

REPUBLIC OF KENYA



16 OCT 2018

OFFICE OF THE AUDITOR-GENERAL



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REPORT

*Paper Laid on the
Table of the House
by the Leader of
the Majority Party
on Tuesday 16th October
2018.*

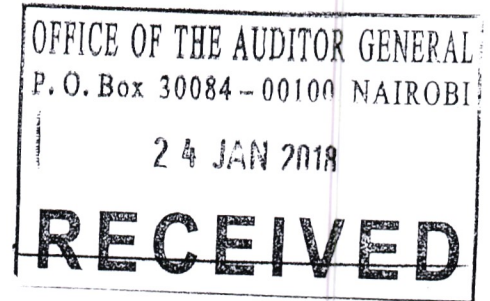
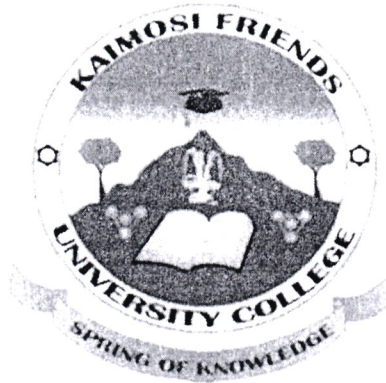
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KAIMOSI FRIENDS UNIVERSITY
COLLEGE**

**FOR THE YEAR ENDED
30 JUNE 2017**



KAIMOSI FRIENDS UNIVERSITY COLLEGE (KAFUCO)
(A Constituent College of Masinde Muliro University of Science and Technology)

P.O BOX 385-50309 KAIMOSI, KENYA
TEL: 0771373639

16 OCT 2018

REGULATORY AND OTHER NON-COMMERCIAL ENTITIES
(KAIMOSI FRIENDS UNIVERSITY COLLEGE)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED

JUNE 30, 2017

Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS).

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KEY UNIVERSITY COLLEGE INFORMATION AND MANAGEMENT

INTRODUCTION

Kaimosi Friends University College hereafter referred to as KAFUCO is the only university in the tropical rain forest in Kenya. The university was established in order to advance knowledge in teaching, research innovation and scientific development. The University College is situated along the Chavakali-Kapsabet road.

The quest to establish a university was conceptualized in October, 2006 when the East Africa Yearly Meeting (Friends Church) submitted to the Commission for University Education hereafter referred to as CUE a proposal to establish a private University.

The Commission paid the first visit to the institution in November, 2008 to establish progress the church had made in development of the physical facilities to support the proposed programs and enrolment.

A second follow-up CUE inspection was carried out in July, 2011 and it was observed that the Friends Church had not made any significant progress. In 2012 the Friends Church having recognized their limitations in establishing a private university, decided to explore the possibility of establishing the KTTC as a Constituent College of a Public University.

On 24th July, 2012, the MMUST Council recommended the establishment of Kaimosi Friends University College as her Constituent College after considering the request from the Friends Church in Kenya.

On 30th January, 2014 CUE carried out an inspection of Kaimosi Teachers Training College with a view to establish availability, adequacy and appropriateness of the facilities for the proposed University College in order to commence the accreditation process for a Constituent University College. Stakeholders proposed to relocate the Kaimosi Teachers Training College to its new site next to Kaimosi Boys High School.

A Transition Committee was formed and it included representation from the Church, Ministry of Education, Kaimosi Teachers Training College, County Government, MMUST and selected members of the public chaired by the Governor to ensure a peaceful transition of the KTTC to its new site and peaceful co-existence between KTTC and the University College.

On 11th February, 2014 MMUST appointed Prof. O.M.J. Nandi to coordinate a MMUST steering committee in addressing accreditation issues by CUE. This involved drafting of the strategic plan, legal notice and acquisition of title deeds which were accomplished successfully.

On 10th April, 2014 CUE recommended upgrading of Friends Kaimosi Teachers College to a Constituent College of MMUST. The steering committee recommended posting of skeleton staff to KAFUCO to put structures in place in preparation for admission of students.

On 1st September, 2014, Prof. Nandi was appointed Director of KAFUCO. On 3rd September, 2014, MMUST seconded the first batch of 528 students and 46 staff to KAFUCO to enable the University College takes off.

KAFUCO became a legal entity on 22nd May, 2015 upon being gazetted following legal notice number 87 in the Kenya Gazette Supplement no. 65.

On 1st February, 2016 the Council of MMUST appointed Prof. O.M.J. Nandi as Principal of KAFUCO in acting capacity, and Prof. Y. K. Ayodo as Ag. Deputy Principal (A&SA) and Prof. M. M. Amadalo as Ag. Deputy Principal (AF&P).

On 7th November, 2016 the Ministry of Education appointed a Council for KAFUCO. Inauguration of Council took place on 2nd December, 2016 thus further empowering KAFUCO and propelling it to semi-autonomous state. On 27th January, 2017 the Cabinet Secretary Dr. Fred Matiangi appointed Prof. Ogodo MJ Nandi as an Ag. Principal KAFUCO on recommendation of the Council. The council has embarked on addressing the current financial deficit of 170m to enable engagement of academic staff on permanent basis to avoid dependence on part-time lecturers.

KAFUCO's first cohort of students reported on 9th January, 2017. In a nutshell, the journey towards establishing KAFUCO has been long and tedious and the challenges were intimidating. However, it took the knowledgeable guidance of the MMUST Council; the unwavering support of the Governor of Vihiga County, H.E. (Rev.) Moses Akaranga; the relentless effort of the area Member of Parliament, Dr. Charles Gimose, the dedication of KAFUCO management and other stakeholders to actualize this dream.

Vision and mission statement

The Vision is: A Centre of Academic excellence, innovation and holistic development

The Mission is: "To provide quality training, research and innovation to meet the needs of a dynamic society."

The Philosophy

Kaimosi Friends University College endeavors to be ranked highest by world university ranking standards based on academic reputation and research impact on societal needs

Value statements

Value statements, which are derived from article 10 of the Kenya Constitution, 2010, constitute a set of beliefs and standards of behavior that drive KAFUCO's agenda. They are essential and must be upheld as they are key to corporate culture and identity. The following are the University College's key values:

- Academic Excellence
- Teamwork
- Equity
- Innovation
- Integrity
- Social responsibility
- Quality
- Professionalism
- Dynamism

Strategic Objectives

KAFUCO will continue to focus on the following strategic objectives as set out in the strategic plan 2015-2019:

- To promote academic excellence
- To promote research and extension
- To attract and retain competent staff
- To establish a strong capital and financial base.
- To develop and maintain physical facilities and infrastructure.
- To enhance corporate image and social responsibility.
- To promote equity and social justice.

PRINCIPAL ACTIVITIES OF THE UNIVERSITY COLLEGE

The main activities of the University College are as follows:

- i. To participate in the research, transmission and preservation and enhancement of knowledge and to stimulate the intellect participation of students in the economic, social, cultural, scientific and technological development of Kenya.
- ii. To conduct examinations for such academic awards as may be provided in the statutes pertaining to the University.
- iii. To provide directly, or in collaboration with other institutions of higher learning, facilities for university education, the integration of teaching, research and effective application of knowledge and skills to the life, work and welfare of the citizens of Kenya.

- iv. To examine and make proposals for new faculties, schools, institutes, departments, resource and research centres, degree courses and subjects of study.
- v. To provide and advance university education and training to appropriately qualified candidates, leading to the conferment of degrees and award of diplomas and certificates and such other qualifications as the Council and the Senate shall from time to time determine and in so doing, contribute to manpower needs.
- vi. To contribute to agriculture, industrial and technological development of Kenya in collaboration with industrial and other institutions through the transfer of appropriate technology.
- vii. To play a leading role in the development and expansion of the opportunities for higher education and research.
- viii. To contribute to industrial and technological developments through innovations and technology transfer.
- ix. To develop as an institution of excellence in teaching, training, scholarship, entrepreneurship, innovation, research, and consultancy services.
- x. To participate in commercial ventures and other activities for the benefit of the institution, the community and stakeholders.
- xi. To facilitate student mobility between different programmes at different training institutions , universities and industry; and
- xii. To foster the general welfare of all staff and students.
- xiii. To provide programmes, products and services in ways that reflect the principles of equity and social justice;





GOVERNANCE STRUCTURE



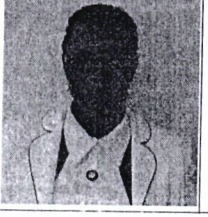
The Key Governance Structures of the Kaimosi Friends University College are:

- i. University College Council
- ii. University College Management Board
- iii. University College Academic Board
- iv. Students Governing Council

FIDUCIARY MANAGEMENT

The key management personnel who held office during the financial year ended 30 June, 2017 and who had direct fiduciary responsibilities were:

S/N	Designation	Name
1.	Ag. Principal 	Prof. Ogodo M.J Nandi , BA (UoN)MBA(Moi University),MA(UoN), PhD(Maseno University)
2.	Ag. Deputy Principal (Administration Finance & Planning) 	Prof. MM. Amadalo , Bed,(Sc), Hons(UoN),Med(Ku), PhD(Ku)
3.	Ag. Deputy Principal (Academic & Students Affairs) 	Prof. Y.K Ayodo , Dip.Ed (Sc), (KSTC), B.Ed (Sc) Hons, M.Phil. D.Phil (Moi University)
4.	Senior Accountant 	CPA Lorine A. Obonyo , B.Com (Finance), Hons (CUEA), MBA (Maseno University), CPA (K).
5.	Senior Assistant Registrar (Admin & HR) 	Mr. Agesa Mugesani , B.ed(Arts) Hons(KU), MBA(Hrm) (KU)

6.	Assistant Registrar (Academics) 	Dr. Samwel Munda , B.ed(Sc) (Egerton University), M.ed (mgt), (Egerton University), PhD.(MMUST).
7.	Ag Dean, Faculty of Education and Social Sciences. 	Dr. E. Okwako , B.ed(Arts),Hons, M.Phil, PhD.
8.	Assistant Librarian 	Ms. C. Shikuku , Dip(Information Studies)Kenya Polytechnic ,Bsc (Information Science) Moi University, Msc (Moi University)

FIDUCIARY OVERSIGHT ARRANGEMENTS

The Council Committees facilitate decision-making to assist the Council in the execution of its duties, powers and authority, however delegation of authority to the Committees does not in any way mitigate or dissipate the discharge by the Council of its duties and responsibilities. Council Committees have been established with formal written terms of reference and observe the same rules of conduct and procedures as the Council. In the year ended 30 June 2017 the following Committees were in place:

FINANCE AND RESOURCE MOBILIZATION COMMITTEE

- | | | |
|------|-------------------------|---|
| i. | Mr. Joseph Z.M Abuta | Chairman |
| ii. | Dr. Ellie Osir | Member |
| iii. | Mr. Isaac Thuita Gitahi | Representing Ministry of Education |
| iv. | Ag. Principal | Secretary |

STRATEGY, PLANNING AND DEVELOPMENT COMMITTEE

- | | | |
|------|------------------------|------------------|
| i. | | |
| ii. | Dr. Ellie Osir | Chairman |
| iii. | Mr. Joseph Z.M Abuta | Member |
| iv. | Dr. Josephine D. Waudu | Member |
| v. | Ag. Principal | Secretary |

HUMAN RESOURCE COMMITTEE

- | | | |
|------|-----------------------------|---|
| i. | Ms. Jacqueline. O. Ingutiah | Chairman |
| ii. | Ms. Romana Kimende | Member |
| iii. | Mr. Isaac Thuita Gitahi | Representing Ministry of Education |
| iv. | Dr. Josephine D. Waudu | Member |
| v. | Ag. Principal | Secretary |

AUDIT, GOVERNANCE, RISK MANAGEMENT & COMPLIANCE COMMITTEE

- | | | |
|------|-----------------------------|---|
| i. | Ms. Romana Kimende | Chairperson |
| ii. | Ms. Jacqueline. O. Ingutiah | Member |
| iii. | Mr. Isaac Thuita Gitahi | Representing Ministry of Education |
| iv. | Assistant Internal Auditor | Secretary |

REGISTERED OFFICE

Kaimosi Friends University College
Off Chavakali-Kapsabet Road,
P.O Box 385-50309
KAIMOSI, KENYA

UNIVERSITY COLLEGE CONTACTS

Telephone: 0771373639
E-mail: principal@kafuco.ac.ke
Website: www.kafuco.ac.ke

BANKERS OF THE UNIVERSITY

1. Co-operative Bank, Mbale Branch.
2. Kenya Commercial Bank, Serem Branch.
3. Kenya Commercial Bank Mbale Branch.
4. Equity Bank, Mbale Branch.

INDEPENDENT AUDITORS



Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya




PRINCIPAL LEGAL ADVISER

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

MEMBERS OF THE UNIVERSITY COUNCIL







<p>Dr. Bernadette Mungai, Chairperson BBM(USIU),MBA(USIU),PhD(KU)</p> 	<p>Dr. Mungai is a Consultant and an Entrepreneurship Development Expert with twenty seven years experience in the African region. She has been a Team Leader on various donor funded projects – the British Council, DfID and The World Bank funded Private Sector Development Projects. She has also been involved in capacity building, strategic management and business development programmes. She has extensive experience in Africa having worked in Kenya, Ethiopia, Uganda, Tanzania, Rwanda, Ghana, Nigeria, South Africa, Zimbabwe and South Sudan. She was born in 1959.</p>
<p>CPA Zachary M. Abuta, Member MBA(JKUAT), CPA(K),CPS(K)</p> 	<p>CPA Abuta Possesses wide experience of over forty years in corporate governance/management, company secretarial practice, public finance, auditing and executive management. He has served in various capacities as a tutor, accountant, finance manager, company secretary and CEO. He has Published several professional articles for training and research use and participated/assisted in developing various rural based projects like schools, churches and health centers. CPA Abuta has received Merit /Commendation certificates for services offered to various institutions/organizations. Currently he is the Public Finance Expert at Kisumu Urban Project and a lead consultant in Machogu Abuta & Associates. He was born in 1951.</p>




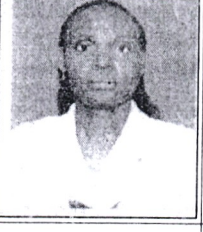
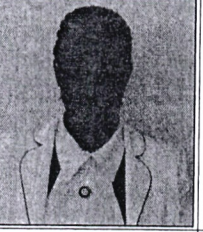

<p>Ms. Jacqueline Inguta, Member LLB (Moi University), MA (Coventry University), MCI Arb</p> 	<p>Ms. Ingutiah is an Advocate of the High Court of Kenya currently the Project Lead at Advocates for International Development (A4ID) heading the Business and Human Rights Programme. Previously, Ms. Ingutiah worked at Federation of Women Lawyers (FIDA) Kenya as a Senior Legal Counsel where she provided legal aid services for needy women and engaged in advocacy for social and legislative reforms in Kenya. In addition, she engaged in regional advocacy at the East African Community and African Commission on Human's and People's Rights (ACHPR). Jacqueline holds a Masters of Arts Degree in Peace and Reconciliation Studies from Coventry University and LLB from Moi University. She is a member of the Law Society of Kenya, FIDA Kenya and Chartered Institute of Arbitrators. In addition, she is the Vice- Chairperson of the West Kenya Law Society, mediator under the Judiciary Court Annexed Mediation Pilot Project and a member of the Ethics Review Committee at Jaramogi Oginga Odinga Teaching and Referral Hospital. She was born in 1980.</p>
<p>Ms Romana Kimende, Member MBA, Bed, CPA (K), Diploma in Accounting.</p> 	<p>CPA Romana has a wealth of experience in financial management and education administration from the public and private sectors as well as Non-Governmental organizations in Kenya. She has held various management positions with the United Nations Development Programme (UNDP) Kenya, CARE International, Ministry of Education, Ministry of Finance and Ministry of Trade and has experience in managing secondary school Boards. She chairs the KAFUCO Audit Committee and is a member of the Human Resources Committee. She is currently a Consultant in Financial Services & Project Management. She was born in 1966.</p>




<p>Dr. Josephine Waudu, Member Cert Teacher Education,(State of Israel), Higher National Diploma,(KIPC), BED, (UoN), PhD, (KU).</p> 	<p>Dr. Waudu is currently a Council Member- Kitale National Polytechnic and has taught as a Part-Time Lecturer, Mount Kenya University. She has been working as an Acting Deputy Director-Research in charge of Policy, Planning & Strategy Division in the Directorate of Research Management and Development at Ministry of Education Science and Technology Headquarters. She also served as a Senior Assistant Director-Research in charge of Policy, Planning & Strategy Division in the Directorate of Research Management and Development at Ministry of Education Science and Technology Headquarters. She was once an Assistant Director Quality Assurance and Standards Officer in charge of Teacher Education Development at MoE Headquarters and Senior Inspector of Schools in charge of Grading and Re-grading of Teachers Sub Section and in addition coordinated Social Studies Subject at the MoE Headquarters. She was born in 1955.</p>
<p>Mr. Isaac Gitahi Thuita, Rep MoE. Higher Diploma (University of Kwazulu Natal SA), B.ed, (UoN),MED, (KU)</p> 	<p>Mr. Thuita has worked as Quality Assurance officer Ministry of Education and served as Executive Officer Kenya Colleges and School council between 2001 to 2007. He was a focal point person HIV/ AIDS Education in East and Central Africa Region and Investment Team leader World Bank Programme for Vulnerable Children. He is currently a deputy Director state department for University Education. He was born in 1959.</p>
<p>Dr. Ellie Osir, Member Bsc, (UoN), PhD,(University of Arizona,USA)</p> 	<p>Dr. Osir has wide experience in strategic planning and management. Has a large number of projects that he has developed having been in leadership position for about 12 years, mainly as head of a major research department between 1992 and 2005 and as interim Director of Research .Since 2006, he is a senior program specialist with the International Development Research Center (IDRC) responsible for the program on Science</p>

	<p>and Innovation in Southeast Asia and Africa. Currently based at the Nairobi office. He has managed a large number of research projects in Asia covering various aspects of science, technology and innovation (STI), including biotechnology innovations and biosafety policies. Dr. Osir is currently managing the \$14M Science Granting Councils Initiative for Sub-Saharan Africa which is jointly funded by the Canada's International Development Research Centre (IDRC), United Kingdom's Department for International Development (DFID), and South Africa's National Research Foundation (NRF). He was born in 1956.</p>
<p>Prof. Ogodo. M.J. Nandi , Secretary BA (UoN) MBA (Moi University), MA (UoN), PhD (Maseno University).</p> <div data-bbox="411 1010 699 1301" data-label="Image"> </div>	<p>Prof. Ogodo, M.J Nandi is a full Professor and currently the Ag.Principal Kaimosi Friends University College. He has over twenty five years of teaching and research experience at University level and has published several texts books and articles in refereed journals. He has also won International research grants in multi-disciplinary research. He has taught and supervised many students at masters and PhD level. Prof Nandi has served as Administrator for over fourteen years of which six year as head of department and eight years as a Director. He is a member of professional bodies and has also made several linkages with scholars in other countries. He was born in 1965.</p>

UNIVERSITY COLLEGE MANAGEMENT TEAM

S/N	Designation	Name
1.	Ag. Principal 	Prof. Ogodo. M.J. Nandi , BA (UoN)MBA(Moi University),MA(UoN), PhD(Maseno University)
2.	Ag. Deputy Principal, (Administration, Finance & Planning) 	Prof M.M Amadalo , Bed,(Sc), Hons(UoN),Med(Ku), PhD(Ku)
3.	Ag. Deputy Principal,(Academic and Student Affairs) 	Prof. Y.K Ayodo , Dip.Ed (Sc)(KSTC), B.Ed (Sc) Hons, M.Phil. D.Phil (Moi University)
4.	Ag. Dean FESS 	Dr. E. Okwako , B.ed(Arts),Hons,M.Phil,PhD.
5.	Assistant Registrar(Academic Affairs) 	Dr. Samwel Munda , B.ed(Sc)Egerton University , M.ed (mgt) Egerton University PhD.(MMUST)
6.	Ag. CoD, Education 	Dr. D. Were , B.ed, M.Phil, PhD

7.	Senior Accountant		CPA Lorine Obonyo, B.Com(Finance)Hons(CUEA), MBA(Maseno),CPA(K)
8.	Senior Assistant Registrar(HR & Admin)		Mr.P.A.Mugesani, B.ed(Arts)Hons(KU), MBA(Hrm)(KU)
9.	Ag. CoD , Business Management		Mr.D. Okaka, B.ed (Bus) – (KU) Hons, MBA (UoN)
10.	Senior Assistant students Counsellor		Ms. C.Amusala, B.ed (Arts) Hons (Egerton), PGD in Guidance and Counselling (KU),MPil Guidance and Counselling (MMUST).
11.	Assistant Librarian		Ms.C.Shikuku, Diploma (Information Studies) Kenya Polytechnic, Bsc (Information Science) Moi University, Msc (Moi University).
12.	In-Charge Health Services		Mr. E. Wanyama, Diploma (Clinical Medicine & Surgery), Bsc. Environmental Health.

13.	In-Charge Estates		Mr. P. Nyanganga, Diploma In Civil Engineering – Water Sanitation.
14.	In-Charge ICT		Mr. P. Musau, Msc Data Communications (KCA) Bsc with IT (Maseno University)
15.	In-Charge Procurement		Ms. J. Rapando, Diploma in Store Management, Diploma Purchasing and Supplies Management, BPS(JKUAT)

THE CHAIRPERSONS'S REPORT

Kaimosi University College continues to experience great pressure on space and resources. To cope with the ever increasing student numbers and academic members of staff, more funding is required from the government as well as relocation of TTC. The University on its part has efficiently utilized the few resources available.

During the year an Acting Principal was appointed. We as a council will work closely with the Ag. Principal to make sure that Kaimosi University College attains the greatest heights possible as a public institution of higher learning. The University College Council has approved several policies for use and we have confidence in the staff who will be required to implement these policies

The University launched its first Strategic Plan 2017-2022. The Strategic Plan takes cognizance of not only the objective of increasing access to university education but also the objective of maintaining high quality even as we enhance enrollment.

The university still experiences difficulties in terms of physical facilities. The construction of a tuition block is ongoing and will be able to cater for the increasing student population. There is also need to recruit more academic staff for the University College as we currently only have seven academic staff.

We are confident and satisfied that with continued prudent management of resources and an increase in government grants, Kaimosi University will develop into a leading University and a competitive center of excellence in Kenya.

I wish to thank the Chancellor, Council members of MMUST and KAFUCO, the Vice-Chancellor, the Acting Principal and the staff for their dedication and support. I would also like to commend the student body for their cooperation and understanding, which has contributed greatly to the stability and growth of the University College. With the support of all stakeholders we look forward to even greater achievements.


Dr. Bernadette Mungai
Chairperson, Kaimosi University College Council

PRINCIPAL'S REPORT

Kaimosi University College's performance during the year under review was average. The government capitation could not sustain the operations of the University College in 2016/2017 financial year while prices of goods and services continue to rise. This really affected the performance financially with the fact that we could not hire academic Staff as outlined by CUE. However the University has put in place the necessary internal control measures to ensure that we meet the targets based on the funding.

Masinde Muliro University of Science and Technology assisted the University College in paying salaries for its ninety five employees for a period of ten months as we were not able to meet our operations and maintenance costs adequately without adequate government support. Several projects were started in this financial Year as the Government was kind enough to give the University cash for Capital development.

Lack of enough funding for recurrent expenditure forced the scaling down of expenditure in some key areas that are integral part of the overall university objectives, and the University is looking forward to increase in capitation and development grants from the government.

The University launched its 2017-2022 Strategic Plans which will serve as its roadmap in attaining its mission and strategic objectives. Successful implementation of the Strategic Plan will require financial resources.

I wish to thank the government, the Council, staff, students, parents and other stakeholders for their contributions and support during the year.



Prof. O.M.J. Nandi
Ag. Principal

CORPORATE GOVERNANCE STATEMENT

Kaimosi Friends University College affirms its commitment to upholding high standards of corporate Governance designed to protect the interests of all stakeholders while promoting the highest standards of integrity, transparency and accountability. A key objective of the institution's governance framework is to ensure compliance with legislative and regulatory requirements some of which are listed below: Compliance with the Constitution of Kenya, Public Finance Management Act 2015, Public Procurement and Asset Disposal Act.

Council Members

The Council members provide leadership of the University College within a framework that upholds the core values underpinning good corporate governance. The roles and functions of the council as stipulated in the Kaimosi Friends University College Order No. 87 of 2015 have been embraced. The Council was able to administer the property and funds of the University College in a manner and for the purposes which shall promote the interest of the University College provided that the Council shall not charge or dispose of the immovable property of the University College except in accordance with the procedures laid down by the Government of Kenya; receive, on behalf of the University College donations, endowments, gifts, grants or other moneys and to make disbursements there from to the University College or other bodies or persons; provide for the welfare of the staff and students of the University College; enter into association with other universities, university colleges or other institutions of learning, whether within Kenya or otherwise, as the Council may deem necessary and appropriate; and after consultation with the academic Board, prescribe guidelines governing the conduct. The governance parameter on Process of appointment, of council members as the oversight body was transparent and formal. The Council of the University College was appointed by the Cabinet Secretary in accordance with section 36 of the University Act. On appointment; the Council members were gazetted on 7th November, 2016. The process of succession and removal was yet to apply at the time.

All new Council members underwent induction as per set out programme on 10th to 11th April, 2017. The Competence Needs Assessment was yet to be done at the time. Council evaluation was not yet due as it is required to be undertaken annually.

Council Members' composition

The Council believes that to achieve good corporate governance there is need to scrutinize and challenge actions of senior management. The council has eight council members, seven of which are non-executive. The council has an appropriate balance of skills.

Council Committees

The council has put in place four principal committees to ensure effective discharge of its duties. The committees operate within well-defined terms of reference which will be reviewed regularly to ensure compliance with requirements. The committees report to the Council on all statutory duties and duties assigned by the Council. During the year under

review the committees in place included: Finance and Resource Mobilization Committee, Strategy, Planning and Development Committee, Audit, Governance, Risk Management & Compliance Committee, Human Resource Committee .The membership of this committees is as indicated earlier.

Council meetings

The Council discharges its responsibilities through regular meetings and additionally through adhoc meetings. A total of thirteen meetings took place during this period and there was a quorum in each meeting. In each meeting a conflict of interest register is signed by all members present and in this financial year no conflict of interest was declared by any member. Remuneration of the Council members is pegged on meetings attended as they are paid sitting allowance for each meeting and night outs for the period they are on university official function as per the rates provided for in the national treasury circular for payment of sitting allowances and perdiems. The chairperson is also entitled to monthly honoraria and telephone allowance

No governance audit was done in this financial year.

MANAGEMENT DISCUSSIONS AND ANALYSIS

During the Year under review, the University received government grants of **Kshs.50,000,000** to finance its recurrent budget and **Kshs. 200,000,000** for capital development.

Internally generated funds realized by the University as at the end of the Year amounted to **Kshs.63, 538,670** which is mainly tuition fee receipts.

The University College continued to make substantial progress during the year in terms of development. The on-going projects include: Tuition block, Extension of the Library, ICT Infrastructure, Enterprise resource planning, Master plan, construction of ablution block and water reticulation, pre- steel water tank, renovations of existing building, purchase of four motor vehicles and standby generator.

University College Compliance with Statutory requirements

The University College could not have achieved the progress realized so far without the much needed financial support from the Government of Kenya during the period under review. The University College complies with statutory requirements as follows:

1. PAYE

Income Tax Act, 1973, Laws of Kenya, places on employers an obligation to deduct and remit monthly income tax for all employees and be remitted to the pay master general on or before 9th day of the following month. The University has complied with the deadline for remission.

2. NSSF

The NSSF Act, 2013, Laws of Kenya, requires employers to deduct and remit NSSF deductions on monthly basis and remit the same on or before 9th of the following month. The University has been remitting the deductions to NSSF on time.

3. NHIF

NHIF Act, 1998, Laws of Kenya, requires the employer to deduct the NHIF dues and remit the same on or before the 9th of the following month. The University has complied with the NHIF Act.

4. HELB

HELB Act, 1995, Laws of Kenya, requires employers to deduct from the wages or remuneration of the loanee (s) the amount of any loan as instructed by the Board and submit within 15 days after the end of each month. The University College has effected HELB loans as required and submitted the same within the stipulated fifteen days after the end of each month.

The University College is cognizant of the fact that compliance is a continuous process and has consistently taken measures to ensure the company maintains the required threshold of compliance to best corporate Governance principles.

Key projects and investment decisions the university is planning /implementing

Below are key projects that the University College is currently undertaking:

i. Tuition block

This is a young University College which is expanding rapidly in curriculum development which requires various type of learning spaces for lecture rooms, laboratories, research seminar rooms and offices which will be provided by this project. The project will provide modern facilities and conducive environment to both students and staff for teaching, research and ideal work place. Source of funding for this project is the Government of Kenya (GOK).

i. Extension of the Library

It is a requirement of Commission for University Education to have a facility that meets their standards which is based on students' population. The library will provide students and staff space for studying and research to widen their academic knowledge which is a core activity of the University College. Source of funding for this project is the Government of Kenya (GOK).

ii. ICT Infrastructure

This will connect the university college with internet and other ICT facilities for both the staff and students which will enhance teaching and research in the University College. This will increase access to e- resources in the university thus improving quality of teaching and research. Source of funding for this project is the Government of Kenya (GOK).

iii. Enterprise Resource Planning (ERP) Platform

The university college is the process of establishing an ERP infrastructure with the aim of digitizing most its operations, not to reduce its operation costs but also to ensure fast, efficient and effective delivery of its services to its clientele. Source of funding for this project is the Government of Kenya (GOK).

iv. Renovation works for existing building in the University College

Under this proposal, the committee agreed that there is need to renovate all the buildings in the university college to give a facelift that conforms to university standards. However, this exercise would be costly, as a result it was agreed that completion works to be undertaken in the stalled building next to the health department.

v. **Proposed Construction of 3 in no Ablution block External water reticulation and sewerage**

The University College has current student population of over 1000. Due to lack of sufficient ablution block the University College is in the process of building an ablution block for staff and students, external water reticulation and sewerage system. Source of funding for this project is the Government of Kenya (GOK).

vi. **Master plan**

The university college lacks a master plan which will aid in the planning of the infrastructure and buildings. To implement its capital developments projects the university college requires professionally designed master plan. Source of funding for this project is the Government of Kenya (GOK).

vii. **Pre stressed Steel water tank**

Due to persistent water shortage the University College is the process of acquiring a steel water tank. Source of funding for this project is the Government of Kenya (GOK).

viii. **Proposed supply installations, testing and commissioning of 100kva standby generator**

This project is proposed to provide an alternative power during frequent power outages experienced in Kaimosi region. Source of funding for this project is the Government of Kenya (GOK).

ix. **Purchase of motor vehicles**

Due lack of vehicles the University College is a process of acquiring four new vehicles which will serve the students and staff. This includes a bus, a van, an ambulance and double cap. Source of funding for this project is the Government of Kenya (GOK).

Material arrears in Statutory and other financial obligations

Currently the University College has no Material arrears in Statutory and other financial obligations.

REPORT OF THE UNIVERSITY COLLEGE COUNCIL MEMBERS

The University College Council Members submit their report together with the audited financial statements for the year ended June 30, 2017 which show the state of KAFUCO's affairs.

Principal activities

The principal activities of the University College are as follows:

- i. To participate in the research, transmission and preservation and enhancement of knowledge and to stimulate the intellect participation of students in the economic, social, cultural, scientific and technological development of Kenya.
- ii. To conduct examinations for such academic awards as may be provided in the statutes pertaining to the University.
- iii. To provide directly, or in collaboration with other institutions of higher learning, facilities for university education, the integration of teaching, research and effective application of knowledge and skills to the life, work and welfare of the citizens of Kenya.
- iv. To examine and make proposals for new faculties, schools, institutes, departments, resource and research centres, degree courses and subjects of study.
- v. To provide and advance university education and training to appropriately qualified candidates, leading to the conferment of degrees and award of diplomas and certificates and such other qualifications as the Council and the Senate shall from time to time determine and in so doing, contribute to manpower needs.
- vi. To contribute to agriculture, industrial and technological development of Kenya in collaboration with industrial and other institutions through the transfer of appropriate technology.
- vii. To play a leading role in the development and expansion of the opportunities for higher education and research.
- viii. To contribute to industrial and technological developments through innovations and technology transfer.
- ix. To develop as an institution of excellence in teaching, training, scholarship, entrepreneurship, innovation, research, and consultancy services.
- x. To participate in commercial ventures and other activities for the benefit of the institution, the community and stakeholders.
- xi. To facilitate student mobility between different programmes at different training institutions, universities and industry; and
- xii. To foster the general welfare of all staff and students.

- xiii. To provide programmes, products and services in ways that reflect the principles of equity and social justice;

Results

The results of the University College for the year ended June 30, 2017 are set out on page 28-32

Council members

The Council members who served during the year are shown on 11-14. During the year no Council member retired/ resigned and eight of them were appointed for the first time with effect from 07.11.2016.

Auditors

The Auditor General is responsible for the statutory audit of KAFUCO in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 to carry out the audit of KAFUCO for the year ended June 30, 2017.

By Order of the Council



Prof. O.M.J. Nandi
Ag. Principal

Date: 22.09.2017.

STATEMENT OF COUNCILS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act cap 446 require the Council members to prepare financial statements which give a true and fair view of the state of affairs of KAFUCO at the end of the financial year and the operating results of KAFUCO for FY 2016/2017. The Council members are also required to ensure that the KAFUCO keeps proper accounting records which disclose with reasonable accuracy the financial position of KAFUCO. The Council members are also responsible for safeguarding the assets of the KAFUCO.

The Council members are responsible for the preparation and presentation of the KAFUCO's financial statements, which give a true and fair view of the state of affairs of KAFUCO for and as at the end of the financial year (period) ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of KAFUCO; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of KAFUCO; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Council members accept responsibility for KAFUCO's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and the State Corporations Act Cap 446. The Council members are of the opinion that KAFUCO's financial statements give a true and fair view of the state of KAFUCO's transactions during the financial year ended June 30, 2017, and of KAFUCO's financial position as at that date. The Council members further confirm the completeness of the accounting records maintained for KAFUCO's, which have been relied upon in the preparation of the KAFUCO's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Council members to indicate that the KAFUCO will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The KAFUCO's financial statements were approved by the Council on 22.09.2017 and signed on its behalf by:


Dr. Bernadette Mungai
Chairperson


Prof. O.M.J. Nandi
Ag. Principal

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KAIMOSI FRIENDS UNIVERSITY COLLEGE FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kaimosi Friends University College set out on pages 28 to 63 which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. 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.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respect, the financial position of Kaimosi Friends University College as at 30 June 2017, and of its performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standard (Accrual Basis) and comply with Universities Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis of Qualified Opinion and Other Matter sections of my report, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Stalled Tuition Block and Associated Works

The statement of financial position and as disclosed under Note 16 and 17 to the financial statements reflects a balance of Kshs.103,780,345 which includes an amount of Kshs.52,994,094 in respect of capital works in progress. It was noted that the University awarded a local contractor a contract to construct twenty-four (24) units of tuition block and associated works at a price of Kshs.52,994,094 captured as work in progress in the financial statements. The components of the works include, main tuition block with 24 units of lecture rooms and 25 offices, mechanical and electrical services, access road

Report of the Auditor-General on the Financial Statements of Kaimosi Friends University College for the year ended 30 June 2017

and parking yard to paved concrete block finish and a project vehicle. However, a site visit conducted on the project revealed the following anomalies:

- The project had stalled and the contractor has left the site,
- No materials are on site.
- Certificates of work done and the contract agreement, including project timelines were not availed for audit review. The project started on 10 January 2015 and was supposed to be complete by 10 September, 2017 and seven months down the line the project is not yet complete.
- There were no progress reports from the public works officer to confirm that the construction works were supervised/inspected by a certified public works officer before payments were made.

In the circumstances, it has not been possible to ascertain the carrying value of property, plant and equipment balance of Kshs.103,780,345.

2. Tuition fees

The statement of financial performance and as disclosed under Note 2 to the financial statements reflects a figure of Kshs.55,868,150 as at 30 June 2017. A review of the tuition fees records showed actual collection figure of Kshs.55,868,150. However, schedules availed in support of receipts only added up to a figure of Kshs.50,488,289 resulting into an un-explained variance of Kshs.5,379,861.

Further, accommodation fees figure of Kshs.1,948,100 differed with the supporting schedule total of Kshs.1,450,500, leaving un-reconciled variance of Kshs.497,600.. In addition, there were other variances between the financial statement balances and the supporting schedules as detailed here below;

Item	Financial statement balances	Support schedules	Variances
Catering	5,471,360	2,524,900	2,946,460
Rent	32,500	32,000	500
Sale of tender documents	50,000	49,000	1,000
Supplementary Exams	70,000	69,000	1,000
Personal emoluments	15,046,084	14,936,815	109,269

In the circumstances, it has not been possible to ascertain the accuracy and completeness of tuition fees figure of Kshs.55,868,150 and other amounts reflected in the financial statement.

3. Revaluation Reserve

The statement of financial position shows revaluation reserve balance of Kshs.7,350,372 which was not supported with a detailed schedules and notes to the financial statements.

Further, the University did not carry out any valuation/revaluation of assets during the year under review.

In the circumstances, it was not possible to ascertain validity and accuracy of the revaluation reserves balance of Kshs.7,350,372.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kaimosi Friends University College in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis.

Key Audit Matters

Key audit matters are those matters that, in my professional judgments, are of most significance in the audit of the financial statements of the year under review. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1. Under Collection of Tuition of Fees

The university failed to meet its target in collection of tuition fees by Kshs 22,938,550 with a budget of Kshs 78,806,700 and actual collection of Kshs.55,868,150 which leads to a variance of 110% of its revenue target.

2. Over-Expenditure

There was an over expenditure of Kshs.2,110,697 on repair and maintenance cost leading to a variance of 159% arising from the budgeted cost of Kshs3,600,000 against the actual expenditure of Kshs.5,710,697. Also, there was an over expenditure of Kshs.1,013,920 on council expenses which led to an over expenditure of 110% of the budget of Kshs 10,000,000 against actual expenditure of Kshs11,013,920.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the entity's ability to sustain services, disclosing, as applicable, matters related to

sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Constituency Development Fund or to close operations or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the entity's financial reporting process.

Auditor-General's Responsibility for the Audit of the Financial Statements

The audit 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 my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs 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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also

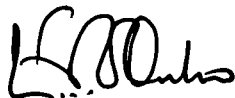
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 and for the purpose of giving an assurance on the effectiveness of the University's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's 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 Constituency Development Fund ability to continue offering services. If I

conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Constituency Development Fund to cease to continue offering services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Perform such other procedures as I consider necessary in the circumstances.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I 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 my independence, and where applicable, related safeguards.



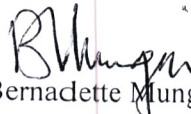
FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL


Nairobi


23 August 2018

KAIMOSI FRIENDS UNIVERSITY COLLEGE		
STATEMENT OF FINANCIAL PERFORMANCE		
FOR THE YEAR ENDED JUNE 30, 2017		
	Note	Kshs.
Revenue from non-exchange transaction		
Exchequer Grants	1.1	50,000,000
Revenue from exchange transaction		
Tuition fees	2	55,868,150
Rendering of Services	3	7,419,460
Other Income	4	251,060
Total Recurrent Revenue		113,538,670
Expenses		
Administrative Expenses	5	45,210,513
Personnel costs	6	27,443,647
Bank Charges	7	85,126
Maintenance and repair costs	8	5,710,697
Council Expenses	9	11,013,920
Depreciation	17	4,172,841
Total Recurrent Expenditure		93,636,744
Operating Surplus/ (Deficit) for the year		19,901,926
Add: operating Surplus/ Deficit B/F		-
Operating Surplus/ Deficit C/F		19,901,926

KAIMOSI FRIENDS UNIVERSITY COLLEGE		
STATEMENT OF FINANCIAL POSITION		
AS AT JUNE 30, 2017		
	Note	Kshs
Non-Current Assets		
Property, Plant and Equipment	17	103,780,345
Total Non- current Assets		103,780,345
Current Assets		
Inventories	11	6,745,217
Cash and Cash Equivalents	10	145,093,809
Accounts Receivables	12	13,747,552
Total Current Assets		165,586,578
Total Assets		269,366,923
Financed by:		
Government Grants:		
Capital Development	1.2	200,000,000
Revenue Reserves		19,901,926
Revaluation Reserve		7,350,372
Total Equity		227,252,298
Non-Current Liabilities		
Students Caution Money		1,149,000
Total Non-current Liabilities		1,149,000
Current Liabilities		
Accounts Payable	13	27,205,756
Accrued Expenses (Part time Lecturers)		8,640,460
Retention	14	5,299,409
Total current Liabilities		40,965,625
Total Equity and liabilities		269,366,923


 Dr. Bernadette Mungai
 Chairperson


 CPA Lorine Obonyo
 Head of Finance
 ICPAK no. 6577


 Prof. O.M.J. Nandi
 Ag. Principal

KAIMOSI FRIENDS UNIVERSITY COLLEGE		
CASH FLOW STATEMENT		
AS AT JUNE 30, 2017		
	Note	Ksh
Cash Flow From Operating Activities:		
Operating Surplus/Net Income		19,901,926
Add: Depreciation		4,172,841
Decrease/(Increase) in receivable	12	(13,747,552)
Decrease/(Increase) in inventories	11	(6,745,217)
Increase/(Decrease) in payables	13/14	40,965,625
Net cash flows from operating activities		44,547,623
Cash flows from Investing Activities		
Purchase of Non-Current Assets	17	(47,608,720)
Work in Progress	16	(52,994,094)
Net cash flows from investing Activities		(100,602,814)
Cash flows from Financing Activities		
Government Grants (Capital)	1.2	200,000,000
Students Caution Money		1,149,000
Net cash flows from Financing activities		201,149,000
Net Increase / (Decrease) In Cash & Cash Equivalents 10		145,093,809
Cash & Cash Equivalents at beginning		0
Cash & Cash Equivalents at end		145,093,809

**STATEMENT OF CHANGES IN NET ASSETS
AS AT 30 JUNE 2017**

	Capital Fund	Revenue	Revaluation	Total
	KSHS	Reserves	Reserve	KSHS
	KSHS	KSHS	KSHS	KSHS
Balance as at 1/7/2016	-	-	-	-
Capital Grants	200,000,000	-	-	200,000,000
Surplus for the year	-	19,901,926	-	19,901,926
Revaluation reserve	-	-	7,350,372	7,350,372
Balance as at 30/6/2017	200,000,000	19,901,926	7,350,372	227,252,298

KAIMOSI FRIENDS UNIVERSITY COLLEGE				
COMPARISON OF BUDGET AND ACTUALS				
FOR THE PERIOD ENDING 30 JUNE, 2017				
		BUDGET	ACTUAL	VARIANCE
	Note	Ksh	Ksh	Ksh
MMUST Grant		104,814,194	-	104,814,194
Revenue from External Sources				-
Exchequer Grants	1	50,000,000	50,000,000	-
Revenue from Internal Sources				-
Tuition fees	2	78,806,700	55,868,150	22,938,550
Rendering of Services	3	4,500,000	7,419,460	(2,919,460)
Other Income	4	1,000,000	251,060	748,940
Total Recurrent Revenue		239,120,894	113,538,670	125,582,224
Expenses				
Administrative Expenses	5	129,775,295	45,210,513	84,564,782
Personnel costs	6	70,964,099	27,443,647	43,520,452
Bank Charges	7	300,000	85,126	214,874
Maintenance and repair costs	8	3,600,000	5,710,697	(2,110,697)
Council Expenses	9	10,000,000	11,013,920	(1,013,920)
Fixed Assets	17	24,481,500	9,801,970	14,679,530
Total Expenditure		239,120,894	99,265,873	139,855,021
		-	14,272,797	(14,272,797)

VARIANCES ON THE BUDGET ARE EXPLAINED AS FOLLOWS:

Tuition Fees

We only have a total 1100 students, 53 of which were self-sponsored students and that led to the decrease in total collection of fees.

Rendering of service

The University College made more collections from catering service and accommodation fees thereby increasing the total income.

Other income

The University College expected to collect more income from sale of tenders and this did not happen.

Administrative Expense

Because of the reduced capitation received from the exchequer we had to restrict our budget to what we had

Personnel costs

The University College only paid salaries for the month of June and May 2017 for FY2016/2017 for the first ten months the employees were receiving their salaries from MMUST

Council Expenses

The variance in the above arose because we had more meetings than we had expected, one being a special Council meeting and trainings some of which were approved by the Ministry

Fixed assets

Due to scarcity in funding the University college was not in a position to buy all the assets as it had budgeted

Variance in Capital Projects is explained as follows:

In the FY 2016/2017 the University College was not in a position to meet its expenditure on capital projects because there was no Council in Place until mid-December, 2016. This therefore brought in the variance as most projects started after January 2017 hence leading to low utilisation of funds.

CAPITAL PROJECTS BUDGET FOR FY 2016/2017

NO.	PROJECT	BUDGETED AMOUNT	ACTUAL EXPENDITURE	VARIANCE
1	Renovation of existing buildings	5 000 000	4,373,185	626,815
2	Extension of Library Block	8 500 000	2,756,400	5,743,600
3	Construction of Tuition Block	100 000 000	33,299,809	66,700,191
4	ERP & Associated Infrastructure	10 000 000	10,000,000	-
5	Standby Generator	3 500 000	3,411,950	88,050
6	Motor Vehicles	35 200 000	34,394,800	805,200
7	Ablution & External Water Reticulation	19 800 000	2,564,700	17,235,300
8	Master Plan	8 000 000	-	8,000,000
9	ICT Infrastructure	3 000 000	-	3,000,000
10	Steel water tank	7 000 000	-	7,000,000
	TOTAL	200 000 000	90,800,844	109,199,156

NOTES TO FINANCIAL STATEMENTS FY 2016/2017

ACCOUNTING POLICIES

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

1. GENERAL INFORMATION

Kaimosi Friends University College is established by and derives its authority and accountability from the University Act and MMUST Charter. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to participate in the research, transmission and preservation and enhancement of knowledge and to stimulate the intellect participation of students in the economic, social, cultural, scientific and technological development of Kenya

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The entity's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity. The accounting policies are being adopted for the first time as this is a new entity and will consistently be applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

Standard	Impact
IPSAS 33: First time adoption of Accrual Basis IPSAS	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period.</p>

Standard	Impact
	The entity adopted IPSAS in the year ended 30 June 2017 and therefore provisions of first time adoption of accrual basis is applicable to KAFUCO.
IPSAS 34: Separate Financial Statements	(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 34, Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements. The entity does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.
IPSAS 35: Consolidated Financial Statements	Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an entity controls one or more entities. It requires an entity that controls one or more other entities to assess control over those entities based on the following: <ul style="list-style-type: none"> - Its power over the other entity - Its exposure or rights to variable benefits from involvement with the other entity - Its ability to control the nature, timing and amount of benefits from the other entity. Once control is assessed, the controlling entity is supposed to prepare consolidated financial statements unless it meets all the criteria under section 5 of IPSAS 35. The entity does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.
IPSAS 36: Investments in Associates and Joint Ventures	(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. The Standard prescribes for the accounting for investments in associates and joint ventures and to set out requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard shall be applied by all entities with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest. KAFUCO does not have investments in associates or joint ventures.
IPSAS 37: Joint Arrangements	(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly. KAFUCO does not have an interest in a joint arrangement and therefore the standard does not apply.

Standard	Impact
IPSAS 38: Disclosure of Interests in Other Entities	(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows. KAFUCO does not have an interests in other entities and therefore the standard does not apply

ii. **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017**

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions, which are covered purely under Public Sector combinations as amalgamations. This standard will not be applicable to KAFUCO.

iii. **Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2017.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) **Revenue recognition**

i) **Revenue from non-exchange transactions**

Fees, taxes and fines

The entity recognizes revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Revenue from non-exchange transactions (cont.)

instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

ii) Revenue from exchange transactions

Rendering of services

The entity recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

Dividends

Dividends or similar distributions must be recognized when the shareholder's or the entity's right to receive payments is established.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

b) Budget information

The original budget for FY 2016-2017 was approved by the National Assembly on 31 May, 2016. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded additional appropriations of Kshs. 0 on the 2016-2017 budgets following the governing body's approval.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under page 32 of these financial statements.

c) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Current income tax (cont.)

applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

d) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

e) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

f) Leases

Finance leases are leases that transfer substantially the entire risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

g) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

h) Research and development costs

The Entity expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential

NOTES TO THE FINANCIAL STATEMENTS (Continued)

h) Research and development costs (Cont.)

- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

i) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or a entity of financial assets is impaired. A financial asset or a entity of

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Impairment of financial assets (Cont.)

financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial

recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in

surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

j) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

j) Inventories (cont.)

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

k) Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Provisions were not raised and as management had no policy on provisions in his financial year.

Contingent liabilities

The Entity does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

l) Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements. The reserves maintained by KAFUCO revenue reserves and revaluation reserves.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

m) Changes in accounting policies and estimates

The Entity recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

n) Employee benefits

Retirement benefit plans

The Entity provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

o) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

p) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

q) Related parties

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

r) Service concession arrangements

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

s) Cash and cash equivalents

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

t) Comparative figures

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

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these

NOTES TO THE FINANCIAL STATEMENTS (Continued)**SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY (cont.)**

assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In FY 2016/2017 no assumptions and estimates.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

ASSET CLASS	DEPRECIATION RATE (%)	USEFUL LIVES
Buildings	2.5	40 Years
Plant & Equipment	20	5 Years
Motor Vehicles	25	4 years
Computers, Printers & Copiers	33.3	3 Years
Furniture & Fittings	12.5	8 years

u) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

NOTES TO THE FINANCIAL STATEMENTS FY 2016/2017 CONTINUED		
Note 1.1: Exchequer Grants- Recurrent		
Ministry of Higher Educ. S&T	Date:	Ksh
	02.09.2016	5,000,000
	13.09.2016	7,500,000
	13.12.2016	5,000,000
	30.12.2016	7,500,000
	15.03.2017	12,500,000
	02.05.2017	12,500,000
		50,000,000
Note 1.2: Exchequer Grants- Capital	Date:	Kshs.
	18.11.2016	25,000,000
	20.12.2016	25,000,000
	03.04.2017	126,610,552
	08.06.2017	23,389,448
		200,000,000
Note 2 : Tuition and Related Income		Kshs.
Revenue from Tuition Fees		55,868,150
		55,868,150
Note 3: Rendering of Services		Kshs.
Accommodation fees		1,948,100
Catering Services		5,471,360
Totals		7,419,460

Note 4: Other Incomes		Kshs.
Rent		32,500
Games		31,060
Supplementary exams		70,000
Sale of tender documents		50,000
Application fees		67,500
		251,060
Note 5: Administrative and Operating Costs		
		Kshs.
Advertising and Publicity		1,869,398
Provision for Audit fees		1,000,000
Affiliation fee		305,250
Books and Journals		1,920,559
Cleaning Services/Detergents		372,120
Coaching and Mentoring		218,880
Electricity		1,434,156
Examination Material Expenses		79,700
Income Generating Unit (Farm)		9,800
Insurance		1,668,525
legal expenses		86,546
Internet and infrastructure		2,704,315
Inter-University Games		450,950
Library Expenses		307,670
KAFUSO		586,100
Office Expenses		1,070,921
Postal and Telegrams		14,220
Publishing and Printing		574,360
Purchase of Stationery		

		2,978,088
Purchase of Uniforms and Clothing		107,198
Rent and Rates		152,717
School & Industrial Attachment		1,122,945
Security Services		2,457,000
Seminars and Conferences		512,550
Academic Board Expenses		240,100
Show and exhibition Expenses		55,860
Special Projects		1,051,300
Admission Expenses		21,670
Teaching Materials		3,236,574
Tender Expenses		103,900
fuel and lubricants		1,200,096
Traveling and accommodation		3,972,375
University College Management Board		199,070
Water & Conservancy		1,015,309
Medical Expenses		1,516,082
Catering expenses		6,791,458
Kuccps		832,500
Students Elections		241,155
Provision for taxes		639,226
Strategic planning and training		2,089,870
Total		45,210,513
Note 6: Personnel Costs		Kshs.
Personal emoluments		

		15,046,084
Part-Time lecturers		11,820,810
Casual workers		576,753
		27,443,647
Personal emoluments for the period ending 30 June, 2017		
In this period MMUST was meeting personal emoluments for ninety five (95) employees amounting to Kshs 6, 931, 246 per month. In the ten months period MMUST spent a total of Kshs 69, 312, 460. In the fourth quarter KAFUCO paid salaries for May and June amounting to Kshs 15, 046,084		
Note 7: Bank Charges		Kshs.
Bank Charges		85,126
		85,126
Note 8: Repairs and Maintenance		Kshs.
Maintenance of Buildings and stations		2,760,670
Maintenance of Catering and Hostels		206,800
Maintenance of Motor vechile		838,786
Maintenance of Computers, Printers & copies		1,865,697
Maintenance of Equipment		38,744
		5,710,697
Note 9: Council Expenses		Kshs.
		11,013,920
		-
		11,013,920

Note 10. Cash and Cash Equivalents		
Name of Banks	A/C no.	
		Ksh
Cash at hand		5,720
Kenya Commercial Bank (Mmust-Kafuco)	1164385291	7,762,587
Co-operative Bank of Kenya (PSSP)	01129698477700	2,099,972
Equity Bank (KUCCPS)	0960271081548	7,569,490
Kenya Commercial Bank -Operations A/C	1203735030	8,954,261
Kenya Commercial Bank -Capital Dev. A/C	1203709862	118,107,441
Kenya Commercial Bank -Deposits A/C	1203735065	594,338
		145,093,809
		Kshs.
Note 11: Inventories		
Medical store		724,514
Maintenance store		915,996
Games & Sports store		764,590
Central Store		4,340,117
		6,745,217
		Kshs.
Note 12: Receivables		
Student fees debtors		8,465,859
Imprest debtors		1,695,693
Mmust-Debtor(Helb)		3,586,000
		13,747,552
		Kshs.
Note 13: Payables		
General creditors		26,785,756
Mmust		420,000
Totals		27,205,756

	Kshs.
Note 14: Retention	
Retention- WIP	380,162
Renovation of Existing Buildings(Kitchen)	275,640
Extension of The Library	57,156
External works-kitchen	3,329,981
Tuition block	1,000,000
Enterprise Resource Planning(ERP)	256,470
Ablution Block	5,299,409
Note 15: Motor Vehicles	Cost
Bus	14,069,800
Ambulance	8,000,000
Van	7,186,000
Double Cab	5,139,000
	34,394,800

Note 16: Work In Progress

Project	Bal B/F	Additions	Rejections	Transfers	Bal C/F
Renovation of Existing Buildings (Kitchen)	-	3,801,625	-	-	3,801,625
External works-kitchen	-	571,560	-	-	571,560
Tuition Block	-	33,299,809	-	-	33,299,809
Extension of the Library	-	2,756,400	-	-	2,756,400
Enterprise Resource Planning(ERP)	-	10,000,000	-	-	10,000,000
Ablution Block	-	2,564,700	-	-	2,564,700
	-	52,994,094	-	-	52,994,094

Note 17: PROPERTY PLANT AND EQUIPMENT									
Capital projects remain as work in progress until they are certified complete then they are recognized as assets									
	Land	Buildings	W.I.P	Plant and Equipment	Motor Vehicles	Computer, Printers & Copiers	Furniture & Fittings	Total	
	Kshs.	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Depreciation Rate		2.50%		20%	25%	33.33%	12.50%		
COST/VALUATION									
Assets acquired from MMUST	-	-	-	854,624	-	406,406	6,089,342	7,350,372	
Additions	-	-	52,994,094	5,240,640	34,394,800	5,091,242	2,882,038	100,602,814	
Disposals	-	-	-	-	-	-	-	-	
Transfers	-	-	-	-	-	-	-	-	
Revaluation	-	-	-	-	-	-	-	-	
As at 30 June, 2017	-	-	52,994,094	6,095,264	34,394,800	5,497,648	8,971,380	107,953,186	
Depreciation For the year	-	-	-	1,219,053	-	1,832,366	1,121,423	4,172,841	
Net Book Value	-	-	52,994,094	4,876,211	34,394,800	3,665,282	7,849,958	103,780,345	

Note that in this period it was not possible to ascertain the value of Land and Buildings as revaluation had not been done. The Council has advised management to ensure valuation is done as soon as possible in the next financial year 2017/2018. Assets acquired from MMUST during the period had a net value of Kshs. 7,350,372 as depicted in assets register maintained in KAFUCO as from 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)**18. Financial Risk Management**

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

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

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2017				
Receivables from exchange transactions	63,538,670	63,538,670	0	0
Receivables from non-exchange transactions	50,000,000	50,000,000	0	0
Bank balances	145,088,089	145,088,089	0	0
Total	258,626,759	258,626,759	0	0

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(i) Credit risk (Continued)

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognized in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The entity has significant concentration of credit risk on amounts due from students.

The Council members set the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

a) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

NOTES TO THE FINANCIAL STATEMENTS (Continued)*Management of interest rate risk*

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant.

Capital Risk Management

The objective of the entity's capital risk management is to safeguard the Board's ability to continue as a going concern. The entity capital structure comprises of the following funds:

	2016-2017
	Kshs
Revaluation reserve	7,350,372
Retained earnings	19,901,926
Capital reserve	200,000,000
Total funds	227,252,298
Total borrowings	0
Less: cash and bank balances	(145,093,809)
Net debt/(excess cash and cash equivalents)	145,093,809
Gearing	0.5%

NOTES TO THE FINANCIAL STATEMENTS (Continued)**19. Related Party Balances****a) Nature of related party relationships**

Entities and other parties related to the entity include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

The entity is related to

- i) The National Government;
- ii) The Parent Ministry;
- iii) Key management;
- iv) Council members

b) Key management remuneration

	2017	2016
	Kshs	Kshs
Directors'	11,193,920	0
Key management compensation	4,940,904	0
Totals	16,134,824	0

c) Due from related parties

Due from Parent Ministry	0	0
Due from SAGA	0	0
	<u>0</u>	<u>0</u>
	=====	=====

e) Due to related parties

Due to the parent Ministry	0	0
Due to SAGA	0	0
	<u>0</u>	<u>0</u>
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)**20. Capital Commitments**

Capital commitments	2016-2017
	Kshs
Authorised for	18,000,000
Authorised and contracted for	162,058,481
Total	180,058,481

(NB: Capital commitments are commitments to be carried out in the next financial year and are disclosed in accordance with IPSAS 17. Capital commitments may be those that have been authorised by the board but at the end of the year had not been contracted or those already contracted for and ongoing)

21. Events after the reporting period

There were no material adjusting and non- adjusting events after the reporting period.

22. Ultimate and Holding Entity

KAFUCO is a Semi- Autonomous Government Agency under the Ministry of Education ,Science and Technology. Its ultimate parent is the Government of Kenya.

23. Currency

The financial statements are presented in Kenya Shillings (Kshs).

Appendix 1: PROJECTS IMPLEMENTED BY KAFUCO
Status of project completion by 30 June 2017

S/No	Project	Total project cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1.	Proposed Construction of Tuition Block and Associated Works	159,000,000	33,299,809	26.61%	100 000 000	33,299,809	GOK
2.	Proposed Construction of Library Extension and Associated Works	8,495,410	2,700,000	31.76%	8 500 000	2,756,400	GOK
3.	Proposed Construction Of Staff Ablution Block And Refurbishing Of Existing Washrooms	3,670,230	2,308,230	62.16%	3,670,230	2,564,700	GOK
4.	Proposed Construction Kitchen Dining Hall	4,475,870	4,373,185	100	5,000,000	4,373,185	GOK
5.	Proposed Pressed Low Level Steel Water Tank	8,983,232	0	0%	7,000,000	0	GOK
6.	Proposed Construction Of 2No. Students Ablution Block	14,917,160	0	2.17%	14,917,160	0	GOK
7.	ERP & Associated Infrastructure	24,000,000	10,000,000	42%	10 000 000	10,000,000	GOK
8.	Standby Generator	3,411,950	3,411,950	100%	3 500 000	3,411,950	GOK
9.	Motor Vehicles	34,394,800	34,394,800	100%	35 200 000	34,394,800	GOK
10.	ICT infrastructure	0	0	0%	3,000,000	0	GOK
11.	Master Plan	0	0	0%	8,000,000	0	GOK

Appendix 2: INTER-ENTITY TRANSFERS

ENTITY NAME:		KAIMOSI FRIENDS UNIVERSITY COLLEGE	
Break down of Transfers from the State Department of Education ,Science and Technology			
FY 16/17			
a.	Recurrent Grants		
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>
			<u>Indicate the FY to which the amounts relate</u>
		02.09.2016	5,000,000
		13.09.2016	7,500,000
		13.12.2016	5,000,000
		30.12.2016	7,500,000
		15.03.2017	12,500,000
		02.05.2017	12,500,000
			50,000,000
b.	Development Grants		
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>
			<u>Indicate the FY to which the amounts relate</u>
		18.11.2016	25,000,000
		20.12.2016	25,000,000
		03.04.2017	126,610,552
		08.06.2017	23,389,448
		Totals	200,000,000

The above amounts have been communicated to and reconciled with the parent Ministry

Head of Finance

Kaimosi Friends University College

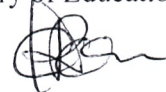
Sign



Head of Accounting Unit

Ministry of Education, Science & Technology

Sign



24 JAN 2018