KCA UNIVERSITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2019

MAZARS

KCA UNIVERSITY
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2019

MAZARS

CONTENTS **PAGE**

Sponsor

The Institute of Certified Public Accountants of Kenya (ICPAK).

Board of Trustees

The Trustees who served during the year and to the date of this report were:

FCPA Michael Waweru - Chairman	
FCPA Rose Mwaura	Appointed on 7 June 2019
FCPA Isaak Shabir	
CPA Dr. Winnie Nyamute	
CPA David Abwoga	
FCPA Julius Mwatu	Exited on 7 June 2019
CPA Edwin Makori	
CS Happi Carolyn Kilongosi	Appointed on 6 June 2019
Joseph Koskey	Appointed on 6 June 2019
Dr. Andrew Mullei	Appointed on 6 June 2019

University Council

The members of the University Council who served from 1 January 2019 to the date of this report were:

Mike Eldon - Chairperson	Exited 20 April 2020
Sitoyo Lopokoiyit - Chairperson	Appointed on 20 April 2020
Nancy Matimu - Vice Chairperson	Re-appointed on 20 April 2020
Prof. Olubayi Olubayi	Exited 20 April 2020
Dr. David Thuku	Exited 20 April 2020
Dr. Joseph Metet	Exited 20 April 2020
Dr. Andrew Ogutu	Exited 20 April 2020
CPA Charles Ringera	Re-appointed on 20 April 2020
CPA Evelyne Mumasaba Muriuki	Re-appointed on 20 April 2020
Prof. Vincent O. Onywera	Appointed on 20 April 2020
CPA Nick Nyaga	Appointed on 20 April 2020

Prof. Noah Midamba - Vice Chancellor and CEO (ex-officio)
Prof. Joshua Bagaka's - Deputy Vice Chancellor, Academic Affairs (ex-officio)

Other Key Officers

Prof. Arthur Eshiwani - Chancellor	Exited on 1 November 2019
Prof. Olive Mugenda - Chancellor	Appointed on 1 November 2019 and installed 21 February 2020

Prof. Noah Midamba - Vice Chancellor
Prof. Joshua Bagaka's - Deputy Vice Chancellor, Academic Affairs
CPA Michael Ingutia - Chief Finance and Operations Officer

Registered Office and Principal Place of Business

CPA Centre
Thika Road, Ruaraka
P.O. Box 56808 - 00200
Nairobi,
Kenya.

Independent Auditor

Mazars
Certified Public Accountants
The Green House (next to Adams Arcade)
Ngong Road
3rd Floor KOKA Place, Suite 8
P.O. Box 61120 - 00200
Nairobi,
Kenya.
Telephone : + 254 (020) 3861175/76/79
Email contact@mazars.co.ke
Website www.mazars.co.ke

Principal Bankers

The Co-operative Bank of Kenya Limited
P.O. Box 48231 - 00100
Nairobi,
Kenya.

ABSA Bank Kenya PLC
P.O. Box 14403 - 00300
Nairobi,
Kenya.

Standard Chartered Bank of Kenya Limited
P.O. Box 32886 - 00600
Nairobi,
Kenya.

United Bank of Africa
P.O. Box 34154-00100
Nairobi,
Kenya.

Equity Bank Limited
P.O. Box 75104 - 00200
Nairobi,
Kenya.

KCB Bank Kenya Limited
P.O. Box 48400 - 00100
Nairobi,
Kenya.

NCBA Bank Kenya PLC
P.O. Box 30437 - 00100
Nairobi,
Kenya.

Legal Adviser

Rachier & Amollo Advocates
P.O. Box 55645 - 00200
Nairobi,
Kenya.

Munyao, Muthama & Kashindi Advocates
P.O. Box 24482 – 00100
Nairobi,
Kenya.

The University Council submits its report together with the audited financial statements for the year ended 31 December 2019, which disclose the state of affairs of the university.

Status

KCA University was founded by the Institute of Certified Public Accountants of Kenya (ICPAK) under a Trust Deed drawn up in April 2007. On 1 July 2007 the Kenya College of Accountancy Limited transferred its entire operations, assets and liabilities to the Trust. In July 2007, the College was issued with an Interim Letter of Authority by the Commission for Higher Education allowing it to commence preparation for the establishment of a new University to be known as KCA University, pursuant to the provisions of The University Act of the Laws of Kenya.

On 1 March 2013 the University was granted a Charter by the President of the Republic of Kenya. Under Section 20 of the Universities Act No. 42 of 2012, the University is now a body corporate and all rights, duties, obligations, assets and liabilities of the previous Trust were transferred to and vested in this body corporate on 1 March 2013. The University is domiciled in Kenya.

Principal Activities

The University offers tuition in business and technology related courses for both academic and professional qualifications.

Business Review

1 University Operations During Covid-19 Pandemic

Following the Government's directive occasioned by COVID-19 pandemic, the University temporarily closed normal operations on March 17th 2020. The measures taken to curb the pandemic have drastically affected our operations. The University rolled out remote engagement initiatives to ensure that students continued to receive academic tutorials and assessment. Students were facilitated through the University arrangement with Telkom for internet bundles and examinations administered online. This ensured that the University continued to deliver on its core mandate to the completion of trimester 1 2020.

Going forward in light of the circumstances surrounding the COVID-19 pandemic, business has slowed down. Currently, the University has continued to honor its financial obligations with all stakeholders. However, as the public continues to observe various measures aimed at containing the spread of COVID-19, it is projected that the University will achieve 75% of the budgeted revenue during the trimester 2 2020. The new trimester will commence on 25th May 2020 through e-learning and the registrations are currently underway.

There will be expenditure savings with the new normal as most of the operating expenses may not be incurred in full. The faculty timetabling will be optimized by leveraging on technology to manage cost during this remote engagement trimester. The budget has been reviewed accordingly with a freeze on capital expenditure until normalcy returns. Normal operations are expected to resume from the September –December 2020 (Trimester3) intake.

During the remote engagement austerity measures will be observed to limit expenditure to essential services and contractual obligations to manage the expected cash flow shortfall. The lecturing cost is expected to reduce by 25% in line with enrollment numbers. The University has negotiated and was granted a Kshs. 40 Million moratorium on bank loan repayment that was due in the current trimester. Moreover, applications for rent discounts totaling Kshs. 5 Million across various campuses has been allowed. A discount of 10% on fees has been granted to all students in response to the crisis and the general negative effect the crisis has had on our customers. The cost savings and restructured payment agreements will compensate for the lost revenue hence continued operations until normalcy returns.

Business Review (Continued)

2 Overview on the Higher Education Sector in Kenya

In Kenya today, there is growing demand for University education driven by the following factors;
One, the undue emphasis that government has in the past placed on university education. This however is changing with more emphasis now being put on TVET in general and STEMI at the University level.
Two, the increasing complexities of modern societies and economies require highly trained and educated workforce.
Three, the increasing number of parents joining the middle class demand that their children should as a minimum attain University education.
Four, currently individuals with lower qualification have more options through which they can now get university education.

Table 1 :KCSE National Performance

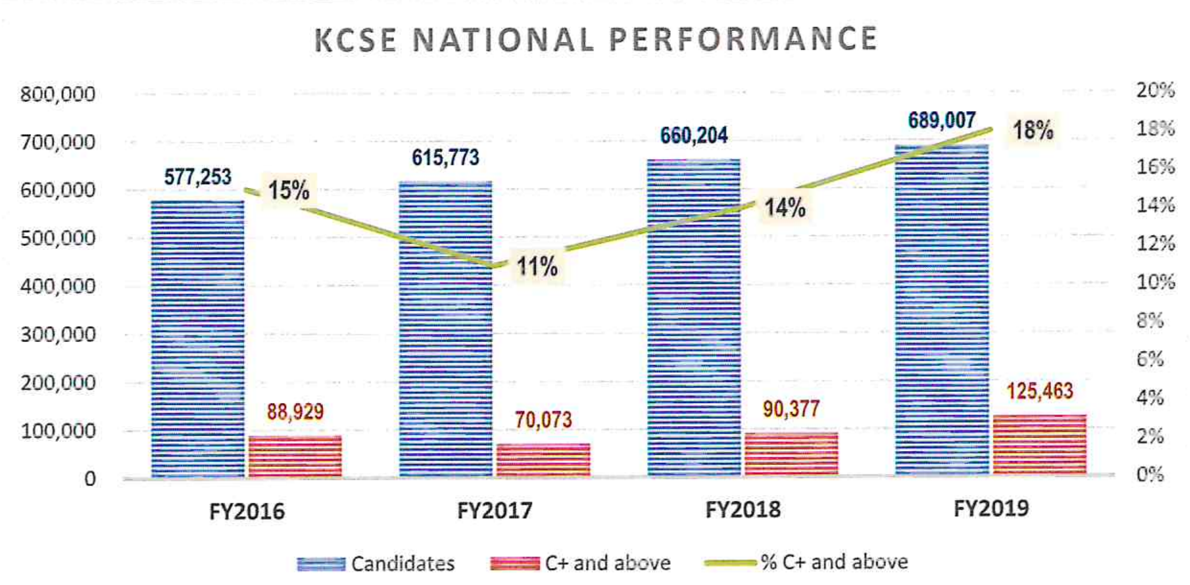
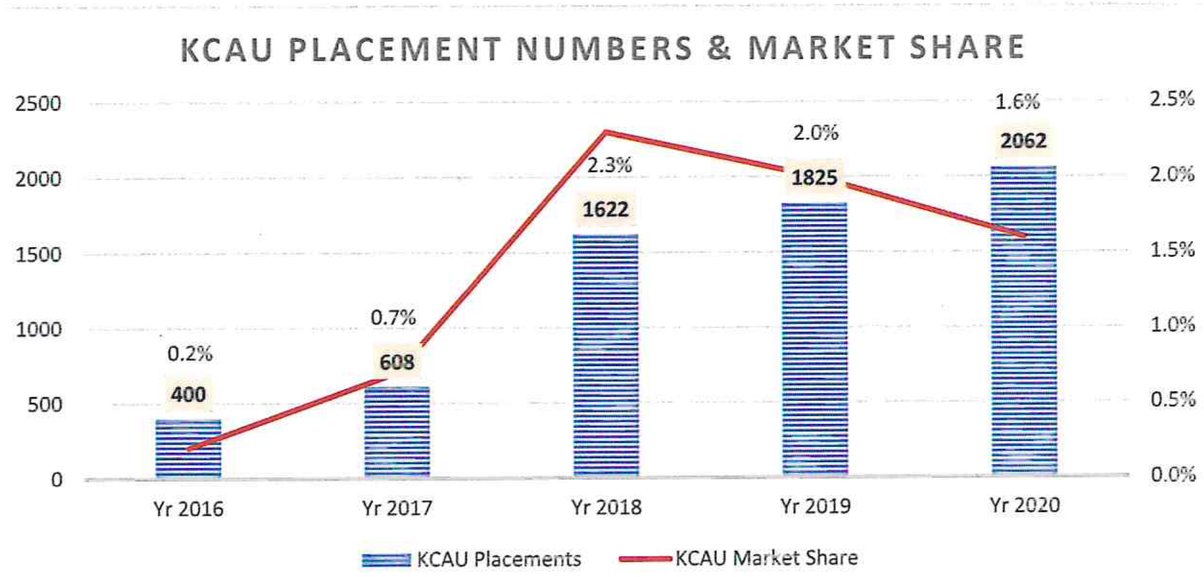


Table 2 :Market Share



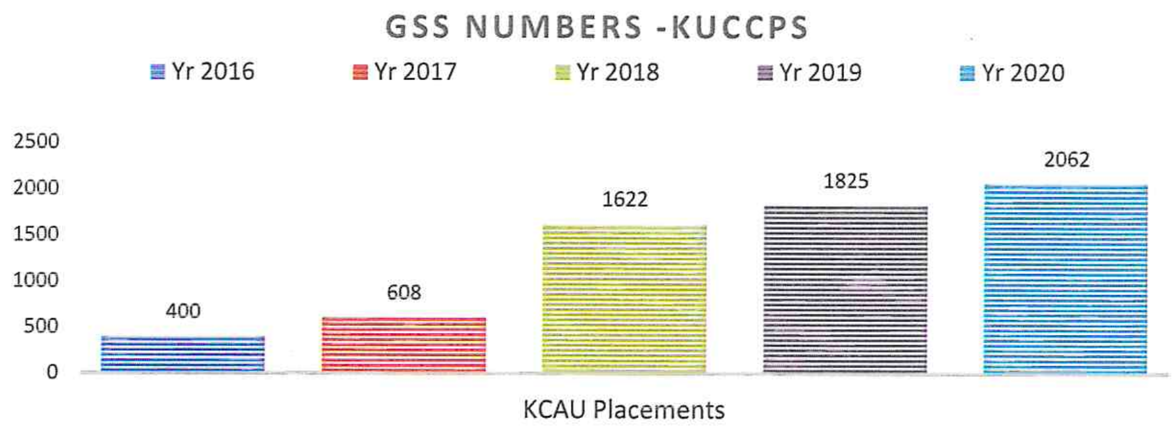
Business Review (Continued)

2 Overview on the Higher Education Sector in Kenya (Continued)

Public Universities are still not able to meet the demand for higher education thus creating an opportunity for private universities like KCA University. In 2016 and in accordance with the law, Kenya Universities & Colleges Central Placement Services (KUCCPs) started placing government sponsored students in private Universities.

All candidates scoring C+ and above in KCSE qualify for government sponsorship with a choice of their preferred University. KCA has been the third most preferred choice among private Universities with a remarkable growth in KUCCPS placements.

Table 3 :KCAU Placement Numbers

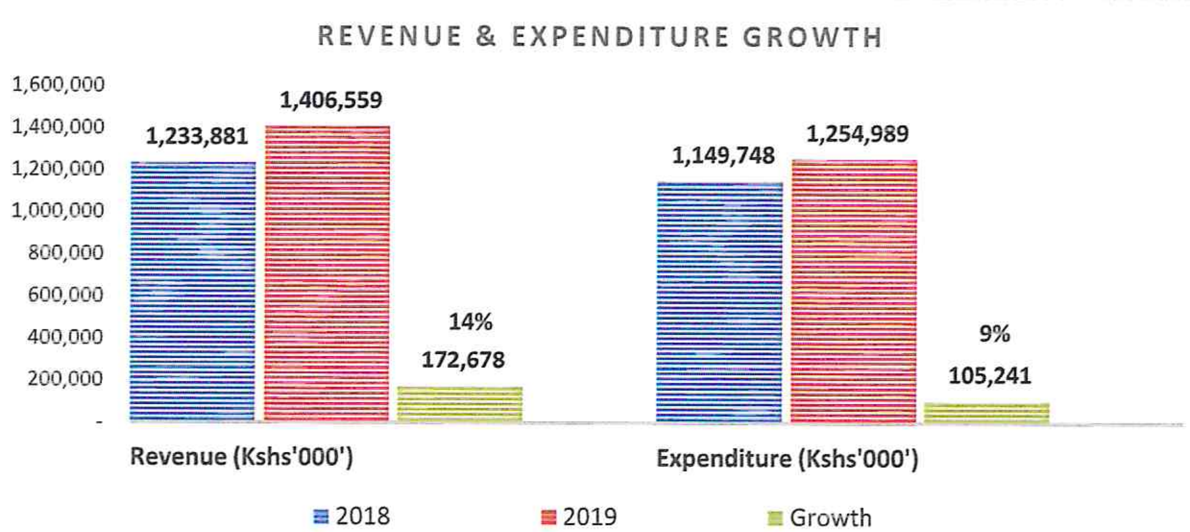


3 KCA University Performance in 2019

The number of students qualifying to join Universities in the Year 2019 increased in number by 35,086 compared to the previous year. The University recorded a surplus of Kshs. 151 million compared to a surplus of Ksh 84 million in 2018 as a result of higher enrolment in both GSS & SSS. KCA University commands an 8% market share for GSS among private Universities as per the latest allocation of year 2020.

Due to the increase in number of students, the existing facilities were fully stretched and the University therefore needed to invest in additional capacity.

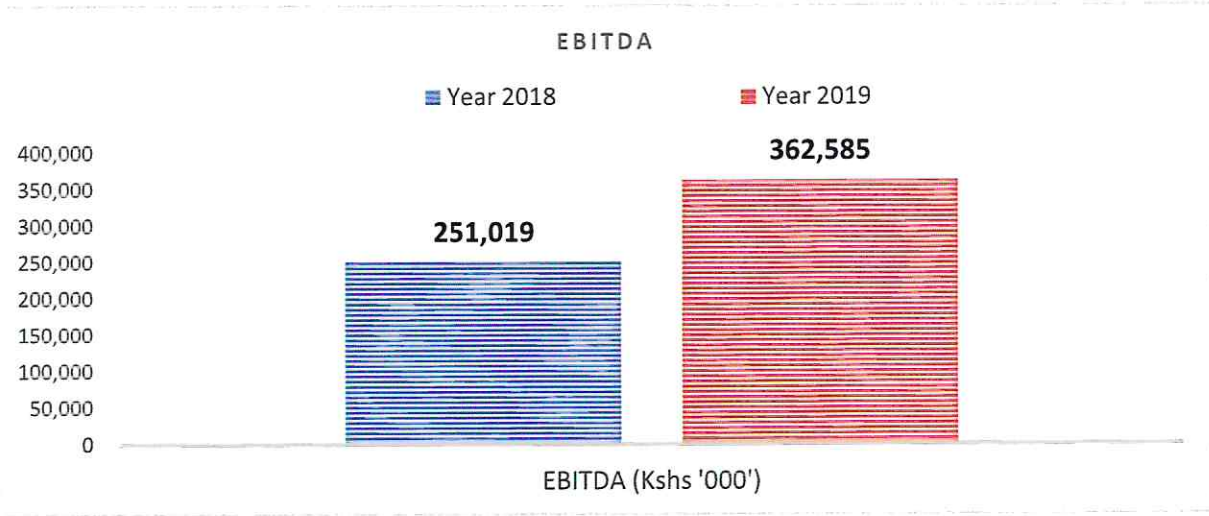
Growth in Income **14%** **Growth in Expenditure** **9%**



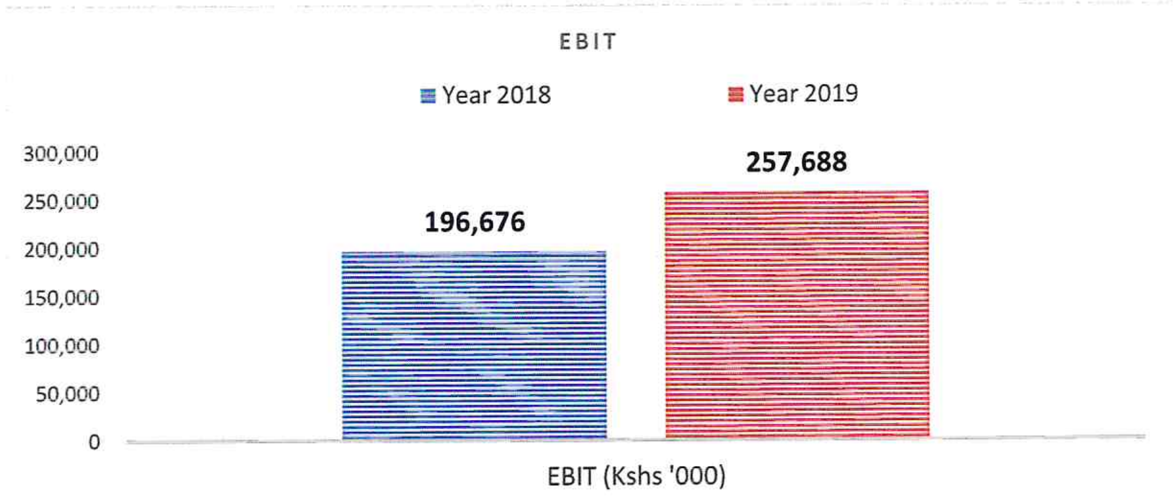
Business Review (Continued)

3 KCA University Performance in 2019 (Continued)

Increase in EBITDA **44%**



Increase in EBIT **31%**



4 Review of the Existing Strategic Plan

The University Strategic Plan 2010 to 2020 was revised in 2018 and a new Strategic Plan 2019 to 2023 developed.

The Revised plans has four key pillars

- Technology Integration
- Student Engagement
- Academic Excellence
- Sustainability

Business Review (Continued)

4 Review of the Existing Strategic Plan (Continued)

The expected outcomes of the revised Strategic Plan 2019 to 2023 include

- Increase in Student Enrolment from 13,416 to 20,000 in 2023
- Increase in Programs from 44 to 65 in 2023
- Increase in staffing from the current Full Time: Part Time ratio of 1:1 to 2:1 in 2023
- Increase in Revenues Kshs 1.2B to Kshs 1.6B in 2023
- Full integration of Technology in Learning.
- Increase enrolment in satellite campuses from 2,000 to 5,000 in 2023
- Increase the built up areas by 22,000 square metres.

The University plans to finance the Strategic Plan from the following sources

- Internal generated funds
- Sale of idle assets
- Strategic partnerships
- Loans

KCA University has prioritized the following Growth Areas.

- Market Driven Degree programs
- TVET programs through KCA Technical College
- Distance Learning
- Consultancy and Grants

University Council

The members of the University Council who held office during the year and to the date of this report are set out on page 1.

Terms of Appointment of the Auditor

The University Council approve the annual audit engagement contract, which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration has been charged to profit or loss in the year.

The University`s auditor, Mazars, Certified Public Accountants has indicated willingness to continue in office in accordance with the terms of the agreement.

By order of the University Council

....
University Secretary

Nairobi ....10 - 06 -........ **2020**

The University Charter requires the University Council to prepare financial statements for each financial year that gives a true and fair view of the financial position of the University as at the end of the financial year and of its profit or loss for that year. It also requires the University Council to ensure that the University maintains proper accounting records that are sufficient to show and explain the transactions of the University and disclose, with reasonable accuracy, the financial position of the University. The University Council is also responsible for safeguarding the assets of the University, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The University Council accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the University Charter. They also accept responsibility for:

i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
ii) selecting suitable accounting policies and applying them consistently; and
iii) making accounting estimates and judgements that are reasonable in the circumstances.

The University Council is of the opinion that the financial statements give a true and fair view of the financial affairs of the University as at 31st December 2019 and of its surplus and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the University Charter.

Having made an assessment of the University's ability to continue as a going concern, the University Council is not aware of any material uncertainties related to events or conditions that may cast doubt upon the University's ability to continue as a going concern.

The University Council acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the University Council on ......10 - 06 -...... 2020 and signed on their behalf by:

....
Chairman - University Council

....
Chairman - Finance Committee

....
Vice Chancellor

Opinion

We have audited the accompanying financial statements of KCA University (the University), set out on pages 11 to 34, which comprise the statement of financial position as at 31 December 2019, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the University as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the University Charter.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the University in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The University Council is responsible for the other information. Other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

University Councils' Responsibility for the Financial Statements

The University Council is responsible for the preparation and fair presentation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the University Charter, and for such internal control as the University Council determine 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, the University Council is responsible for assessing the University'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 University Council either intend to liquidate the University or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We 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 our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the university's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the university 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.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner responsible for the audit resulting in this independent auditor's report was CPA *Alphonse Karungu*, Practising Certificate No. 856.

Mazars

Mazars
Certified Public Accountants (K).
Nairobi

10 June **2020**

Statement of Comprehensive Income for the Year Ended 31 December 2019

	Note	2019 Kshs '000	2018 Kshs '000
Income			
Fees income	4(a)	1,399,917	1,227,502
Other income	4(b)	6,642	6,379
Total Income		**1,406,559**	**1,233,881**
Expenditure			
Lecturers' costs	5	451,060	379,176
Administration expenses	6	499,929	439,707
Establishment expenses	7	188,489	201,361
Seminar expenses	8	9,393	16,961
Finance costs	9	106,118	112,543
Total expenditure		**1,254,989**	**1,149,748**
Surplus for the year	10	**151,570**	**84,133**

Statement of Financial Position as at 31 December 2019

	Note	2019 Kshs '000	2018 Kshs '000
GENERAL FUND AND NON-CURRENT LIABILITIES			
General Fund			
Accumulated deficit		(246,655)	(344,341)
Revaluation surplus	12	451,492	457,156
Total Fund Balance		204,837	112,815
Non-Current Liabilities			
Borrowings	13	521,743	566,022
Lease liabilities	14	200,606	-
Non current caution deposits	21	20,686	16,897
Due to related party	24	45,128	45,128
		788,163	628,047
		993,000	**740,862**
REPRESENTED BY			
Non-current Assets			
Property and Equipment	15	925,286	910,799
Right-of-use assets	16	192,886	-
Prepaid operating lease rentals	17	241,989	251,517
Intangible assets	18	5,889	3,440
		1,366,050	1,165,756
Current Assets			
Fee and other receivables	19	271,988	180,415
Cash at bank and in hand	20	10,198	81,622
		282,186	262,037
Current Liabilities			
Trade and other payables	21	430,220	457,022
Provisions for liabilities and charges	22	3,525	9,250
Borrowings	13	169,624	220,659
Lease liabilities	14	51,867	-
		655,236	686,931
Net current Liabilities		(373,050)	(424,894)
		993,000	**740,862**

The financial statements on pages 11 to 34 were approved and authorised for issue by the University Council on 10 - 06 - 2020 and were signed on its behalf by:

Chairman - University Council
Name: Sitoyo Lopokoiyit

Vice - Chancellor
Name: Wanda Nidamba

Statement of Changes in Fund Balances for the Year Ended 31 December 2019

	Note	Accumulated deficit Kshs '000	Revaluation surplus Kshs '000	Total Kshs '000
At 1 January 2018		(434,138)	462,820	28,682
Surplus for the year		84,133	-	84,133
Excess depreciation transfer	12	5,664	(5,664)	-
At 31 December 2018		(344,341)	457,156	112,815
At 1 January 2019		(344,341)	457,156	112,815
Transition adjustment				
- Changes on initial application of IFRS 16	23	(59,548)	-	(59,548)
Surplus for the year		151,570	-	151,570
Excess depreciation transfer	12	5,664	(5,664)	-
At 31 December 2019		(246,655)	451,492	204,837

Statement of Cashflows for the Year Ended 31 December 2019

	Note	2019 Kshs '000	2018 Kshs '000
Cash flows from operating activities			
Surplus for the year		151,570	84,133
Adjustments for:			
Depreciation of property and equipment	15	45,752	42,685
Depreciation of right-of-use assets	16	46,799	-
Amortisation of prepaid operating lease rentals	17	9,528	9,528
Amortisation of intangible assets	18	2,818	2,130
Interest expense	9	22,953	-
Surplus before working capital changes		279,420	138,476
Increase in fees and other receivables		(91,573)	(8,309)
Decrease in trade and other payables		(28,738)	(75,013)
Cash generated from operations		159,109	55,154
Net cash from operating activities		159,109	55,154
Cash flows from investing activities			
Purchase of property and equipment	15	(60,239)	(19,608)
Purchase of intangible assets	18	(5,267)	(891)
Net cash used in investing activities		(65,506)	(20,499)
Cash flows from financing activities			
Payment of principal portion of the lease liability		(69,712)	-
(Repayment of)/Proceeds from borrowings		(103,245)	160,158
Net cash (used in)/ from financing activities		(172,957)	160,158
Net (decrease)/increase in cash and cash equivalents		(79,354)	194,813
Cash and cash equivalents at start of year		61,595	(133,218)
Cash and cash equivalents at end of year	20	(17,759)	61,595

Notes to the Financial Statements

1 Summary of significant accounting policies

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

a) Basis of preparation

The financial statements are prepared on a going concern basis and in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. They are presented in Kenya Shillings, which is also the functional currency (see (c) below), rounded to the nearest thousand (Kshs'000).

The financial statements comprise a statement of profit and loss account and other comprehensive income (income statement), balance sheet (statement of financial position), statement of changes in fund balances, statement of cash flows, and notes. Income and expenses, excluding the components of other comprehensive income, are recognised in the profit and loss account. Other comprehensive income is recognised in the statement of comprehensive income and comprises items of income and expense (including reclassification adjustments) that are not recognised in the profit and loss account as required or permitted by IFRS. Reclassification adjustments are amounts reclassified to the profit and loss account in the current period that were recognised in other comprehensive income in the current or previous periods. Transactions with the owners of the University in their capacity as owners are recognised in the statement of changes in equity.

Measurement basis

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies summarised below.

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the University uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the University using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liabilitv that are not based on observable market data (unobservable inouts).

Transfers between levels of the fair value hierarchy are recognised by the University at the end of the reporting period during which the change occurred.

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

b) New and revised standards (Continued)

i) Adoption of standards already effective

One new Standard, one new Interpretation and a number of Amendments to standards became effective for the first time in the financial year beginning 1st January 2019 and have been adopted by the University. Neither the Amendments nor the Interpretation has had an effect on the University's financial statements, but the new Standard has had an impact, as follows:

IFRS 16 Leases

From 1st January 2019, to comply with IFRS 16, Leases, which replaced IAS 17, Leases, the University now recognises lease liabilities relating to leases under which the University is the lessee that had previously been classified as operating leases (other than leases with less than 12 months to run from 1st January 2019 and leases of low value items). Such liabilities have been measured at 1st January 2019 at the present value of the remaining lease payments discounted using the University's incremental borrowing rate as at 1st January 2019. Corresponding right-of-use assets have been recognised, measured as if the University's new accounting policy (see Note 1(g)) had been applied since the commencement of each lease but discounted using the University's incremental borrowing rate as at 1st January 2019. The difference between the lease liabilities and right-of-use assets at 1 January 2019 has been recognised as an adjustment to retained earnings at that date (see Note 23). As permitted by the transition provisions in the new Standard, comparative amounts have not been restated.

ii) New and revised standards and interpretations that have been issued but are not yet effective

The University has not applied any of the new or revised Standards and Interpretations that have been published but are not yet effective for the year beginning 1st January 2019, and the University Council do not plan to apply any of them until they become effective. All such new or revised standards and interpretations, with their effective dates, none of which is expected to have a significant impact on the University's financial statements in the period of initial application.

c) Translation of foreign currencies

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the University operates), which is Kenya Shillings.

Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the balance sheet date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis in the profit and loss account in the year in which they arise.

d) Revenue recognition

Revenue is recognised to the extent it is probable that future economic benefits will flow to the University and the revenue can be reliably measured.

Fee income represents the amount invoiced for courses held during the period. Fee income is recognised as revenue in the period in which the tuition is given.

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

e) Borrowing costs

Borrowing costs, net of any temporary investment income on those borrowings, that are attributable to acquisition, construction or production of a qualifying asset are capitalised as part of the asset. The net borrowing cost capitalised is either the actual borrowing cost incurred on the amount borrowed specifically to finance the asset; or in the case of general borrowings, the borrowing cost is determined using the overall weighted average cost of the borrowings on all outstanding borrowings during the year less any specific borrowings directly attributable to the asset and applying this rate to the borrowing attributable to the asset. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised in the profit and loss account in the year in which they are incurred.

f) Property and equipment

All categories of property and equipment are initially recognised at cost. Freehold land and leasehold buildings are subsequently carried at fair value, less accumulated impairment losses. All other items of property, plant and equipment are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying value only when it is probable that future economic benefits associated with the item will flow to the University and the cost of the item can be measured reliably. Repairs and maintenance is charged to the income statement in the period to which it relates.

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are charged to the income and expenditure account. Annually, the difference between depreciation charge based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost is transferred from the revaluation surplus reserve to the accumulated deficit.

Depreciation is calculated using the straight line method to write down the cost or revalued amount of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate - %
Freehold land	Nil
Leasehold buildings	Over the period of the lease
Furniture, fittings and equipment	10
Motor vehicles	25
Computers, copiers & faxes	30
Library books	20
Partitions	10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining surplus for the period. On disposal of revalued assets, amounts in the revaluation surplus reserve relating to that asset are transferred to retained earnings.

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

g) Leases

Leases under which the University is the lessee

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the University recognises a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the University is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the University's incremental borrowing rate is used.

For leases that contain non-lease components, the University allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease.

Subsequently the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.

Leasehold land and buildings are subsequently carried at revalued amounts, based on fair value, less accumulated depreciation and accumulated impairment losses. All other right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underlying asset is not expected to pass to the University at the end of the lease term, the estimated useful life would not exceed the lease term.

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are charged to the profit and loss account. Annually, the difference between the depreciation charge based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost (excess depreciation) is transferred from the revaluation surplus reserve to retained earnings.

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value, the total lease payments are recognised in profit or loss on a straight-line basis over the lease period.

The above accounting policy has been applied from 1st January 2019. Note 23 sets out the equivalent policy applied in the previous year and the impact of the change in accounting policy.

Leases under which the University is the lessor

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. All other leases are classified as operating leases. Payments received under operating leases are recognised as income in the profit and loss account on a straight-line basis over the lease term. The University has not entered into any finance leases.

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

h) Intangible assets

Intangible assets comprise computer software costs. Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their useful lives of three years.

i) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be principally recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for sale in its present condition. The University Council must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of the asset's previous carrying amount and the fair value less costs to sell.

j) Impairment of non-financial assets

Non-financial assets that are carried at amortised cost are reviewed at the end of each reporting period for any indication that an asset may be impaired. If any such indication exists, 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.

k) Provision for liabilities and charges

Provisions are recognised when the University has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

l) Post-employment benefit obligations

The University operates a defined contribution retirement benefits plan for its employees, the assets of which are held in a separate trustee administered scheme managed by an insurance company. A defined contribution plan is a plan under which the University pays fixed contributions into a separate fund, and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The University's contributions are charged to the income statement in the year to which they relate.

The University and its employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the University's contributions are charged to the income statement in the year to which they relate.

m) Financial instruments

The University classifies it's financial instruments into the following categories:

i) **Loans and receivables** which comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This includes fees and other receivables.

ii) **Financial liabilities,** which include borrowings, trade and other payables.
Financial instruments held during the year were classified as follows:
- Fees and other receivables were classified as 'loans and receivables'.
- Borrowings and trade and other liabilities were classified as financial liabilities.

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

m) Financial instruments (Continued)

Recognition and measurement

Financial assets:

All financial assets are recognised initially using the trade date accounting which is the date the University commits itself to the transaction. Financial assets carried at fair value through profit or loss are initially recognised at fair value and the transaction costs are expensed in the profit and loss account. All other categories of financial assets are recorded at the fair value of the consideration given plus the transaction cost.

The University assesses at each balance sheet whether there is objective evidence that a financial asset is impaired. If any such evidence exists, an impairment loss is recognised. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. In the case of loans and fee receivables, the recoverable amount is the fair value.

Changes in the carrying values and impairment losses of loans and fee receivables are recognised in the profit and loss account. Fee and other receivables not collectible are written off against the related provision. Subsequent recoveries of amounts previously written off are credited to the profit and loss account in the year of recovery.

Financial liabilities:

All financial liabilities are recognised initially at the fair value of the consideration given less the transaction cost.

Subsequently, all financial liabilities are carried at fair value.

Presentation

All financial assets are classified as non-current except financial assets at fair value through profit or loss, those with maturities of less than 12 months from the balance sheet date, those which the University Council have the express intention of holding for less than 12 months from the balance sheet date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

All financial liabilities are classified as non-current except financial liabilities at fair value through profit or loss, those expected to be settled in the University's normal operating cycle, those payable or expected to be paid within 12 months of the balance sheet date and those which the University does not have an unconditional right to defer settlement for at least 12 months after the balance sheet date.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or the University has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged or cancelled or expires.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

n) Cash and cash equivalents

Cash and cash equivalents include cash in hand and demand and term deposits, with maturities of three months or less from the date of acquisition, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts. In the statement of financial position, bank overdrafts are included as borrowings under current liabilities.

2 Risk management objectives and policies

a) Financial risk management

The University's activities expose it to a variety of financial risks including credit, liquidity and market risks. The University's overall risk management policies are set out by the University Council and implemented by the management, and focus on the unpredictability of changes in the business environment and seek to minimise the potential adverse effects of such risks on the University's performance by setting acceptable levels of risk. The University does not hedge against any risks.

i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on a University-wide basis. The University does not grade the credit quality of financial assets that are neither past due nor impaired.

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings and placing limits on deposits that can be held with each institution.

Credit risk on trade receivables is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account the financial position, past experience and other relevant factors. Credit is managed by setting a credit limit and credit period for each customer. The utilisation of the credit limits and the credit period is monitored by management on a monthly basis.

The maximum exposure of the University to credit risk as at the balance sheet date is as follows:

	Fully performing Kshs '000	Past due but not impaired Kshs '000	Impaired Kshs '000	Total Kshs '000
At 31st December 2019				
Fees receivables - non corporate	-	186,673	209,572	396,245
Fees receivables - corporate	-	39,012	-	39,012
Other receivables	33,788	-	-	33,788
Due from SAKU	-		18,100	18,100
Staff receivables	12,056		6,524	18,580
Due from related parties	-	459	-	459
Cash at bank	10,198	-	-	10,198
Maximum exposure to credit risk	56,042	226,144	234,196	516,382

Notes to the Financial Statements (Continued)

2 Risk management objectives and policies (Continued)

a) Financial risk management

i) Credit risk (Continued)

	Fully performing Kshs '000	but not impaired Kshs '000	Impaired Kshs '000	Total Kshs '000
At 31st December 2018				
Fees receivables - non corporate	-	93,391	198,852	292,243
Fees receivables - corporate	-	46,429	-	46,429
Other receivables	31,177	-	-	31,177
Due from SAKU	-	-	18,100	18,100
Staff receivables	8,959	-	6,524	15,483
Due from related parties	-	459	-	459
Cash at bank	81,622	-	-	81,622
Maximum exposure to credit risk	121,758	140,279	223,476	485,513

The ageing analysis of past due but not impaired trade receivables is:

	2019 Kshs '000	2018 Kshs '000
0-6 months	226,144	140,279

The past due debtors but not impaired continue to be paid. An impairment provision of Kshs. 234,196 (2018: Kshs. 223,476) is held against the impaired receivables. The University does not hold any collateral against the past due or impaired receivables. The management continues to actively follow up past due and impaired receivables.

ii) Liquidity risk

Liquidity risk is the risk that the University will encounter difficulty in meeting obligations associated with financial liabilities. The Council has developed a risk management framework for the management of the University's short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The University manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls. Note 13 provides details of additional undrawn facilities that may be utilised by the University to further reduce liquidity risk.

The table below summarises the maturity analysis for financial liabilities to their remaining contractual maturities. The amounts disclosed are the contractual undiscounted cash flows.

	Between 1-12 months Kshs '000	Over 1 year Kshs '000	Total Kshs '000
At 31st December 2019			
Trade payables	49,261	-	49,261
Refundable caution deposits	25,668	20,686	46,354
Other payables and accruals	329,566	-	329,566
Borrowings	169,624	521,743	691,367
	524,858	542,429	1,116,548

Notes to the Financial Statements (Continued)

2 Risk management objectives and policies (Continued)

a) Financial risk management (Continued)

ii) Liquidity risk (Continued)

	Between 1 -12 months Kshs '000	Over 1 year Kshs '000	Total Kshs '000
At 31st December 2018			
Trade payables	76,314	-	76,314
Refundable caution deposits	22,835	16,897	39,732
Other payables and accruals	329,675	-	329,675
Borrowings	220,659	566,022	786,681
	649,483	582,919	1,232,402

iii) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: currency risk, interest rate risk and other price risk.

Interest rate risk

The University's activities expose it to a variety of financial risks including credit, liquidity and market risks. The University's overall risk management policies are set out by the University Council and implemented by the management, and focus on the unpredictability of changes in the business environment and seek to minimise the potential adverse effects of such risks on the University's performance by setting acceptable levels of risk. The University does not hedge against any risks.

Currency risk

Currency risk arises on financial instruments that are denominated in foreign currency. The University operates wholly within Kenya and has trade receivables and payables denominated in US Dollar. Management believes that there is a minimal risk of significant losses due to exchange rate fluctuations.

Other price risk

The University is not exposed to other price risk.

b) Capital management

The University's objective in managing its capital is to ensure that it supports the furtherance of its objectives and is able to continue as a going concern. Capital is represented by the General Fund.

The gearing ratio at the year-end was as follows:

	2019 Kshs '000	2018 Kshs '000
General fund	204,837	112,815
Total borrowings (Note 13)	691,367	786,681
Less: Cash at bank and on hand	(10,198)	(81,622)
Net debt	681,169	705,059
Total debt and general fund	886,006	817,874
Gearing %	77%	86%

Notes to the Financial Statements (Continued)

3 Critical accounting estimates and judgements

In the process of applying the accounting policies adopted by the University, the management makes certain estimates and judgements that may affect the carrying values of assets and liabilities in the next financial period. Such estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. The University Council evaluates such estimates and judgements at each financial reporting date to ensure that they are still believed to be reasonable under the prevailing circumstances based on the information available.

Key assumptions and judgements made by the University Council that have the most significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year. The assumptions and judgements set-out below do not consider the full potential impact of the recent coronavirus outbreak as it is too early at this stage to predict the full potential impact of this on the financial statements of the University.

Classification of leases

Judgement is exercised in determining whether a lease should be classified as an operating lease or a finance lease.

Identification of non-current assets held for sale

Judgement is exercised in identifying assets that qualify to be classified as non-current assets held for sale.

Impairment losses on receivables

Estimates made in determining the impairment losses on receivables. Such estimates include the determination of the recoverable amount of the asset. The movement on the impairment provision is set out in Note 19.

4 Income

	2019 Kshs '000	2018 Kshs '000
a) Fees income		
Academic Courses	1,005,852	881,749
Certified Public Accountants and Accounting Technicians Diploma courses	85,975	77,110
Computer courses	12,736	17,562
Association of Chartered Certified Accountants	8,332	6,939
Consultancy service income	160	-
Seminar fees	4,131	23,871
Registration fees	16,488	13,335
Library fees	30,361	24,443
Fees for special training, instalment, exemption, gown hire, capacity building	59,603	51,795
Application and other charges	176,279	130,698
Total fees income	**1,399,917**	**1,227,502**

Included under the University's income is income from KCA Technical College accredited by the Technical Vocational Education and Training Authority (TVETA) during the year.

Notes to the Financial Statements (Continued)

4 Income (Continued)

	2019 Kshs '000	2018 Kshs '000
b) Other income		
CUE Charges	1,346	-
Late Registration	5,296	6,379
	6,642	**6,379**

5 Lecturers' Remuneration

	2019 Kshs '000	2018 Kshs '000
Full time lecturers	352,725	317,010
Part time lecturers	98,335	62,166
Total lecturers' costs	**451,060**	**379,176**

6 Administration expenses

	2019 Kshs '000	2018 Kshs '000
Administration staff salaries	237,516	202,800
Other staff costs	81,915	57,757
Board of Trustees and University Council costs	6,506	4,349
Postage and telephone	21,523	19,420
Printing and stationery	33,244	23,668
Motor vehicle running expenses	2,652	3,685
Computer expenses	2,160	580
Travelling and passages	12,548	7,548
Publicity, advertisement and entertainment	32,839	20,634
Audit fees	2,000	1,643
Subscription and donations	5,249	3,791
Legal and professional fees	4,416	17,836
Sporting expenses	11,588	8,903
Net increase in provision for impairment of receivables	10,720	31,000
ICPAK discounts and scholarships	18,020	17,292
Foreign exchange loss	30	60
Bank charges	4,155	4,465
Graduation Expenses	10,399	7,622
CUE Expenses	2,449	6,654
Total administration expenses	**499,929**	**439,707**

7 Establishment expenses

	2019 Kshs '000	2018 Kshs '000
Leasehold rentals	8,212	82,593
Service charges	18,983	19,514
Repairs and maintenance	10,744	4,531
Depreciation of property and equipment (Note 15)	45,752	42,685
Depreciation on right-of-use assets (Note 16)	46,799	-
Amortisation of intangible assets (Note 18)	2,818	2,130
Amortisation of prepaid operating lease rentals (Note 17)	9,528	9,528
Insurance	1,580	1,678
Rent, rates and licences	4,053	1,105
Security expenses	11,834	11,693
Water and electricity charges	18,602	18,126
Cleaning expenses	9,584	7,778
Total establishment expenses	**188,489**	**201,361**

Notes to the Financial Statements (Continued)

8 Seminar expenses

	2019 Kshs '000	2018 Kshs '000
Facilitation fees	1,587	975
Other seminar expenses	7,806	15,986
Total seminar expenses	**9,393**	**16,961**

9 Finance costs

Interest expense:		
- Bank loan	80,949	77,180
- Bank overdraft	597	14,545
- Lease liabilities (Note 14)	22,952	-
- Other interest	1,620	20,818
Total finance costs	**106,118**	**112,543**

10 Surplus for the year

(a) Items charged

The following items have been charged in arriving at the surplus for the year:

Employee benefits expense (Note 10(b))	688,576	581,976
Rental payments under operating leases	8,212	82,593
Depreciation of property and equipment	45,752	42,685
Amortisation of intangible assets	2,818	2,130
Amortisation of prepaid operating lease rentals (Note 17)	9,528	9,528
Provision for impairment of receivables	10,720	31,000
Auditors' remuneration	2,000	1,643

(b) Employee benefits expense

The following items are included in employee benefits expense:

Wages and salaries	667,453	562,416
Retirement benefit costs:		
- Defined contribution scheme	20,324	18,821
- National Social Security Fund	799	739
	688,576	**581,976**

Expenses relating to KCA Technical College accredited by TVETA has been charged to the profit and loss during the year.

11 Income tax

The University operates on a not-for-profit basis. The services offered are exempted from income tax under the First Schedule of the Income Tax Act. The University Council has therefore commenced the application process with the Kenya Revenue Authority for exemption from income tax, and therefore no provision for income tax has been made in these financial statements.

Notes to the Financial Statements (Continued)

12 Revaluation surplus

The revaluation surplus arose on the revaluation of freehold land, leasehold land and buildings. The surplus is not distributable.

The movement is as shown below:

	2019 Kshs '000	2018 Kshs '000
At 1st January	457,156	462,820
Net increase charged to income and expenditure account		
- Transfer of excess depreciation	(5,664)	(5,664)
At 31st December	**451,492**	**457,156**

13 Borrowings

The borrowings are analysed as follows:

	2019	2018
Non-current		
Bank loans		
- Co-operative Bank of Kenya Limited	521,743	566,022
Current		
Bank overdrafts (Note 20)	27,957	20,027
Bank loans		
- Co-operative Bank of Kenya Limited	133,482	190,562
Insurance Premium Finance		
- Co-operative Bank of Kenya Limited	8,185	10,070
	169,624	220,659
Total borrowings	**691,367**	**786,681**

The bank loan and overdraft facility from Co-operative Bank of Kenya Limited are secured by:
- a fixed and floating debenture of Kshs 750 million.
- legal charge of Kshs 750 million over property L.R.No 28799/1.
-The University has a headroom of Kshs. 60M on the revolving term loan facility as at 31 December 2019.

14 Lease liabilities

	2019 Kshs '000	2018 Kshs '000
Current	51,867	-
Non-current	200,606	-
	252,473	-

The total cash outflow for leases in the year was:

Payments of principal portion of the lease liability	(69,712)	-
Interest on lease liabilities	22,952	-
	(46,760)	-

In 2018 the University recognised lease assets and lease liabilities only for those leases that were classified as finance leases under the accounting policy at that time. The assets were included in property and equipment and the liabilities were included in borrowings. For adjustments recognised on adoption of IFRS 16 on 1st January 2019, see Note 23.

For more information on the nature of the leases entered into and the related right-of-use assets, see Note 16.

Notes to the financial statements (Continued)

15 **Property and equipment**	**Freehold land Kshs '000**	**Leasehold land and buildings Kshs '000**	**Furniture, fittings and equipment Kshs '000**	**Computers, copiers and faxes Kshs '000**	**Library books Kshs '000**	**Motor vehicles Kshs '000**	**Partitions Kshs '000**	**Total Kshs '000**
Year ended 31st December 2018								
Opening carrying amount	168,000	526,463	29,410	5,039	4,187	3,509	43,348	779,956
Reclassification from non current assets	153,920	-	-	-	-	-	-	153,920
Additions	-	-	3,545	11,824	355	-	3,884	19,608
Depreciation charge	-	(19,425)	(6,385)	(4,661)	(1,634)	(1,202)	(9,378)	(42,685)
Closing carrying amount	321,920	507,038	26,570	12,202	2,908	2,307	37,854	910,799
At 31st December 2018								
Cost or valuation	321,920	631,512	101,362	107,074	43,258	36,779	73,901	1,315,806
Accumulated depreciation	-	(124,474)	(74,792)	(94,872)	(40,350)	(34,472)	(36,047)	(405,007)
Net carrying amount	321,920	507,038	26,570	12,202	2,908	2,307	37,854	910,799
Year ended 31st December 2019								
Opening carrying amount	321,920	507,038	26,570	12,202	2,908	2,307	37,854	910,799
Additions	-	17,594	11,177	17,593	4,676	-	9,199	60,239
Depreciation charge	-	(19,572)	(5,140)	(8,064)	(1,335)	(1,202)	(10,439)	(45,752)
Closing carrying amount	321,920	505,060	32,607	21,731	6,249	1,105	36,614	925,286
At 31st December 2019								
Cost or valuation	321,920	649,106	112,539	124,667	47,934	36,779	83,100	1,376,045
Accumulated depreciation	-	(144,046)	(79,932)	(102,936)	(41,685)	(35,674)	(46,486)	(450,759)
Net carrying amount	321,920	505,060	32,607	21,731	6,249	1,105	36,614	925,286

Notes to the financial statements (Continued)

15 Property and equipment (Continued)

The valuation of leasehold land and buildings was carried out by Knight Frank, Chartered Surveyors, as at 2nd May 2012 on an open market value basis. The valuation of freehold land was carried out by Kinyua Koech Limited, Valuers, as at 31st December 2012 on an open market value basis.

The carrying amount of the Property and equipment held for sale is based on the valuation carried out on 10th September 2016 by Acumen Valuers Limited, independent valuers, on the basis of open market value. The valuer is a registered valuer and has recent experience in the location and the Property and equipment being valued.

If the freehold land, leasehold land and buildings were stated on the historical cost basis, the carrying amounts would be as follows:

	Freehold land Kshs '000	Leasehold land and buildings Kshs '000
At 31st December 2019		
Cost	30,244	447,239
Accumulated depreciation	-	(119,442)
Net book amount	30,244	327,797
At 31st December 2018		
Cost	30,244	447,239
Accumulated depreciation	-	(105,681)
Net book amount	30,244	341,558

16 Right-of use assets

	Kshs '000	Total Kshs '000
At 1st January 2019	-	-
Additions	239,685	239,685
Depreciation charge	(46,799)	(46,799)
Carrying amount at 31st December 2019	192,886	192,886

Under the previous accounting policy prepaid operating lease rentals were recognised at historical cost and subsequently amortised over the lease period. The carrying amount of prepaid operating lease rentals of Kshs 69,712,108 at 1st January 2019 has been reclassified as right-of-use assets.

The University leases various offices and classrooms. The leases of offices and classrooms are typically for periods of between 4 and 7 years, with options to renew. None of the leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

Leasehold land and buildings were valued (Level 2) on 10 September 2016 by Acumen Valuers Limited, independent valuers, on the basis of open market value. The carrying amount of the asset was restated to the revalued amount of the asset, and the resulting surplus arising on revaluation net of deferred income tax was recognised in other comprehensive income and credited to the revaluation surplus in equity.

Notes to the financial statements (Continued)

16 Right-of use assets (Continued)

For information on the related lease liabilities, see Note 14.

17 Prepaid operating lease rentals

Prepaid operating lease rentals are recognised at historical cost and subsequently amortised over the lease period.

	2019 Kshs '000	2018 Kshs '000
Cost		
At 1st January	313,850	313,850
At 31st December	313,850	313,850
Amortisation		
At 1st January	62,333	52,805
Charge for the year	9,528	9,528
At 31st December	71,861	62,333
Net book amount		
At 31st December	**241,989**	**251,517**

18 Intangible assets - Software costs

	2019 Kshs '000	2018 Kshs '000
Cost		
At 1st January	28,377	27,486
Additions	5,267	891
At 31st December	33,644	28,377
Amortisation		
At 1st January	24,937	22,807
Charge for the year	2,818	2,130
At 31st December	27,755	24,937
Net book amount		
At 31st December	**5,889**	**3,440**

Notes to the financial statements (Continued)

19 Fees and other receivables	**2019 Kshs'000**	**2018 Kshs'000**
Fees receivables corporate	39,012	46,429
Fees receivables non-corporate	396,245	292,243
Less: provision for impairment losses	(209,572)	(198,852)
Net fees receivables	225,685	139,820
Staff receivables	18,580	15,483
Less: Provision for impairment losses (staff receivables)	(6,524)	(6,524)
Due from SAKU	18,100	18,100
Less: Provision for impairment losses (SAKU)	(18,100)	(18,100)
Prepayments	11,154	8,756
Other receivables	22,634	22,421
Due from related parties (Note 24)	459	459
	271,988	180,415

Included on the fees receivables is amount due from the Universities Funding Board amounting to Kshs.185,533,235 (2018: 101,327,000) as shown in note 25.

In the opinion of the University Council, the carrying amounts of these receivables approximate the fair value.

The movement on the provision for impairment losses is as follows:

	2019 Kshs'000	**2018 Kshs'000**
At 1st January	198,852	167,852
Net increase charged to income and expenditure account	10,720	31,000
At 31st December	**209,572**	**198,852**

Provision for impairment losses is identified by examining the aged receivable analysis which details the time lapsed since the creation of a receivable. Long outstanding balances identified from such analyses are considered for inclusion in the allowance for doubtful debts. The University had not complied with the International Financial Reporting Standard (IFRS 9) which requires a forward-looking impairment model providing for expected credit losses (ECLs). Management of the University is of the view that no material difference would result from the current impairment provision estimate if the IFRS 9 method had been adopted.

20 Cash and cash equivalents	**2019 Kshs'000**	**2018 Kshs'000**
Cash at bank and in hand	10,198	81,622

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

Cash at bank and in hand	10,198	81,622
Bank overdraft (Note 13)	(27,957)	(20,027)
	(17,759)	61,595

Notes to the financial statements (Continued)

21 Trade and other payables	**2019 Kshs'000**	**2018 Kshs'000**
Trade payables	49,261	76,314
Caution deposits refundable	46,354	39,732
Fees billed in advance	80,827	49,140
Fees received in advance	147,150	116,785
Accruals	45,258	57,745
Deposits from students	4,407	4,407
Payroll payables	24,688	48,531
Statutory payables	27,236	53,067
Other payables	25,725	28,198
	450,906	473,919
Less: Caution deposits refundable afer one year	(20,686)	(16,897)
	430,220	457,022

In the opinion of the University Council the carrying amounts of these payables approximate the fair value.

Caution deposits refundable is analysed as shown below;	**2019 Kshs '000**	**2018 Kshs '000'**
Current	25,668	22,835
Non current	20,686	16,897
	46,354	39,732

22 Provisions for liabilities and charges

At 1st January and 31st December	3,525	9,250

A provision of Kshs 3,525,447 has been made in these financial statements. This relates to a former employee who has sued the University for wrongful termination of employment and a cleaning company claim for contract termination.

23 Effect of change of accounting policy - leases

As explained in Note 1(b)(i), the University changed its accounting policy for leases where the University is lessee. The new policy is described in Note 1(g). As permitted by the transition provisions in the new Standard, comparative amounts have not been restated. The University's accounting policy for leases under which the University was lessee was, up to 31st December 2018, as follows:

Leases of property, plant and equipment including hire purchase contracts where the University assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are recognised as a liability at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value. Each lease payment is allocated between the liability and finance cost using the interest rate implicit in the lease. The finance cost is charged to the profit and loss account in the year in which it is incurred. Property, plant and equipment acquired under finance leases are capitalised and depreciated over the estimated useful life of the asset.

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the lease period. Prepaid operating lease rentals are recognised as assets and are subsequently amortised over the lease period.

Notes to the financial statements (Continued)

23 Effect of change of accounting policy - leases (Continued)

The measurement of assets and liabilities that were recognised as finance leases under the previous accounting policy has continued unchanged, but the assets have been reclassified from Property, plant and equipment to Right-of-use assets (see Notes 15 and 16). Right-of-use assets and lease liabilities in respect of operating leases (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) in force at 1st January 2019 have been recognised in accordance with the transition requirements of IFRS 16, as described in Note 1(b)(i). The resulting adjustment passed at 1st January 2019 as a result of applying IFRS 16, was as follows:

	2019 Kshs '000
Lease liabilities	89,028
Right-of-use assets	(148,576)
Net adjustment to retained earnings at 1st January 2019	(59,548)

In addition, assets held under finance leases and previously included under property, plant and equipment have been transferred from property, plant and equipment to Right-of-use assets, and amounts previously recognised as Prepaid operating lease rentals have been transferred from Prepaid operating lease payments to right-of-use assets.

24 Related party transactions

The Institute of Certified Public Accountants of Kenya (ICPAK) is a related party by virtue of being the sponsor of the University.

	2019 Kshs '000	2018 Kshs '000
The following transactions were carried out with related parties:		
i) Due from ICPAK (Note 19)	459	459
ii) Due to ICPAK	45,128	45,128
iii) Key management compensation		
Salaries - as executives	31,627	28,789
Other emoluments - as executives	5,862	2,121
Post-employment benefit costs	2,379	4,365
	39,868	35,275
iv) Governance expenses		
Board of Trustees and University Council costs	6,506	4,349

25 Funds from Government of Kenya

	2019	2018
Due from the Universities Funding Board	185,533	101,327

Notes to the financial statements (Continued)

26 Commitments

	2019 Kshs '000	2018 Kshs '000

The University had no capital commitments at 31st December 2019.

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	2019 Kshs '000	2018 Kshs '000
Not later than 1 year	95,215	164,594
Later than 1 year and not later than 5 years	307,994	270,970
	403,209	435,564

27 Contingent liabilities

The University has provided guarantees in favour of NCBA Bank and Industrial and Commercial Development Corporation (ICDC) in respect of staff car loans. The limit for the guarantees is Kshs 30 million.

A contractor has claimed outstanding fees for construction of a tuition block and library in the sums of Kshs. 3,263,364 and Kshs. 2,651,270 respectively. The contractor has also claimed interest on the outstanding balance. The University Council estimates that no liability on interest claimed will arise and hence has made no provision in these financial statements.

Former staff of the University has sued for breach of employment contract. The Claimant has made a claim for Kshs.16,130,425 inclusive of costs of the suit and interest as compensation. The case is currently ongoing.

28 Proposed ICPAK/KCAU strategic partnership with ECP and Maarifa Edu Holdings Limited

As disclosed in the financial statements for the period ended 31 December 2018, KCA University had been holding discussions with ECP and Maarifa Edu Holdings Limited on a possible partnership that would enrich and reposition it as a premier business University of choice in Kenya and beyond.

The main agreement had been signed and submitted to the National Treasury for approval. The National Treasury responded and referred back the matter to ICPAK/KCAU and advised them to renegotiate the terms and conditions or restart the process of identifying a strategic partner to finance the requirements of KCA University.

The Board of Trustees terminated the intended ICPAK/KCAU strategic partnership with ECP and Maarifa Edu Holdings Limited. The Board of Trustees have recommended that alternative sources of funding for the University be identified and that a letter be written to the National Treasury informing them of the decision to seek alternative funding.

29 Going concern

At 31 December 2019 the current liabilities of the University exceeded its current assets by Kshs 373,050,000 (2018: Kshs 424,894,000). Based on cash flow projections prepared by management, the University Council is satisfied that the University will remain a going concern for the next 12 months from the date of approving these financial statements, which have therefore been prepared on a going concern basis.

The university has various strategies aimed at enhancing the financial performance. In 2019 the university continued to receive increased number of students. This has resulted in increased University fees revenue.

30 Comparatives

Where necessary, comparative figures have been reclassified to conform with the changes in presentation in the current year.