

MAVUNO CHURCH

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST DECEMBER 2018

Mavuno Church
Annual report and financial statements
For the year ended 31 December 2018

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Organization information

Elders' court members

Current

Anthony Okoth	-	Chairman
Mureithi Wanjau	-	Secretary
James Kaniaru	-	Treasurer

Wanjiku Wangombe
Carol Rarieya
Victor Yamo
Lois Yamo
Simon Mbevi
Sophia Mwendu
Karanja Mbugua
Mwendwa Mwiti

Registered office

Mavuno Church
Quary Road, Athi River
P.O. Box 39
Nairobi, Kenya

Independent auditor

Kreston KM & Co.
Certified Public Accountants
Surveyors Court, Suite B6
Woodvale Grove, Westlands
P.O. Box 66837-00800
Nairobi, Kenya

Principal bankers

Housing Finance Rehani House P.O Box 30088-00100 Nairobi	NIC Bank Kenya PLC City Centre Branch P.O. Box 30090 - 00100 Nairobi, Kenya
Commercial Bank of Africa Limited Upper Hill Branch P.O. Box 30437 - 00100 Nairobi, Kenya	Equity Bank Ltd Uganda Oasis Branch Kitante Branch P.O. Box 10184 Kampala, Uganda
Equity Bank Limited Community Corporate Branch P.O. Box 75104 - 00200 Nairobi, Kenya	Standard Chartered Bank (K) Ltd Upper Hill Branch P.O. Box 30003- 00100 Nairobi, Kenya
Chase Bank Limited Riverside Mews, Riverside Drive P.O. Box 66049 - 00800 Nairobi, Kenya	

Legal advisors

Ranja & Company Advocates
Lange Lange Apartments | 1st Floor, Suite No. 8 | Off Milimani Road
(Between Heron Hotel and Middle East Bank)
P.O. Box 26543-00100 | Nairobi, Kenya.
Nairobi, Kenya

Report of the elders' court

The Elders' Court submit their report together with the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of the Church.

Principal activity

The principal activity of the Church is equipping God's people to disciple the nations for Christ.

Mavuno Church financial statements

Mavuno Church financial statements incorporate the financial statements of Mavuno Hill city, Down Town, Crossroad, Lifeway, Mashariki, Kampala, Movement, Nakuru, South B, Thika and church plants all of which are made up to 31 December. The Inter- church transactions and balances are eliminated upon amalgamation of the results.

Results for the year

	2018	2017
	Kshs	Kshs
(Deficit)/surplus for the year from operations	(35,305,025)	31,820,312
Other comprehensive income		
Gain/(loss) on revaluation of available for sale investments	<u>8,209</u>	<u>(115,797)</u>
Total comprehensive (deficit)/surplus for the year.	<u><u>(35,296,816)</u></u>	<u><u>31,704,515</u></u>

Elders' Court Members

The Elders' Court members who held office during the year and to the date of this report are set out on page 1.

Auditor

The Church's auditors, Kreston KM & Co., have expressed their willingness to continue in office in accordance with the provisions of the Kenyan Societies Act.

By order of the Elders' Court

.....
Secretary

Nairobi 2019

Statement of elders' court responsibilities

The elders' court is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position and operating results of Mavuno Church. They are also responsible for safeguarding the assets of the Church and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Elders' Court is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such internal controls as the Elders' Court determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Elders' Court accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards. The Elders' Court is of the opinion that the financial statements give a true and fair view of the state of the Church's financial affairs and of the results of its operations. The Elders' Court further accepts responsibility for the maintenance of accounting records that may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial controls.

In preparing these financial statements the elders' court have assessed the church's ability to continue as a going concern.

Nothing has come to the attention of the elders court to indicate that the church will not remain as a going concern for at least the next twelve months from the date of this statement.

The Elders' Court acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the Elders' Court on 2019 and signed on its behalf by:

.....
Chairman

.....
Treasurer

Opinion

We have audited the accompanying financial statements of Mavuno Church, set out on pages 5 to 22 which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, statement of changes in fund balances, and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements give a true and fair view of the state of the financial affairs of the Church as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards and the Kenyan Societies Act.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for Audit of the Financial Statements section of our report. We are independent of the Church in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

Without qualifying our opinion, we draw your attention to the statement of financial position on page 6 and note 20 which shows that the current liabilities exceeded the current assets by Kshs 17,646,246. The financial statements have been prepared on a going concern basis on the assumption that the Church will get favourable outcome from several approaches taken to enhance the liquidity and working capital.

Other information

The Elders' Court is responsible for the other information. Other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Elders' court responsibilities for the financial statements

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

In preparing the financial statements, the Elders' Court is responsible for assessing the Church'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 Elders' Court either intends to liquidate the Church or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 ISAs 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 financial statements.

Auditor's responsibilities for the audit of the financial statements (contd...)

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

- * Identify and assess the risks of material misstatement of the 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 Church's internal control.
- * Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Elders' Court.
- * Conclude on the appropriateness of Elder's Court use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Church'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 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 Church to cease to continue as a going concern.

We communicate with those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable related safeguards.

The engagement partner responsible for the audit resulting in the independent auditor's report is FCPA Dr. George Kimeu - P/No. 603.

Certified Public Accountants
Nairobi

..... 2019

Statement of comprehensive income

		2018	Restated
	Note	KShs	2017
			KShs
Income			
Tithes and offerings	4a	270,448,383	229,760,768
Designated income	4b	7,111,725	4,165,634
Grant income		15,719,987	40,246,294
Development income		3,000	13,778,130
Interest earned		994,196	1,230,097
Exchange (loss)/ gain		(468,649)	1,355,199
		<u>293,808,642</u>	<u>290,536,122</u>
Expenditure			
Staff costs	5	100,493,512	87,165,056
Ministry direct expenses	6	53,666,220	62,862,461
Ministry support expenses	7	129,148,241	58,400,931
Finance and development costs	9	29,698,685	35,794,612
Designated expenses	10	16,107,009	14,492,750
		<u>329,113,667</u>	<u>258,715,810</u>
(Deficit)/surplus for the year from operations		<u>(35,305,025)</u>	<u>31,820,312</u>
Other comprehensive income			
Gain/(loss) on revaluation of available for sale investments	12	8,209	(115,797)
Total comprehensive (deficit)/surplus for the year		<u><u>(35,296,816)</u></u>	<u><u>31,704,515</u></u>

Statement of Financial Position

		2018	Restated
	Note	Kshs	2017
			Kshs
Non-current assets			
Property & equipment	11	510,801,681	376,113,934
Available for sale investments	12	52,004	56,182
		<u>510,853,685</u>	<u>376,170,116</u>
Current assets			
Receivables and prepayments	13	1,100,368	1,100,368
Short term deposit	14	1,107,769	5,167,383
Cash and cash equivalents	15	18,854,547	38,321,668
		<u>21,062,684</u>	<u>44,589,419</u>
Total assets		<u>531,916,369</u>	<u>420,759,535</u>
REPRESENTED BY:			
Fund balances and liabilities			
Fund and reserves balances			
Accumulated fund		157,289,912	192,594,937
Revaluation reserve		142,568,337	-
Investment revaluation reserve		1,936,047	1,927,838
Designated fund		42,296,279	42,296,279
		<u>344,090,575</u>	<u>236,819,054</u>
Non-current liabilities			
Borrowings	16	149,116,864	157,248,843
		<u>149,116,864</u>	<u>157,248,843</u>
Current liabilities			
Borrowings	16	14,207,932	10,802,418
Payables and accruals	17	24,500,998	17,360,235
Finance lease obligation	18	-	(1,471,015)
		<u>38,708,930</u>	<u>26,691,638</u>
Total fund balances and liabilities		<u>531,916,369</u>	<u>420,759,535</u>

The financial statements on pages 5 to 22 were approved for issue by the Elders' Court on and were signed on their behalf by:

.....
Chairman

.....
Treasurer

Statement of changes in fund balances

	Accumulated fund	Investment revaluation fund	Revaluation reserve	Designated fund	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
As at 1 January 2017	160,347,293	2,043,635	-	42,296,279	204,687,207
revaluation of available for sale investments	-	(115,797)	-	-	(115,797)
Receipts	-	-	-	6,895,149	6,895,149
Payments	-	-	-	(6,895,149)	(6,895,149)
Surplus for the year	31,820,312	-	-	-	31,820,312
2016 restatement of doubtful debts	427,332	-	-	-	427,332
As at 31 December 2017	192,594,937	1,927,838	-	42,296,279	236,819,054
As at 1 January 2018	192,594,937	1,927,838	-	42,296,279	236,819,054
Revaluation	-	-	142,568,337	-	142,568,337
Revaluation of available for sale investments	-	8,209	-	-	8,209
Deficit for the year	(35,305,025)	-	-	-	(35,305,025)
As at 31 December 2018	157,289,912	1,936,047	142,568,337	42,296,279	344,090,575

Accumulated fund represents cumulative surplus.

Investment revaluation reserve represents the cumulative fair value gains and losses on the revaluation of available for sale
Revaluation reserve was as a result of revaluation of land and property (improvements) on 23/10/2018 by Kenstate Valuers

Statement of Cash Flows	Note	2018 KShs	2017 KShs
Cash flows from operating activities			
(Deficit)/surplus for the year		(35,305,025)	31,820,312
Adjustments for:			
Depreciation	11	24,933,287	16,886,115
Restatement of doubtful debts		-	427,332
Cash flows before working capital changes		(10,371,738)	49,133,759
Working capital changes			
(Increase)/decrease in receivables		-	187,326
(Decrease) in payables & accruals		7,140,763	(20,974,964)
Net cash generated from/(used in) operating activities		(3,230,975)	28,346,121
Cash flows from investing activities			
Acquisition of assets	11	(17,052,697)	(17,147,587)
Investments loss/income		12,387	(115,797)
Liquidation of available for sale investments		-	127,404
Net cash flows generated from /(used in) investing activities		(17,040,310)	(17,135,980)
Cash flows from financing activities			
Proceeds from borrowings		3,405,514	34,858,879
Repayment of borrowings		(8,131,979)	(27,589,803)
Repayment of finance lease obligation		1,471,015	(15,315,575)
Net cash flows generated from financing activities		(3,255,450)	(8,046,499)
Net decrease in cash and cash equivalents		(23,526,735)	3,163,642
Cash and cash equivalents at start of the year		43,489,051	40,325,409
Cash and cash equivalents at end of the year	15	19,962,316	43,489,051

Notes

1. General information

Mavuno Church is established in Kenya as a society under the Societies Act Chapter 108 of the Laws of the Republic of Kenya. The registered office is as indicated on page 1.

2. Basis of preparation and summary of significant accounting policies

The financial statements have been prepared under the historical cost basis of accounting and are prepared in accordance with International Financial Reporting Standards.

a) Income and expenditure

Offerings and donations are recognised when received and recorded in the Church's books of accounts. Investment income and expenditure is accounted for on an accruals basis. Gifts of investments are brought in at valuation. Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

b) Designated funds

Funds received for specific purposes are treated as unexpended grants and credited to the income and expenditure statement when the activities for which they were provided for have been undertaken. Specific grant pledges that have not been received but for which expenditure has been incurred, as well as the excess of expenditure over receipts for specific grants are recognised as revenue and included in the financial statements as accounts receivable from donors.

c) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on property and equipment on a straight line basis to write down the cost of each as set to its residual value over its estimated useful life, on the following bases:

	Rate
Property	2.5%
Furniture, fittings & equipment	12.5%
Computers	33.3%
Music equipment	33.3%
Motor vehicles	25.0%
Generator	12.5%
Tents	12.5%

d) Intangible assets

Intangible assets comprise the cost of acquired accounting software. Expenditure on acquired accounting software is capitalised and amortised using straightline method over the estimated useful life, generally not exceeding three years.

Notes (Continued ...)

e) Impairment of tangible and intangible assets

The carrying amounts of the Church's tangible and intangible assets are reviewed annually at the end of the reporting period to determine if there is any indication of impairment. If such condition is identified, the asset's net recoverable amount is estimated. Where the asset's carrying amount exceeds its net recoverable amount, it is written down immediately to their coverable amount and the resulting impairment loss is treated as an expense in the surplus or deficit.

f) Foreign currencies

Assets and liabilities that are denominated in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the end of reporting period. Transactions during the year, which are expressed in foreign currency, are translated at the rates ruling on the transaction dates. Gains or losses on translation are dealt within the surplus or deficit.

g) Retirement benefit obligations

The Church contributes to a statutory defined contribution scheme, the National Social Security Fund. The Church's obligations under the scheme are limited to regulated contributions which are currently KShs 200 per month per employee. The Church also contributes to a registered provident fund, the contribution to which is at a rate of 10% of the basic pay per month per employee. Its obligations to staff retirement benefit schemes are charged to the surplus or deficit as they fall due. A new NSSF Act No 45 of 2014 was introduced however its requirements have been suspended pending the determination of a court case.

h) Employee benefits

Employees' entitlements to annual leave are recognised when they accrue to employees. A provision is made for the liability for such entitlements as a result of services rendered by employees up to the end of reporting period.

i) Taxation

No provision for taxation has been made in these accounts. Mavuno Church qualifies for exemption from the Kenyan Corporation tax under Paragraph 10 of the 1st Schedule to the Income Tax Act, Cap 470 (Laws of Kenya). Mavuno Church is yet to receive an Income Tax Exemption Certificate under its new name since it registered as a separate legal entity.

j) Contingent liabilities

Contingent liabilities arise if there is a possible obligation; or a present obligation that may, but probably will not, require an outflow of economic resources; or there is a present obligation, but there is no reliable method to estimate the monetary value of the obligation.

k) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to the surplus or deficit on a straight-line basis over the period of the lease.

Notes (Continued ...)

l) Cash and cash equivalents

For the purposes of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when required, less advances from the banks repayable within three months from the dates of advance.

m) Financial instruments

Financial assets and financial liabilities are recognised in the Church's statement of financial position when the Church becomes a party to the contractual provisions of the instruments.

i) Available for sale financial assets

These are financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held-to-maturity. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. They are subsequently carried at fair value. Investments in unit trusts are classified as available for sale.

ii) Receivables

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

ii) Payables

Payables are not interest bearing and are stated at their nominal value.

iii) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawdown, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

n) De-recognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Church has transferred substantially all risks and rewards of ownership.

o) De-recognition of financial liabilities

The Church derecognises financial liabilities when, and only when, the Church's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in surplus of deficit.

Notes (Continued ...)

vi) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Elders' Court, who have built an appropriate liquidity risk management framework for the management of the Church's short, medium and long-term funding and liquidity management requirements. The Church manages liquidity risk by maintaining enough required funds for its operations through continuous monitoring of forecast and actual cash flows.

vii) Exchange risk

The Church holds some of its bank balances in foreign currency. The fluctuations in currency exchange rates result in changes in the value of the monetary assets denominated in foreign currency hence expose the Church to the risk of incurring exchange losses. The monetary assets held in foreign currency are closely monitored to ensure that they are not materially affected by adverse foreign currency fluctuations. There are no other foreign currencies denominated financial assets or liabilities.

viii) Fair value of financial instruments

IFRS 7 specifies a fair value hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. The Church's investments in unit trusts (available for sale) falls under level two of the hierarchy.

t) Relevant new and revised IFRSs effective for the year ended 31 December 2018

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

i) IFRS 9, Financial Instruments

The replacement project on financial instruments consists of the following three phases:

- Phase 1: Classification and measurement of financial assets and liabilities
- Phase 2: Impairment methodology; and
- Phase 3: Hedge accounting

Notes (Continued ...)

p) Impairment of financial assets

At the end of each reporting period, the Church assesses whether there is objective evidence that a financial asset (or group of financial assets) is impaired. Impairment losses are recognised if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, and that those events have an impact on the estimated future cash flows of the financial asset that can be reliably estimated. The impairment loss so recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

q) Comparatives

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

r) Financial risk management policies

The Church's financial risk management objectives and policies are detailed below:

i) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1 to the financial statements.

ii) Financial risk management objectives

The Church activities expose it to a variety of financial risks including credit risk, liquidity risks and the effects of changes in foreign currency rates. The Church's overall risk management programme focuses on unpredictability of changes in the operating environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

iii) Payables

Payables are not interest bearing and are stated at their nominal value.

iv) Credit risk management

The Church's credit risk is primarily attributable to its staff receivables and bank balances. The amounts of staff receivables presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Church's management based on prior experience and their assessment of the current economic environment. The credit risk on liquid funds with financial institutions is low, because the counter parties are banks with high credit-ratings.

v) Interest rate risk management

The Church is exposed to interest rate risk due to fluctuations in interest rates on the bank balances that it holds and interest rate on borrowings.

Notes (continued ...)

In July 2014, the IASB finalised the reform of financial instruments accounting and issued *IFRS 9* (as revised in 2014), which will supersede IAS 39 *Financial instruments: Recognition and Measurement* in its entirety upon the former's effective date.

Compared to IFRS 9 (as revised in 2013), the 2014 version includes limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. It also adds the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit.

The completed IFRS 9 (as revised in 2014) contains the requirements for; a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting.

Impact of IFRS 9 in the financial statements

Management evaluated the impact of IFRS 9 and noted it had little effect on the financial statements.

ii) IFRS 15, Revenue from contracts with customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS II Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Management do not anticipate that the application of the standard will have a significant impact on the financial statements, when it is adopted for the annual period beginning 1 January 2019.

u) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2018

iii) IFRS 16, Leases

IFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lease accounting model, requiring lessors to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

Lessors continue to classify leases as operating or finance lease, with IFRS 16, approach to lessor accounting unchanged from its predecessor, IAS 17. IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019. Management anticipates that the adoption of IFRS 16 will not have a significant impact on the financial statements.

Notes (Continued ...)

2) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Church's accounting policies, which are described in note 1, the Elders' Court is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key areas of judgment in applying the Church's accounting policies are dealt with below:

a) Critical judgements in applying accounting policies

There are no critical judgments, apart from those involving estimations (see b below), that the Elders' Court has made in the process of applying the Church's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

b) Key sources of estimation uncertainty

i) Impairment losses

At the end of each reporting period, the Church reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Church estimates the recoverable amount of the cash generating unit to which the asset belongs.

ii) Intangible assets, property and equipment

Critical estimates are made by the Elders' Court in determining depreciation rates for property and equipment.

iii) Contingent liabilities

The Elders' Court evaluates the status of any exposures to contingent liabilities on a regular basis to assess the probability of the Church incurring related liabilities. However, provisions are only made in the financial statements where, based on the Elders' Court's evaluation, a present obligation has not been established.

	2018	2017
	KShs	KShs
4a Tithes and offerings		
Hill city	88,542,822	95,565,506
Crossroads	57,926,730	32,608,516
Down Town	56,288,067	47,721,244
Life way	7,576,623	13,660,669
Mashariki	17,338,216	12,715,924
Kampala	26,566,470	27,488,909
Nakuru	419,756	-
South B	14,593,728	-
Thika	1,195,971	-
	<u>270,448,383</u>	<u>229,760,768</u>
4b Designated income		
Mizizi	1,024,061	299,179
Ndoa	972,164	940,250
Fearless summit	2,575,226	1,257,585
Simama	-	204,900
Camps (teens and kids)	2,126,620	710,520
Other designated income	413,654	753,200
	<u>7,111,725</u>	<u>4,165,634</u>
5 Staff costs		
Hill City	21,672,051	20,392,071
Crossroads	11,179,123	10,323,307
Downtown	14,323,654	13,199,801
Lifeway	4,278,721	4,837,877
Mashariki	9,725,076	8,290,801
Kampala	10,245,325	9,640,235
South B	6,060,000	-
Nakuru	1,128,397	-
Thika	1,260,000	-
Movement	20,621,164	20,480,964
	<u>100,493,512</u>	<u>87,165,056</u>
6 Ministry direct expenses		
Hill city	16,009,433	20,676,233
Crossroads	6,487,957	7,313,948
Down Town	7,204,051	10,248,111
Life way	2,595,049	3,446,139
Mashariki	5,923,387	5,970,792
Kampala	10,869,717	15,207,238
Nakuru	145,640	-
South B	3,710,986	-
Thika	720,000	-
	<u>53,666,220</u>	<u>62,862,461</u>

	Note	2018 KShs	2017 KShs
7 Ministry support expenses			
Hill city	8	38,599,769	20,952,658
Crossroads		12,067,194	4,688,763
Down Town		14,344,227	3,373,068
Life way		4,445,136	1,761,335
Mashariki		9,227,616	2,971,129
Kampala		15,444,794	6,491,863
Nakuru		1,527,291	-
South B		6,462,111	-
Thika		693,215	-
Movement		26,336,887	18,164,132
		129,148,241	58,402,948
8 Hill city ministry support expenses			
Administration costs			
Communication		928,749	638,515
Transport		5,504,787	4,451,874
Equipment & services hire		1,662,968	317,400
Repairs and maintenance		3,594,686	601,757
Meetings (offsite & onsite)		2,358,726	103,100
Printing and publication		3,599,009	562,172
Administration		8,640,459	3,452,801
Staff welfare		56,300	20,913
ICT		2,014,845	2,934,332
Consultancy		2,259,887	1,780,750
Facilities		7,979,353	6,089,044
		38,599,769	20,952,658
9 Finance and development costs			
Interest expenses		27,325,640	15,912,560
Relocation expenses		2,373,045	19,882,052
		29,698,685	35,794,612
10 Designated expenses			
Grants remitted to Frontlines		9,949,789	10,231,269
Ndoa expenses		3,123,380	2,811,581
Mizizi expenses		2,363,118	352,592
Fearless Summit		670,722	1,097,308
		16,107,009	14,492,750

11 Property and equipment

2018	Land Kshs 0%	Property Kshs 2.5%	Tents Kshs 12.5%	Motor Vehicle Kshs 25.0%	Computers 33.3%	Music Equipment Kshs 33.3%	Office Equipment Kshs 12.5%	Furniture & fittings Kshs 12.5%	Work in Progress Kshs 0.0%	Finance lease Assets Kshs	Total Kshs
Cost											
1 January 2018	283,408,456	81,654,153	13,304,978	1,980,239	10,641,385	32,654,441	7,206,020	6,862,474	-	35,114,812	472,826,958
Additions	-	571,471	918,000	-	893,920	2,397,648	1,712,216	1,361,858	-	-	7,855,113
Revaluation***	142,568,337	-	-	-	-	-	-	-	-	-	142,568,337
Transfer from lease	-	-	19,159,376	-	-	4,660,000	8,482,936	2,812,500	-	(35,114,812)	-
Improvement costs to contractor	9,197,583	-	-	-	-	-	-	-	-	-	9,197,583
31 December 2018	<u>435,174,376</u>	<u>82,225,624</u>	<u>33,382,354</u>	<u>1,980,239</u>	<u>11,535,305</u>	<u>39,712,089</u>	<u>17,401,172</u>	<u>11,036,832</u>	<u>-</u>	<u>-</u>	<u>632,447,991</u>
Accumulated depreciation											
1 January 2018	-	11,398,021	12,003,512	1,345,573	9,696,674	22,983,709	5,379,948	4,427,459	-	29,478,127	96,713,023
Transfer from lease	-	-	16,083,883	-	-	3,911,969	7,121,242	2,361,033	-	(29,478,127)	-
Charge for the year	-	2,055,641	4,172,794	495,060	1,838,631	12,816,411	2,175,146	1,379,604	-	-	24,933,287
31 December 2018	<u>-</u>	<u>13,453,662</u>	<u>32,260,189</u>	<u>1,840,633</u>	<u>11,535,305</u>	<u>39,712,089</u>	<u>14,676,336</u>	<u>8,168,096</u>	<u>-</u>	<u>-</u>	<u>121,646,310</u>
Net book value											
31 December 2018	<u>435,174,376</u>	<u>68,771,962</u>	<u>1,122,165</u>	<u>139,606</u>	<u>-</u>	<u>-</u>	<u>2,724,835</u>	<u>2,868,736</u>	<u>-</u>	<u>-</u>	<u>510,801,681</u>
Property & equipment											
2017	Land Kshs	Property Kshs	Tents Kshs	Motor Vehicle Kshs	Computer Kshs	Music Equipment Kshs	Office Equipment Kshs	Furniture & fittings Kshs	Work in Progress Kshs	Finance lease Assets Kshs	Total Kshs
Cost											
1 January 2017	229,045,870	81,306,153	13,074,978	4,580,239	9,485,567	18,684,372	6,751,485	5,873,309	54,362,586	35,114,812	458,279,371
Additions	-	348,000	230,000	-	1,155,818	13,970,069	454,535	989,165	-	-	17,147,587
Transfer from/(to)	54,362,586	-	-	-	-	-	-	-	(54,362,586)	-	-
Write off	-	-	-	(2,600,000)	-	-	-	-	-	-	(2,600,000)
31 December 2017	<u>283,408,456</u>	<u>81,654,153</u>	<u>13,304,978</u>	<u>1,980,239</u>	<u>10,641,385</u>	<u>32,654,441</u>	<u>7,206,020</u>	<u>6,862,474</u>	<u>-</u>	<u>35,114,812</u>	<u>472,826,958</u>
Accumulated depreciation											
1 January 2017	-	9,596,581	11,817,588	3,734,018	9,225,026	18,155,592	5,119,079	4,079,599	-	20,699,424	82,426,907
Adjustment for write off	-	-	-	(2,600,000)	-	-	-	-	-	-	(2,600,000)
Charge for the year	-	1,801,440	185,924	211,555	471,648	4,828,117	260,868	347,860	-	8,778,703	16,886,115
31 December 2017	<u>-</u>	<u>11,398,021</u>	<u>12,003,512</u>	<u>1,345,573</u>	<u>9,696,674</u>	<u>22,983,709</u>	<u>5,379,948</u>	<u>4,427,459</u>	<u>-</u>	<u>29,478,127</u>	<u>96,713,023</u>
Net book value											
31 December 2017	<u>283,408,456</u>	<u>70,256,132</u>	<u>1,301,466</u>	<u>634,666</u>	<u>944,711</u>	<u>9,670,732</u>	<u>1,826,072</u>	<u>2,435,015</u>	<u>-</u>	<u>5,636,685</u>	<u>376,113,934</u>

***Revaluation of land was carried out by Kenstate Valuers Limited on 23/10/2018

	2018	2017
	KShs	KShs
12 Available for sale investments		
Investments in unit trusts- Old mutual trust fund		
At 01 January	56,182	183,586
Fair value (losses)/gains	(4,178)	(127,404)
At 31 December	<u>52,004</u>	<u>56,182</u>
13 Receivables and prepayments		
Prepayments and deposits	106,946	106,946
Other receivables	993,422	993,422
	<u>1,100,368</u>	<u>1,100,368</u>
14 Short term deposit		
At 01 January	5,167,383	22,619,794
Maturities	(4,106,009)	(18,682,508)
Interest income	46,395	1,230,097
At 31 December	<u>1,107,769</u>	<u>5,167,383</u>
The short term deposits are made up as follows:		
CIC Asset Management Limited	134,297	121,911
British American Asset Management Ltd	-	4,072,000
Chase Bank Limited	973,472	973,472
	<u>1,107,769</u>	<u>5,167,383</u>
15 Cash and cash equivalents		
Cash at bank	13,865,976	21,652,723
Fixed deposits and savings	3,932,492	14,405,705
Cash in hand	85,994	69,325
Mpesa balance	970,085	2,193,915
	<u>18,854,547</u>	<u>38,321,668</u>
For cash flow statement purposes cash and cash equivalents		
comprise of:		
Short term deposit	14	1,107,769
Cash and bank balances	15	18,854,547
		<u>19,962,316</u>
		<u>5,167,383</u>
		<u>43,489,051</u>

	2018	2017
	KShs	KShs
16 Borrowings		
Current borrowings	14,207,932	10,802,418
Non-current borrowings	149,116,864	157,248,843
	<u>163,324,796</u>	<u>168,051,261</u>
Analysis by cash flows:		
As at 01 January	168,051,260	160,782,187
Additions	-	(27,589,806)
Principal paid in the year	(4,726,464)	34,858,879
	<u>163,324,796</u>	<u>168,051,260</u>

The non-current borrowings relates to a mortgage facility of Kshs 149,116,864 (2017: Kshs 157,248,843) with Housing Finance Bank Limited, repayable in a period of 15 years and is secured by the land in Athi River. The current borrowings relate to a loan that was acquired from Housing Finance repayable for a period of 3 years.

17 Payables and accruals

Audit fees accrual	1,403,600	1,276,000
Other payables and accruals	23,094,958	15,781,795
Payables to related parties (note 18 (ii))	2,440	302,440
	<u>24,500,998</u>	<u>17,360,235</u>

i) Key management compensation

Elders of the Nairobi church offer their services on a voluntary basis and are not remunerated. Other key management comprises senior pastor and eight executive pastors, though two executive pastors left in the middle of the year. The remuneration of key management during

	2018	2017
	Kshs	Kshs
Salaries and other benefits	<u>24,441,916</u>	<u>25,209,120</u>

	2018	2017
	KShs	KShs
ii) Payable to related parties		
Nairobi Chapel - Mamlaka	<u>2,440</u>	<u>302,440</u>

18 Finance lease obligation

The Church had leased several assets from Rivas Limited for a period of 4 years (48 months) from April 2014 to March 2018. The assets leased were a hyper dome (tent) that houses the main Mavuno Church through a sale and lease back agreement, lighting equipment, stage equipment, LED screen, furniture and other equipment with a total fair value of Kshs 35,114,812, broken down as below:

	2018	2017
	Kshs	Kshs
Hyper dome (tent)	-	19,159,376
Equipment	-	8,482,936
Music equipment	-	4,660,000
Furniture & fittings	-	2,812,500
At 31 December	<u>-</u>	<u>35,114,812</u>

The movement in the finance lease obligation is shown below:

At 01 January	(1,471,015)	13,844,560
Repayments	<u>1,471,015</u>	<u>(15,315,575)</u>
At 31 December	<u>-</u>	<u>(1,471,015)</u>

The finance lease obligation is shown below:

Short term lease	<u>-</u>	<u>(1,471,015)</u>
	<u>-</u>	<u>(1,471,015)</u>

	Minimum payments		Present value of minimum payments	
	2018	2017	2018	2017
	Shs	Shs	Shs	Shs
Not later than one year	(1,471,015)	13,844,560	13,844,560	10,310,181
Later than one year and not later than five years	<u>(1,471,015)</u>	<u>13,844,560</u>	<u>-</u>	<u>3,534,379</u>
Less repaid finance charges	<u>1,471,015</u>	<u>(15,315,575)</u>	<u>(13,844,560)</u>	<u>-</u>
Present value of minimum lease payments	<u>-</u>	<u>(1,471,015)</u>	<u>-</u>	<u>13,844,560</u>

Notes (Continued ...)

19 Legal status

The Nairobi Chapel - Mavuno was a branch of Nairobi Chapel, until it received its own registration under the Societies Act and changed its name to Mavuno Church. Mavuno Church started operating as a separate legal

20 Liquidity

The Church had a negative working capital of Kshs 17,646,246 as at 31 December 2018. However, the Elders' Court believes that the Church will continue to operate as a going concern as efforts are being made to improve the liquidity and working capital of the Church.

21 Subsequent events

As at 31 December 2018 the Church had balances of Kshs 2,418,123 held at Chase Bank Kenya Limited which was placed under receivership and eventually acquired by SBM Bank Kenya which is now fully operational and the Church was to receive 75% of the balance under terms and conditions that were shared by the SBM Bank Kenya. As at 31 December 2018, the Church had received Kshs 453,398.

22 Currency

These financial statements are presented in Kenya Shillings (KShs).

23 Comparative figures

Certain comparative figures in the previous period were adjusted where necessary to conform with changes in presentation in the current period.

Detailed statement of profit or loss & other comprehensive income

	Hill city Kshs	Crossroads Kshs	Down town Kshs	Life way Kshs	Mashariki Kshs	Kampala Kshs	Nakuru Kshs	South B Kshs	Thika Kshs	Movement Kshs	2018 KShs	2017 KShs
Income												
Tithes and offerings	88,542,822	68,926,730	56,288,067	4,576,623	12,338,216	26,566,470	419,756	12,593,728	195,971	-	270,448,383	229,760,768
Designated income	6,559,395	-	500,000	51,030	-	-	1,300	-	-	-	7,111,725	4,165,634
Development income	3,000	-	-	-	-	-	-	-	-	-	3,000	13,778,130
Grant income	-	-	-	-	-	-	-	-	-	15,719,987	15,719,987	40,246,294
Exchange loss	-	-	-	-	-	-	-	-	-	(468,649)	(468,649)	1,355,199
Interest income	959,705	-	-	-	-	34,491	-	-	-	-	994,196	1,230,097
Total income	96,064,922	68,926,730	56,788,067	4,627,653	12,338,216	26,600,960	421,056	12,593,728	195,971	15,251,337	293,808,641	290,536,122
Expenditure												
Staff costs												
Salaries and wages	20,301,352	11,159,123	14,313,654	2,974,670	9,585,784	8,500,812	1,128,397	6,060,000	1,260,000	20,621,164	95,904,955	77,244,005
Staff medical costs	1,370,699	-	-	574,950	139,292	-	-	-	-	-	2,084,941	9,459,866
Staff retreat	-	-	-	95,000	-	-	-	-	-	-	95,000	370,526
Other staff costs	-	20,000	10,000	634,102	-	1,744,513	-	-	-	-	2,408,615	90,659
Total staff costs	21,672,051	11,179,123	14,323,654	4,278,721	9,725,076	10,245,325	1,128,397	6,060,000	1,260,000	20,621,164	100,493,512	87,165,056
Ministry direct expenses	16,009,433	6,487,957	7,204,051	3,315,049	5,923,387	10,869,717	145,640	3,710,986	-	-	53,666,220	62,862,461
Ministry support expenses	38,599,769	12,067,194	14,344,227	4,445,136	9,227,616	15,444,794	1,527,291	6,462,111	693,215	26,336,887	129,148,241	58,400,931
Finance and development	29,698,685	-	-	-	-	-	-	-	-	-	29,698,685	35,794,612
Designated expenses	7,485,562	1,404,282	2,325,278	867,573	1,366,475	1,304,112	426,863	926,863	-	-	16,107,008	14,492,750
Total expenditure	113,465,499	31,138,557	38,197,210	12,906,480	26,242,554	37,863,948	3,228,192	17,159,960	1,953,215	46,958,051	329,113,666	258,715,810
Surplus/(deficit) for the year	(17,400,577)	37,788,174	18,590,857	(8,278,827)	(13,904,339)	(11,262,988)	(2,807,136)	(4,566,232)	(1,757,244)	(31,706,714)	(35,305,025)	31,820,312
Other comprehensive income												
Gain/(loss) on revaluation of available for sale investments	8,209	-	-	-	-	-	-	-	-	-	8,209	(115,797)
Total comprehensive income/(loss) for the year	(17,392,369)	37,788,174	18,590,857	(8,278,827)	(13,904,339)	(11,262,988)	(2,807,136)	(4,566,232)	(1,757,244)	(31,706,714)	(35,296,816)	31,704,515