kshs.
Description	30,594,141	18,057,212		
Financial Assets at fair value through comprehensive Income	64,000	-	64,000	-
<b>Fair Value Measurement at end of the reporting Period</b>				
	2021 Kshs.	Level 1 Kshs.	Level 2 Kshs.	Level 3 Kshs.
Description				
Available For Sale	64,000	-	64,000	-

The financial statements include shares amounting to Kshs. 64,000 held in KUSCCO at a par value of Kshs. 100.

Except as detailed in the following table, the committee consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the financial statements approximate their fair values:

	2022			Level 3 Kshs.
Description	Carrying amount Kshs.	Fair value Kshs.	Carrying amount Kshs.	Fair value Kshs.
Financial assets				
Loans and receivables	300,358,121.48	-	282,510,190	-

## 20. Unreconciled loans

	2022 Kshs.	2021 Kshs.
Unreconciled loans - gross at the beginning	18,889,717	20,239,717
Provisioning	(1,350,000)	(1,350,000)
<b>Unreconciled loans - net</b>	<b>17,539,716.70</b>	<b>18,889,717</b>

The unreconciled loan item was reported in our audited books year 2021 and we were advised by the regulator SASRA to start provisioning for it for a period of 15 years.



## Provisioning for the unreconciled loans

	2022 Kshs.	2021 Kshs.
Provision for the year 2022	1,350,000	1,350,000
Provisioning (lump sum)	1,350,000	
Fair Value Measurement at end of the reporting Period	2,700,000.00	1,350,000

## 21. Trade and other receivables from members

	2022 Kshs.	2021 Kshs.
Trade and other receivables from members	859,108	859,108
Provision as per SASRA advisory	(859,108)	-
At the close of the year	-	859,108

This balance comprised of lump sum amount which is not broken down to details to show who owes the Sacco money and thus exposed the SACCO to a risk of losing money therefore we have provided fully for it. - (there has been no balance movement in this account for the last five years).

## 23. Interest on member deposits

	2022 Kshs.	2021 Kshs.
At the start of the year	16,000,000	14,400,000
Payments during the year	(16,000,000)	(14,400,000)
At the close of the year	-	-
Proposed for the year 2022	19,000,000	16,000,000
At the close of the year	<b>19,000,000</b>	<b>16,000,000</b>

## 24. Dividends on shares

	2022 Kshs.	2021 Kshs.
At the start of the year	700,000	500,000
Payments during the year	(700,000)	(500,000)
At the close of the year	-	-
Proposed for the year 2022	1,070,000	700,000
At the close of the year	<b>1,070,000</b>	<b>700,000</b>



## Comparison of Actual and Budget for 2022

Details	Budget	Actual	% Variance	Comment
	A	B		
<b>Period</b>	<b>2022</b>	<b>2022</b>		
Interest Income	25,835,828.55	31,570,380.00	22%	
Other Incomes	170,000.00	2,450,528.13	1341%	
<b>Total Income</b>	<b>26,005,828.55</b>	<b>34,020,908.13</b>	<b>31%</b>	
Management Committee Expenses	1,908,000.00	1,839,750.00	-4%	
Administration and other office expenses	1,184,000.00	967,664.00	-18%	
Supervisory Committee Sitting Allowances	171,120.00	204,870.00	20%	This payment includes accrued SC last quarter year 2021 payment
Donations to charity	200,000.00	180,000.00	-10%	
Annual General Meeting Expenses	1,108,200.00	1,083,515.00	-2%	
Education and training Expenses	210,000.00	66,920.00	-68%	
Employees Salaries (including interns)	3,604,200.00	2,386,200.00	-34%	
Audit Fees	260,000.00	144,340.00	-44%	
Insurance	500,000.00	1,091,252.00	118%	Growth in our loan book and increased risk post COVID 19
Revision of by laws	50,000.00	-	-100%	
Office furniture and refurbishment	50,000.00	-	-100%	
Software and website Maintenance	240,000.00	35,898.00	-85%	
Bank charges	240,000.00	338,157.00	41%	Increased activity in our current account
Office Computers	20,000.00	-	-100%	
Members ledger files	20,000.00	-	-100%	
<b>Total operating expenses</b>	<b>9,765,520.00</b>	<b>8,338,566.00</b>	<b>-15%</b>	



## Budget 2024

	<b>MZIMA SPRINGS SACCO SOCIETY BUDGET FOR YEAR 31 JANUARY - 31 DECEMBER:</b>	<b>2023</b>	<b>2024</b>	<b>% change</b>
<b>SN</b>	<b>INCOMES</b>			
<b>1</b>	Interest Income	28,896,053.12	<b>32,363,579.49</b>	<b>12%</b>
<b>2</b>	Other Incomes			
<b>a</b>	Member entrance fee	170,000.00	100,000.00	-41%
<b>b</b>	Investment income	1,200,000.00	<b>2,500,000.00</b>	
	<b>Total Income</b>	<b>30,266,053.12</b>	<b>34,963,579.49</b>	<b>12%</b>
	Expenditure			
<b>3</b>	Management Committee Expenses: total			
<b>a</b>	Attending meetings	1,260,000.00	1,260,000.00	0%
<b>b</b>	Sub-committee duties	504,000.00	504,000.00	0%
<b>c</b>	Day to day management	144,000.00	144,000.00	0%
	Total MC expenses	1,908,000.00	1,908,000.00	0%
<b>4</b>	Administration and other office expenses	1,052,000.00	1,303,000.00	27%
<b>5</b>	Supervisory Committee Sitting Allowances	171,120.00	171,120.00	0%
<b>6</b>	Donations to charity	150,000.00	150,000.00	0%
<b>7</b>	Annual General Meeting Expenses	909,200.00	1,859,200.00	104%
<b>8</b>	Education and training Expenses	240,000.00	240,000.00	0%
<b>9</b>	Employees Salaries (including interns)	4,594,200.00	5,514,960.00	7%
<b>10</b>	Audit Fees	235,000.00	400,000.00	45%
<b>11</b>	Insurance	700,000.00	1,500,000.00	114%
<b>12</b>	Revision of by laws	50,000.00	-	<b>-100%</b>
<b>13</b>	Office furniture and refurbishment	-	-	
<b>14</b>	Software and website Maintenance	640,000.00	<b>1,940,000.00</b>	<b>209%</b>
<b>15</b>	Bank charges	240,000.00	<b>348,000.00</b>	<b>45%</b>
<b>16</b>	Office Computers	-	-	
<b>17</b>	Members ledger files	20,000.00	<b>20,000.00</b>	<b>0%</b>
	<b>Total Expenses</b>	<b>(10,909,520.00)</b>	<b>(15,354,280.00)</b>	<b>30%</b>
	<b>Estimated Surplus for Interest on Deposits</b>	<b>19,356,533.12</b>	<b>19,609,299.49</b>	<b>1%</b>



## **MZIMA SPRINGS NWD T SACCO**

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