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REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF MOUNT ELGON LODGE LIMITED

FOR THE YEAR ENDED 30 JUNE 2013

LE OFFICE
S/No.
05 JUN 2014
Sign
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By the Leader of Majority
on Tue 5/6/14

MOUNT ELGON LODGE LIMITED

RESERVATIONS:
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ANNUAL REPORT

AND

FINANCIAL STATEMENT

FOR

THE YEAR ENDED 30TH JUNE 2013

MT ELGON LODGE

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MT ELGON LODGE

COMPANY INFORMATION

REGISTERED OFFICE

MT. ELGON LODGE LIMITED
MT ELGON NATIONAL PARK
P.O. BOX 7
ENDEBESS, KITALE.

PRINCIPAL BANKERS

KENYA COMMERCIAL BANK LIMITED
P.O. BOX 1974-30200
KITALE BRANCH

COMPANY SECRETARY

MR. CARRY FRANCIS ODHIAMBO
UTALII HOUSE – UHURU HIGHWAY
P.O. BOX 42013 – 00100
NAIROBI

INDEPENDENT AUDITORS

AUDITOR – GENERAL
KENYA NATIONAL AUDIT OFFICE
P.O.BOX 30084 – 00100
NAIROBI

MT ELGON LODGE

REPORT OF THE DIRECTORS

The Directors submit their Report together with the Financial Statements for the Year Ended 30th June 2013

PRINCIPAL ACTIVITY

The principal Activity of the Company is to operate the hotel providing accommodation and catering services to customers.

FINANCIAL RESULTS

The results for the year are to be read in conjunction with the accounting policies and notes that form part of these financial statements are set out from pages 5 to 16.

DIVIDEND

The Directors do not recommend payment of dividend.

LIST OF DIRECTORS

Mr. Al-Hajj Yussuf M.K. Murigu	- Chairman & Director KTDC (Up to 20th July 2012)
Mrs. Marianne Jordan	- Managing Director KTDC
Mr. Abdilalim Saleh	- Director KTDC (Up to 20th July 2012)
Mr. Bunyasi Samson/ Kwanusu	- Chairman Trans Nzoia County Council (up to 3rd March 2013)
Mr. Charles Bonyo	- Mayor Kitale Municipal Council (up to 3rd March 2013)
Mr. Ainea Indakwa	- Clerk – Trans Nzoia County Council (up to 3rd March 2013)
Mr. John Mosongo/ Rashid	- Clerk – Kitale Municipal Council (up to 3rd March 2013)

RESERVES

The Directors propose to carry forward the balance of accumulated losses amounting Kshs. (22,197,909)

AUDITORS

The Auditors-General continue in Office in accordance with section 14(3) of the State Corporation Act Cap 446.

COMPANY SECRETARY

BY ORDER OF THE BOARD

MT ELGON LODGE

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Companies Act Cap 486 requires the Directors to prepare financial statements for each financial year that give true and fair view of state of affairs of the company at the end of the financial year and of the state of the company for that year. It also requires the directors to ensure that the company keeps proper accounting, records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and of the company and of the group's profit or loss in accordance with International Financial Reporting Standards.

The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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

Signed on behalf of the Board by:

.....	.....
Director	**Director**
DATE 27/9/13	**DATE** 30/09/2013

REPUBLIC OF KENYA

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NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON MOUNT ELGON LODGE LIMITED FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Mount Elgon Lodge Limited set out on pages 5 to 16, which comprise the statement of financial position as at June 30, 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in accordance with Articles 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

1. Going Concern

The Lodge's statement of Comprehensive Income reflects a loss during the year of Kshs. 274,367.00 bringing the accumulated losses to Kshs.22,197,909.00 as at 30 June 2013. In addition, the current liabilities of Kshs.18,971,135.00 as at 30 June 2013 exceed the current assets of Kshs.2,908,685 by Kshs.16,062,450.00. The lodge is therefore technically insolvent and may face challenges in future in meeting its obligations as and when they fall due. The existence of the Lodge as a going concern is therefore dependent on continued support from the main shareholder Kenya Tourism Development Corporation (KTDC) and the creditors.

2. Non-Current Assets

The statements reflects non-current assets balance of Kshs.51,377,396.00 as at 30 June 2013. As previously reported, the property, plant and equipment includes land, buildings, furniture and fittings valued in the year ended 30 June 2010 resulting in a revaluation reserve of Kshs.53,070,705.00. However, the valuation report has not been provided for audit review. Consequently, the accuracy and validity of the non-current assets figure of Kshs.51,377,396.00 reflected in these statements can not be confirmed.

3. Trade and Other Receivables

The trade and other receivables balance of Kshs.1,964,753.00 as at 30 June 2013 includes debts amounting to Kshs.1,220,992.00 or approximately 62% of the total debtors which relate to 2011/2012 and prior years. The Lodge's management has not indicated the measures being taken to have these debtors recovered. Further, no provision for bad and doubtful debts was made during the

year under review and no explanation has been provided by the management for failure to provide for the same. Consequently, the recoverability of the trade and other receivables balance of Kshs. 1,964,753.00 as at 30 June 2013 could not be confirmed.

4. Cash and Bank Balances

The statement of financial position reflects cash and bank balance of Kshs.302,050.00 as at 30 June 2013. However monthly bank reconciliation statements were not prepared and provided for audit review. Consequently, the accuracy of the cash and bank balance of Kshs.302,050.00 as at 30 June 2013 could not be confirmed.

5. Trade and Other Payables

i. Statutory deductions

The trade and other payables balance of Kshs.9,441,758.00 as at 30 June 2013 includes statutory deductions totaling Kshs.5,880,613.00 which the Lodge has over the years defaulted in remitting to the relevant institutions. Failure to remit the deductions is a breach of the law and will attract severe penalties and interest charges.

ii. Secretarial Fees Payable

The trade and other payables figure also includes accrued Secretarial fees payable to KTDC for offering secretarial services totaling Kshs.230,000.00. However as in the previous years, the necessary agreement between the Lodge and KTDC creating the obligation has not been produced for audit review. Under the circumstances, the validity of the debt could not be confirmed.

iii. Outstanding Audit Fees

Further, the trade and other payables as at 30 June 2013 include outstanding audit fees of Kshs.957,600.00 payable to the Auditor-General. The Lodge has not indicated how it intends to clear the outstanding audit fee. Non- payment of the fees contravenes Section 19(1) and (2) of the Public Audit Act, 2003 which requires that every State Corporation meets the costs of the audit.

Qualified Opinion

In my opinion, except for the effect of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Lodge as at 30 June 2013 and of its financial performance and its cash flows for the year then ended in

accordance with International Financial Reporting Standards and comply with the Companies Act, Cap.486 of Laws of Kenya.

Report on Other Legal and Regulatory Requirements

As required by the Kenya Companies Act, I report based on my audit, that:

i. 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; and,

ii. In my opinion, proper books of account have been kept by the Lodge, so far as appears from my examination of those books; and,

iii. The Lodge's statement of financial position and statement of comprehensive income are in agreement with the books of account.

Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

13 May 2014

MT ELGON LODGE

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30TH JUNE 2013

ASSETS	NOTE	2013 KSHS	2012 KSHS
Non- Current Assets			
Property, Plant and Equipment	5	51,377,396	52,147,737
		51,377,396	52,147,737
Current Assets			
Stock & Stores	P	214,194	238,040
Trade and other receivables	Q	1,964,753	1,852,014
Prepaid salaries		427,688	446,420
Cash & Bank Balances	S	302,050	33,676
		2,908,685	2,570,150
TOTAL ASSETS		54,286,081	54,717,887
EQUITY AND LIABILITIES:			
Current Liabilities			
Trade and other Payables	8	9,441,758	8,496,903
K.T.D.C. Advances	9	9,466,377	9,466,377
K.T.D.C. Loan intrests	P	0	1,165,294
Land Leases	Q	63,000	
		18,971,135	19,128,574
Non - Current Liabilities			
Long Term Loan From KTDC	6	2,596,370	2,596,370
		2,596,370	2,596,370
EQUITY:			
Capital and Reserves			
Share Capital	2	1,845,780	1,845,780
Revaluation Reserve		53,070,705	53,070,705
Accumulated Profits / Loss		(22,197,909)	(21,923,542)
Total shareholders Equity		32,718,576	32,992,943
TOTAL EQUITY & LIABILITIES		54,286,081	54,717,887

The Financial statements were approved by Board of Directors on 27th September 2013 and were signed on behalf by:-

Director ..... M. Jordan ..... **Date & Signature** 27/9/

Director ..... **Date & Signature** 30/09/2013

MT ELGON LODGE

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2013

		2013	2012
REVENUE		**KSHS**	**KSHS**
Sales	Ai	2,510,846	3,450,502
Cost of sales	B	-1,883,583	-2,371,656
GROSS PROFIT		**627,263**	**1,078,846**
Other Income/ rental	Aii	5,374,058	4,198,614
10% Service charge	Aii	17,358	17,910
		6,018,679	**5,295,370**
EXPENDITURE			
Salaries & Wages	C	2,590,809	2,044,923
Staff Expenses	D	1,453,933	1,875,446
Staff Travel	E	128,441	420,674
Property upkeep & Expenses	F	129,630	33,070
Repairs & Renewals	G	29,125	75,880
Operating cost	H	655,848	269,106
Office Expenses	I	383,933	186,330
Administration Expenses	J	6,300	47,106
Advertisement & Promotion	K	25,390	36,000
General Services	L	19,621	78,095
Depreciation	5	772,341	798,534
Interest and other charges	O	0	349,442
Directors Expenses	N	15,000	85,420
Finance charges	W	36,275	
Provision for Bad debts		0	0
Provision for Audit fees	J	46,400	46,400
TOTAL EXPENDITURE		**6,293,046**	**6,346,426**
NET PROFIT (LOSS) FOR THE YEAR		**-274,367**	**-1,051,056**

MT ELGON LODGE

STATEMENT OF CASH FLOWSFOR THE YEAR ENDED 30TH JUNE 2013

Cash Flow from Operating Activities	2,013	2,012
Net Profit/(Loss) for the year	**(274,367)**	**(1,051,056)**
Depreciation	772,341	798,534
Operating Profit / (Loss) before Working	**497,974**	**-252,522**
Capital Changes		
(Increase)/ Decrease in Stocks	23,846	(72,192)
(Increase)/ Decrease in Debtors	(112,739)	(274,228)
Increase/ (Decrease) in Prepayments	16,732	(404,959)
Increase/ (Decrease) inCreditors	944,855	792,714
Interest expenses paid	(1,165,294)	234,442
Increase/ (Decrease) in Short Term borrowing	0	0
Increase/ (Decrease) in Unexpired Leases	63,000	0
	(229,600)	**275,777**
Net Inflow/(Outflow) From Operating Activities	**268,374**	**23,255**
Cash Flow from Investing Activities		
Acquisition/ Disposal of assets	**0**	**0**
Advances / Bank Overdrafts Repaid	0	0
Net Inflow/(Outflow) From Investing Activities	**0**	**0**
Cash Flow from Financing Activities		
prepayment of Long Term Borrowing	**0**	**0**
proceeds from Long Term Borrowing	0	0
Dividents Paid	0	0
Net Inflow/(Outflow) From Financing Activities	**0**	**0**
Net Increase/(Decrease) in Cash & Cash equivalent	268,374	23,255
Cash / Cash equivalent at the begining 1st July 2012	33,676	10,421
Cash/ Cash equivalent at the end 30th June 2013	**302,050**	**33,676**

MT ELGON LODGE

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2013

	Share Capital KSHS	Revenue Reserve KSHS	Revaluation Reserve KSHS	Shareholder Equity KSHS
As at 30/6/2011	**1,845,780**	**-20,872,486**	**53,070,705**	**34,043,999**
As at 01/07/2011	1,845,780	-20,872,486	53,070,705	**34,043,999**
Profit/Loss for the period	0	-1,051,056	0	**-1,051,056**
As at 30/June/2012	**1,845,780**	**-21,923,542**	**53,070,705**	**32,992,943**
As at 01/07/2012	1,845,780	-21,923,542	53,070,705	**32,992,943**
Profit/Loss for the period	0	-274,367	0	**-274,367**
As at 30/June/2013	**1,845,780**	**-22,197,909**	**53,070,705**	**32,718,576**

MT ELGON LODGE

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

NOTES TO THE FINANCIAL STATEMENTS

THE PRINCIPAL ACCOUNTING POLICIES ADOPTED IN THE PREPARATION OF THESE FINANCIAL STATEMENTS ARE SET OUT BELOW:-

1 SIGNIFICANT ACCOUNTING POLICIES

1 BASIS OF PREPARATION

The Financial Statements are presented in the Kenya Shillings (Kshs) and are prepared under the historical cost convention.

2 REVENUE

The revenue represents the amount received and receivable for services provided

3 STOCK

Stocks are valued at the lower of cost or net realisable value less further cost expected to be incurred

4 Property, Plant and Equipment and Depreciation

Depreciation is calculated on the Reducing Balance basis on Net Book value to write down the cost of each assets or the revalued amounts to their residual value over their estimated useful lives as follows:-

Land	- Nil
Buildings	- 2.5 % p.a
Furniture & Fittings	- 12.5 % p.a
Equipments	- 12.5% p.a
Computers	- 33.3% p.a

NOTES TO THE FINANCIAL STATEMENTS CONTINUED .....

1 PRINCIPAL ACTIVITY

The Principal Activity is to operate a lodge in Mt. Elgon National Park

2 SHARE CAPITAL

Authorised issues and fully paid 92,289 Ordinary Shares of Kshs. 20 as follows:-

	Shares No.	Value Kshs
K.T.D.C.	67,289	1,345,780
Trans Nzoia County Government	25,000	500,000
	92,289	**1,845,780**

The Share Capital as at 30th June 2013 is the same as it was on 30th June 2012

3 CORPORATION TAX

The Company made loss and no tax is provided

MT ELGON LODGE

5. SCHEDULE NON CURRENT ASSETS

COST	LAND KSHS	BUILDING KSHS	FURNITURE & FITTINGS KSHS	EQUIPMENT KSHS	TOTAL KSHS
As at 30/06/2012	**23,000,000**	**31,000,000**	**827,357**	**772,643**	**55,600,000**
Additions	-	-	-	-	-
Disposal	-	-	-	-	-
prior year adjustments	-	-	-	-	-
As at 30/6/2013	**23,000,000**	**31,000,000**	**827,357**	**772,643**	**55,600,000**
ACCUM DEPRECIATION					
As at 1.7.2012	-	2,286,250	489,043	674,970	3,450,263
Additions	-	-	-	-	-
Disposal	-	-	-	-	-
Change for the year	-	717,843	42,289	12,209	772,341
As at 30/6/2013	-	3,004,093	531,332	687,179	4,222,604
NBV as at 30.6.2013	**23,000,000**	**27,995,907**	**296,025**	**85,464**	**51,377,396**
NBV as at 30.6.2012	**23,000,000**	**28,713,750**	**338,314**	**97,673**	**52,149,73[illegible]**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED .....

		2013	2012
6	**K.T.D.C. LONG TERM LOAN**		
(a)	**Principal Loan**		
	The loan balance as at 30th June 2013 stands at		
	Initial Principal amount:	2,596,370	2,596,370
	Additions	0	0
		2,596,370	2,596,370
7	Salaries amounting to Kshs 427,688/= was prepaid as at 30th June 2013	427,688	446,420
		427,688	446,420
8	**Trade & Other Payables**		
	These comprise:		
	Trade Payables	879,287	302,576
	Statutory Deductions	5,880,613	5,880,325
	Accrued Audit Fees	957,600	911,200
	Accrued Secretarial Fees	230,000	230,000
	Accrued Director's Fees	266,000	266,000
	Accrued salaries	1,228,258	906,802
	Unexpired land Leases	63,000	
	Total	**9,504,758**	**8,496,903**
9	**KTDC Advances**		
	Balance b/d on 1 July 2012	9,466,377	9,466,377
	Addition 2012/13	0	0
		9,466,377	**9,466,377**
10	**Accrued KTDC Loan Interest**		
	KTDC Loan Interest- suspended	1,165,294	930,852
	additions	0	234,442
		1,165,294	**1,165,294**

MT ELGON LODGE

SIGNED STATEMENT OF AFFAIRS AS AT 30TH JUNE 2013

		DR KSHS	CR KSHS
A	**SALES**		
	Accommodation		236,203
	Food-Residents		174,240
	Casual-Food		637,473
	Beverage		1,436,640
	Tobacco and match boxes		26,290
			2,510,846
Aii	**Other Income/rental**		
	Misc income		43,710
	Land rental		570,000
	10% Service charge		17,358
	KTDC payroll support		3,581,383
	Suspended KTDC loan Interest		1,165,294
	provision for debtors for 2010/11 Recognised		13,671
			5,391,416
B	**COST OF SALES**		
	Food	660,082	
	Beverage	1,212,910	
	Tobacco and match boxes	10,591	
	TAXES INPUTS	0	
		1,883,583	
C	**SALARIES & WAGES**		
	Administration	620,603	
	Rooms	285,115	
	Food	260,074	
	Bar & Restaurant	292,103	
	Maintenance	271,756	
	Casual	192,567	
	PAYE	196,603	
	NSSF Employees Contributions	280,800	
	NHIF	49,280	
	Union Dues	31,908	
	Management Entertainment	90,000	
	Terminal benefit	20,000	
		2,590,809	
D	**STAFF EXPENSES**		
	Meals & Food Allowance	211,359	
	Staff Housing	1,000,014	
	Uniforms	236,560	
	Staff Service Charge(90%)	0	
	Other expenses	6000	
		1,453,933	
E	**STAFF TRAVEL**		
	Leave Travelling - Management	55648	

MT ELGON LODGE

		128,441
F	**PROPERTY UPKEEP**	
	Ground rent	30,000
	Building Maintenance	96,980
	Grounds expenses	2,650
		129,630
G	**REPAIRS & RENEWALS**	
	Cutlery & Holloware	4,328
	Linen	8,480
	Misc. Electrical & Tools	8,053
	Glassware	60
	Crokery	7,421
	Kitchen utensils	783
		29,125
H	**OPERATING COSTS**	
	Licences	4,000
	Electricity/ generator	122,096
	Fuel and Gas	118,828
	Water and Sanitation	0
	Cleaning & House Keeping Expenses	47,792
	Guest Entertainment	46,135
	Toilet requisites	806
	Kitchen/ Restaurant& bar	3,881
	Traveling Expenses	170,320
	Staff Transport	141,990
		655,848
I	**OFFICE EXPENSES**	
	Printing and Stationery	256,159
	Office Miscellaneous	37,244
	Postal & Delivery	6000
	Telephone and Postage	84,530
		383,933
J	**ADMINISTRATION EXPENSES**	
	Audit fees	46,400
	Audit Expenses	6,300
		52,700
K	**ADVERTISING & PROMOTION**	
	Advertising(E-mail)	0
	Agents commission	7,000
	Discount allowed	2,800
	Complimentaries	15,590
		25,390
L	**General Charges**	
	Donation and Subscriptions	18,500

MT ELGON LODGE

	Flowers & Decorations	1,121	
	Security Services	0	
		19,621	
M	**BOARD EXPENCES**		
	Secretarial services	0	
		0	
N	**DIRECTORS EXPENSES**		
	Director expenses	0	
	Directors Allowances	15000	
	Directors Annual fees	0	
	Directors Honorarium	0	
		15,000	
O	**INTEREST & OTHER CHARGES**		
	Long term Interest	0	
		0	
P	**STOCKS & STORES**		
	Food	5,514	
	Drinks	15,937	
	Tobacco & Matches	93	
	Container/Other	192,650	
		214,194	
Q	**DEBTORS & REPAYMENTS**		
	Trade debtor	1,392,906	
	Other debtor	535,847	
	land Lease Debtors	36,000	
		1,964,753	
R	**CREDITORS & PROVISIONS**		
	Trade & Other Payable		9,441,758
	KTDC Advances		9,466,377
	Accrued KTDC loan interest		0
	Unexpired land Leases		63,000
			18,971,135
S	**CASH & BANK BALANCE**		
	Cash at Bank	50,870	
	Cash in Hand	251,180	
		302,050	
T	**FIXED ASSETS COST**		
	Land	23,000,000	
	Buildings	31,000,000	
	Furniture & Fittings	827,357	
	Equipment	772,643	
		55,600,000	
U	**ACCUMULATED DEPRECIATION**		
	Buildings		2,286,250
	Furniture & Fittings		489,043
	Equipments		674,970

			3,450,263
V	**KTDC Loan restructured**		2,596,370
	Retained loss B/F	21,923,542	
	Share capital		1,845,780
	Revaluation Reserves		53,070,705
		21,923,542	**57,512,855**
W	**FINANCE CHARGES**		
	Bank charges	36,275	
		36,275	
	TOTAL OF TRIAL BALANCE:	**87,836,515**	**87,836,515**