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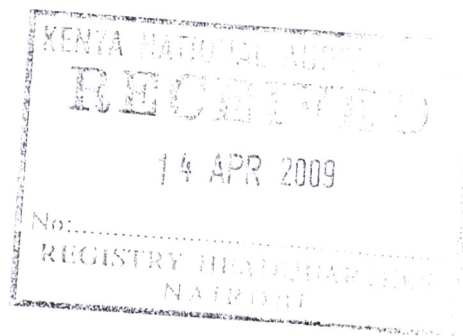
**REPORT
OF
THE CONTROLLER
AND AUDITOR GENERAL**

ON

**THE FINANCIAL STATEMENTS
OF THE YOUTH ENTERPRISE
DEVELOPMENT FUND BOARD
FOR THE EIGHTEEN MONTHS
PERIOD ENDED 30 JUNE 2008**



YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.



FINANCIAL STATEMENTS FOR
THE 18 MONTHS PERIOD ENDED
30th JUNE 2008.

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

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YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

CORPORATE INFORMATION

Board Members.

Ms. Hellen Tombo - Chairman
Mr. Umuro Wario - Chief Executive Officer /Secretary to the Board
Ms. Abshiro Halake
Mr. Kinuthia Murugu
Mr. Michael Kiruti
Ms. Rina Karina
Mr. Simon Simiyu
Mr. Dan Awendo
Mr. Samuel Macharia - Alternate to PS Treasury

Finance and Administration Committee

Ms. Rina Karina - Chair
Ms. Abshiro Halake
Mr. Kinuthia Murugu
Mr. Samuel Macharia
Mr. Umuro Wario

Management Team

Mr. Ture Boru	Operations & Administration Manager
Mr. Henry Mwenda	Lending & Investment Manager
Mr. Juma Mwangala Mwatata	Internal Audit Manager
Ms. Irene Chiku Madumadu	Chief Accountant
Mr. Simon Ndweka	Legal Officer

Registered Office

National Bank of Kenya Building
8th Floor
Harambee Avenue

Auditors

Controller and Auditor General
Kencom House
Nairobi

Bankers

Equity Bank Limited
P O Box 75104-00200
Nairobi

Kenya Commercial Bank Limited
P O Box 48400-00100
Nairobi

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

REPORT OF THE BOARD MEMBERS.

The Board members present their report together with the financial statements for the period ended 30th June 2008 being for 18 months. This is according to the Legal Notice No. 63 Section 14 (b) which states;

“All assets and liabilities of the former Fund and the former Board shall be transferred to and vested In the Fund and the Board as the case may be without further assurance than this order and the Board shall have powers necessary to take possession of, recover and deal with such assets and discharge such liabilities”.

This is because at the inception, the Youth Fund was a departemnt under the Ministry of Youth Affairs and was gazetted as a parastatal on the 11th of May 2007.

BACKGROUND OF THE YOUTH ENTERPRISE DEVELOPMENT FUND

Unemployment is one of the most daunting economic challenges facing Kenya. The government has consequently placed job creation at the top of its policy agenda. The Youth, defined as age 15 to 30 years constitute two thirds of the economically active population. The Youth account for 61% of the unemployed. Ninety two percent (92%) of the unemployed Youth have no job training other than formal schooling, hence unemployment is not just a lack of jobs, but also a lack of job skills.

The government mooted the idea of establishing a Youth Enterprise Development Fund in mid 2006 as one of the bold and radical interventions to address the Youth unemployment problem. The government's commitment was reflected in the National Budget of June 2006 when Kenya shillings one billion (Kshs.1 billion) was set aside for the Youth Enterprise Development Fund. A further Kshs 750 million and Kshs 500 million was allocated in the 2007/2008 and 2008/2009 financial years respectively. This brings the total allocation to Kshs 2.25 billion.

The Ministry of State for Youth Affairs has worked since July 2006 to develop Fund management structures and guidelines in consultations with key stakeholders such as the Youth, financial intermediaries and the development partners. The Fund was gazetted in December 2006. It was then transformed into a state corporation on 11th May 2007 with a Board as the policy organ.

1.0 THE TARGET GROUP

The target group of the YEDF is young Kenyans aged 18 to 35 years who intend to start or expand businesses.

2.0 OBJECTIVES OF THE FUND

The Fund was established in order to:

- Provide loans to existing micro-finance institutions (MFIs), registered non-governmental organisations (NGOs) involved in micro financing and savings and credit co-operative organisations (SACCOs) for on-lending to youth enterprises.

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

- Attract and facilitate investment in micro, small and medium enterprises oriented commercial infrastructures such as business or industrial parks, markets or business incubators that will be beneficial to youth enterprises.
- Support youth oriented micro, small and medium enterprises to develop linkages with large enterprises
- Facilitate marketing of products and services of youth enterprises both in the domestic and the international markets.
- Facilitate employment of youth in the international labour market.

3.0 MODES OF DISBURSEMENT

The lending component of the YEDF has two sub components:

- **The constituency sub-component (C-YES).**
- **The on-lending sub-component through Financial Intermediaries.**

3.1.0 The C-YES sub-component.

The Constituency Youth Enterprise Scheme (C-YES) funds enterprises of youth groups at constituency level, in all constituencies. So far every constituency has been allocated Kshs 2 million. The loan will attract no interest but will include 5% management fee payable upfront.

The amount loaned to any single group at this level must not exceed Kshs. 50,000.00.

3.1.1 Loan application/ approval procedures.

- The applying group will collect a proposal form from their Divisional Youth Officer, the District Youth Officer or from the Ministry's website.
- The group submits completed business proposal forms to the Divisional YEDF Committee.
- The Divisional YEDF Committee will screen and assess the proposals received in line with the guidelines provided.
- The Divisional YEDF Committee will then forward the recommended proposals in the order of merit to the District YEDF Committee.
- The District YEDF Committee validates and approves the proposals.
- The District YEDF Committee forwards details of groups to be funded to the Fund Headquarters who process group cheques.

The Committee will approve proposals which are legal, financially and technically viable and that comply with set guidelines.

3.1.2 Composition of the Divisional YEDF Committee

The Divisional YEDF Committee comprises the following:

- | | | |
|---|---|-------------|
| (a) The District Officer | - | Chairman |
| (b) The Divisional Youth Officer | - | Secretary |
| (c) The Community Development Assistants | - | Members |
| (d) Representatives of the dominant faith-based organizations in the division | - | Members (2) |
| (e) Representatives of Youth groups (Male and Female) | - | Members (2) |
| (f) Local Area Member of Parliament or representative | - | Ex-Officio |

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

3.1.3 Composition of the District YEDF Committee

- | | | |
|--|---|-------------|
| (a) District Commissioner | - | Chairman |
| (b) District Youth Officer | - | Secretary |
| (c) District Social Development Officer | - | Member |
| (d) Chairperson, Maendeleo ya Wanawake | - | Member |
| (e) Representatives of Youth groups (Male & Female) who should not be serving in any divisional YEDF Committee | - | Members (2) |
| (f) Representatives of main religious faiths in the district | - | Members (2) |
| (g) Representative from a major civil society organization | - | Member |

Note: representatives of youth groups in the committee MUST NOT be from the groups who have applied for funding. Members in (a), (b),(c) and (d) will at their first meeting identify and co-opt members in (e), (f) and (g). No loan approval should take place in the first meeting.

3.1.4 Basic Qualifications of the Group

The applicant group should be:

- Registered with the Department of Social Services or the registrar of societies at least three (3) months before applying for the loan. Evidence must be attached.
- Based and operating within the division.
- Undertaking / proposing to carry out business oriented activity.
- Operating an active bank account.
- Recommended by the Divisional Youth Officer.

3.1.5 Composition of Group

List of members, their ID card numbers and age must be attached.

- Youth aged 18 to 35 years;
- Where the group is mixed, that is, having members who are either under 18 or over 35 years;
 - At least 70% of the members must be aged 18-35 years;
 - The leaders of the group must be 100% youth.

3.1.6 Amount of Loan

The total amount of loans disbursed to groups in any given constituency must not exceed its allocation at the time. Further, any loan amount requested from the C-YES must not exceed Kshs. 50,000.00. Any group whose loan request exceeds this amount should be advised to approach the appointed Financial Intermediaries in the district.

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

3.1.7 Key Factors In Loan Approval and Allocation

- **Geographical distribution**

The District YEDF Committee must ensure that allocations show fair geographical coverage of the divisions within the constituency.

- **Gender Consideration**

The District YEDF Committee should also ensure proposals from all female groups or female dominated groups are given favourable consideration. The committee should ensure that at least 40% of the approved proposals in the district are from groups led or dominated by female youth.

- **Disability Consideration**

The District YEDF Committee should consider groups led or largely dominated by youth with disabilities. At least 10% of the funds should be allocated to such groups in the district.

- **Loan Repayment**

Youth groups will start repaying the loan exactly three months from the date of receiving their cheques. Repayment will be made in the bank accounts provided by the Fund from time to time.

4.1.0 The on-lending sub-component through Financial Intermediaries.

The on-lending component of the Fund mainly works through Financial Intermediaries such as banks, Non Governmental Organizations (NGOs), Savings and Credit Cooperatives (SACCOs) and Micro Finance Institutions (MFIs) from which the Youth access funds to start or expand viable businesses. The Financial Intermediaries manage funds from which the youth will access funds directly either as individuals or as organized entities such as groups, co-operatives, companies among others.

4.1.1 Features

- The loan targets all forms of youth owned enterprises whether individual, companies, groups, co-operatives or otherwise;
- The loan is accessible to any youth owned enterprise operating within the district;
- The loan is managed by Financial Intermediaries;
- The loan attracts interest rate of 8% per annum on a reducing balance;
- Very flexible (soft), if any, collateral required;
- The loan amount is dependent on the nature of business proposed and the lending terms of the Financial Intermediary;
- Financial Intermediary seeks approval for loan amount exceeding Ksh. 500,000.00.

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

4.1.2 Identification of Financial Intermediaries.

The Fund's Board advertises for and invites expressions of interest in the local media. The MFIs, CBOs, NGOs, SACCOs and big CBOs active as Financial Intermediaries will apply for consideration. The institutions which fulfil the following conditions are invited for negotiations:

- The organizations must be reputable Kenyan entities legally registered in Kenya.
- Must have a minimum of three years experience in the microfinance sector.
- Must be offering microfinancing services to urban and rural youth enterprises.
- Must have an appropriate governance and management structure.
- Show their geographical coverage by districts.
- Their accounts must have been audited for at least the last three years.

The institutions should highlight the kind of services they offer and plan to offer to the youth entrepreneurs.

NB: Depending on the specialization of an FI, and the region(s) it serves the rules may be relaxed to achieve the target objectives.

4.1.3 Letter of Offer

Any Financial intermediary that qualifies for on-lending will receive a letter of offer from the YEDF. The FI will, if satisfied with the offer and the conditions given, sign the letter and return it to the Fund.

4.1.4 Agreement

Upon signing of the offer letter, the FI will sign an agreement with the Fund and thereafter the offered amount will be released in tranches as agreed with the FI.

4.1.5 Loan Access Procedures/requirements:

- Applicant must have identification details such as business registration certificates or personal identification papers such as National Identity Card or passport;
- The applicant must have a bank account preferable to the preferred Financial Intermediary;
- The applicant collects loan application form from Preferred Financial Intermediary;
- Submit the loan application form or self-prepared business proposal to the preferred Financial Intermediary;
- The preferred Financial Intermediary carries out the assessment of the proposed business to establish financial viability and other relevant technical matters;
- Attendance of training programme, if required;
- Verification by the District Youth Officer when sought for by Financial Intermediary;
- The applicant repays the loan with interest rate of 8% to the Financial Intermediary;
- The repayment period and amount is as agreed with the Financial Intermediary.

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

STATUS

RESULTS

	<u>Shs</u>
Income	
Grants	399,598,174.00
Interest Income	
Loans to youth	12,063,957.00
Financial Intermediaries	5,587,327.00
Bank balance	991,675.00
On call deposits	9,236,376.00
	<hr/>
Total income	427,477,509.00
Expenditure	(136,975,413.00)
	<hr/>
Surplus for the year	290,502,096.00 =====

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

REPORT OF THE BOARD MEMBERS (Continued).

BOARD MEMBERS.

The present Board members are shown on page 2.

MANAGEMENT TEAM.

The present management team is shown on page 2.

AUDITORS

The auditors, Controller and Auditor General, having expressed their willingness, continue in office in accordance with section 159 (2) of the Companies Act.

BY ORDER OF THE BOARD;

Secretary.....

Chris Watie

Date.....

29.01.09

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

STATEMENT OF BOARD MEMBERS' RESPONSIBILITIES.

The State Corporations Act Chapter 446 Section 14 and legal notice No. 63 of 11th May 2007 section 11 requires the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the corporation as at the end of the financial year and of the operating results of the corporation for the 18 months period. It also requires the Board to ensure that the corporation keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the corporation. They are also responsible for safeguarding the assets of the corporation.

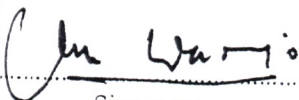
The Board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the States Corporations Act. The Board is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the corporation and of its operating results. The Board 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 members to indicate that the corporation will not remain a going concern for at least the next twelve months from the date of this statement.

Mr. Umuro Wario

.....
C.E.O


.....
Signature

29.01.09
.....
Date

Ms. Rina Karina

.....
Board Member


.....
Signature

29.01.09
.....
Date



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE YOUTH ENTERPRISE DEVELOPMENT FUND BOARD FOR THE EIGHTEEN MONTHS PERIOD ENDED 30 JUNE 2008

I have audited the financial statements of the Youth Enterprise Development Fund Board set out on pages 11 to 23 which comprise the balance sheet as at 30 June 2008, the income statement, the statement of changes in fund balances and the cash flow statement for the 18 months period then ended together with a summary of significant accounting policies and other explanatory notes in accordance with the provisions of Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Board's Responsibility for the Financial Statements

The Board is responsible for the preparation of financial statements which give a true and fair view of the Fund's state of affairs and its operating results in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal controls. An audit also includes evaluating the appropriateness of

accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

1. Loans to Financial Intermediaries

The balance sheet Constituency Youth Enterprise Scheme (C-Yes Loan) figure of Kshs.226,326,163 is at variance with the computerized credit system ledger balance of Kshs.177,377,685, resulting in an unreconciled and unexplained difference of Kshs.48,948,478. Consequently it has not been possible to confirm the accuracy and validity of the C-Yes Loans balance of Kshs.226,326,163 as at 30 June 2008.

2. Unreceipted Bank Credits

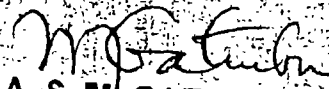
Excluded in the balance sheet cash and bank balances figure of Kshs.330,475,636 are long outstanding unreceipted bank credits of Kshs.4,089,066. Although the management has explained that the unreceipted amounts are as a result of loanees not using the allotted codes when repaying loans, it is not clear why the process of identifying the respective loanees is taking an inordinately long period of time. Under the circumstances, the accuracy of the cash and bank balance of Kshs.330,475,636 as at 30 June 2008 could not be ascertained.

3. Unsupported Expenditure

Included in the expenses total balance of Kshs.136,975,413 are payments to Image Prographic and Design, Youth Employment Scheme and various District Social Committees for Kshs.2,485,000, Kshs.13,451,893 and Kshs.9,182,000 respectively, and whose supporting documents were not availed for audit review. In the absence of the documents, it has not been possible to confirm the propriety of expenses totalling Kshs.25,118,893 as at 30 June 2008.

Opinion

Except for the foregoing reservations, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of affairs of the Board as at 30 June 2008 and of its surplus and cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Youth Enterprise Development Fund Order, 2007.


A. S. M. GATUMBU
CONTROLLER AND AUDITOR GENERAL

Nairobi
2 April 2009

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

INCOME STATEMENT FOR THE 18 MONTHS PERIOD ENDED 30TH JUNE 2008.

	Notes	<u>Shs</u>
INCOME		
Income earned	1	427,477,509.00
EXPENDITURE		
Staff Costs	2	(6,549,114.00)
Administration expenses	3	(19,959,567.00)
Operating expenses	4	(110,466,732.00)
Total expenditure		<u>(136,975,413.00)</u>
SURPLUS FOR THE YEAR		<u>290,502,096.00</u> =====

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

BALANCE SHEET AS AT 30TH JUNE 2008.

	Note	Shs
ASSETS		
Non current assets		
Property, Plant & Equipment	5	9,243,109.00
Computer Software	6	1,640,000.00
Total non-current assets		10,883,109.00
Current assets		
C-Yes Loan	7	226,326,163.60
Financial Intermediaries	7	627,225,000.00
Accounts Receivables	8	1,162,692.00
On Call deposits	9	500,000,000.00
Cash and bank balances	10	330,475,636.40
Total current assets		1,685,189,492.00
Total assets		1,696,072,601.00
FUND BALANCES AND LIABILITIES		
Reserves		
Accumulated Fund	11	290,502,096.00
Revolving Fund	12	1,400,000,000.00
		1,690,502,096.00
Current liabilities		
Other payables and accruals	13	5,570,505.00
Total equity and liabilities		1,696,072,601.00

The financial statements on pages 9 to 23 were approved by the Board members on the

29 day of January, 2009 and were signed on its behalf by:

Mr. Umuro Wario

C.E.O

Umuro Wario

Signature

29.01.09

Date

Ms. Rina Karina

Board Member

Rina Karina

Signature

29.01.09

Date

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

STATEMENT OF CHANGES IN FUND BALANCES FOR THE 18 MONTHS PERIOD ENDED 30th JUNE 2008.

	Accumulated fund Shs	Total Shs
As at 1 st January 2007	-	-
Surplus for the period	290,502,096.00	290,502,096.00
As at 30 th June 2008	<u>290,502,096.00</u>	<u>290,502,096.00</u>

Accumulated Fund

Accumulated fund represents a reserve for the ordinary operations of the corporation.

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.
CASH FLOW STATEMENT FOR THE 18 MONTHS PERIOD ENDED 30th JUNE 2008.

	Shs
Surplus for the year	290,502,096.00
Adjustment	
Depreciation & Amortisation	3,236,715.00
Operating Profit before working capital changes	293,738,811.00
Increase in Loans advanced	(853,551,164.00)
Increase in Account Receivables	(1,162,692.00)
Increase in Other receivables	0
Increase in payables	5,570,505.00
Net cash after Operating Activities	(849,143,351.00)
Cashflow from Investing Activities	
Purchase of fixed assets & Intangible assets	(14,119,824.00)
Net Cashflow from Investing Activities	(14,119,824.00)
Cashflow from Financing Activities	
Capitalization from G.O.K	1,400,000,000.00
Net Cashflow from Financing Activities	1,400,000,000.00
Net increase in Cash	830,475,636.40
Cash and Cash Equivalent at the beginning of period	-
Cash and Cash Equivalent at the end of period	830,475,636.40

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

ACCOUNTING POLICIES

Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards.

Adoption of new and revised International Financial Reporting Standards

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRS 7 on Financial Instruments Disclosures.
- IFRS 8 on Operating Segments.
- IFRIC 8 - Scope of IFRS 2.
- IFRIC 10 Interim Financial Reporting and Impairment.

The adoption of these standards and interpretations, when effective, will have no material impact on the financial statements of the corporation.

Basis of accounting

The corporation prepares its financial statements on the historical cost basis of accounting. The principal accounting policies adopted remain unchanged from the previous year and are set out below:

i. Revenue recognition

Grants are recognised when received. Other revenues are recognised in accordance with the accruals concept.

Interest income on loans is recognised when it falls due. Other interest income is recognised in the period in which it is earned.

ii. Taxation

Youth Enterprise Development Fund Board is exempt from income taxes under the Kenya Income Tax Act.

iii. Equipment

Equipment are stated at cost less depreciation and any accumulated impairment losses.

iv. Depreciation

Equipment are depreciated on a reducing balance basis over their estimated useful lives at the following annual rates:

Motor vehicles	25%
Furniture and fittings	12.5%
Office equipment	12.5%
Computers	33%

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

v. Intangible assets - computer software development costs

Costs incurred on computer software are initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 5 years.

vi. Financial instruments

Loans receivable

Loans to customers are recognized when cash is advanced to borrowers. They are stated net of provision for doubtful loans.

Bad and doubtful debts

Specific provisions are made against loans when in the opinion of management the Fund will not be able to collect all amounts due according to the original contractual terms of the loans.

When a loan is deemed uncollectable, it is written off against the related provision. Subsequent recoveries of amounts written off are credited to the income statement.

Short term deposits

Short term deposits are interest bearing and are expected to mature within three months from the date of acquisition. Short term deposits are carried at nominal values plus any accrued interest, which approximate to their fair values.

vii. Impairment of tangible and intangible assets

At each balance sheet date, the corporation 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 (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Fund estimates the recoverable amount of the cash-generating unit to which the asset belongs.

CRITICAL JUDGMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

In the process of applying the Fund's accounting policies, the management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

Impairment of assets

At each balance sheet date, the corporation reviews the carrying amount of its financial, tangible and intangible assets to determine whether there is any indication that the assets have suffered impairment. If any such indication exists, the assets recoverable amount is estimated and an

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

impairment loss is recognised in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

Property, plant and equipment

Depreciation rates are determined taking into account corporation depreciation policy, the current state of equipment concerned and any plans that management may have which might affect the remaining useful life of the equipment.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk management

The company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the finance department under policies approved by the Board members. Finance identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

The company has policies in place to ensure that sales are made to customers with an appropriate credit history.

Market risk

(i) Foreign exchange risk

The company does not hold investments in foreign currency or deal with foreign exchange that would be subject to price risk hence this risk is not relevant.

(ii) Price risk

The company does not hold investments that would be subject to price risk hence this risk is not relevant.

(iii) Cash flow and fair value interest rate risk

The corporation holds interest bearing assets in form of call deposits.

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

Credit risk

Credit risk is managed on a corporation-wide basis. Credit risk arises from cash and cash equivalents, deposits with banks, as well as trade and other receivables. The corporation lending and Investment manager in conjunction with the company secretary and finance department assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

The amount that best represents the company's maximum exposure to credit risk as at 30th June 2008 is made up as follows:

Receivables	Fully performing <u>Shs'000</u>	Past due <u>Shs'000</u>	Impaired <u>Shs'000</u>
C-Yes	122,708,110.00	103,618,053.60	-
Financial Intermediaries	627,225,000.00	-	-
Others	1,162,692.00		

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.

The debt that is overdue is not impaired and continues to be paid. The lending department is actively following this debt. In addition, the corporation is in the process of executing all promissory notes, which can be enforced in the event of customer default.

	Fully performing <u>Shs'000</u>	Past due <u>Shs'000</u>	Impaired <u>Shs'000</u>
Cash and cash equivalents as at June 2007	-	-	-
Cash and cash equivalents as at June 2008	-	-	-

Cash and cash equivalents are fully performing.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash to meet company obligations. The finance department reviews the cash forecast monthly and determines cash requirements. Cash generated from operations is healthy but if a heavy cash requirement is necessary a draw down of the call deposit can be made.

The table below analyses the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

	Less than 1 mth	Between 1 – 3 mths	Over 3 mths
	<u>Shs'000</u>	<u>Shs'000</u>	<u>Shs'000</u>
As at 30th June 2007:			
Trade and other payables	-	-	-
As at 30th June 2008:			
Trade and payables	5,570,505.00		

Capital risk management

The corporation's objectives when managing capital are to safeguard the corporation's ability to continue as a going concern in order to maintain an optimal capital structure to reduce the cost of capital.

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE 18 MONTHS PERIOD ENDED 30TH JUNE 2008

1.	INCOME	Shs
	Grant from G.O.K	349,598,174.00
	Grant income from Kenya Pipeline	50,000,000.00
	Interest from loans to youth groups	12,063,957.00
	Interest from loans to Financial Intermediaries	5,587,327.00
	Interest from Bank balance	991,675.00
	Interest from Call deposits	9,236,376.00
		427,477,509.00
		=====

The income received from Kenya Pipeline Corporation was for business plan competition.

2.	STAFF EXPENSES	
	Salaries & wages	6,399,914.00
	Staff Training	139,200.00
	Staff Welfare	10,000.00
		6,549,114.00
		=====

3.	ADMINISTRATION EXPENSES	
	Recruitment	1,036,800.00
	Board Allowances	5,935,442.00
	Board Emoluments	1,267,589.00
	Printing and photocopying	40,277.00
	Office Expenses	201,987.00
	Telephone and communication	1,351,144.00
	Stationery	956,488.00
	Insurance	142,327.00
	Depreciation	2,826,715.00
	Amortization	410,000.00
	Auditors' remuneration	1,200,000.00
	Bank Charges	88,701.00
	Travel & Transportation	1,186,549.00
	Motor Vehicle Repairs	81,570.00
	Motor Vehicle fuel	469,878.00
	Repair & maintenance	281,183.00
	Hall hire & Subsistence Allowance	1,690,523.00
	Commission Charges	193,734.00
	Newspapers	18,660.00
	Rent	580,000.00
		19,959,567.00
		=====

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE 18 MONTHS PERIOD ENDED 30TH JUNE 2008.

		<u>Shs</u>
4.	OPERATING EXPENSES	
	Business Plan Competition	45,000,000.00
	Youth Training	20,951,893.00
	Website Maintenance	35,525.00
	C-Yes Capacity Building	9,193,700.00
	DYO Capacity Building	5,806,000.00
	Evaluation Expenses	659,300.00
	Corporate Branding	3,140,620.00
	Stake Holders Meeting	240,850.00
	Publicity	191,236.00
	Trade Fair	4,186,242.00
	Media Cost	19,455,336.00
	Seminars	192,840.00
	Retreats-Board	599,516.00
	Donations	138,350.00
	Labour Export Expenses	675,324.00
		<hr/>
		110,466,732.00
		=====

5. PROPERTY , PLANT & EQUIPMENT.

	<u>Motor vehicles Shs</u>	<u>Furniture and fittings Shs</u>	<u>Computer equipment Shs</u>	<u>Total Shs</u>
COST				
As at 1 st January 2007	-	-	-	-
Additions	7,609,956.00	2,670,880.00	1,788,988.00	12,069,824.00
	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 th June 2008	7,609,956.00	2,670,880.00	1,788,988.00	12,069,824.00
	<hr/>	<hr/>	<hr/>	<hr/>
DEPRECIATION				
As at 1 st January 2007	-	-	-	-
Charge for the year	1,902,489.00	333,860.00	590,366.00	2,826,715.00
	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 th June 2008	1,902,489.00	333,860.00	590,366.00	2,826,715.00
	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK VALUE				
As at 30 th June 2008	5,707,467.00	2,337,020.00	1,198,622.00	9,243,109.00
	=====	=====	=====	=====

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

6. COMPUTER SOFTWARE:

This software was purchased by the Fund for the purposes of tracking loan repayments and interest thereon by Youthgroups and Financial Intermediaries.

	Shs
Cost	2,050,000.00
Less amount amortized	410,000.00
Book value as at 30 th june 2008	1,640,000.00

	Effective Loan interest rate	2008 Shs
7. LOANS RECEIVABLE		
FI loans	1%	627,225,000.00
C-YES loans	5%	226,326,163.60
		853,551,163.60
Net loans receivable		=====
Loan interest rate is on a flat rate.		

8. ACCOUNT RECEIVABLES

Staff imprest	271,484.00
Accrued Interest from FIs	891,208.00
Less: provision	(-)
	1,162,692.00
	=====

9. ON-CALL DEPOSITS

Maturing within one month:	
On Call Deposits:	
Kenya Commercial Bank Limited	500,000,000.00
	=====

The weighted average effective interest rate on call deposits was 8%

10. CASH AND BANK BALANCES

The amount of cash and bank balance is made up of (as at 30th June 2008):

	Shs
Petty Cash	50,001.80
Balance in Equity Bank Main Account	27,923,089.91
Balance in Equity Bank Repayment	16,242,164.20
Balance in KCB Main account	276,467,618.50
Balance in KCB Repayment account	9,792,762.00
	330,475,636.40
	=====

11. ACCUMULATED FUNDS

This is the balance that remained after deducting the expenses incurred from the income received.

12. The revolving fund is the money that has been set aside for the loans to youth.

YOUTH ENTERPRISE DEVELOPMENT FUND BOARD.

13. OTHER PAYABLES AND ACCRUALS

	<u>Shs</u>
Sundry payables	5,570,505.00
Staff leave provision	-
	<u>5,570,505.00</u>
	=====

14. INCORPORATION

The Fund was gazetted in December 2006. Then it was a department at the Ministry of Youth and Sports. It was gazetted as a State Corporation according to the Legal Notice No. 63 of 11th May 2007. The Accounts are for 18 months as according to Section 14 (b) which states:

“All assets and liabilities of the former Fund and the former Board shall be transferred to and vest in the Fund and the Board as the case may be without further assurance than this order and the Board shall have powers necessary to take possession of, recover and deal with such assets and discharge such liabilities”.

15. CURRENCY

The financial statements are reported in Kenya shillings (Shs).