

REPUBLIC OF KENYA



*Paper laid by
the Hon. James Wambui
Mog
14/6/2018.*

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REPORT



OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
MT ELGON LODGE LIMITED

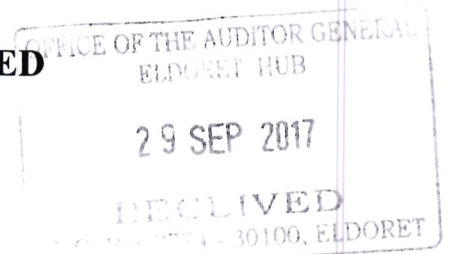
FOR THE YEAR ENDED
30 JUNE 2017



MT ELGON LODGE LIMITED

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**



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

MT ELGON LODGE LIMITED
Reports and Financial Statements
For the year ended June 30, 2017

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MT ELGON LODGE LIMITED

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KEY ENTITY INFORMATION

Background Information

Mt. Elgon Lodge Limited was incorporated under the Kenya Companies Act (Cap 486) in 1974. The shareholders of Mt. Elgon Lodge are Tourism Finance Corporation (TFC, formerly Kenya Tourist Development Corporation (KTDC)) and Trans-Nzoia County (formerly Kitale Municipal Council and Nzoia County Council). Tourism Finance Corporation is the majority shareholder in MEL with a direct controlling stake of 72.91% shares with Trans-Nzoia County shareholding of 27.09%. From the management perspective, Mt. Elgon Lodge 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 Lodge.

Principal Activities

The principal activity of the Mt. Elgon Lodge Limited is ownership and operation of the lodge facility mainly focusing on provision of accommodation and conference facility services to potential customers.

Directors

The Directors who served the entity during the year/period were as follows:

- | | | |
|----|----------------------|--|
| 1. | Mrs Edith Alusa | Chair Person |
| 2. | Ms Fatuma Mohammed | Director – PS Ministry of Tourism |
| 3. | Hon. Patrick Khaemba | Director – Governor Trans Nzoia County |
| 4. | Mr. John Orumoi | Director |

Corporate Secretary

Tourism Finance Corporation

Utalii House, 11th Floor

P.O. Box 42013-00100

Nairobi

Email: info@tourismfinanace.go.ke

Registered Office

Mt. Elgon Lodge Limited.

Mt. Elgon National Park

P.O. Box 7, ENDEBESS

KENYA

Corporate Headquarters

11th Floor, Utalii House Building, Uhuru Highway

P.O. Box 42013 – 00100 GP Nairobi,

KENYA

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For the year ended June 30, 2017

Corporate Contacts

Telephone: (254) 722471992

E-mail: mtelgonlodge@yahoo.com

mtelgonlodge@gmail.com

Corporate Bankers

Kenya Commercial Bank

Kitale Branch

P.O BOX 1974-30200

KITALE

Independent Auditors

Auditor General

Kenya National Audit Office

Anniversary Towers, University Way

P.O. Box 30084 – 00100 GPO

Nairobi, Kenya

Principal Legal Advisers

The Attorney General

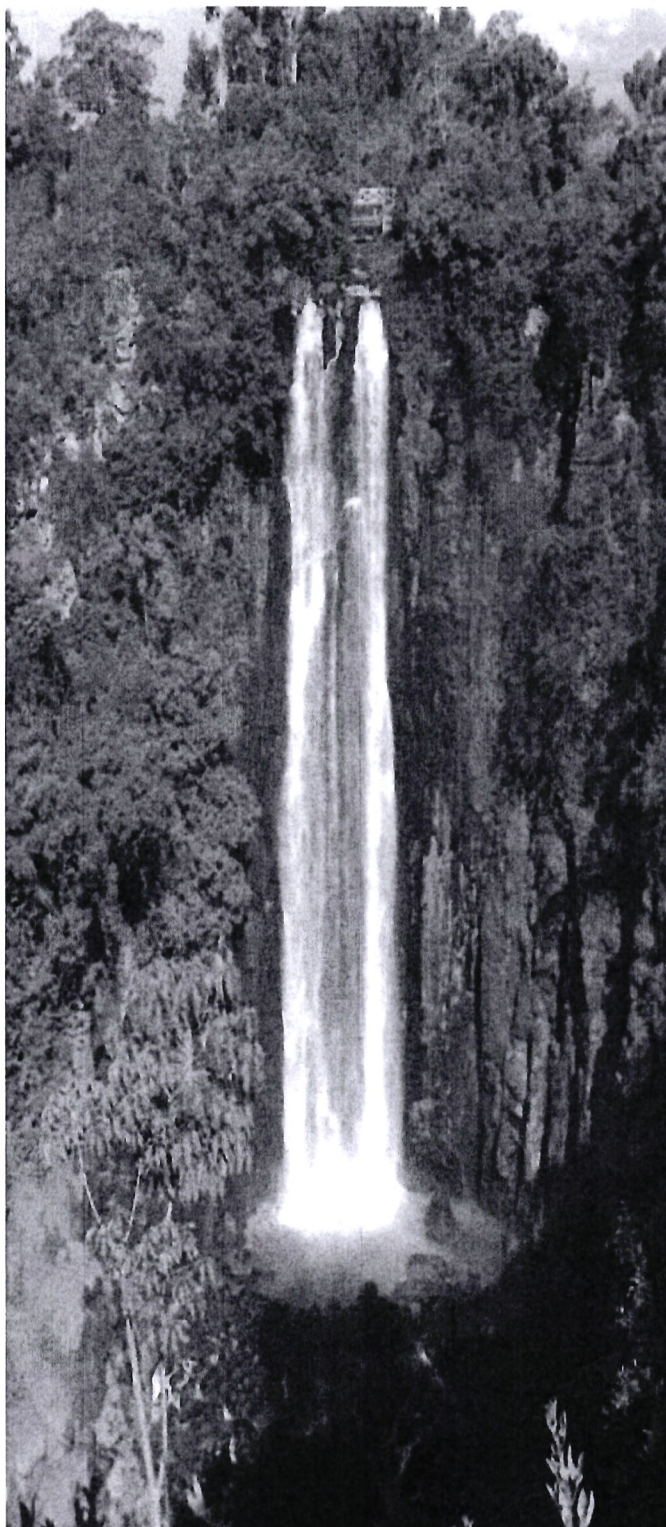
State Law Office

Harambee Avenue


P.O. Box 40112

City Square 00200

Nairobi, Kenya






MT ELGON LODGE LIMITED
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THE BOARD OF DIRECTORS

<p>1. EDITH ALUSA</p>		<p>DoB: 9th December, 1974</p> <p>Ms. Alusa is currently a Principal Partner at EED Advisory, a consultancy firm based in Kenya with service offerings in the energy and environment space. She is a seasoned consultant and has held Senior Management positions at Camco Clean Energy, NIRAS Consulting and the Ecotourism Society of Kenya.</p> <p>She holds a Master of Science Degree in Water and Environmental Management from Loughborough University (UK) and a Bachelor of Arts Degree (Geography) from Baraton University (Kenya). She is a Chevening Scholar, with training in applied environmental economics at the Imperial College London (UK).</p> <p>Ms. Alusa, who sits on several Boards including the Environment Committee; Kenya Alliance of Residents Association and Ecotourism Kenya, brings on the Board over nineteen (19) years of experience in Natural Resource Management, Environmental Policy Planning, Environmental Assessments and Carbon Asset Management.</p>
<p>2. FATUMA HIRSI MOHAMED(MRS.)</p>		<p>DoB: 17th August 1963</p> <p>Prior to joining the Ministry of Tourism as the Principal Secretary, Mrs. Fatuma Hirsi Mohamed was an international Civil Servant working for the United Nations. She has previous experience in various business sectors including telecommunocations, media and banking contributing to their corporate and business reputation and success. Fatuma has wide experience in strategic implementation and governance of business through marketing, public relations, communications, community and stakeholder relation building, corporate social responsibility and media engagement. She has also</p>




MT ELGON LODGE LIMITED

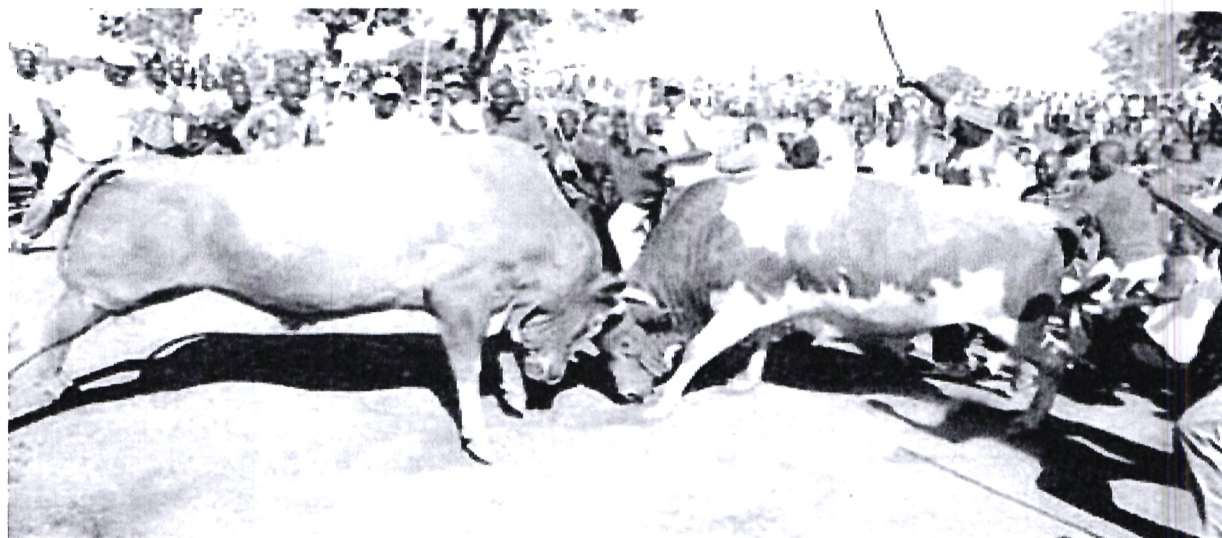
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		<p>been spokesperson for the companies she served.</p> <p>Academically, she has an MBA in strategy and marketing, a BA (Hons) in languages and a postgraduate diploma in Public Relations. She is currently at the tail-end of completing a PhD in Communications Studies. Fatuma has been recognized for her leadership and honoured with a Fellow and lifetime achievement award from the Public Relations Society of Kenya which she served as chairman for 5 years. She has also been awarded by the President of the Republic of Kenya with an Order of Chief of the Burning Spear (CBS).</p> <p>Since joining the Ministry of Tourism in 2016, Fatuma, as the Accounting Officer, has ensured prudent financial management of public funds and implementation of the Jubilee Government's flagship projects steering the Ministry and the tourism sector to become the second highest foreign exchange earner in the country with a growth rate of about 17% in both arrivals and revenue receipts.</p> <p>s. Fatuma Hirsi Mohamed is multilingual and speaks English, French, Kiswahili, Somali and basic Arabic.</p>
<p>3. HON. PATRICK KHAEMBA</p>		<p>Hon Khaemba is currently the Governor Trans Nzoia Country and has Master's degree in Public Management.</p> <p>Former PS Ministry of Livestock Development.</p> <p>Head of bank, The African Development Bank in Uganda</p>
<p>4. ORUMOI T. JONAH</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 & Finance of the East London University, UK</p>

MANAGEMENT TEAM

NAME	PHOTO	KEY PROFESSIONAL / ACADEMIC QUALIFICATIONS	AREA OF RESPONSIBILITY
1. REUBEN ARGUT		MBA (Marketing)- Thesis waiting, Bsc. Hospitality Management, Dip. Hotel Management & Dip. Sc. Educ.	GENERAL MANAGER
2. JOHN CHEPKWONY		ATC II(KATC II) Finalist, Certificate in IT (Egerton University) certificate in Front Office Cashiering (Utalii College)	ACCOUNTS CLERK
3. WILLIKISTER CHEPKISHI		Certificate in Supervisory Techniques (Kitale College of Hotel Mgt), Certificate in Foods and Beverage service (UTALII COLLEGE)	F & B SUPERVISOR



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CHAIRMAN'S STATEMENT

On behalf of my fellow Board Members, the Management and myself I hereby present the Financial Statements of Mt. Elgon Lodge for the Financial Year 2016/2017. 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, over the last few years, the state of the facility and the increase in the number of star rated facilities within Transzoia County that provided competition for the hotel has highlighted the need for a strategic repositioning of the hotel. In the year under review the hotel incurred a loss of Kshs. 2.9 Million against the expected profit of Kshs. 1.8 Million.

Given the performance of the hotel over the last few years, the continued operation of the hotel in the current circumstances would inevitably result in accumulation of more losses. Additionally, the status of the hotel as a going concern is in doubt and the Board of Directors has, in response, opted to take appropriate measures in the coming financial year to forestall the accumulation of more losses and safeguard the investment of the shareholders.

In the coming financial year, the Board is committed to implementing strategic and deep-seated changes in the hotel that are intended to revive its operations. 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 from its current situation.

Tranzoia County has a lot of potential and this facility will spearhead opening the Mt Elgon and Kitale Tourism circuit and complete domestic and international arrivals.

Finally on behalf of the Board of Directors, Management and 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.



Edith Alusa

MT ELGON LODGE LIMITED

Reports and Financial Statements

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REPORT OF THE GENERAL MANAGER

The Mt. Elgon Lodge Limited is situated at the gate of Mt. Elgon National Park approximately 28 kilometres from Kitale town. The principal activity of the Lodge is to provide accommodation and conference services to customers visiting the region.

The operations of the Lodge have been rather difficult (low) owing to the cash flow constraints. Total revenue of the hotel was Kshs. 1,594,654 in 2016/2017 Financial Year, an increase in turnover from last year 2015/16 Financial Year of Kshs. 1,387,009.00. The main challenges having a direct negative impact on the Lodge performance include lack of Lodge refurbishing and renovation and also the fact that few number of tourists visits Mt. Elgon National Park.

Despite these challenges, management with the support of the Board of Directors and the shareholders have managed to continue in business. Reported revenues also include Land rental income which has boosted the overall income to enable the Lodge meet its short term obligations.

I wish to thank the shareholders, the Tourism Finance Corporation and the Board of Directors for their continuous support to the management.


Reuben Argut



MT ELGON LODGE LIMITED

Reports and Financial Statements

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CORPORATE GOVERNANCE STATEMENT

The Board of Directors recognizes the importance of good corporate governance in the company's performance, capital formation and maximization of shareholders value. Accordingly, the Board is committed to maintaining a high standard of corporate governance.

Board of Directors

The Board consists of Directors who represent the respective shareholders. The Directors possess a broad range of expertise and experience required to direct and provide the Lodge with policy guidance. The Board holds meetings on a regular basis.

The roles of the Board and management are separate and their responsibilities clearly defined as hereunder.

The Board is responsible for providing overall management and leadership to the company. 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.

In order to ensure that the Board is able to discharge its responsibilities, the management is required to provide adequate and timely information to the Board which includes operational report from the Manager, Management Accounts for each quarter, proposals, reports on major issues and strategic opportunities for the Company.



REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2017 which show the state of the Lodge's affairs.

1. PRINCIPAL ACTIVITIES

The principal activities of the Lodge are the operation of Mt. Elgon Lodge mainly providing accommodation and conference services to customers.

2. RESULTS

The results of the entity for the year ended June 30, 2017 are set out on page 11-25

3. DIVIDENDS

The Directors do not recommend payment of dividends.

4. DIRECTORS

The members of the Board of Directors who served during the year are shown on page 2 in accordance with Regulation of the company's Articles of Association.

5. AUDITORS

The Auditor General is responsible for the statutory audit of Mt Elgon Lodge in accordance with the article 229(4) (5) (6) and (7) of the Constitution and Public Audit Act (2003)

Kenya National Audit office – Eldoret Branch, were nominated by the Auditor general to carry out the audit of the company for the year ended June 30, 2017.

BY ORDER OF THE BOARD

Company Secretary
Tourism Finance Corporation
P.O Box 42013 – 00100
Nairobi

Sign:.....

Date:..29/9/17.....

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the company's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year (period) ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of 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 company; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the company'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 are of the opinion that the company's financial statements give a true and fair view of the state of company's transactions during the financial year ended June 30, 2017, and of the company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the company, which have been relied upon in the preparation of the company's financial statements as well as the adequacy of the systems of internal financial control.

Approval of the financial statements

The company's financial statements were approved by the Board on ...^{27th}...~~SEP~~... 2017 and signed on its behalf by:



Director



Director

MT ELGON LODGE LIMITED
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REPORT OF THE AUDITOR GENERAL

REPUBLIC OF KENYA

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E-mail: oag@oagkenya.go.ke
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P.O. Box 30084-00100
NAIROBI



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON MT ELGON LODGE LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Mt Elgon Lodge Limited set out on pages 14 to 33, which comprise the statement of financial position as at 30 June 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

I do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

Basis for Disclaimer of Opinion

1.0 Presentation of Financial Statements

1.1 Flow of Financial Statements

The financial statements submitted for audit starts with the statement of financial position followed by statement of profit or loss and other comprehensive income contrary to the reporting format prescribed by the Public Sector Accounting Standards Board (PSASB) for state corporations reporting under International Financial Reporting Standards (IFRS) which requires that the financial statements starts with statement of comprehensive income. The financial statements have also been signed by the chairman and a director but excluded the head of finance who should also indicate his/her ICPAK membership number as required by the Public Sector Accounting Standards Board.

In addition, the list of directors on page 2 do not indicate the dates when they were appointed.

Report of the Auditor-General on the Financial Statements of Mount Elgon Lodge Limited for the year ended 30 June 2017

Consequently, the financial statements are not in line with the Public Sector Accounting Standards Board (PSASB).

1.2 Errors in numbering the pages of the Financial Statements

The table of contents on page 1 of the financial statements is not correctly presented as it does not indicate that the explanatory notes are on pages 28-33 to the financial statements. Also the summary of significant accounting policies are indicated in the table of contents as starting from page 22-32 instead of pages 23-27. Further the financial statements are not numbered consistently as page 12 is omitted and the explanatory notes are not numbered consistently in that notes 17, 18 and 19 on page 31 are also repeated on page 33. The numbering of notes is also not done sequentially such that note 4 in the statement of profit or loss and other comprehensive income is followed by note 3 while Note 10 to the statement of financial position is followed by note 8(c).

1.3 Discrepancies in the Financial Statements

The statement of financial position, statement of profit and loss and other comprehensive income and notes to the financial statements presented for audit review contained discrepancies as indicated below:

Note	Statement Financial position /Statement Comprehensive Income	Note	Notes to the Financial Statement
Note 2	TFC payroll support Kshs.0.00	2	Cost of sales Kshs.433,503
Note 3	Cost of sales Kshs.4,338,503	3	TFC payroll support Kshs.0.00
Note 5	Property, plant and equipment		Not included in the notes
Note 6	Not indicated	6	Property, Plant and Equipment
Note 7	Inventories Kshs.17,697		Not included in the notes
Note 8a	Trade and other receivables Kshs.1,825,819		Not included in the notes
Note 8c	Staff Receivable Kshs.468,717		Not included in the notes
Note 10	Bank and cash balance Kshs.691		Ordinary share capital
Note 13	Retained Earnings (Kshs.32,489,045)		Movement in Retained Earnings not included in the notes

Note 14	Current liabilities	14	Trade and other payables
Note 16	Not included in financial statement	16	Leave pay Kshs.19,800
Note 2	Cost of sales Kshs.4,338,503	Note 2	Cost of sales Kshs.433,503
Note 5(a)	Administration cost Kshs.3,367,198	Note 5(a)	Administration cost Kshs.3,459,599

Further, the administration costs in note 5(a) is indicated as Kshs.3,367,198 which is at variance with the computed figure of Kshs.3,459,198 resulting to a variance of Kshs.92,000 which has not been explained or reconciled. Also computation of staff costs in note 5(b) gives a total of Kshs.3,090,544 instead of the reported figure of Kshs.2,998,144 resulting in a variance of Kshs.92,400 which has not been explained or reconciled.

Consequently, the financial statements as presented have not complied with the accounting framework as prescribed by the Public Sector Accounting Standards Board (PSASB).

1.4 Variances between Financial Statement Figures and Supporting Schedules

The financial statements availed for audit review contained variances with the respective supporting schedules as detailed below:

Item	Amount as Per Financial Statements (Kshs.)	Amount as Per Supporting Schedules (Kshs.)	Variance (Kshs.)
Cost of sales	4,338,503	439,095	3,899,408
Staff costs (note 5b)	2,998,144	3,090,544	(92,400)
Depreciation of property, plant and equipment	684,788	685,960	(1,172)
Property, plant and equipment	48,557,171	48,560,999	(3,828)
Staff Receivable	468,717	452,021	16,696
Borrowings from TFC	2,596,370	2,444,006.85	152,363.15
Trade and payables	10,522,345	11,227,912	(705,567)
Staff payables	5,647,563	5,625,762	21,801
Total	75,813,601	72,526,300	3,287,301

1.5 Cost of Sales

The statement of profit or loss and other comprehensive income reflects cost of sales figure of Kshs.433,503 for the year ended 30 June 2017 which relates to purchases made during the year and does not therefore take into account the opening stock of Kshs.23,289 as at 1 July 2016 and closing stock of Kshs.17,697 as at 30 June 2017. The cost of sales have therefore been understated by Kshs.5,592.

In the circumstances it has not been possible to ascertain the validity, accuracy and completeness of the figures presented in the financial statements for the year ended 30 June 2017.

2.0 Going Concern

The statement of profit or loss and other comprehensive income for the year ended 30 June 2017 reflects net loss of Kshs.2,983,236 (2015/2016 - Kshs.1,850,336) resulting to accumulated losses of Kshs.32,489,045 as at 30 June 2017. Further, the total current liabilities of Kshs.25,846,285 exceeds the total current assets of Kshs.2,312,924 resulting to negative working capital of Kshs.23,533,361. As reported in the previous year, the Company is technically insolvent and the existence of the Lodge as a going concern is depended on continued support from the main shareholders. Tourism Finance Corporation (TFC) who however, withdrew monthly financial support towards staff salaries with effect from May 2016 and creditors.

3.0 Property, Plant and Equipment

3.1 Assets Movement Schedule

The statement of financial position as at 30 June 2017 reflects property, plant and equipment balance of Kshs.48,557,171 which include plant and machinery amounting to Kshs.78,901 and office equipment, furniture and fittings amounting to Kshs.177,900 as per assets movement schedule while the assets register shows these assets are fully depreciated. The assets movements schedule, further reflects office equipment, furniture and fittings additions during the year amounting to Kshs.5,000 whose details and supporting documents were not availed for audit verification.

In addition, the fixed assets movement schedule does not indicate the comparative figures for the year ended 30 June 2016 contrary to paragraph 53 of the International Accounting Standards (IAS) 1.

Consequently, the accuracy and completeness of the property, plant and equipment balance of Kshs.48,557,171 as at 30 June 2017 could not be confirmed.

3.2 Fixed Assets Register

A review of the fixed assets register revealed that the values of the various categories of assets are not provided in the register but instead it only indicates a single value based on the valuation said to have been undertaken in the financial year ended 30 June 2010. However, the details of the valuation report was not been availed for audit review. Consequently, the accuracy of the property, plant and equipment balance of Kshs.48,557,171 as at 30 June 2017 cannot be confirmed.

3.3 Land

Note 6 to the financial statements on property, plant and equipment reflects net assets figure of Kshs.48,557,171 which include freehold land valued at Kshs.23,000,000 as at 30 June 2017. However, the freehold title deed was not availed for audit verification. Consequently, the ownership of the land valued at Kshs.23,000,000 as at 30 June 2017 could not be confirmed.

3.4 Plant and Machinery

The property, plant and equipment balance of Kshs.48,557,171 as at 30 June 2017 include plant and machinery with a net book value of Kshs.78,901 in respect of a generator set which was not operational as at the time of audit due to what was said to be lack of a motor taken for repair during 2012/2013 financial year and which has never been returned. However, as in reported in the previous years, there was no record to show when the motor was taken for repair, to which firm and for how much. There was also no evidence that the management was making efforts to get back the motor so that the generator can be operational. Consequently, the accuracy of the property, plant and equipment figure of Kshs.48,557,171 as at 30 June 2017 could not be confirmed.

4.0 Inventories

The statement of financial position reflects inventories amount of Kshs.17,697 as at 30 June 2017. However, inventories records such as stock ledger cards, physical inventory count sheets and valuation records were not availed for audit review. Consequently, the accuracy and validity of the inventories balance of Kshs.17,697 as at 30 June 2017 could not be confirmed.

5.0 Trade and Other Receivables

5.1 Long Outstanding Debts

The statement of financial position reflects trade and other receivables balance of Kshs.1,825,819 as at 30 June 2017 all of which have been outstanding for over 7 years. However, the management has not indicated the measures being taken to recover these long outstanding debts. Further, no provision for bad debts has been made in the financial statements in respect of these debts whose recoverability remains in doubt. Consequently, the validity, accuracy and recoverability of the trade and other receivables balance of Kshs.1,825,819 as at 30 June 2017 could not be confirmed.

5.2 Staff Receivables

The statement of financial position as at 30 June 2017 reflects staff receivables balance of Kshs.468,717 which is an increase of Kshs.16,696 as compared to an amount of Kshs.452,021 as at 30 June 2016. The previous year balance of Kshs.452,021, is indicated as owed by a former manager of the Lodge. However, no record was availed to show the details of the increase of Kshs.16,696 including the registers. Consequently, the validity, accuracy and recoverability of the staff receivables balance of Kshs.468,717 could not be confirmed as at 30 June 2017.

6.0 Bank and Cash Balance

The statement of financial position reflects bank and cash balance of Kshs.691 as at 30 June 2017 which comprise of cash in hand amount of Kshs.13,940 and bank overdraft balance of Kshs.13,248. However, the bank statements, bank reconciliation statements and certificate of bank balance as at 30 June 2017 were not availed for audit review. Although it was explained that the Lodge's bank account No.1105159779 maintained at Kenya Commercial Bank was closed in April 2016, no documentary evidence was availed to support the closure of the bank account and how the balance on the account was accounted for. Consequently, the accuracy, validity and existence of the cash and bank balance of Kshs.691 as at 30 June 2017 could not be confirmed.

7.0 Borrowing From Tourism Finance Corporation (TFC)

The statement of financial position reflects borrowing from Tourism Finance Corporation (TFC) figure of Kshs.2,596,370 as at 30 June 2017 while records maintained by TFC reflects loan balance of Kshs.2,444,006.85 which has been outstanding since 31 March 2011 and therefore resulting in a variance of Kshs.152,363.15 and which the management has not been explained or reconciled. Consequently, the accuracy of the borrowing from TFC figure of Kshs.2,596,370 as at 30 June 2017 could not be confirmed.

8.0 Trade and Other Payables

8.1 Unsupported Balances

The statement of financial position as at 30 June 2017 reflects trade and other payables figure of Kshs.10,522,345 which is at variance with the supporting schedules figure of Kshs.11,227,912 resulting in a variance of Kshs.705,567 and which the management has not been explained or reconciled.

8.2 Unremitted Statutory Deductions

Records availed for audit further indicates that the trade and other payables include statutory deductions balance of Kshs.8,626,876 as at 30 June 2017 which in turn includes an amount Kshs.7,891,487 brought forward from 2015/2016 and previous financial years and the management has not provided any reason for not remitting the deductions amounting to Kshs.8,626,876 to the relevant institutions. The management has not provided in these financial statements provisions for possible penalties and interests in relation to none compliance with the law.

Consequently the accuracy, validity and completeness of the trade and other payables figure of Kshs.10,522,345 as at 30 June 2017 could not be confirmed.

8.3 Secretarial Fees Payable

The trade and other payables figure of Kshs.10,522,345 as at 30 June 2017 also include an amount of Kshs.230,000 brought forward from 2012/2013 financial year in form of accrued secretarial fees payable to TFC (formerly KTDC) for offering secretarial

services to the Lodge. However, as reported in the previous years the agreement between the Lodge and the KTDC creating the obligation was not availed for audit review. Consequently, the accuracy and validity of the fees payable of Kshs.230,000 as at 30 June 2017 could not be confirmed.

8.4 Outstanding Audit Fees

The trade and other payables figure of Kshs.10,522,345 as at 30 June 2017 further includes outstanding audit fee of Kshs.1,729,891 payable to the Office of the Auditor-General for audit services rendered, out of which an amount of Kshs.1,397,104 relates to 2015/16 and previous years while Kshs.332,787 relates to the year ended 30 June 2017 . As reported in the previous years, the Lodge has not indicated how it intends to clear the outstanding audit fees. Consequently, the management is in breach of the law.

8.5 Other Trade Creditors

The trade and other payables figure of Kshs.10,522,345 also include trade creditors balance of Kshs.641,145 as at 30 June 2017 out of which Kshs.585,444 relate to 2015/2016 and previous financial years. In addition, the trade creditors balance of Kshs.641,145 includes sundry creditors amounting to Kshs.113,000 whose analysis was not availed for audit review and the management has not indicated how the Lodge intends to clear these long outstanding liabilities. Consequently, the accuracy of the sundry creditors amounting to Kshs.113,000 as at 30 June 2017 could not be confirmed.

8.6 Staff Payables

The statement of financial position as at 30 June 2017 reflects staff payables balance of Kshs.5,647,563 which is an increase of Kshs.2,614,552 as compared to the balance of Kshs.3,033,011 as at 30 June 2016. However, the staff payables have continued to accrue and management appear not to be making any efforts to clear the arrears.

Consequently, the management is in breach of the labour laws.

9.0 Advances from Tourism Finance Corporation (TFC)

The statement of financial position as at 30 June 2017 also reflects advances from Tourism Finance Corporation (TFC) figure of Kshs.9,466,377 brought forward from 2013/2014 financial year in form of payroll support. However, as reported in the previous years, no details have been provided to explain the terms and conditions pertaining to these advances. Consequently, the accuracy of the TFC advances balance of Kshs.9,466,377 as at 30 June 2017 could not be confirmed.

10.0 Failure to File Annual Company Returns

Mt. Elgon Lodge Ltd was registered under the Companies Act, Cap 486 of the Laws of Kenya on 28 May 1976 and was expected to file company annual returns every month of May. However, there was no evidence that the Lodge had filed annual returns with the Registrar of Companies as at the time of audit in February 2018 as required by law. Consequently, the management is in breach of the law and the Lodge risks being deregistered.

11.0 Budgetary Control and Performance

11.1 Approved Budget

The statement of profit or loss and other comprehensive income for the year ended 30 June 2017 reflects operating expenses figure of Kshs.4,144,387. However, the management of the Lodge did not avail for audit review an approved budget for the financial year ended 30 June 2017. This is contrary to Section 11(2) of the State Corporations Act, Cap 446 of the Laws of Kenya which states that no annual estimates and proposals for funding projects shall be implemented until they have been approved by the Minister with concurrence of the Treasury. Consequently, the management is in breach of the law.

11.2 Budget Performance

Mt. Elgon Lodge Limited had revenue budget of Kshs.8,637,614 for the year ended 30 June 2017 and realised revenue collection of Kshs.1,594,614. This resulted to under performance of Kshs.7,043,000 or approximately 82% of the budgeted revenues. The underperformance in revenue is an indication of ineffective or inadequate revenue collection controls by management. Consequently, the Lodge may experience cash flow problems and its continued operation as a going concern is threatened.

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

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

In preparing the financial statements, management is responsible for assessing the Lodge's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Lodge or to cease operations, or have no realistic alternative but to do so.

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

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

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

My responsibility is to conduct an audit of the Lodge's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matter described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of Mt Elgon Lodge in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya.



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

Nairobi


16 May 2018

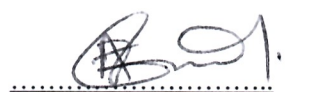
MT ELGON LODGE LIMITED
 Reports and Financial Statements
 For the year ended June 30, 2017

STATEMENT OF FINANCIAL POSITION

	Note	2017	2016
		Kshs	Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	48,557,171	49,241,959
Total Non-Current Assets		48,557,171	49,241,959
Current Assets			
Inventories	7	17,697	23,289
Trade and other receivables	8(a)	1,825,819	1,825,819
Bank and cash balance	10	691	(619)
Staff Receivable	8(c)	468,717	452,021
Total Current Assets		2,312,924	2,300,510
Total Assets		50,870,095	51,542,469
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	10	1,845,780	1,845,780
Revaluation reserve	11	53,070,705	53,070,705
Retained Earning	13	(32,489,045)	(29,505,809)
Capital and Reserves		22,427,440	25,410,679
Non-Current Liabilities			
Borrowings from TFC	17b	2,596,370	2,596,370
Current Liabilities			
Advances From TFC	14	9,466,377	9,466,377
Trade and payables	14	10,522,345	10,104,035
Staff payables	14.	5,647,563	3,033,011
Land lease creditors	14.	210,000	932,000
Total Current Liabilities		25,846,285	23,535,423
TOTAL EQUITY AND LIABILITIES		50,870,095	51,542,469

The Financial Statements were approved by the Board on...27th Sept...and signed on its behalf by


 Chairman


 Director

MT ELGON LODGE LIMITED
 Reports and Financial Statements
 For the year ended June 30, 2017

**STATEMENT OF PROFIT OR LOSS AND
 OTHER COMPREHENSIVE INCOME**

		2017	2,016
	Note	Kshs.	Kshs
REVENUES			
Sales	1	807,884	621,805
T.F.C Payroll Support	2	-	2,922,716
Other Income	4	786,770	735,483
		<u>1,594,654</u>	<u>4,280,004</u>
TOTAL REVENUES			
	3	4,338,503	765,204
COST OF SALES			
		1,161,151	3,514,800
GROSS PROFIT			
OPERATING EXPENSES			
Administration Costs	5(a)	3,459,599	5,423,142
Depreciation of property, plant and equipment	6	684,788	707,198
		<u>4,144,387</u>	<u>6,130,340</u>
TOTAL OPERATING EXPENSES			
		<u>(2,983,236)</u>	<u>(1,850,336)</u>
OPERATING PROFIT/(LOSS)			
		<u>(2,983,236)</u>	<u>(1,850,336)</u>
PROFIT/(LOSS) BEFORE TAXATION			
		<u>(2,983,236)</u>	<u>(1,850,336)</u>
PROFIT/(LOSS) AFTER TAXATION			
		<u>(2,983,236)</u>	<u>(1,850,336)</u>

MT ELGON LODGE LIMITED

Reports and Financial Statements

For the year ended June 30, 2017

STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Proposed dividends	Total
At July 1, 2015	1,845,780	53,070,705	0	(27,655,473)	0	27,261,012
Transfer of excess depreciation	0	0	0	0	0	0
Deferred tax on excess depreciation	0	0	0	0	0	0
Fair value adjustment on quoted investments	0	0	0	0	0	0
Total comprehensive income	0	0	0	(1,850,336)	0	(1,850,336)
Dividends paid – 2016	0	0	0	0	0	0
Interim dividends paid – 2017	0	0	0	0	0	0
Proposed final dividends	0	0	0	0	0	0
At June 30, 2016	1,845,780	53,070,705	0	(29,505,809)	0	25,410,676
						0
At July 1, 2016	1,845,780	53,070,705	0	(29,505,809)	0	25,410,676
Issue of new share capital	0	0	0	0	0	0
Transfer of excess depreciation	0	0	0	0	0	0
Deferred tax on excess depreciation	0	0	0	0	0	0
Fair value adjustment on quoted investments	0	0	0	0	0	0
Total comprehensive income	0	0	0	(2,983,236)	0	(2,983,236)
Dividends paid – 2016	0	0	0	0	0	0
Interim dividends paid – 2017	0	0	0	0	0	0
Proposed final dividends	0	0	0	0	0	0
At June 30, 2017	1,845,780	53,070,705	0	(32,489,045)	0	22,427,440

MT ELGON LODGE LIMITED
Reports and Financial Statements
For the year ended June 30, 2017

STATEMENT OF CASH FLOWS

	Note	2017 Kshs	2016 Kshs
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	17(a)	1,310	(4,819)
Interest received			
Interest paid		-	-
		<u>1,310</u>	<u>(4,819)</u>
Net cash generated from/(used in) operating activities		1,310	(4,819)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	6	(0)	(5000)
Proceeds from disposable property, plant and equipment			
Net cash generated from/(used in) investing activities		<u>(0)</u>	<u>(5000)</u>
FINANCING ACTIVITIES			
Proceeds from issues of new share capital			
Proceeds from borrowing	17b	-	-
Repayment of borrowing	17b	-	-
Net cash generated from (Used in) financing activities		<u>-</u>	<u>-</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,310	(181)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17(c)	(619)	(438)
Effect of foreign exchange rate fluctuations	17 (c)	-	-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	17(c)	<u>691</u>	<u>(619)</u>

MT ELGON LODGE LIMITED
Reports and Financial Statements
For the year ended June 30, 2017
COMPARISON OF BUDGET AND
ACTUAL

INCOME	A	B	C	D	REMARKS
ITEMS	CURRENT YR2016/2017AC- TUAL	FINAL APPROV BUDGET2016/20 17	VARIANCE BUDGET TO ACTUAL YEAR	VARI- ANCE IN %	
Accommodation	162,160.00	524,352.00	(362,192.00)	-69%	Unfavorable
Food Resident	72,480.00	577,812.00	(505,332.00)	-87%	Unfavorable
Food casual	327,676.00	1,183,320.00	(855,644.00)	-72%	Unfavorable
Drinks	245,568.00	1,758,084.00	(1,512,516.00)	-86%	Unfavorable
Cigarettes			-		
Land Rental	757,000.00	7,599,960.00	(6,842,960.00)	-90%	Unfavorable
Other misc. Income	24,150.00	23,064.00	1,086.00	5%	Favorable
TOTAL	1,589,034.00	11,666,592.00	(10,077,558.00)	(4.00)	
EXPENDITURE					
STAFF COSTS					
Salaries and Allow- ances					
Administration	429,243.00	691,304.00	262,061.00	38%	Favorable
Rooms	274,262.00	318,615.00	44,353.00	14%	Favorable
Food	307,488.00	287,956.00	(19,532.00)	-7%	Unfavorable
Bar & Restaurant	355,404.00	327,602.00	(27,802.00)	-8%	Unfavorable
Security	316,836.00	302,030.00	(14,806.00)	-5%	Unfavorable
Maintenance	91,452.00	327,039.00	235,587.00	72%	Favorable
SUB TOTAL	1,774,685.00	2,254,546.00	479,861.00	21%	Favorable
Statutory Dues					
PAYE	-	252,143.00	252,143.00	100%	Favorable
UNION DUES	-	49,116.00	49,116.00	100%	Favorable
ENTERTAINMENT	-	120,000.00	120,000.00	100%	Favorable
NHIF	92,400.00	132,762.00	40,362.00	30%	Favorable
NSSF	69,650.00	103,332.00	33,682.00	33%	Favorable

MT ELGON LODGE LIMITED
Reports and Financial Statements
For the year ended June 30, 2017

INCOME	A	B	C	vari- ance	Remarks
SUB TOTAL	162,050.00	657,353.00	495,303.00	75%	Favorable
Leave Pay& Gratuity					
Leave travel mgt		15,000.00	15,000.00	100%	Favorable
leave travel other staff	19,800.00	44,000.00	24,200.00	55%	Favorable
SUB TOTAL	19,800.00	59,000.00	39,200.00	66%	Favorable
Staff welfare& exp.					
meals & food allow- ance	61,257.00	348,634.00	287,377.00	82%	Favorable
staff housing	873,252.00	1,393,718.00	520,466.00	37%	Favorable
staff medical	-				
Staff welfare	-	20,000.00	20,000.00	100%	Favorable
Uniform	199,500.00	180,000.00	(19,500.00)	-11%	Unfavorable
SUB TOTAL	1,134,009.00	1,942,352.00	808,343.00	42%	Favorable
DIRECTORS EMOL- UMENTS					
Directors Expenses	892.00	10,000.00	9,108.00	91%	Favorable
Directors Allowances		100,000.00	100,000.00	100%	Favorable
TOTAL	892.00	110,000.00	109,108.00	99%	Favorable
ELECTRICITY					
Electricity	25,478.00	101,328.00	75,850.00	75%	Favorable
Water & sanitation	6,150.00	3,378.00	(2,772.00)	-82%	Unfavorable
TOTAL	31,628.00	104,706.00	73,078.00	70%	Favorable
COMMUNICATION SERVICES AND SUPPLIES					
Telephone & postage	33,150.00	55,544.00	22,394.00	40%	Favorable
Printing and Stat	15,643.00	60,315.00	44,672.00	74%	Favorable
Delivery Charges		6,000.00	6,000.00	100%	Favorable
Office Misc		16,478.00	16,478.00	100%	Favorable
	48,793.00	138,337.00	89,544.00	65%	Favorable

MT ELGON LODGE LIMITED

Reports and Financial Statements

For the year ended June 30, 2017

INCOME	A	B	C	Vari- ance	Remarks
TRAVELLING AND SUB					
Transport Allowance	47,145.00	75,135.00	27,990.00	37%	Favorable
Travelling expenses	25,000.00	24,000.00	(1,000.00)	-4%	Unfavorable
TOTAL	72,145.00	99,135.00	26,990.00	27%	Favorable
ADVERTISE- MENT/PRINTING/ STATION- ERY&PHOTO					
Advertising	-	30,000.00	30,000.00	100%	Favorable
Business Entertainment	2,000.00	9,000.00	7,000.00	78%	Favorable
Agent commission	-	99,212.00	99,212.00	100%	Favorable
EXPENCE	ACTUAL	BUDGET	VARIANCE	VAR %	
Complementaries	-	12,000.00	12,000.00	100%	Favorable
TOTAL	2,000.00	150,212.00	148,212.00	99%	Favorable
HOSPITALITY SUPLIES& SERV					
Cleaning &H/keeping	7,990.00	24,765.00	16,775.00	68%	Favorable
License and Renewal		48,500.00	48,500.00	100%	Favorable
Guest supplies	750.00	14,118.00	13,368.00	95%	Favorable
TOTAL	8,740.00	87,383.00	78,643.00	90%	Favorable
BANK CHARGES					
Bank charges	17,314.80	45,255.00	27,940.20	62%	Favorable
OFFICE & GEN- ERAL SUPPLIES					
Office misell.	3,738.00	16,478.00	12,740.00	77%	Favorable
Postal & Delivery charges	-	-			
Subscription	300.00	51,005.00	50,705.00	99%	Favorable
Flower & Decoration		4,500.00	4,500.00	100%	Favorable
Security services		-			
TOTAL	4,038.00	71,983.00	67,945.00	94%	Favorable

MT ELGON LODGE LIMITED

Reports and Financial Statements

For the year ended June 30, 2017

INCOME	A	B	C	vari- ance	Remarks
AUDITORS REMU- NERATION					
Audit fees	-	46,400.00	46,400.00	100%	Favorable
Audit Expenses	1,300.00	4,000.00	2,700.00	68%	Favorable
TOTAL	1,300.00	50,400.00	49,100.00	97%	Favorable
REPAIRS & MAN- TAINANCE					
property upkeep	-				
Ground rent	30,000.00	30,000.00		0%	Favorable
Ground & garden	2,950.00	12,000.00	9,050.00	75%	Favorable
Building maintenance	85,785.00	80,000.00	(5,785.00)	-7%	Unfavorable
Repairs & Renewals					
Glassware	-	6,000.00	6,000.00	100%	Favorable
Linen	-	24,000.00	24,000.00	100%	Favorable
Cutlery	1,470.00	8,400.00	6,930.00	83%	Favorable
Crockery	8,000.00	12,000.00	4,000.00	33%	Favorable
kitchen utensils	-	4,000.00	4,000.00	100%	Favorable
plant & machinery	-	9,000.00	9,000.00	100%	Favorable
furniture & Equipment	600.00	-	(600.00)		
Misell. Elec.	1,800.00	18,384.00	16,584.00	90%	Favorable
TOTAL	130,605.00	203,784.00	73,179.00	36%	Favorable
BAD & DOUBTFUL DEBTS					
Provision for Debtors	-	-			
Bad debts written off	-	-			
TOTAL	-	-			
OTHER OPERAT- ING EXPEN					

MT ELGON LODGE LIMITED

Reports and Financial Statements

For the year ended June 30, 2017

INCOME	A	B	C	vari- ance	Remarks
Fuel & Gas	34,914.00	92,124.00	57,210.00	62%	Favorable
Toilet requisites	2,458.00	7,596.00	5,138.00	68%	Favorable
kitchen/restaurant/bar supplies	14,227.00	38,037.00	23,810.00	63%	Favorable
Guest Entrainment	-		-		
TOTAL	51,599.00	137,757.00	86,158.00	63%	Favorable
	3,459,598.80	6,112,203.00	2,652,604.20	43%	Favorable

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) 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, marketable securities and financial instruments at fair value, 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 judgement in the process of applying the *company's* accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *company* (Kshs).

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.

b) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the *company* and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the *company's* activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the *company's* activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the *company* delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from Tourism Finance Corporate** are recognised in the year in which the *company* actually receives such grants.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognised as it accrues.

MT ELGON LODGE LIMITED

Reports and Financial Statements

For the year ended June 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) In-kind contributions

In-kind contributions are donations that are made to the *company* 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 financial value received for in-kind contributions can be reliably determined, the *company* includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

d) 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.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

e) 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 cost of on-going but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a reducing balance basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Buildings and civil works	25 years or the unexpired lease period	(2.5% p.a)
Plant and machinery	12.5 years	(12.5% p.a)
Motor vehicles, including motor cycles	4 years	(25% p.a)
Computers and related equipment	3 years	(33.3% p.a)
Office equipment, furniture and fittings	12.5 years	(12.5% p.a)

A full year's depreciation charge is recognised both in the year of asset purchase and in the year of asset disposal.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Depreciation and impairment of property, plant and equipment (Continued)

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 recognised so that the asset is written down immediately to its estimated recoverable amount.

g) Intangible assets

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

h) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

i) Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

j) Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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

MT ELGON LODGE LIMITED

Reports and Financial Statements

For the year ended June 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

l) Borrowings

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 amortised cost using the effective interest rate method. Amortised 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 capitalised as part of the cost of the project.

m) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, 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 *company* or not, less any payments made to the suppliers.

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. 200 per employee per month.

o) Provision for staff leave pay

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

MT ELGON LODGE LIMITED

Reports and Financial Statements

For the year ended June 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the *company* 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 recognised in profit or loss.

q) Subsequent events

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



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NOTES TO THE FINANCIAL STATEMENTS

	2017	2016
	Kshs	Kshs
1 SALES		
Net sale of goods	807,884	1,387,009
2 Less cost of sales	<u>(433,503)</u>	<u>(765,204)</u>
	<u>374,381</u>	<u>621,805</u>
<i>[the sales are posted net of VAT, CLT and Service Charge]</i>		
3 T.F.C payroll support		
Payroll support	<u>0</u>	<u>2,922,716</u>
	<u>0</u>	<u>2,922,716</u>
4 (a) OTHER INCOME		
Land rentals	757,000	718,000
Company Service charge & Misc. Sales	5,620	17,483
(b) exceptional income		
Other Income	<u>24,150</u>	<u>0</u>
	<u>786,770</u>	<u>735,483</u>
<i>(Other income include land rental and others Like camping and Miscellaneous bar sales.)</i>		
5(a) ADMINISTRATION COSTS		
Staff costs (note 5b)	2,998,144	4,006,784
Directors emoluments	892	17,874
Electricity and water	31,628	79,624
Communication services and supplies	33,150	60,700
Transportation, travelling and subsistence	72,145	189,760
Advertising, printing, stationery and photocopying	17,643	97,110
Hospitality supplies and services	8,740	26,890
Bank charges and commissions	17,314	35,316
Office and general supplies and services	4,038	23,605
Auditors' remuneration	1,300	332,787
Repairs and maintenance	130,605	88,183
Bad debts written off	-	352,434
Other operating expenses	<u>51,599</u>	<u>112,075</u>
	<u>3,459,198</u>	<u>5,423,142</u>

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	2017	2016
	Kshs	Kshs
5(b) STAFF COSTS		
Salaries and allowances of permanent employees	1,744,685	1,823,050
Wages of temporary employees	0	285,152
NHIF	92,400	103,800
NSSF	69,650	88,400
Leave pay	19,800	31,200
Staff welfare and expenses	1,134,009	1,675,182
	<u>2,998,144</u>	<u>4,006,784</u>

The average number of employees at the end of the year was:

Permanent employees – Management	2	2
Permanent employees – Unionisable	12	14
Temporary and contract employees	0	0
	<u>14</u>	<u>16</u>

MT ELGON LODGE LIMITED

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6. NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Freehold land	Buildings & civil works	Plant and machinery	Office equipment, furniture & fittings	Total
COST OR VALUATION					
At July 1, 2016	23,000,000	31,000,000	815,638	827,357	55,642,995
Additions	0	0	0	5,000	5,000
Transfers	0	0	0	-	0
Disposals	0	0	0	-	0
At June 30, 2017	23,000,000	31,000,000	815,638	832,357	55,647,995
DEPRECIATION					
At July 1, 2016	0	5,050,902	725,466	629,668	6,406,036
Charge for the year	0	648,728	11,272	24,789	684,788
Impairment loss	0	0	0	-	0
Eliminated on disposal	0	0	0	-	0
At June 30, 2017	0	5,699,630	736,737	654,457	7,090,824
NET BOOK VALUE					
At June 30, 2017	23,000,000	25,300,371	78,901	177,900	48,557,171

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

	Cost or valuation	Normal annual depreciation charge
Plant and machinery	772,643	12.50%
Computers and Related Equipment's	0	33.30%
Office equipment, furniture and fittings	827,357	12.50%
	<u>1,600,000</u>	

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 INVENTORIES	2017	2016
	Kshs	Kshs.
Stationery and general stores	1,366	17,637
Foods	5,795	1,760
Drinks	10,536	3,872
Cigarettes& Matches	-	-
<i>[The company trades in foods and beverages.</i>	<u>17,697</u>	<u>23,289</u>
<i>The inventories at the end of the year comprised</i>		
<i>Of foods, drinks and containers.</i>		
8 (a) TRADE AND OTHER RECEIVABLES		
Trade receivables (note 8(b))	1,825,819	2,178,253
Gross trade and other receivables	<u>1,825,819</u>	<u>2,178,253</u>
Bad debts written off	-	(352,434)
Net trade and other receivables	<u>1,825,819</u>	<u>1,825,819</u>
8(b) TRADE RECEIVABLES		
Gross trade receivables	1,825,819	2,178,253
Provision for doubtful receivables	-	352,434
	<u>1,825,819</u>	<u>1,825,819</u>
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	-	9,456
Between 30 and 60 days	-	21,358
Between 61 and 90 days	-	70,512
Between 91 and 120 days	-	197,114
Over 120 days	1,825,819	1,879,813
	<u>1,825,819</u>	<u>2,178,253</u>
8(c) STAFF RECEIVABLES		
Gross staff loans and advances	468,717	452,021
	<u>468,717</u>	<u>452,021</u>
9 BANK AND CASH BALANCES		
Cash at bank	(13,248)	(1,469)
Cash in hand	13,940	850
	<u>691</u>	<u>(619)</u>

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10 ORDINARY SHARE CAPITAL**Authorised:**

92,289 ordinary shares of Kshs.20 par value each	1,845,780	1,845,780
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Issued and fully paid:

92,289 ordinary shares of Kshs.20 par value each	1,845,780	1,845,780
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[The share capacity as at June 2017 is the same as it was on June 30th, 2016]

11 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 net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

12 FAIR VALUE ADJUSTMENT RESERVE

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

13 RETAINED EARNINGS

The retained earnings represent amounts available for distribution to the *company's* shareholders. Undistributed retained earnings are utilised to finance the *company's* business activities.

14 TRADE AND OTHER PAYABLES

(a) Note 13 (b)		
(i) Trade payables	10,522,34:	10,104,035
(ii) Staff payables	5,647,563	3,033,011
(iii) TFC Short Term Loan	9,466,377	9,466,377
(iv) Advance Rental income	210,000	932,000
	<u>25,846,285</u>	<u>23,535,423</u>

15 RETIREMENT BENEFIT OBLIGATIONS

The company also 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.200 per employee per month.

16 LEAVE PAY

Leave paid out or utilised during the year	19800	(31,200)
Balance at end of the year	<u>19800</u>	<u>(31,200)</u>

Annual leave pay is based on services rendered by full-time employees up to the end of the year.

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17 NOTES TO THE STATEMENT OF CASH FLOWS**a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations**

Operating profit/(loss)	(2,983,236)	(1,850,336)
Depreciation	684,788	707,198
Operating profit/(loss) before working capital changes	(2,298,448)	(1,143,138)
(Increase)/decrease in inventories	5,592	(12,946)
(Increase)/decrease in trade and other receivables	(16,696)	(223,711)
Increase/(decrease) in staff, trade and other payables	3,032,862	1,854,836
Increase/decrease in prepayment	-	(203,561)
Increase/decrease in rental income/lease creditors	(722,000)	(266,000)
Cash generated from/(used in) operations	<u>1,310</u>	<u>4,819</u>

(b) Analysis of changes in loans

Balance at beginning of the year

Balance at end of the year	2,596,370	2,596,370
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(c) Analysis of cash and cash equivalents

Cash at bank	(13,248)	(1,469)
Cash in hand	13,940	850
Balance at end of the year	<u>691</u>	<u>(619)</u>

18 RELATED PARTY DISCLOSURES**(a) Tourism Finance Corporation**

Tourism Finance Corporation is the majority shareholder of the *company*, holding 72.91% of the *company's* equity interest. The other shareholders are the County Government of Trans-Nzoia holding 27.09% of shares.

19 INCORPORATION

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