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**THE AUDITOR-GENERAL**

**ON**

**SUNSET HOTEL LIMITED**

**FOR THE YEAR ENDED  
30 JUNE, 2020**



# SUNSET HOTEL LIMITED

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## REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2020

Prepared in accordance with the Accrual Basis of  
Accounting Method under the  
International Financial Reporting Standards (IFRS)



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## SUNSET HOTEL LIMITED

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#### KEY COMPANY INFORMATION

Sunset Hotel Limited (“SHL”, “The Company”) was incorporated under the Kenya Companies Act (Cap 486) in 1976. The shareholders of SHL are Tourism Finance Corporation (TFC, formerly Kenya Tourist Development Corporation (KTDC) and Kisumu County (formerly Kisumu Municipal Council). TFC is the majority shareholder in SHL with a direct controlling stake of 95.4% shares with Kisumu County shareholding of 4.6%. From the management perspective, SHL is classified as a Commercial State Corporation by virtue of being a subsidiary of TFC. The shareholders through the Directors are responsible for the general policy and strategic direction of the Hotel.

#### Principal Activities

The principal activity of the Company is operation of the hotel facility mainly focusing on provision of accommodation and conference facilities.

#### Directors

1.	Mr. Franklin Ndii	Director	Appointed on 14/06/2019
2.	Mr. Joe Okudo	Director	PS Ministry of Tourism
3.	Prof. Peter Anyang Nyong'o	Director	H.E the Governor -Kisumu County
4.	Ms. Judith Kerich	Director	Appointed on 14/06/2019
5.	Mr. Yunis Ibrahim	Director	Appointed on 14/06/2019
6.	Mr. Jonah T. Orumoi	Director	Managing Director TFC

#### Corporate secretary

Mr. John Karia  
Tourism Finance Corporation  
Utalii House, 11<sup>th</sup> Floor  
P O Box 42013-00100  
Nairobi  
Email: [info@tourismfinance.go.ke](mailto:info@tourismfinance.go.ke)

#### Registered Office

Sunset Hotel Limited Aput  
Lane, Impala walk P. O.  
Box 215 – 40100  
Kisumu Kenya  
Tel. (254)057-2023482,2021490  
Email: [info@sunsethotel.co.ke](mailto:info@sunsethotel.co.ke)  
Website: [www.sunsethotel.co.ke](http://www.sunsethotel.co.ke)

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**Corporate Headquarters**

Tourism Finance Corporation

Utalii House, 11<sup>th</sup> Floor

Uhuru Highway

P O Box 42013-00100

Nairobi

**Corporate Contacts**

Telephone: +254 20 3224000

E-Mail: [info@tourismfinance.go.ke](mailto:info@tourismfinance.go.ke)

Website: [www.tourismfinance.go.ke](http://www.tourismfinance.go.ke)

**Corporate Bankers**

1. National Bank of Kenya Limited

Oginga Odinga Street

P.O Box 1152-40100

Kisumu

2. Kenya Commercial Bank

Oginga Odinga Street

P.O Box 17-40100

Kisumu

**Independent Auditors**

Auditor General

Kenya National Audit Office

Anniversary Towers, University Way

P.O. Box 30084

GOP 00100

**Nairobi, Kenya**

**Principal Legal Advisers**

1. The Attorney General

State Law Office

Harambee Avenue

P.O Box 40112



City Square 00200

**Nairobi, Kenya**



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**THE BOARD OF DIRECTORS**

DIRECTOR	KEY PROFESSIONAL/ ACADEMIC QUALIFICATIONS	WORK EXPERIENCE
 <p><b>Prof. Peter Anyang Nyong'o</b></p>	<p>PhD Political Science, University of Chicago, USA.</p> <p>M.A Political Economy, University of Chicago, USA.</p> <p>Degree in Political Science, University of Chicago, USA.</p> <p>BA, Political Science &amp; Philosophy; 1<sup>st</sup> Class Honors, Makerere University, Uganda.</p>	<p>Prof. Peter Anyang Nyong'o is the current Governor of Kisumu County. He has vast experience spanning over 30 years in the political field. He was previously the Senator of Kisumu County. He was the Minister of Medical Services from the year 2008 to 2013 and Member of Parliament for Kisumu Rural from 2003 to 2013.</p> <p>He was nominated to parliament from 1998-2002 after having been elected to parliament from 1993-1997 representing Kisumu Rural. He was also the very able minister of Planning and National Development from 2003 to 2005.</p> <p>Between the year 1977 and 1981, before joining the political arena, Prof. worked as the Head of Programs of African Academy of Sciences, Associate Professor of University of Addis Ababa, Ethiopia, Visiting Research Officer of El Colegio De Mexico and as a Lecturer and Senior Lecturer at University of Nairobi.</p>
 <p><b>Orumoi. T. Jonah</b></p>	<p>Mr. Orumoi holds a Master of Science in Finance and Investment (Merit) from Queen Mary University of London, UK and is FACCA qualified. He is a graduate of BA (Hons) in Accounting &amp; Finance of the East London University, UK.</p>	<p>Mr. Orumoi is the Managing Director of Tourism Finance Corporation and was previously the Head of Finance &amp; ICT at the Kenya Tourism Board. He has previously worked as Finance &amp; Leasing Contracts Manager/ acting Head of Procurement at G4S and as a Senior Principal Finance Officer, Thurrock Council, UK.</p>

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 <p><b>Joe Okudo</b> Principal Secretary; Ministry Of Tourism</p>	<p>Mr. Okudo holds a Bachelor of Arts degree from the University of Nairobi and Masters in Business Administration (MBA) from Copenhagen Business School/Inoorero University.</p>	<p>Mr Okudo is the Principal Secretary at the Ministry Tourism formerly Principal Secretary of sports responsible for art and culture. Since 2013, he worked as the Business Partnership Programme Manager at Dinida, as Team leader of the Business Sector Support Programme and he was Co-chair of the private Sector Donor Coordinating Group in Kenya. He also sat in the Programme Investment Committee (PIC) the highest decision making organ within the Trade Mark East Africa group.</p> <p>Prior to joining the department of culture and Art, he was the Team Leader of Green Growth-Private Sector where he was in charge of representing the Danish Embassy in Business Advocacy Fund Board, Kenya Climate Innovation Centre, The Trade Mark East Africa's and the World Green Growth Forum. Prior to that he worked as the program Manager/Private sector Advisory at the Business Sector Programme and Business-Business Programme at the Royal Danish Embassy.</p>
 <p><b>Franklin Ndi</b></p>	<p>Mr. Ndi holds a Master of Business from the University of Free State, is a Certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya.</p>	<p>Mr. Ndi is a career accountant having worked in various organizations; the most recent being Kenya Utalii College where he was the Financial Controller from 1984 to 2004. He is currently the Managing Director of African Dew Tours and Travel Ltd.</p> <p>He was re-appointed to the Board on 14<sup>th</sup> of June 2019 after having served on the same board up to 31<sup>st</sup> January 2018. He brings on board a wealth of experience in Financial Management gained from the Public Sector where he has over 41 years' experience in Financial Management &amp; Administration.</p>

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**Judith Kerich**

Ms. Judith holds Master of Business Administration (MBA / Strategic Management) & Master in Public Policy Management from Strathmore Business School.

She also holds a Bachelor of Commerce Degree (Human Resources Option) from Catholic University of Eastern Africa (CUEA), HND Human Resources Management from Institute of Human Resource Management, Certificate in Project Management from Georgetown University Washington DC, Certificate in Public Policy from New York University USA, Diploma in Airport Operations from Airports Council International and Global Strategy from IESE Business School Spain.

She is the Deputy Project Coordinator for World Bank Financed projects in the Transport Sector in Kenya with value added board-level experience and strategic decision-making expertise, notably at the National Transport & Safety Authority and Kenya Airports Authority.

She has vast wealth of experience having previously worked as the Director Corporate Support Services - National Transport & Safety Authority, Kenya. She also worked as the Manager Human Resource Services (Senior HR Management) at Kenya Airports Authority prior to which she had worked as Human Resources Officer at Jomo Kenyatta International Airport (KAA) as well as Assistant Corporate Management Representative.

Earlier on she had worked as the Executive Assistant to ACI President (Africa Region) - Airports Council International (Africa Region) and Executive / Personal Assistant to General Manager / Finance Director – Siginon Freight

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**Yunis Ibrahim**



Mr. Yunis holds a Bachelor of Laws Degree (LL.B) (Hons.) from the University of Nairobi and a Postgraduate Diploma in Law from the Kenya School of Law. He also holds a Master of Science Degree in Health Systems Management from the Kenya Methodist University, a Bachelor of Medical Science Laboratory Services Degree from the Jomo Kenyatta University of Agriculture & Technology and is certified in Monitoring and Evaluation, Strategic Management, and Applied Research.

Mr. Sheikh is an Advocate of the High Court of Kenya and a Partner at Yunis, Oman & Mwiti Advocates.

He has more than ten (10) years of professional experience mostly as a Senior Manager/ Director in private and non-profit organizations in Kenya. He has previously worked as the Country Director of Rural Heart Kenya where he oversaw financial and grant management, managed human resources, represented the agency in their dealings with donors, government, community and other stakeholders. He also previously worked as the Secretary for Wajir West Constituency Development Fund (CDF) Committee; he managed multi-sector programs, supervised the CDF committee members and acted as a legal and technical advisor to the committee.

Mr. Sheikh is also actively involved in specific advocacy and lobbying of decision makers and continues to actively advocate and lobby at all levels for inclusion of marginalized groups into the local policy and is passionate about advocating for policy changes that can improve the livelihoods of Kenyans

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 <p><b>John Karia</b>  <b>Company Secretary</b></p>	<p>Mr. John holds a Master degree in Law (LLM) from the University of Exeter (UK), a Postgraduate Diploma in Law from the Kenya School of Law and a Bachelor of Laws degree (LLB) from University of Nairobi.</p>	<p>He is the Head of Legal Services and Corporation Secretary. John is an Advocate of the High Court of Kenya and a Certified Secretary. He is an active Member of the Law Society of Kenya, the Institute of Certified Public Secretaries of Kenya and an Associate Member of the Chartered Institute of Arbitrators (Kenya Branch).</p> <p>John is a seasoned legal and governance professional with wide and varied experience gained in the financial services industry and has previously worked for Kenindia Assurance Co. Ltd and the Laptrust/CPF Group where he was the Legal Services Manager.</p>
 <p><b>Joseph Oduor</b>  <b>General Manager</b></p>	<p>Holds a Master of Business Administration (Accounting &amp; Finance).  Over 15 years' experience in the Hospitality Management</p>	<p>He has a wealth of experience in the Hospitality management spanning over 15 years.</p> <p>Was very instrumental in turning around Golf Hotel Ltd.</p>

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**MANAGEMENT TEAM :**

**General Manager**



Joseph Oduor  
Up to 30<sup>th</sup> March 2020

Holds a Master of Business Administration (Accounting & Finance).

Over 15 years' experience in the Hospitality Management

**Accountant**



Risper Chichole

Holds a Bachelor of Commerce (B.com.) Finance, CPA (K), Diploma in Accounting.

Over 13 years' experience

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**CHAIRMAN'S STATEMENT**



On behalf of my fellow Board Members, the Management and myself I hereby present to you Financial Statements of Sunset Hotel Ltd for the Financial Year 2019/2020.

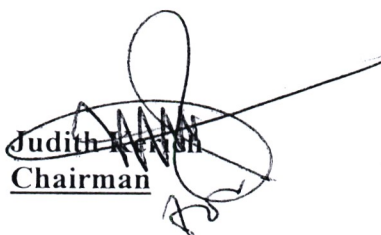
For a number of years the performance of the Hotel has been wanting; this can be attributed to a number of factors inter alia the downturn of the tourism sector in the country, the state of the facility and the increase in the number of high end facilities within Kisumu County that provided stiff competition for the hotel which has highlighted the need for a strategic repositioning of the hotel. This was further compounded by the Covid-19 pandemic in the last quarter which hit the industry quite hard. In the Year under review the hotel posted a loss of Kshs. 9.9 Million against the expected Profit of Kshs. 1.1 Million; this brings the accumulated losses to Kshs. 183.06 Million.

I am glad to report that the restructuring measures taken by the board at the start of the financial year are starting to bear fruit, by stemming the continued accumulation of losses. Despite the evident sharp drop in revenues, the loss has drastically come down by over 70%. With continued concerted efforts, the hotel should be able to breakeven in the near future as we continue to explore means and ways of putting it back on track

and forestalling the accumulation of further losses and safeguarding the investment of the shareholders.

The Board intends to implement strategic and deep-seated changes in the hotel that are intended to bring sweeping changes in the operations of the hotel. The current Board has shown a lot of goodwill and I believe this will go a long way in assisting the hotel in making the revolutionary change required to salvage the hotel. I would like to record my sincere gratitude to the Board for their invaluable support, commitment and dedication which has helped steer the hotel's strategic thinking to new altitudes.

Finally, on behalf of the Board of Directors, Management & Staff I would like to express my sincere gratitude to our customers for their patronage over the Years and look forward to their continued support in future.

  
**Judith Kish**  
**Chairman**

**SUNSET HOTEL LIMITED**  
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**REPORT OF THE GENERAL MANAGER**



On behalf of management of Sunset Hotel Limited, I am pleased to present to you the Annual Report and Financial Statements of the company for the year ended 30<sup>th</sup> June 2020.

Kisumu County has in the recent past experienced a serious upsurge of new hotels that have created a serious scramble for clients coming to the region. This has indeed brought about serious competition that is certainly good for the industry. On the other hand, this entry of new hotels has 'disadvantaged' the old hotels and has created a challenge that the old hotels must quickly address and deal with in order to remain competitive and relevant. Apparently, this is the fate that has befallen Sunset Hotel Kisumu.

The hotel is however advantaged in the sense that it has reasonably built a name over the years and is strategically located and that this must be used to the benefit of the hotel.

During the year 2020, the hotel achieved a net turnover of Kshs 18 million (2019: Kshs 36 million) representing a decrease of 48.50 % and a loss of Kshs. 9.9 million (2019: Kshs 33.7 million) 71.10% increase. This was particularly occasioned by the reduction of staff costs after the redundancy exercise. After the redundancy exercise in May 2019, the hotel suffered bad publicity with the exercise being construed to mean the hotel had closed down. This saw the hotel's revenue shrink further as customers

stayed away. The hotel endeavored to counter the bad publicity and the efforts had started to bear fruits by early this year. However, with the onset of the Covid-19 pandemic from March, the hotel's performance has been further affected. The use of the hotel as a quarantine Centre however helped it to remain a float.

The management is hopeful that the refurbishment agenda will be actualized sooner than later in order to help reclaim the hotel's glory. It is envisaged that more efforts will be directed towards increasing operational efficiency and implementing strategies such as increasing accommodation capacity, marketing, advertising and promotions that are directed towards securing more business.

Finally, on behalf of management and staff of Sunset Hotel Ltd, may I express our sincere appreciation to the Board of directors for their committed support during the year ended 30<sup>th</sup> June 2020. I equally wish to express my gratitude to the shareholders; National Government and the County Government of Kisumu, customers and other valuable stakeholders for their support and we indeed look forward for continued engagement in future.

  
**Risper Chichole**  
**Ag. General Manager**

## SUNSET HOTEL LIMITED

### Annual Reports and Financial Statements for the financial year ending 30 June 2020

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#### CORPORATE GOVERNANCE STATEMENT

Corporate Governance comprises the rules, practices and processes by which the company is directed and controlled. It also provides the framework for attaining the company's objectives. The Board of Directors has embraced Governance as the mode of engagement and interaction between the Corporation's Board, Management, Stakeholders and Regulators for the sustainable benefit of the hotel.

Sunset Hotel Ltd is committed to realizing profits and growth while complying with all legal Requirements and maintaining business ethics. The above are realized through:

##### a) Board of Directors

The Board provides leadership of the Company with the framework that upholds the core values underpinning good Corporate Governance.

The board's duties and responsibilities include;

- Setting the Strategic Direction of the hotel and putting in place appropriate policies, systems and structures for their successful implementation;
- Establishing and maintaining the hotel's overall systems of planning, accounting and internal controls that facilitate prudent risk management;
- Setting policy guidelines for management and ensuring competent management of the business including selection, supervision, and remuneration of Senior Management
- Ensuring the business of the hotel is conducted in compliance with relevant laws and regulations
- Monitoring the hotel's performance and reporting this to the shareholders.

There exists a formal procedure to the appointment of directors. Key elements such a conflict of interests and multiple directorships are considered during this exercise. Towards the end, the company has consistently formulated successive 5 years strategic plan.

##### b) Board Composition

The Board believes that to achieve good corporate governance, there is need for strong presence of the non- executive directors in the Board. During the year under review, the Board had six Directors of all whom were non-executive Directors. The General Manager attended the Board meetings in his capacity as General Manager.

## **CORPORATE GOVERNANCE STATEMENT**

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## SUNSET HOTEL LIMITED

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#### d) **Company Policy on Directors Remuneration**

Company Directors are entitled to sitting allowances for each Board Meeting. Directors are entitled to transport and meal allowance when attending Board Meetings outside their regular areas of residence.

These are payable at the following rates:-

Title	Directors Sitting Allowance Per Sitting	Lunch Allowance Per Sitting	Air ticket per director	Subsistence Claim
Board Chairman	20,000	2,000		18,200
Directors	20,000	2,000	As per travel	18,200

#### e) **General Terms of Service**

Directors serve a 3 years term service from the date they are appointed into office. They are eligible for re-appointment for one second term of 3 years.

#### f) **Conflict of Interest**

The Board Members are required to make disclosures of any transaction in which they have interest and which would constitute a conflict of interest and abstain from voting when such matters are being considered.

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**Directors Remuneration Paid During the Year ended June 2020**

No.	Name	Details	Paid Allowances	Accrued Allowances	Total Allowances
			(Kshs.)	(Kshs.)	(Kshs.)
1	Frankline Ndii	Director	20000		20,000
2	Achie Alai	Alternate to the Governor	40000	40,000	80,000
3	Judith Kerich	Director(Chairman)	60000		60,000
4	Yunis Ibrahim	Director	40000		40,000
5	John Karia	Company Secretary	100,000		100,000
6	Nerry Achar	Alternate to the Governor		20,000	20,000
7	Patricia Njambi	Alternate to MD - TFC	20000		20,000
8	Jonah Orumoi	MD TFC	80000		80,000
9	David Jakaiti	PS Representative	60000		60,000
10	Jonah Kinama	PS Representative	40,000		40,000
11	George Okongo	Alternate to the Governor	20000		20,000
		<b>Totals</b>	<b>480,000</b>	<b>60,000</b>	<b>540,000</b>
		Expenses(Meals,Refreshments &Airticket)			55,265
		<b>G.Totals</b>			<b>595,265</b>

**Directors Remuneration Paid During the Year ended June 2019**

No.	Name	Details	Paid Allowances	Accrued Allowances	Total Allowances
			(Kshs.)	(Kshs.)	(Kshs.)
1	Said Ali Mwangi	Chairman		40,000	40,000
2	Achie Alai	Alternate to the Governor		60,000	60,000
3	Paul Kurgat	Alternate to Ndii		20,000	20,000
4	Jack Okeyo	Alternate to MD - TFC		20,000	20,000
5	Peter Kayila	Alternate to the Governor		20,000	20,000
6	John Karia	Company Secretary	20,000	60,000	80,000
7	John Mukuna	Alternate to MD - TFC		20,000	20,000
8	Jack Okeyo	Alternate to Ndii		20,000	20,000
9	Nerry Achar	Alternate to the Governor		80,000	80,000
10	Wamuyu Kariuki	Ag.Company Secretary		20,000	20,000
11	Jonah Orumoi	MD TFC		40,000	40,000
12	Elijah Kasati	PS Representative		20,000	20,000
13	Patrick Osero	TFC Chairman		20,000	20,000
14	Jonah Kinama	PS Representative	20,000	20,000	40,000
15	Frank Onyango	Alternate to MD - TFC	20,000		20,000
16	Otieno Kenneth	Alternate to the Governor		20,000	20,000
		<b>Totals</b>	<b>60,000</b>	<b>480,000</b>	<b>540,000</b>
		Expenses(Meals & Refreshments)			64,614
					<b>604,614</b>

## SUNSET HOTEL LIMITED

### Annual Reports and Financial Statements for the financial year ending 30 June 2020

#### MANAGEMENT DISCUSSION AND ANALYSIS

##### Operational and Financial Performance

The day to day running of the business of Sunset Hotel Ltd is delegated by the Board to the Hotel General manager who implements Board decisions in a manner that adds value to the hotel.

##### a) Revenue/Profitability

During the year under review, the hotel achieved a net turnover of Kshs 18 million against a budget of Kshs 55.6 million. This represented an unfavorable variance of 67%. Net loss stood at Kshs. 9.9 million against the projected profit of Kshs.1.1 million as shown below. This poor performance is attributed to the deplorable state of the hotel that needs an urgent and decisive attention to fix coupled with the effect of Covid-19 pandemic.

Particulars	Budgeted	Actuals	Variance	% age Variance	Remark
	2019-2020	2019-2020	2019-2020	2019-2020	
Revenue	Kshs	Kshs	Kshs	Kshs	
Sales	55,611,506	18,546,294	-37,065,212	-67%	U
Other Income	-	-	-	-	
<b>Total Revenues</b>	<b>55,611,506</b>	<b>18,546,294</b>	<b>-37,065,212</b>	<b>-67%</b>	<b>U</b>
Cost of sales	12,642,429	4,002,365	8,640,064	68%	F
<b>Gross Profit</b>	<b>42,969,077</b>	<b>14,543,929</b>	<b>-28,425,148</b>	<b>-66%</b>	<b>U</b>
<b>EXPENSES</b>					
Administration Costs	30,467,340	16,710,378	13,756,962	45%	F
Selling and distribution Costs	718,403	321,642	396,761	55%	F
Depreciation Costs	6,127,274	2,127,509	3,999,765	65%	F
<b>Total Operating expenses</b>	<b>37,313,017</b>	<b>19,159,529</b>	<b>18,153,488</b>	<b>49%</b>	<b>F</b>
<b>Operating Profit/(Loss)</b>	<b>5,656,060</b>	<b>-4,615,600</b>	<b>-10,271,660</b>	<b>-182%</b>	<b>U</b>
Finance Costs	4,532,609	5,329,786	-797,177	-18%	U
<b>Profit/(Loss) before taxation</b>	<b>1,123,451</b>	<b>-9,945,386</b>	<b>-11,068,837</b>	<b>-985%</b>	<b>U</b>
Income tax expenses (credit)	-	-	-	-	-
<b>Net Profit /( Loss) after taxation</b>	<b>1,123,451</b>	<b>-9,945,386</b>	<b>-11,068,837</b>	<b>-985%</b>	<b>U</b>

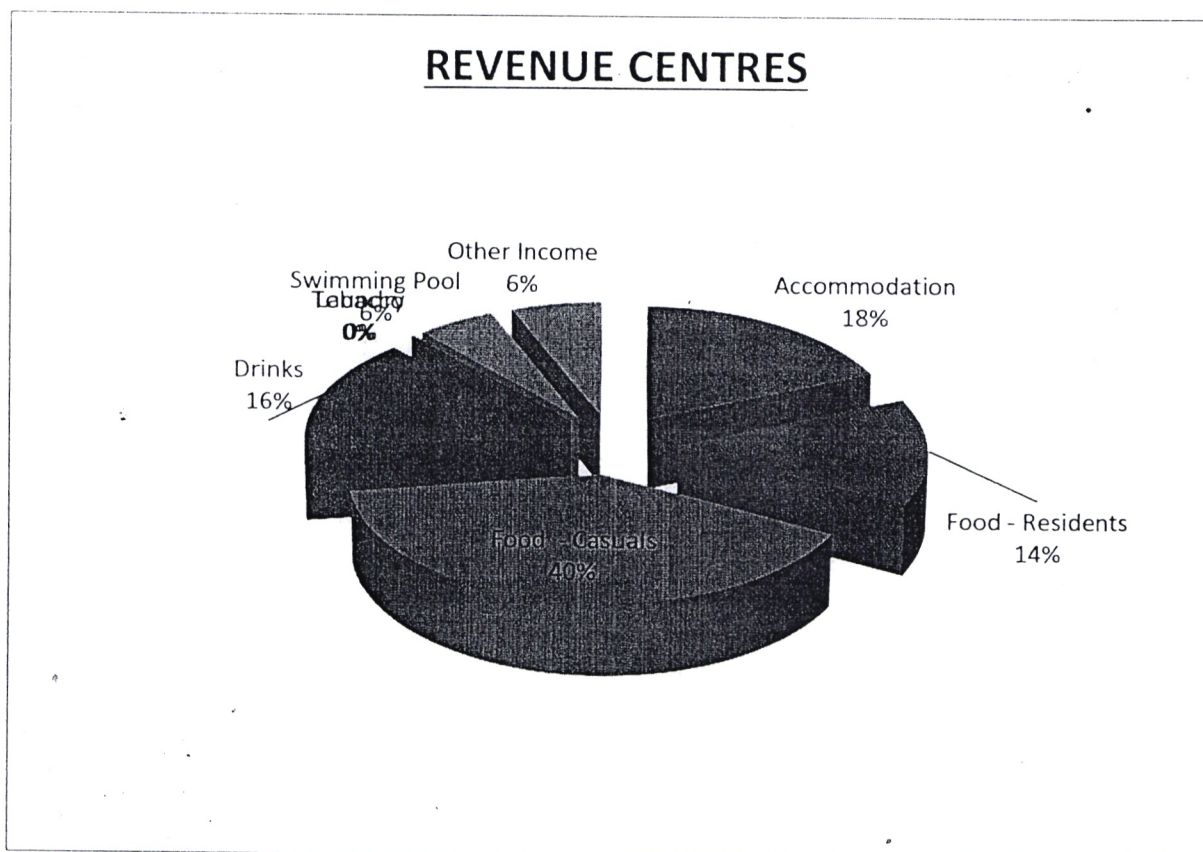
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**Revenue center's performance:**

The Hotel's current amenities include; 50 standard rooms with 100 bed capacity, restaurant, lounge bar, pool bar, swimming pool and conference facilities. The respective centers performed as below:

Revenue Centre	Amount
Accommodation	3,416,991
Food - Residents	2,653,121
Food - Casuals	7,381,764
Drinks	2,908,466
Tobacco	19,559
Laundry	9,147
Swimming Pool	1,006,582
Other Income	1,150,664
<b>Total</b>	<b>18,546,294</b>

- 1) Food Residents -Food sales from resident/in-house guests
- 2) Food Casuals-Food sales from seminars and walk-in clients
- 3) Other Income-This includes revenue from hall hire, stationery, video/photo session, ground hire etc



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Room and bed occupancy for the period was as below:

Particulars	Annual	Annual	Annual	Budget
	Actual	Budgeted	Full Capacity	Achieved
Room Occupancy %	12%	26%	100%	46%
Bed Occupancy %	8%	17%	100%	47%
Number of Rooms Occupied	2,218	4,745	18,250	47%
Number of Beds Occupied(Guests)	2,878	6,148	36,500	47%
Average Rate - Room	1,541	2,696	4,000	57%
Average Rate - Bed	1,187	2,081	2,000	57%

The Hotel's key strength is its strategic location and ownership structure with the major challenges being its poor state of facility, high cost of operations and increased competition. The visible decline in sales due to stiff competition has hit the Hotel hard thus calling for tough decisions to be made for the hotel to remain a float.

However, the management strongly believes that the Hotel has immense potential which if tapped through carefully thought out turn around strategies will certainly reclaim the Hotel's fast fading glory; this is already underway with discussions between the management, the directors/shareholders regarding the same having commenced.

As one of the turnaround strategies, the hotel declared all staff redundant in May 2019 and paid off their dues with funds borrowed from the shareholders. This certainly eased the burden of salaries on the hotel and it was expected that going forward the hotel would be able to breakeven. Unfortunately, after the redundancy exercise, the hotel suffered bad publicity with the exercise being construed to mean the hotel had closed down. This saw the hotel's revenue shrink further as customers stayed away. The hotel endeavored to counter the bad publicity and the efforts had started to bear fruits by early in the year. However, with the onset of the Covid-19 pandemic from March, the hotel's performance was further affected. The hotel was identified as a quarantine Centre for the Kisumu County's Medical staff. While this helped the hotel to remain a float during the period, on the flipside, other customers shunned the hotel as a result and the effects may last for a while.

**b) Administration Costs**

The overall vote was within the budget with a favorable variance of 45% with the relatively huge positive variance being attributable to the low sales recorded during the period.

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**c) Finance Costs**

This relates to Interest on loans disbursed to the hotel by TFC. The increment of the expense was due to increment of loan interest rate from 9% to 11% by TFC. This revision though made the previous year had apparently not been factored in the current year's budget hence the variance.

**d) Depreciation**

Most of the Hotel's assets are fully depreciated and need to be revalued. It had been hoped that some of them would be replaced in the current financial year. However, that is yet to be effected thus the big variance.

**e) Liquidity Position**

As a result of the above adverse revenue variance and general dismal performance over time, the Hotel has continued to default on meeting its obligations as and when they fall due. However, with the restructuring measures having been put in place, the liquidity position of the hotel is bound to improve albeit slowly.

**f) Compliance with Statutory Requirements**

Sunset Hotel is fully compliant with all the relevant statutory requirements. The required returns are filed as and when due. However, the hotel has in the past faced serious financial constraints which made the hotel to lag behind on making remittances to the relevant organs e.g KRA and NSSF. These may expose the hotel to some contingent liabilities in the future. A demand notice of Kshs. 31,344,951 was issued by KRA to the hotel on 26<sup>th</sup> March 2020. The hotel is currently meeting all its current tax obligations as it looks for means and ways of settling the accrued arrears slowly by slowly.

**g) Key-Projects and Investment Decisions Implemented by the Entity**

Due to the current financial crisis, the hotel has no ongoing projects or upcoming ones.

**h) Financial Probity and Serious Governance**

There are no major financial improbity reported by internal audit, external audit or other national government agencies providing oversight, neither are there serious governance issues among the board or member of the board and top management including conflict of interest.

**i) Five year performance**

The hotel's performance has been on a downward trend due to its dilapidated state, having been built 40 years ago and with no meaningful refurbishment having taken place. The hotel is in dire need of a facelift in order to bring back its lost glory. As aforementioned, the hotel's potential cannot be underestimated.

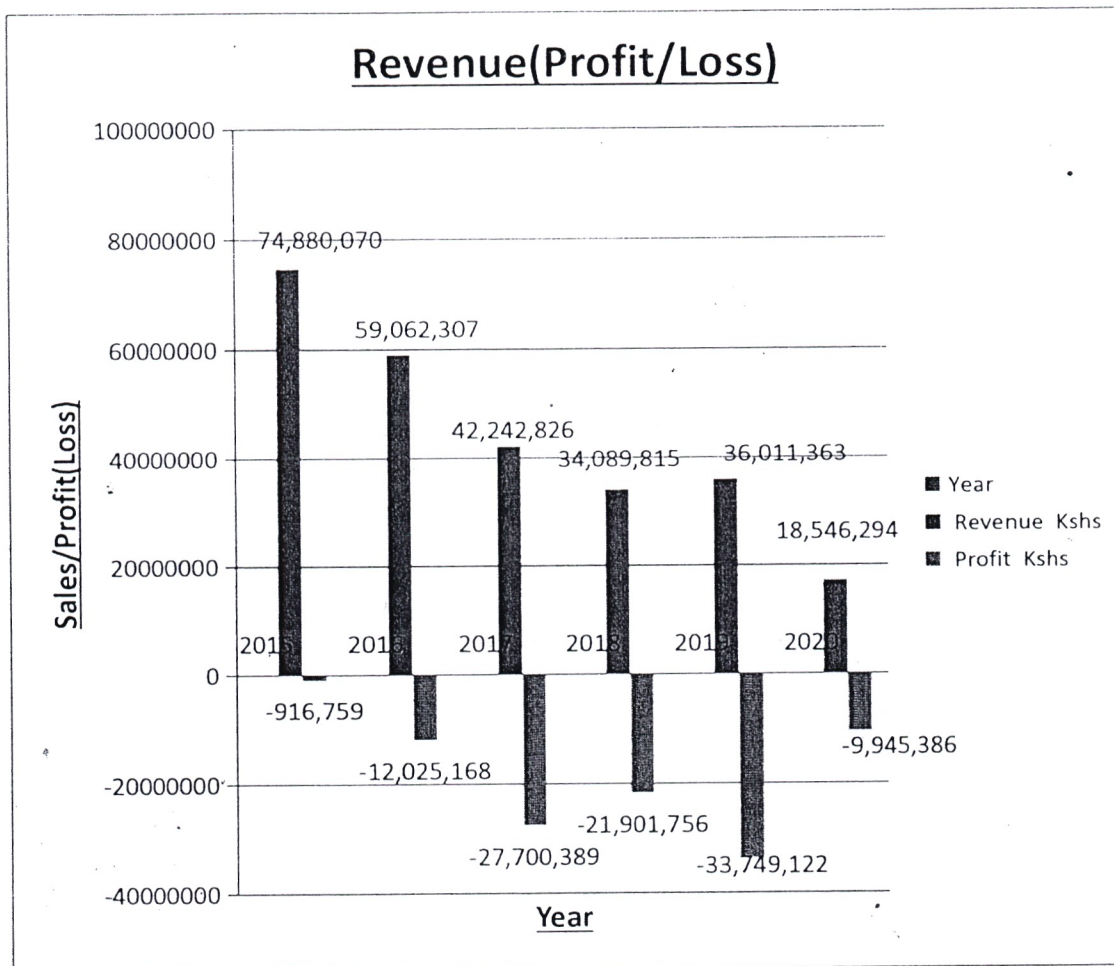
The hotel's comparative performance over the last five years is as follows:

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Year	Revenue	Profit
2020	18,546,294	(9,945,386)
2019	36,011,363	(33,749,122)
2018	34,089,815	(21,901,756)
2017	42,242,826	(27,700,389)
2016	59,062,307	(12,025,168)
2015	74,880,070	(916,759)

The above performance is graphically shown as below:



## **CORPORATE SOCIAL RESPONSIBILITY**

Corporate Social Responsibility (CSR), Environmental Conservation and Sustainability means corporate culture for Sunset Hotel, a culture which holds the Company's responsibility not only for making profit, but also for the conditions under which profits are made. Finding a balance between financial successes, social responsibility and protecting the environment is a fundamental approach that lies at the heart of Sunset Hotel corporate culture and is reflected in our corporate values. Sustainability is a key pillar of our company strategy and has always played a fundamental role within our business. We continue to strive to combine a powerful business sense and a strong sense of social responsibility towards our stakeholders which has over decades of existence been created, managed and sustained through long-term relationships, marked by mutual respect and trust. Reflecting on our success over the years, from a CSR, Environmental and Sustainability perspective, our material concerns have not changed significantly, but our guiding principles and approach has continued to evolve in an ethical manner through various partnerships so as to widen our footprint with an increased emphasis on quality, value addition and visible measures of impact and success within the ecosystem and communities in which we operate.

## **COMMUNITY ENGAGEMENT AND EDUCATIONAL SUSTAINABILITY**

Our Sustainable approach towards sourcing and production helps us to create value for a wide group of stakeholders from farmers to community groups to customers. Sunset Hotel continues to give priority to the local communities and farmers living around our areas of operation where possible so as to ensure economic independence. The Hotel occasionally hires local performers to entertain guests through dance and music thus enhancing guest experience by exposing them to the diverse range of local cultures and ethnic groups whilst economically empowering the local people. The hotel is largely engaged in supporting education specifically by offering internships to students and allowing the students to tour the facility as a way of gaining practical experience especially for hospitality students.

Occasionally, the Hotel also supports some charitable causes and community initiatives. These take many forms; financial, supply of foodstuffs or clothing, hosting of community events. Due to financial constraints, the hotel did not make any cash donations during the year.



Kisumu County City Manager's office



Found at Sunset Hotel

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**REPORT OF DIRECTORS**

The Directors submit their report together with the audited financial statement for the year ended June 30, 2020 which shows the state of Sunset Hotel Ltd affairs.

**Principal activities**

The principal activity of the company is provision of accommodation and conferencing facilities.

**Results**

The results of the entity for the year ended June 30, 2020 are set out on pages 1- 39

**Dividend**

Owing to the loss recorded in the year, the directors do not recommend payment of dividend.

**Reserves**

The Directors propose to carry forward the balance of accumulated losses amounting to Kshs. 183,062,746.

**Directors**

The members of the Board of Directors who served during the year to date of this report are set out on page iv-viii in accordance with Regulation 2(b) of the Sunset Hotel Ltd Articles of Association.

**Auditors**

The Auditor General is responsible for the statutory audit of the Sunset Hotel Ltd in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015. The Auditor General continues in office in accordance with Section 35 of the Public Audit Act 2015.

**By Order of the Board**



John Karia

**Company Secretary**

**Tourism Finance Corporation**

P O Box 42013-00100

Nairobi

Date.....

**SUNSET HOTEL LIMITED**  
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**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Board to prepare financial statements in respect of Sunset Hotel Limited, which give a true and fair view of the state of affairs of the Hotel at the end of the financial year/period and the operating results of the Hotel for that year/period. The Companies Act 2015 requires the directors to ensure that the Hotel keeps proper accounting records which disclose with reasonable accuracy the financial position of the Hotel. The Directors are also responsible for safeguarding the assets of the Hotel.

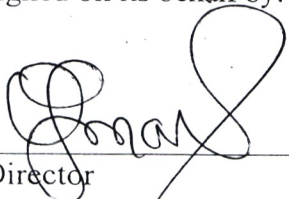
The Directors are responsible for the preparation and presentation of the Hotel's financial statements, which give a true and fair view of the state of affairs of the Hotel for and as at the end of the financial year ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management policies 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 the entity; (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 the Hotel; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.


The Board of Directors accept responsibility for the Hotel's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors confirm that the Hotel's financial statements give a true and fair view of the state of Hotel's transactions during the financial year ended June 30, 2020, and of the Hotel's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Hotel, which have been relied upon in the preparation of the Hotel's financial statements as well as the adequacy of the systems of internal financial control.

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

**Approval of the financial statements**

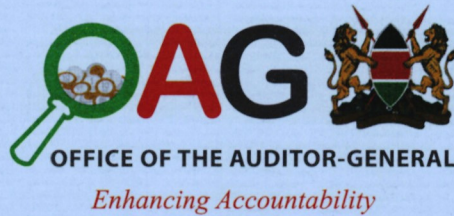
Sunset Hotel's financial statements were approved by the Board on 23/09/ 2020 and signed on its behalf by:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

# REPUBLIC OF KENYA



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Anniversary Towers  
Monrovia Street  
P.O. Box 30084-00100  
NAIROBI

## REPORT OF THE AUDITOR-GENERAL ON SUNSET HOTEL LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

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### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Sunset Hotel Limited set out on pages 1 to 39, which comprise of the statement of financial position as at 30 June, 2020, statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows, statement of changes in equity and the 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Sunset Hotel Limited as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

#### Basis for Qualified Opinion

##### 1.0 Undisclosed Material Uncertainty Related to Going Concern

The statement of profit and loss and other comprehensive income reflects a deficit totalling to Kshs.9,945,386 and had accumulated negative retained earnings totalling to Kshs.183,062,746. In addition, the current liabilities totalling to Kshs.126,728,130 exceeds its current assets totalling to Kshs.15,783,265 by an amount of Kshs.110,944,865. These conditions indicate the existence of a material uncertainty, which may cast significant doubt on the University's ability to continue as a going concern.

However, this material uncertainty in relation to sustainability of service and any mitigating measures put in place by the Management to reverse the undesirable precarious financial position have not been disclosed in the financial statements.

Under the circumstances, the financial statements have been prepared on the assumption that the Hotel will continue to receive financial support from the Government and its creditors.

## **2.0 Property, Plant and Equipment**

### **2.1 Fully Depreciated Assets**

As disclosed in Note 14 to the financial statements, the statement of financial position reflects property, plant and equipment balance totalling to Kshs.87,268,989. However, the Management had not depreciated assets whose original cost amounted to Kshs.26,984,756, since they had nil book values. These assets were still in use but had not been revalued to reflect current market value and no funds had been set aside to replace the fully depreciated assets. Further, the assets cards were not properly numbered and labeled in the Hotel's name. Physical verification revealed that all the fixed assets were not coded or assigned distinct identification tags. The assets were also not insured and therefore exposed to loss. This is contrary to Regulation 139 of the Public Finance Management (National Government), 2015 that requires an accounting officer of a national government entity to take full responsibility and ensure that proper control for assets in their control.

### **2.2 Unsupported Capital Work in Progress**

The balance includes work in progress totalling to Kshs.26,911,576 on account of renovation, extension and refurbishment of the Hotel in regard to a contract entered into with a construction firm in July, 2004. The completion certificate for renovations done in June, 2011 was not provided.

Consequently, the accuracy, completeness and validity of the property, plant and equipment balance totalling to Kshs.87,268,989 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

### **3.0 Inaccuracy in Revaluation Reserve**

As reported in previous years, the revaluation reserve balance of Kshs.79,262,476 reflected in the statement of financial position has remained constant since the assets were last valued in 2004. This contravenes International Accounting Standard No.16 which requires that the transfers be made to the revenue reserves on an annual basis as the assets are depreciated. Although the standard requires that fixed assets be revalued periodically, the last revaluation of the Hotel's assets was done sixteen (16) years ago.

Consequently, the accuracy, validity and completeness of the revaluation reserve balance totalling to Kshs.79,262,476 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

### **4.0 Inaccuracies in Bank and Cash Balances**

As disclosed in Note 17(a) to the financial statements, the statement of financial position reflects bank and cash balances totalling to Kshs.1,041,467. The balance includes a

balance totalling to Kshs.901,399 held at a commercial bank. The bank reconciliation statement for the account had unrepresented cheques totalling to Kshs.510,536 as at 30 June, 2020 out of which cheques amounting to Kshs.73,524 were stale. However, the cheques had not been reversed in the cashbook.

Consequently, the accuracy, completeness and validity of the reported bank and cash balances totalling to Kshs.1,041,467 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

#### **5.0 Trade and Other Receivables**

As disclosed in Note 16(a) to the financial statements, the statement of financial position reflects trade and other receivables balance totalling to Kshs.14,655,074 which is net of provisions for bad and doubtful receivables totalling to Kshs.3,090,163. Included in receivables are debts amounting to Kshs.14,538,951 owed by Government institutions. Although a provision for bad and doubtful debts of Kshs.3,090,163 has been made, its sufficiency could not be confirmed.

Consequently, the accuracy, completeness and validity of trade and other receivables balance totalling to Kshs.14,655,074 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

#### **6.0 Unsupported Loans from the Tourism Finance Corporation**

The statement of financial position reflects the non-current portion of loans from Tourism Finance Corporation totalling to Kshs.68,124,394. Further there is the current portion of accrued loan principal totalling to Kshs.38,449,841 and accrued interest totalling to Kshs.37,604,467. A confirmation of the balances due to Tourism Finance Corporation was not provided. The Hotel has not been servicing the loans and hence the continued accumulation of interest.

Consequently, the completeness, validity and accuracy of the loan balances due to Tourism Finance Corporation totalling to Kshs.68,124,394 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Sunset Hotel Limited Management in accordance with ISSAI 130 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 for my qualified opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

## **Other Matter**

### **1.0 Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis totalling to Kshs.55,611,506 and Kshs.18,546,294 respectively, resulting to an underfunding amounting to Kshs.37,065,212 or 67% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.54,488,055 and Kshs.28,491,680 respectively, resulting to an underperformance amounting to Kshs.25,996,375 or 48% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on the Hotels profitability.

### **2.0 Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury and Planning Circular reference No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources Section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1.0 Long Outstanding Payables**

As disclosed in Note 22 to the financial statements, the statement of financial position reflects trade and other payables totalling to Kshs.50,673,822. The balance includes Pay As You Earn (PAYE), Value Added Tax and Withholding Tax of Kshs.17,334,633, Kshs.12,709,065, Kshs.1,456,346 and outstanding audit fees of Kshs.4,736,000 which has accrued for the last 16 years respectively. This is contrary to the income tax law and Section 41 of the Public Audit Act 2015 which requires the entities to pay for the audit at prescribed rates.

Consequently, the Management is in breach of the law.

## **2.0 Lack of Filing of Annual Returns**

There was no evidence indicating when the Hotel filed its last annual returns to the registrar of companies in contravention of Section 705 of the Companies Act, 2015 which requires companies to submit annual returns on the anniversary date of the last return.

Consequently, the Management is in breach of the law.

## **3.0 Non-Establishment of an Audit Committee**

There was no evidence that the Hotel did not have an Internal Audit Department and an audit committee. This is contrary to Regulation 174 Public Finance Management (National Government), 2015 which requires that every national government entity to establish and audit committee.

Consequently, the Management is in breach of the law.

## **4.0 Lack of Insurance**

The Hotel did not insure its assets during the year. This is contrary to Public Finance Management National Government Regulation 139 of 2015 that requires an accounting officer of a national government entity to take full responsibility and ensure that proper control for assets in their control. Further, it did not have the mandatory work injury benefit cover for its employees as required by section 7 of the Work Injury Benefits Act 2007.

Consequently, the Management is in breach of the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the procedures performed, except for the matter described in the Conclusion on Effectiveness of Internal Controls section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **Weak Internal Control**

The Hotel has operated with skeleton staff with only one (1) permanent employee and ten (10) temporary staff since June, 2019 when staff were retrenched. The permanent

employee is the Accountant as well as the Acting General Manager. The inability to segregate duties compromises effectiveness of internal controls of the hotel.

Consequently, I am unable to confirm that the internal controls were operating effectively for the year ended 30 June, 2020.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the companies Act, 2015, 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;
- ii. In my opinion, adequate accounting records have been kept by the Hotel, so far as appears from the examination of those records; and,
- iii. The Hotel's financial statements are in agreement with the accounting records and returns.

## Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Hotel's ability to continue as a going concern, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Hotel or to cease operations.

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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Hotel monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

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. 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 and weakness 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.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.


Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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.
- 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 applicable 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 Hotel's ability to continue to as a going concern. 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 Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Hotel to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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.

  
 CPA Nancy Gathungu, CBS  
**AUDITOR-GENERAL**

**Nairobi**

**01 February, 2022**

**SUNSET HOTEL LIMITED**  
**Annual Reports and Financial Statements**  
**For the financial year ending 30 June 2020**

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**STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020**

	Note	2020 Kshs	2019 Kshs
<b>REVENUES</b>			
Sales/ Turnover	6(a)	18,546,294	36,011,363
<b>TOTAL REVENUES</b>		<b>18,546,294</b>	<b>36,011,363</b>
Cost of Sales	6(b)	4,002,365	8,109,031
<b>GROSS PROFIT</b>		<b>14,543,929</b>	<b>27,902,332</b>
<b>OPERATING EXPENSES</b>			
Administration Costs	7(a)	16,710,378	52,716,308
Selling and Distribution Costs	8	321,642	402,067
Depreciation of Property, plant and equipment	14	2,127,509	3,382,695
<b>TOTAL OPERATING EXPENSES</b>		<b>19,159,529</b>	<b>56,501,070</b>
<b>OPERATING PROFIT/(LOSS)</b>		<b>(4,615,600)</b>	<b>(28,598,738)</b>
Finance Costs	10	5,329,786	5,150,384
<b>PROFIT/(LOSS) BEFORE TAXATION</b>	11(b)	<b>(9,945,386)</b>	<b>(33,749,122)</b>
<b>INCOME TAX EXPENSES/ (CREDIT)</b>		-	-
<b>PROFIT/(LOSS) AFTER TAXATION</b>	11(b)	<b>(9,945,386)</b>	<b>(33,749,122)</b>
Earnings per share – basic and diluted	12	(16.58)	(56.25)
Dividend per share	13	-	-

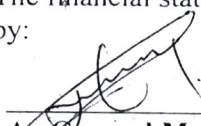
**SUNSET HOTEL LIMITED**

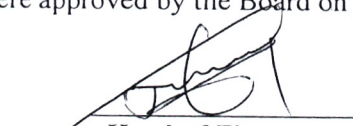
**Annual Reports and Financial Statements  
For the financial year ending 30 June 2020**

**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020**

	Note	2020 Kshs	2019 Kshs
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	14	87,268,989	89,351,698
<b>Total Non-Current Assets</b>		<b>87,268,989</b>	<b>89,351,698</b>
<b>Current Assets</b>			
Inventories	15	86,724	187,472
Trade and other receivables	16(a)	14,655,074	16,053,799
Bank and cash balances	17(a)	1,041,467	775,149
<b>Total Current Assets</b>		<b>15,783,265</b>	<b>17,016,420</b>
<b>Total Assets</b>		<b>103,052,254</b>	<b>106,368,118</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Ordinary share capital	18	12,000,000	12,000,000
Revaluation reserve	19	79,262,476	79,262,476
Retained earnings		(183,062,746)	(173,117,360)
Proposed dividends			
<b>Capital and Reserves</b>		<b>(91,800,270)</b>	<b>(81,854,884)</b>
<b>Non-Current Liabilities</b>			
Shareholders loan advanced		1,431,286	1,431,286
TFC Loans Principle balance	21	64,193,108	62,412,207
Advance from TFC		2,500,000	2,500,000
<b>Total Non-Current Liabilities</b>		<b>68,124,394</b>	<b>66,343,493</b>
<b>Current Liabilities</b>			
Trade and other payables	22	50,673,822	54,045,184
Accrued Loan Principal	23(b)	38,449,841	35,559,641
Accrued Loan interest	23(b)	37,604,467	32,274,684
<b>Total Current Liabilities</b>		<b>126,728,130</b>	<b>121,879,509</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>103,052,254</b>	<b>106,368,118</b>

The financial statements were approved by the Board on 23/09/2020 and signed on its behalf by:

  
Ag. General Manager  
Risper Chichole

  
Head of Finance  
Risper Chichole  
CPAK M/NO: 8320

  
Chairman of the Board

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**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020**

	Ordinary share capital	Revaluation reserve	Retained earnings	Total
	Kshs	Kshs	Kshs	Kshs
<b>At July 1, 2018</b>	<b>12,000,000</b>	<b>79,262,476</b>	<b>(139,368,238)</b>	<b>(48,105,762)</b>
Revaluation gain	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-
Capital/Development grants received during the year	-	-	-	-
Profit/( Loss) for the year			(33,749,122)	(33,749,122)
<b>At June 30, 2019</b>	<b>12,000,000</b>	<b>79,262,476</b>	<b>(173,117,360)</b>	<b>(81,854,884)</b>
<b>At July 1, 2019</b>	<b>12,000,000</b>	<b>79,262,476</b>	<b>(173,117,360)</b>	<b>(81,854,884)</b>
Revaluation gain	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-
Capital/Development grants received during the year	-	-	-	-
Profit/( Loss) for the year			(9,945,386)	(9,945,386)
<b>At June 30, 2020</b>	<b>12,000,000</b>	<b>79,262,476</b>	<b>(183,062,746)</b>	<b>(91,800,270)</b>

**SUNSET HOTEL LIMITED**Annual Reports and Financial Statements  
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	Note	2020 Kshs	2019 Kshs
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from /(used in ) operations			
	23(a)	(4,359,983)	(29,771,509)
Interest received		-	-
Interest paid		-	-
Taxation paid		-	-
<b>Net cash generated from/(used in) operating activities</b>	23(a)	<b>(4,359,983)</b>	<b>(29,771,509)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	14	(44,800)	(53,448)
Proceeds from disposal of property, plant and equipment		-	-
<b>Net cash generated from/(used in) investing activities</b>		<b>(44,800)</b>	<b>(53,448)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loan from TFC	23(b)	4,671,101	30,000,000
TFC Repayment of borrowings		-	-
<b>Net cash generated from/(used in) financing activities</b>		<b>4,671,101</b>	<b>30,000,000</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>266,318</b>	<b>175,043</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	23(c)	<b>775,149</b>	<b>600,106</b>
Effects of foreign exchanges rate fluctuations		-	-
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	23(c)	<b>1,041,467</b>	<b>775,149</b>

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**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2020**

Particulars	Original Budget	Adjustments	Final Budget	Actual Comparable Basis	Performance Difference	% age Variance	Remarks
	2019-2020	2019-2020	2019-2020	2019-2020	2019-2020	2019-2020	
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	
<b>Revenue</b>							
Sales	55,611,506	-	55,611,506	18,546,294	-37,065,212	-67%	U
Other Income	-	-	-	-	-		
<b>Total Revenues</b>	<b>55,611,506</b>	<b>-</b>	<b>55,611,506</b>	<b>18,546,294</b>	<b>-37,065,212</b>	<b>-67%</b>	
Cost of sales	12,642,429	-	12,642,429	4,002,365	8,640,064	68%	F
<b>Gross Profit</b>	<b>42,969,077</b>	<b>-</b>	<b>42,969,077</b>	<b>14,543,929</b>	<b>-28,425,148</b>	<b>-66%</b>	<b>U</b>
<b>EXPENSES</b>							
Administration Costs	30,467,340	-	30,467,340	16,710,378	13,756,962	45%	F
Selling and distribution Costs	718,403	-	718,403	321,642	396,761	55%	F
Depreciation Costs	6,127,274	-	6,127,274	2,127,509	3,999,765	65%	F
<b>Total Operating expenses</b>	<b>37,313,017</b>	<b>-</b>	<b>37,313,017</b>	<b>19,159,529</b>	<b>18,153,488</b>	<b>49%</b>	<b>F</b>
<b>Operating Profit/(Loss)</b>	<b>5,656,060</b>	<b>-</b>	<b>5,656,060</b>	<b>-4,615,600</b>	<b>-10,271,660</b>	<b>-182%</b>	<b>U</b>
Finance Costs	4,532,609	-	4,532,609	5,329,786	-797,177	-18%	U
<b>Profit/(Loss) before taxation</b>	<b>1,123,451</b>	<b>-</b>	<b>1,123,451</b>	<b>-9,945,386</b>	<b>-11,068,837</b>	<b>-985%</b>	<b>U</b>
Income tax expenses (credit)	-	-	-	-	-	-	
<b>Net Profit /( Loss) after taxation</b>	<b>1,123,451</b>	<b>-</b>	<b>1,123,451</b>	<b>-9,945,386</b>	<b>-11,068,837</b>	<b>-985%</b>	<b>U</b>

Key: U- Unfavorable  
F- Favorable

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**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL PERFORMANCE (continued)**

**Explanatory notes:-**

- a) The hotel missed its revenue target by 67%. This being as a result of the relatively dilapidated state of the hotel coupled with the effect of Covid-19 in the last quarter. The hotel's performance has been on a downward trend due to its poor state having been built 40 years ago. If given a slight facelift, the hotel will easily bring back its lost glory. It has immense potential given its very prime location.
- b) Cost of sales had a positive variance of 68% with this being due to the relatively low sales recorded during the period.
- c) Administration costs were below the budgeted figure i.e a positive variance of 45% due to low sales combined with the cost control measures put in place by the hotel.
- d) Selling and distribution costs were equally below the budgeted figure as a result of the hotel not operating optimally.
- e) There were no capital expenditure in the period/ as budgeted thus the favourable variance for the depreciation. This is a provision made in the books for depreciable assets. Notably a number of assets also happen to be fully depreciated thus the reduction in depreciation. The hotel intends to revalue all its assets in the near future.
- f) Finance costs deviated from the budgeted figure by 18%. This was as a result of revised interest rates.

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**NOTES TO THE FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

Sunset Hotel Limited was established and derives its authority and accountability from the Kenya Companies Act (cap 486). It was established in 1976. It is 95.4% owned by the Government of Kenya through Tourism Finance Corporation under the Ministry of Tourism and 4.6% by the County Government of Kisumu and is domiciled in Kenya. The hotel's principal activity is provision of accommodation and conference facilities.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the hotel's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the hotel.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

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**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

**a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020**

<b>Amendment/Interpretation to a standard</b>	<b>Effective date</b>	<b>Impact</b>
<i>IFRS 16: Leases</i> (Issued 13 January 2016)	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognize, measure, present and discloses leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> (Issued 7 June 2017)	Applicable to annual reporting periods beginning on or after 1 January 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively</li> <li>• Assumptions for taxation authorities' examinations</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</li> <li>• The effect of changes in facts and circumstances</li> </ul>
<i>IFRS 9: Prepayment features with negative Compensation</i> (Issued October 2017)	Applicable to annual reporting periods beginning on or after 1 January 2019	The amendments allow entities to measure prepayable financial assets with negative compensation at amortised cost of fair value through other comprehensive income if a specified condition is met.

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		<i>Not applied in preparing these financial statements</i>
<i>Annual Improvements to IFRS Standards 2015–2017 Cycle (Issued 12 December 2017)</i>	Annual periods beginning on or after 1 January 2019	<p>Makes amendments to the following standards:</p> <ul style="list-style-type: none"> <li>• <b>IFRS 3</b> and <b>IFRS 11</b> - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.</li> <li>• <b>IAS 12</b> - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognized) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.</li> </ul> <p><b>IAS 23</b> - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows <i>generally</i> when calculating the capitalization rate on general borrowings.</p>
<i>Annual Improvements to IAS 28 Long-term interests in Associates and Joint ventures (Issued October 2017)</i>	Annual periods beginning on or after 1 January 2019	<p>The amendment clarifies that an entity applies IFRS 9 rather than IAS 28, in accounting for long-term interests in associates and joint ventures</p> <p><i>Not applied in preparing these financial statements</i></p>

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<p><i>Annual Improvements to IAS 19 Plan Amendment, Curtailment or Settlement (Issued 7 February 2018)</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>The amendments in stipulates that;</p> <ul style="list-style-type: none"> <li>• If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the measurement.</li> <li>• In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.</li> </ul>
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**b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020**

Amendment/Interpretation to a standard	Effective date	Impact
<p><i>IFRS 17 Insurance Contracts (Issued 18 May 2017)</i></p>	<p>Annual periods beginning on or after 1 January 2021</p>	<p>It requires that insurance liabilities be measured at current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of January 2021</p>

The entity does not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

**c) Early adoption of standards**

The Hotel did not early – adopt any new or amended standards in year 2020.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of the financial

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statements are set out below:

**a) Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.;

i) **Revenue from the sale of goods and services** is recognized in the year in which the hotel delivers products/services to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

ii) **Finance income** comprises of interest receivable from bank deposits and investment in securities, and it recognized in profit and loss on a time proportion basis using effective interest rate method.

iii) **Other income** is recognized as it accrues.

**b) In-kind contributions**

These are donations made to the hotel in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the hotel includes such value in the statement of comprehensive income both as revenue and as expense in equal opposite amounts; otherwise the contribution is not recorded.

**c) Property Plant and Equipment**

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement. Land and Buildings are subsequently shown at market value, based on valuations by external independent valuers, less subsequent Depreciation for Buildings.

All other property Plant and Equipment is stated at historical cost less Depreciation.

Gains and losses on disposal of items of property, plant and equipment are determined by

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comparing the proceeds from the disposal with the net carrying amount of the items, and are recognized in profit or loss in the income statement.

**d) Depreciation and impairment of property, plant and equipment**

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognized in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life as follows:-

The annual rates in use are:

a) No depreciation is charged on the Leasehold land	
b) Building	- 2.5%
c) Property, Plant & Machinery	- 12.5%
d) Furniture, Fittings and Equipment	- 12.5%
e) Motor Vehicle	- 25.0%
f) Computers	- 33.0 %

Depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal on pro-rata basis.

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

**e) Intangible assets**

Intangible assets comprise purchased computer software licenses, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

**f) Amortization and impairment of intangible assets**

Amortization is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

**g) Impairment of non-financial assets**

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use- are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**g) Inventories**

Inventory is valued at the lower of cost and net realizable value. The Cost is determined by first in, first out (FIFO) method. Inventories are held for sale as raw materials for kitchen production supplies. Specific provisions are made for obsolete, slow moving and defective inventories.

**h) Turnover**

Turnover represents amounts received and receivable for services provided net of government taxes and levies.

**i) Trade & other receivables**

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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

**j) Taxation**

**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

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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.

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 Management periodically evaluates positions taken in the tax returns with respect to situations in which 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-

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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.

**k) 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 reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized officers which were not surrendered or accounted for at the end of the financial year.

**l) Borrowing**

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

**m) Trade and other payables**

Trade and other payables are non-interest bearing recognised initially at fair value and subsequently which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied , whether billed to the hotel or not, less any payments made to the suppliers.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current Liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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Payables are measured at amortised cost using the effective interest method. Payables are derecognised when extinguished.

**n) Retirement benefit obligations**

The company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.1080.00 per employee per month. A contributory pension scheme is also in place with employer/employee contributions set at 10% of the employees' basic pay.

**o) Provision for staff leave pay**

Employees' entitlements to annual leave are recognized as they accrue to the employees. A provision is made for the estimated liability for annual leave at the reporting date.

**p. Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

**q. Budget information**

The original budget for FY 2019-2020 was approved by the National Assembly on 1<sup>st</sup> July 2019. No subsequent revisions or additional appropriations were made to the approved budget. Any revisions if any are made in accordance with specific approvals from the appropriate authorities.

The hotel'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

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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 5 of these financial statements.

**r. Comparatives**

Comparative figures have been adjusted to conform to the changes in the presentation in the current year.

**s. Subsequent events**

Since the end of the year 2019/2020, no events have become known or have occurred that may lead to significant changes to these financial statements.

**5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the Entity's financial statements in conformity with IFRS 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 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.

**Critical accounting estimates and judgments in applying the entity's accounting policies**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

**i) Critical accounting estimates and assumptions**

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

**Useful lives of property, plant and equipment**

The company's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. The rates used are set out in (d) above.

**Recoverability of trade and other receivables**

Management has made Judgment in estimating the amounts that may not be recovered based on experience and efforts expended in the attempt to recover the outstanding balances.

**ii) Critical judgments in applying the entity's accounting policies**

In the process of applying the Company's accounting policies, management has made judgments in determining:

- The classification of assets into current and non-current
- Whether assets are impaired

**Provisions**

Provisions were raised and management determined an estimate based on the information available; specifically provision for bad debts which was estimated at 1% of the total budgeted revenue for the period.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

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**NOTES TO THE FINANCIAL STATEMENTS**

**6. (a) SALES /TURNOVER**

	<b>2020</b>	<b>2019</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Gross sales of Services	22,078,908	44,682,611
Less :taxes on gross sales	3,532,614	8,671,248
	<b>18,546,294</b>	<b>36,011,363</b>
(Taxes :14% VAT,2% CLT)		
Accommodation	3,416,991	7,776,942
Food-Casuals	7,381,764	15,519,472
Food-Residents	2,653,121	4,440,240
Drinks	2,908,466	5,027,601
Tobacco	19,559	26,707
Swimming	1,006,582	961,356
Laundry	9,147	19,836
Other Income	1,150,664	2,239,209
<b>Total</b>	<b>18,546,294</b>	<b>36,011,363</b>
<b>(b)Cost of sales</b>		
Food	2,761,372	6,049,990
Beverage	1,225,428	2,038,761
Tobacco	15,565	20,280
<b>Total</b>	<b>4,002,365</b>	<b>8,109,031</b>

**7. (a) ADMINISTRATION COSTS**

Staff costs note( 7b)	8,225,650	43,138,797
Directors emoluments	595,265	604,614
Electricity and water	1,927,310	3,444,755
Transportation, travelling and subsistence	116,557	434,690
Printing, stationary and photocopy	176,046	484,718
Insurance costs	4,520	6,534
Bank charges and commissions	75,717	91,064
Office and general supplies and services	41,703	48,041
Auditors remunerations	300,000	300,000
Legal fees	5,000	187,818
Repairs and maintenance	2,504,229	(313,445)
Provision for Bad and doubtful debts	507,288	460,902
Other Operating Costs	2,231,093	3,827,820
<b>Total</b>	<b>16,710,378</b>	<b>52,716,308</b>

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**(b) STAFF COSTS**

	<b>2020</b>	<b>2019</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Salaries and allowances of permanent employees	4,214,184	14,164,094
Wages of temporary employees	910,794	17,855
Compulsory national health insurance schemes	-	-
Compulsory national social security schemes	134,092	560,602
Terminal dues	967,597	19,940,049
Leave Pay and gratuity provisions	-	1,211,112
Staff travel and other related expenses	1,998,983	7,245,086
<b>Total</b>	<b>8,225,650</b>	<b>43,138,797</b>

**The average number of employees:**

Permanent employees- Management	1	4
Permanent employees- Unionisable	nil	46
Temporary and contract employees	10	nil
<b>Total</b>	<b>11</b>	<b>50</b>

**8. SELLING AND DISTRIBUTION COSTS**

Advertising, marketing and promotional	-	-
Sales commission	-	-
Sales discounts and rebates	-	-
Other selling and distribution costs	321,642	402,067
<b>Total</b>	<b>321,642</b>	<b>402,067</b>

**9. OPERATING PROFIT/(LOSS)**

The operating profit /(loss) is arrived at after charging /(crediting):

Staff cost (note 7(b))	8,225,650	43,138,797
Depreciation of property, plant and equipment	2,127,509	3,382,695
Provision for bad doubtful debts	507,288	460,902
Directors emoluments -Fees	540,000	540,000
-Expenses	55,265	64,614
Auditors remuneration- current year fees	300,000	300,000
Interest on loan	5,329,786	5,150,384

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Land rent & rates	1,484,791	370,032
<b>Total</b>	<b>18,570,289</b>	<b>53,487,424</b>
	<b>2020</b>	<b>2019</b>
<b>10. FINANCE COSTS</b>	<b>Kshs.</b>	<b>Kshs.</b>
Exchange losses on short term bank deposits	-	-
Exchange losses on cash and bank balances	-	-
Interest expenses on loans	5,329,786	5,150,384
Interest expenses on bank overdrafts	-	-
<b>TOTAL</b>	<b>5,329,786</b>	<b>5,150,384</b>
<b>11. INCOME TAX EXPENSES / (CREDIT)</b>		
<b>(a) Current taxation</b>		
Current taxation based on the adjusted profit	-	-
Current tax :prior year under / ( over )provision	-	-
Current year deferred tax charge	-	-
Prior year under – provision for deferred tax	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>
<b>(b) Reconciliation of tax expenses/ (credit) to the Expected tax based on profit</b>		
Profit before taxation	(9,945,386)	(33,749,122)
Tax at applicable tax rate of 30%	-	-
Prior year under-provision	-	-
Tax effects of expenses not deductible for tax	-	-
Tax effect of income not taxable	-	-
Tax effects of excess capital allowances over	-	-
Deferred tax prior year over - provision	-	-
<b>Total</b>	<b>(9,945,386)</b>	<b>(33,749,122)</b>

**12. EARNINGS PER SHARE**

The earnings per share is calculated by dividing the loss after tax of (Kshs. 9,945,386) (2019: (Kshs. 33,749,122)) by the average number of ordinary shares in issue during the year of 600,000 (2019: 600,000). There were not dilutive or potentially dilutive ordinary share as at the reporting date.

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**13. DIVIDEND PER SHARE**

Proposed dividends are accounted for as a separate component of equity until they have been ratified and declared at the relevant Annual General Meeting (AGM). No interim dividend was declared and/or paid during the year neither is it expected that any dividends will be declared because of the recurrent losses.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

14. PROPERTY, PLANT AND EQUIPMENT

2020	LEASEHOLD LAND	BUILDING	WORK IN PROGRESS	PROPERTY PLANT & EQUIPMENT	FURNITURE & FITTING	MOTOR VEHICLE	TOTAL
COST OR VALUATION	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
As at 01-07-2019	15,000,000	75,000,000	26,911,576	11,976,729	15,969,234	295,000	145,152,540
Additions	-	-	-	44,800	-	-	-
As at 30-06-2020	15,000,000	75,000,000	26,911,576	12,021,529	15,969,234	295,000	145,197,339
DEPRECIATION							
As at 01.07.2019	-	28,125,000	-	11,815,132	15,565,709	295,000	55,800,841
Charge for the year	-	1,875,000	-	89,689	162,820	-	2,127,509
As at 30-06-2020	-	30,000,000	-	11,904,821	15,728,529	295,000	57,928,350
NET BOOK VALUE							
As at 30-6-2019	15,000,000	46,875,000	26,911,576	161,597	403,525	-	89,351,698
As at 30-6-2020	15,000,000	45,000,000	26,911,576	116,708	240,705	-	87,268,989

Work in progress relates to building renovation/extensions works for roof top bar and restaurant which are yet to be completed or commissioned.

Property, plant and equipment include the following items that are fully depreciated:

	Cost or valuation	Normal annual Depreciation charge
Plant & machinery	11,517,806	1,439,725
Motor vehicle	295,000	73,750
Office equipment, furniture & equipment	15,171,950	1,896,494
	<b>26,984,756</b>	<b>3,409,969</b>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**PROPERTY, PLANT AND EQUIPMENT (continued)**

2019	LEASEHOLD LAND	BUILDING	WORK IN PROGRESS	PROPERTY PLANT & EQUIPMENT	FURNITURE & FITTING	MOTOR VEHICLE	TOTAL
COST OR VALUATION	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
As at 01-07-2018	15,000,000	75,000,000	26,911,576	11,923,281	15,969,234	295,000	145,099,092
Additions	-	-	-	53,448	-	-	-
As at 30-06-2019	15,000,000	75,000,000	26,911,576	11,976,729	15,969,234	295,000	145,152,540
DEPRECIATION							
As at 01.07.2018	-	26,250,000	-	11,322,748	14,550,398	295,000	52,418,147
Charge for the year	-	1,875,000	-	492,384	1,015,311	-	3,382,695
As at 30-06-2019	-	28,125,000	-	11,815,132	15,565,709	295,000	55,800,838
NET BOOK VALUE							
As at 30-6-2018	15,000,000	48,750,000	26,911,576	600,532	1,418,837	-	92,680,945
As at 30-6-2019	15,000,000	46,875,000	26,911,576	161,597	403,525	-	89,351,698

Work in progress relates to building renovation/extensions works for roof top bar and restaurant which are yet to be completed or commissioned.

Property, plant and equipment include the following items that are fully depreciated:

	Cost or valuation	Normal annual Depreciation charge
Plant & machinery	10,024,052	1,253,006
Motor vehicle	295,000	73,750
Office equipment, furniture & equipment	10,411,123	1,301,390
	<b>20,730,175</b>	<b>2,628,146</b>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

	<b>2020</b>	<b>2019</b>
	<b>Kshs.</b>	<b>Kshs.</b>
<b>15. INVENTORIES</b>		
Food store	33,918	101,648
Bar stock & Tobacco	52,806	85,824
<b>TOTAL</b>	<b>86,724</b>	<b>187,472</b>
<b>16 (a) TRADE AND OTHER RECEIVABLES</b>		
Trade receivables (note b )	17,366,141	18,257,578
Deposits and prepayments	379,096	379,096
VAT recoverable	-	-
Staff receivables	-	-
Gross trade and other receivables	<b>17,745,237</b>	<b>18,636,674</b>
Provisions for Bad and doubtful receivables)	(3,090,163)	(2,582,875)
Net trade and other receivables	<b>14,655,074</b>	<b>16,053,799</b>
<b>(b) TRADE RECEIVABLES</b>		
Gross trade receivables	17,366,141	18,257,578
Other : Provisions for Bad and doubtful receivables)	(3,090,163)	(2,582,875)
Net trade and other receivables	<b>14,275,978</b>	<b>15,674,703</b>
At June 30, the ageing analysis of the gross trade receivables was as follows :		
Less than 30days	2,703,765	1,001,532
Between 30 and 60days	311,983	748,409
Between 61 and 90 days	-	664,697
Between 91 and 120 days	1,435,039	439,199
Over 120 days	12,915,354	15,403,741
	<b>17,366,141</b>	<b>18,257,578</b>

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	2020	2019
	Kshs.	Kshs.
<b>17 (a) BANK AND CASH BALANCES</b>		
Cash at bank	1,007,490	642,549
Cash at hand	33,977	132,600
	<b>1,041,467</b>	<b>775,149</b>
<b>(b) DETAILED ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
<b>Cash at Hand:</b>		
Cash float	-	-
Petty cash	17,377	88,000
Mpesa	13,100	19,000
Airtime	-	-
Credit Cards	3,500	25,600
	<b>33,977</b>	<b>132,600</b>
<b>Cash at Bank(Current Accounts)</b>		
National bank-A/c No.01020023525100	901,399	320,373
KCB- A/c No. 1108232736	106,091	322,176
	<b>1,007,490</b>	<b>642,549</b>

The bulk of the cash was held at National bank the main banker

**18. ORDINARY SHARE CAPITAL**

	2020	2019
	Kshs.	Kshs.
Authorized , issued and fully paid 572,500 Ordinary Shares @ Kshs.20/= ( TFC)	11,450,000	11,450,000
27500 Ordinary Shares @ Kshs 20/= ( Kisumu County)	550,000 <b>12,000,000</b>	550,000 <b>12,000,000</b>

**19. REVALUATION RESERVE**

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation to retained earnings.

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- i) These reserves shown in the Statement of changes in Equity arose due to valuation of the hotels building and land in the year 2004.
- ii) Land and building were initially taken at a value of kshs. 178,013 and 10,559,511 respectively. However on revaluation, the values came to Kshs. 75,000,000 for Building and 15,000,000 for leasehold land.
- iii) This therefore resulted in reserves of Kshs. 64,440,489 for Building and 14,821,987 for leasehold land respectively. A total of kshs. 79,262,476.

**20. RETAINED EARNINGS**

The retained earnings represent amounts available for distribution to the hotel's shareholders. Undistributed retained earnings if any are utilized to finance the hotel's activities. However, the hotel has retained losses as at date.

**21. BORROWINGS**

	<b>2020</b>	<b>2019</b>
	<b>Kshs</b>	<b>Kshs</b>
Balance at beginning of the year	62,412,207	35,302,407
External borrowings during the year	-	-
Domestic borrowings during the year	4,671,101	30,000,000
Repayments of external borrowings during the year	-	-
Repayments of domestics borrowings during the year	2,890,200	2,890,200
Balance at end of the year	<b>64,193,108</b>	<b>62,412,207</b>
Less: Amounts due within one year (current portion)	(2,890,200)	(2,890,200)
Amounts due after one year (non-current portion)	<b>61,302,908</b>	<b>59,527,007</b>
Accrued Loan Principal(current portion)	38,449,841	35,559,641
Accrued Loan Interest(current portion)	37,604,470	32,274,684
Total loan and Accrued Interest	<b>140,247,419</b>	<b>130,246,532</b>

The above borrowing is from TFC, one of the shareholders at an interest rate of 11%, with the respective loans being as follows:

Particulars	Loan 1	Loan 2	Loan 3	loan 4	Loan 5	Loan 6	Loan 7	TOTAL
Balance B/Forward	14,092,760	10,004,022	923,243	1,982,732	5,409,450	30,000,000	-	62,412,207
Additions	-	-	-	-	-	-	4,671,101	4,671,101
Repayment	-	-	(651,768)	-	(2,238,432)	-	-	(2,890,200)
<b>Totals</b>	<b>14,092,760</b>	<b>10,004,022</b>	<b>271,475</b>	<b>1,982,732</b>	<b>3,171,018</b>	<b>30,000,000</b>	<b>4,671,101</b>	<b>64,193,108</b>

**SUNSET HOTEL LIMITED****Annual Reports and Financial Statements  
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	<b>2020</b>	<b>2019</b>
	<b>Kshs</b>	<b>Kshs</b>
Trade Creditors	11,889,128	14,083,181
Value Added Tax	12,709,065	12,420,845
Service Charge	-	26,990
CLT	69712	35,800
Deposits Payable	670,928	670,928
Payroll Control	207,941	614,271
P.A.Y.E	17,334,633	16,878,517
Staff Insurance Deductions	-	-
N.S.SF	2,335,820	2,328,580
N.H.I.F	9,050	8,650
Union dues	173,933	170,801
Pension	84,528	-
Sunset Sacco	-	166,719
Accrued Expenses	3,732,738	5,183,556
Withholding Tax	1,456,346	1,456,346
Terminal Control	-	-
	<b>50,673,822</b>	<b>54,045,184</b>

Included in Trade Creditors above is Kshs.4,736,000 being outstanding audit fee owed to the Kenya National Audit Office.

**23. NOTES TO THE STATEMENT OF CASHFLOWS****(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations**

Operating profit/(loss)	(9,945,386)	(33,749,122)
Depreciation	2,127,509	3,382,695
Interest Charged	5,329,786	5,150,384

Operating profit/(loss) before working capital changes **(2,488,091)** **(25,216,043)**

(Increase)/decrease in inventories	100,747	6,117
(Increase)/decrease in trade and other receivables	1,398,724	989,329
Increase/(decrease) in trade and other payables	(3,371,363)	(5,550,912)

Cash generated from/(used in) operations **(4,359,983)** **(29,771,509)**

**(b) Analysis of changes in loans**

Balance at beginning of the year	62,412,207	35,302,407
Receipts during the year	4,671,101	30,000,000
Repayments during the year	(2,890,200)	(2,890,200)

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	<b>2020</b>	<b>2019</b>
	<b>Kshs</b>	<b>Kshs</b>
Repayments of previous year's accrued interest	-	-
Foreign exchange (gains)/losses	-	-
Accrued interest	37,604,470	32,274,684
Accrued Principal	38,449,841	35,559,641
Balance at end of the year	<b>140,247,419</b>	<b>130,246,532</b>

**(c) Analysis of cash and cash equivalents**

Cash at bank	1,007,490	642,549
Cash in hand	33,977	132,600
Balance at end of the year	<b>1,041,467</b>	<b>775,149</b>

**24. PROVISION FOR LEAVE PAY**

	<b>2020</b>	<b>2019</b>
	<b>Kshs</b>	<b>Kshs</b>
Balance at the beginning of the year	1,211,112	-
Additional provision for the year	-	1,211,112
Leave paid out or utilized during the year	-	-
Balance at the end of the year	1,211,112	1,211,112

**Related party transactions**

The hotel has two shareholders namely Tourism Finance Corporation (TFC) and Kisumu County Government. Tourism Finance corporation owns 95% of Sunset Hotel Limited shareholding while Kisumu County owns 5%.

During the year, the hotel provided accommodation, conference and catering services to the Kisumu County Government valued at Kshs. 3,060,645 while Tourism Finance Corporation did not hold any business with the hotel in the financial year.

In addition, Tourism Finance Corporation loaned Sunset Hotel Kshs.4,671,101 to offset accumulated land rent and rates arrears. Sunset Hotel incurred Land rent & rates amounting to Kshs. 334,029 for land leased to the hotel for 99 Years by Kisumu County Government. It also paid off all the rates arrears totaling to Kshs.4,671,101 and got an interest and penalty waiver of Kshs.104,155,413 from the County Government of Kisumu in return.

## SUNSET HOTEL LIMITED

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#### Transactions with related parties

	2020 Kshs	2019 Kshs
<b>a) Loans received from the shareholders</b>		
Loans from TFC	4,671,101	30,000,000
Loans from Kisumu County Government	Nil	Nil
<b>Total</b>	<b>4,671,101</b>	<b>30,000,000</b>
<b>b) Key management compensation</b>		
Directors' emoluments	595,265	604,614
Compensation to key management	3,221,086	3,486,703
<b>Total</b>	<b>3,816,351</b>	<b>4,091,317</b>

#### 25. CONTINGENT LIABILITIES

	2020 Kshs	2019 Kshs
Land rate arrears against the <i>hotel(Kisumu County Government)</i>	-	78,382,920
Notice of Distress for outstanding tax arrears( <i>KRA</i> )	31,344,951	24,582,352
<b>Total</b>	<b>31,344,951</b>	<b>102,965,272</b>

#### Explanatory notes:

During the previous year, Kisumu County Government had issued a demand notice to the hotel for outstanding Land rates arrears of principle amount Kshs. 4,003,043 which had over the year's accrued interest and penalty to the tune of Kshs. 73,944,916. The hotel management entered into waiver negotiations with the County government once the waiver period was opened in the current financial year. The hotel managed to have the interest and penalties totaling to Kshs. 104,155,413 written off after settling the principal amount which stood at 4,671,101 as at then.

In the course of the year Kenya Revenue Authority issued a demand notice for outstanding principal tax arrears of Kshs. 31,344,951. The management appealed to the shareholders to intervene on behalf of the hotel to assist in payment of the principal amount with the hope that the interests will be waived. Meanwhile, the hotel has engaged KRA on the proposal to pay the amounts in instalments until such a time when cash flows will improve enough to offset the entire amount.

## 26. 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 minimize 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:

### a) 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	Fully Performing	Past due	Impaired
30-Jun-20	Kshs	Kshs	Kshs	Kshs
Trade receivables	17,366,141	3,196,015	11,079,963	3,090,163
Due from related parties	-	-	-	-
Bank balances	1,046,012	1,046,012		
<b>Total</b>	<b>18,412,153</b>	<b>4,242,027</b>	<b>11,079,963</b>	<b>3,090,163</b>

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The amount that best represents the company's maximum exposure to credit risk as at 30 June 2019 is as shown below:

	Total	Fully Performing	Past due	Impaired
30-Jun-19	Kshs	Kshs	Kshs	Kshs
Trade receivables	18,257,258	1,749,941	13,924,442	2,582,875
Due from related parties	-	-	-	-
Bank balances	642,549	642,549		
<b>Total</b>	<b>18,899,807</b>	<b>2,392,490</b>	<b>13,924,442</b>	<b>2,582,875</b>

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 county governments.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

***b) Liquidity risk***

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.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

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	Less than 1 month Kshs	Between 1- 3 months Kshs	Over 3 months Kshs	Total Kshs
<b>At 30 June 2020:</b>				
Trade payables	413,526	-	11,475,602	11,889,128
Current portion borrowings	-	-	75,874,906	75,874,906
Provisions	-	-	3,732,738	3,732,738
Deferred income	-	-	-	-
Employee benefit obligation	243,671	-	-	243,671
<b>Total</b>	<b>657,197</b>	<b>-</b>	<b>91,083,246</b>	<b>91,740,443</b>
<b>At 30 June 2019:</b>				
Trade payables	422,232	150,210	13,660,949	14,083,181
Parent company funding	-	-	67,834,325	67,834,325
Provisions	-	-	5,183,556	5,183,556
Deferred income	-	-	-	-
Employee benefit obligation	470,951	-	337,029	807,980
<b>Total</b>	<b>893,183</b>	<b>150,210</b>	<b>87,015,859</b>	<b>87,909,042</b>

**c) 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 optimizing 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.

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

i) Foreign exchange risk

The company does not undertake any major transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations are minimal. Any Foreign currency transactions during the year are converted into Kenya Shillings at Rates ruling at the transaction date. The resulting differences from conversion and Translation are dealt with in the Profit and Loss Statement in the year in which they arise.

ii) Interest rate risk

This 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. To mitigate this risk, the hotel tries to bank and only deal with banks/institutions that are well established and offer favorable interest rates.

**Fair Value of financial assets and liabilities**

a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the *entity's* market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

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- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The *entity* considers relevant and observable market prices in its valuations where possible.

There were no transfers between levels 1, 2 and 3 during the year.

b) Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)****FINANCIAL RISK MANAGEMENT (Continued)****d) Capital Risk Management**

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

<b>Particulars</b>	<b>2019-2020</b>	<b>2018-2019</b>
	<b>Kshs</b>	<b>Kshs</b>
Revaluation reserve	79,262,476	79,262,476
Retained earnings	(183,062,746)	(173,117,360)
Capital reserve	12,000,000	12,000,000
<b>Total funds</b>	<b>(91,800,270)</b>	<b>(81,854,884)</b>
Total borrowings	64,193,108	62,412,207
Less: cash and bank balances	(1,041,467)	(775,149)
Net debt/(excess cash and cash equivalents)	63,151,641	61,637,058
<b>Gearing</b>	<b>168%</b>	<b>175%</b>

**27. CURRENCY**

The financial statement is presented in Kenya shillings. (Kshs.)

**28. EVENTS AFTER CLOSING PERIOD**

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

**29. INCORPORATION**

The hotel is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

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APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the Auditor General on the previous year's statements and the management comments that were provided to the auditors. The 2018/2019 audit report had not been received as at the date of preparing these statements. The hotels nominated focal persons to resolve the various issues and associated time frame with which the issues are expected to be resolved.

Ref. No.	Issue/observations from Auditor General	Management comments	Focal point person to resolve the issue	Status	Time Frame
1.	<p><b>Inaccurate Share Holding-Discrepancy in Share Certificate and Undisclosed Share Certificates</b></p> <p>Sunset Hotel was incorporated under the Kenya Companies Act(Cap 486) in 1976. The shareholders are Tourism Finance Corporation with 95.4% shareholding and Kisumu County Executive (formerly Municipal Council of Kisumu) with 4.6% shareholding. The shares held by the defunct Municipal council and TFC have not been transferred to the newly created entities as required by law.</p> <p>Further, share certificate provided for audit review amounted to Kshs. 17,000,000 while Financial statement reflects Kshs. 12,000,000. The difference of Kshs. 5,000,000 in capital as reflected in the share certificate was not explained. Further, the certificate of the defunct Municipal Council of Kisumu worth 4.6% shareholding was not made available for audit review</p>	<p>Initially as at 5<sup>th</sup> February 1976 the hotel had 250,000 shares of Kshs.20 each (TFC-202,500, Kisumu county-27,500, unalloted-20,000).</p> <p>On 15<sup>th</sup> March 1977, the board approved increase of shares to 600,000 of Ksh.20 each thus a total authorized capital of 12,000,000. The shareholding was then revised to 572,500 for TFC and 27,500 for Kisumu County. There have been no further changes since then. The share certificates provided for audit i.e certificate 1 and 3 are for 202,500 and 370,000 shares respectively thus totaling to Kshs.11,450,000 being TFC's total shareholding. Thus only one share certificate of 27,500 shares belonging to Kisumu County totaling to Kshs.550,000 is yet to be availed for audit review.</p>	Company Secretary	Partly resolved	30 <sup>th</sup> June 2021

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2.	<p><b>Property, Plant and Equipment</b></p> <p><b>i. Fully Depreciated Assets</b></p> <p>The statement of financial position reflects property, plant and equipment balance of Kshs.92,680,945. However, the Hotel had depreciated Electric Transformer, Volume Washing Machine and Motor Vehicles whose original cost amounted to Kshs. 8,814,614 to nil value. These assets were still in use but had not been revalued to reflect current market value. There were no funds kept aside for replacement of fully depreciated assets. Further although the Hotel maintains a fixed asset register, the assets cards are not properly numbered and do not have the Hotel's name. Physical verification revealed that all the assets were not coded or given a distinct identification tag as required. Consequently the validity and correctness of the fixed assets register could not be confirmed.</p>	<p>The fixed asset cards have since been numbered and labeled accordingly by indicating the name of the entity on each card. The management will also ensure that all the assets are physically coded as required. Records for any breakages shall also be kept accordingly. However, due to financial constraints the hotel is still in the process of having revaluation done. It's expected that the revaluation will be conducted sooner than later.</p>	<p>Maintenance Supervisor/Accountant/General Manager</p>	<p>Partly resolved</p>	<p>30<sup>th</sup> June 2021</p>
	<p><b>ii) Revaluation Reserve</b></p> <p>As previously reported, revenue reserve balance of Kshs. 79,262,476 has remained constant since the assets were lastly valued in 2004 and hence contravening International Accounting Standard No. 16 which requires that transfers be made to the revenue reserves on an annual basis as the assets are depreciated. Further, although the standard requires that fixed assets be revalued periodically</p>	<p>The management has fully engaged the board and shareholders on the issue and the process is ongoing.</p>	<p>General Manager</p>	<p>On-going</p>	<p>30<sup>th</sup> June 2021</p>

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	<p>the last revaluation of the Hotel's assets was done fifteen years ago. Consequently, the accuracy of property, plant and equipment balance of Kshs.92,680,945 as at 30<sup>th</sup> June 2018 cannot be confirmed.</p>		
3.	<p><b>Material Uncertainty Related to Going Concern</b></p> <p>During the year under review, the Hotel realized loss of Kshs. 21,901,756 against a loss of Kshs.27,700,389 reported in the year ended 30<sup>th</sup> June 2017. This raised the cumulative loss to Kshs.139,368,338(2017: Kshs. 117,466,482) as at 30<sup>th</sup> June 2018. The statement of financial position also reflects a negative working capital of Kshs.101,553,014.</p> <p>In view of the foregoing, the hotel is technically insolvent and its continued existence as a going concern is dependent upon financial support from National Government and its creditors.</p>	<p>It's true the hotel has been facing serious financial challenges over a period of time. However, the management together with the board of directors and shareholders are cognizant of the fact and are working on turn around strategies for the hotel. For instance the hotel declared its entire staff redundant in May 2019.</p> <p>This has since enabled the hotel to cut on its costs/reduce the losses given that a significant part of the costs/losses were staff related.</p> <p>Plans to refurbish the hotel are underway and its expected that with this, the hotel will turn around its fortunes.</p>	<p>General Manager</p> <p>On-going</p> <p>30<sup>th</sup> June 2021</p>

  
 General Manager

Date... 23/09/2020.....

  
 Chairman of the Board

Date... 23/09/2020