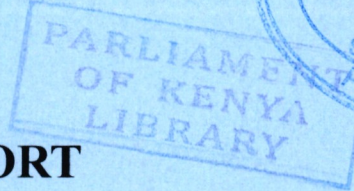
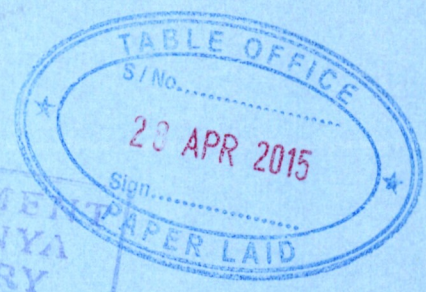


REPUBLIC OF KENYA



*Paperband by
the leader of
majority on
the 28/04/15*
[Signature]

KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
JOMO KENYATTA FOUNDATION**

**FOR THE YEAR ENDED
30 JUNE 2014**





Jomokenyatta Foundation

THE JOMO KENYATTA FOUNDATION

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

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



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BOARD OF DIRECTORS

1. Mr. Jacob K. Mwirigi, HSC - Chairman
2. Mrs. Nancy W. Karimi, MBS - Managing Director/Secretary to the Board
3. Mr. Joseph K. Kinyua, CBS - Chief of Staff and Head of Public Service
4. Dr. Kamau Thugge, EBS - Principal Secretary, The National Treasury
5. Dr. Belio R. Kipsang - Principal Secretary, Ministry of Education
Science and Technology
6. Prof. Isaac N. Kimengi - Member
7. Mr. Simon M. Ole Kingi - Member - Retired 31st December 2013
8. Mr. Muhidin M. Sheikh - Member - Retired 31st December 2013
9. Ms. Sophia Lepuchirit - Member - Retired 31st December 2013
10. Prof. Nathan O. Ogechi - Member - Retired 31st December 2013
11. Mr. Mohammed Jabane - Alternate to Chief of Staff and Head of Public
Service
12. Mrs. Margaret Thiong'o - Alternate to Principal Secretary, Ministry of
Education Science and Technology
13. Mrs. Teresia K. Nyakweba - Alternate to Principal Secretary, The National
Treasury



JKF MANAGEMENT

1. Mrs. Nancy W. Karimi, MBS - Managing Director
2. Mr. John K. Githiaka - General Manager - Human Resource & Administration
3. Mr. Fredrick O. Oyuga - General Manager - Publishing, Research and Development
4. Mrs. Rosemary K. A. Baraza - Company Secretary and Head of Legal Affairs
5. Mr. Bethuel O. Oduo - General Manager - Sales and Marketing
6. Mr. David K. Mwaniki - General Manager - Finance & ICT
7. Mr. Alex G. Wagacha - General Manager - Internal Audit & Risk Management



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 45th ANNUAL GENERAL MEETING of The Jomo Kenyatta Foundation will be held at the offices of The Foundation in Industrial Area, Enterprise Road, Nairobi on at 10.00 am

AGENDA

1. The Secretary to read the Notice convening the 45th Annual General Meeting.
2. To receive and confirm the Minutes of the last Annual General Meeting held on 10th July, 2014
3. To receive and adopt the Chairperson's Report and The Foundation's operations for the year ended 30th June 2014
4. To receive, discuss and adopt the External Auditor's Report on the Accounts of The Foundation for the year ended 30th June 2014.
5. To receive and adopt The JKF Directors' Report and the Company's Financial statements for the year ended 30th June 2014.
6. To appoint the Company's External Auditors for the year ending 30th June 2015 and fix their fees.
7. To fix Directors fees, allowances and other remunerations for the year ended 30th June 2014 and authorize Management to seek Government approval for their payment.
8. To transact any other ordinary business of the Company according to regulations.

By order of the Board.

MRS. ROSEMARY K. A. BARASA

Ag. MANAGING DIRECTOR/SECRETARY TO THE BOARD

NB: In accordance with section 136(2) of the Companies Act (Cap 486), every member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his/her behalf. A proxy needs to be a member. A form is enclosed and should be returned to the Secretary, P.O. Box 30533-00100, Nairobi to arrive not later than 48 hours before the meeting or any adjournment thereof.



CHAIRMAN'S REPORT

Once again it is my pleasure to present the Annual Report and Financial Statements for The Jomo Kenyatta Foundation for the year ended 30th June 2014.

Performance Review

The Company's turnover reduced minimally by about 1 million to KShs. 577 million compared to the prior year turnover of KShs. 578 million. The turnover was also 12% below the budgeted level of KShs. 653 million. This led to a gross profit of KShs. 294 million which was below budget by 3% while operating profits at KShs.299 million was also 3% below budget. Overall the Foundation recorded a profit of KShs. 63 million. This was above the budgeted profit of KShs. 38 million and 30 % increase from the prior year's profit of KShs. 48 million. This was mainly attributable to cost containment which saw a reduction of cost of sales expenses by 8% from previous year, while operating expenses went up marginally by 5%.

Performance Framework

The year under review represented the tenth cycle of operation of performance contract signed between the Board and the Government. In the evaluation results for the year ended 30th June 2014, the Company's composite score was 2.7968 representing an improvement from that of June 2013 that was 3.2908. This score rated JKF's performance '**Very Good**' and was mainly because of the profit realized during the year coupled with the achievement of most of the other non-financial targets.

Corporate Social Responsibility

The Jomo Kenyatta Foundation subscribes to the principle and practice of responsible corporate citizenship. During the year under review, The Foundation donated books valued at KShs. 2.6 million to various schools in the country. This is in addition to KShs. 61.8 million paid out to secondary schools as part of our scholarship scheme. JKF also participated and donated to other various worthy courses like the Mwea Classic Marathon, Cerebral Palsy Society of Kenya walk and the Mater Heart run to name but a few. This was in addition to minding the environment by partnering with various schools in planting trees.

Staff Development

The Foundation has a capacity development policy. In ensuring a well trained staff and in a bid to improve service delivery and the quality of the Foundation products, the Company spent KShs. 4.7 million on staff training at various professional and skills upgrading



institutions. In addition, a number of staff members continued to be granted time off to pursue various professional and higher degree courses in fields related to their work.

Future Projection

There is a bit of uncertainty on whether the curriculum in Kenya will be changed and if so, how soon. This uncertainty may lead to slowed performance in the next 2 years. However, such a change would augur well for the publishing industry, hence for JKF, in the medium term. Curriculum change in Rwanda is also very apparent and is expected to be carried out in year 2015. This will provide another opportunity for JKF to increase its market share in Rwanda. Political instability in South Sudan has dampened the prospects for that region which had earlier been seen as promising. . The Foundation completed the 2nd year of its Strategic Plan for the period 2012 to 2017. This Strategic Plan is aligned it to the country's strategies as envisioned in the Constitution of Kenya 2010 and Vision 2030. The Plan has strategies expected to support the two core functions of publishing and scholarships in a sustainable manner.

The Foundation has also digitized standard 1 books to take advantage of the digital initiative being advocated by the government. This is addition to developing more e-books especially in the reader's category. With the development of an Atlas, Kamusi and children bibles, all of which are at advanced stages, the future prospects can only be brighter.

Acknowledgement

On behalf of the Board, I would like to thank our customers, suppliers, the Government and staff of The Jomo Kenyatta Foundation for their efforts that enabled the Company to carry out its business for the year under review.

My special thanks go to the Directors for providing diligent policy guidance and direction for the prudent management of the Company's affairs. I wish to pay tribute to our teachers and students, our ultimate customers for buying and using our books as well as the authors of the various publications that comprise the Company's core products.

I also wish to thank The Jomo Kenyatta Foundation Scholarship Beneficiaries Association (JKFSBA) for their support in funding the scholarship programme. Above all, I thank God for seeing us through the year and look forward to a better future.

Thank you and God bless.

MR. JACOB K. MWIRIGI, HSC
CHAIRMAN OF THE BOARD



THE CHIEF EXECUTIVE'S REPORT

I take this opportunity to report on the performance of The Foundation for the twelve months ended 30th June 2014.

Financial Performance

During the year under review the Foundation realized net sales amounting to Ksh. 577 million which was almost equal to sales achieved in the last financial year of Ksh.578 million but our cost of sales reduced by 8% from Kshs. 307 million to Ksh.283 million this led to the increase of gross profit by 9% from Ksh 270 million to Ksh. 294 million.

Operating profits increased to KShs 298 million from KShs 274 million in previous year primarily because of the reduced cost of sales in the year. Operating and finance costs increased by 5% from KShs. 226 million in the year ended 30 June 2013 to KShs 236 million in the year under review. The net effect of these changes was a profit of KShs. 63 million in that year compared to a profit of KShs. 48 million in the previous year representing a 30% increase in profits.

Operating Environment

The Foundation's principal activities are, advancing education and alleviation of poverty. These activities are carried out through the core functions of publishing, scholarship provision and expansion of the revenue base through research and Development. A much broader interpretation of the Company's Memorandum and Articles of Association enables the Foundation to embrace new avenues of revenue generation.

Publishing

Over the years, The Foundation has continued to publish books and other instructional materials for all levels of formal education in Kenya as well as general readership.

The Foundation has entered into new markets that offer promising prospects. We have rolled out more products for Early Childhood Development Education as well as Life Skills Education. There has been a gap in the market for these products, which we seek to fill.

In a bid to penetrate the East and Central Africa market, The Foundation has continued to



participate in international book publishing tenders floated by various governments in the region. This made us increase the number of our publications approved for use in Rwanda, in particular, the secondary school market. As a result of translating some of the approved lower primary school textbooks from English into Kinyarwanda as required by the new government policy, we witnessed an upsurge in demand for these titles.

In the year under review, one of the significant achievements of JKF was the conversion of additional children's readers into e-books for Amazon's Kindles. This was done in partnership with Worldreader at minimal cost. We also embarked into digital publishing in readiness for the laptop project for public primary schools. In addition, we developed an Atlas and commissioned the writing of a Kiswahili dictionary, Kamusi.

The JKF Scholarships Scheme

The JKF scholarship beneficiaries stood at 1175 at the close of the financial year 2013/2014 where a total of Kshs. 73.9 Million was spent. Out of these beneficiaries, 69 were awarded scholarships in the year.

The revised JKF scholarship policy saw the Foundation conduct interviews and home visits during the award process in all counties for the first time. This will enable more transparency in the award process.

The JKF conducted the 1st Fundraiser and launched the Scholarships website in support of the scholarship program and in line with the Strategic Plan.

Strategic Plan

The year under review was the second into the 3rd strategic plan for the five year period from July 2012 to July 2017. The strategic plan, spells out the Mission and Vision statements of the Foundation which correctly reflect the mandate of the organization of advancing education and alleviation of poverty.

In keeping with Strategic plan of expansion of products and markets and sourcing of independent funds for the scholarship scheme, the Foundation embarked in development of anchor products namely Atlas, Kamusi and children bibles The Foundation also reviewed the Balanced Score Card framework in an effort to improve performance management in which is key in the implementation of the Strategic plan.



Marketing Activities

The Sales and Marketing department has been involved in the stimulation of demand to our business goods and services and to generate leads to potential customers. Demand is generated at all levels of educational institutions and local bookshops are used as the main distribution channels. In the year 2013-14, the Sales and Marketing team held various activities like book displays and teacher workshops to promote our products in Kenya and Rwanda. In both Kenya and Rwanda, the public institutions still remain our biggest customers and the government is their key financier.

The Kenya government introduced Value Added Tax in September 2014. Since this did not go with additional funding allocation per child or student, the net effect saw a reduction in our customers' buying power and less goods purchased.

The Rwanda market which looked quite promising the previous year was also hit by a 50% reduction in funding from international donors hence affecting Cycle 4 orders. Our market expansion strategy beyond Kenya was also adversely affected by the political upheavals in South Sudan where we had previously made inroads with donor funded school projects. The deliberate intention to introduce high value products like the Children's Bible titles into our catalogues will enhance our income in the coming years.

Legal Risk management

During the year under review the Foundation reviewed three more legal instruments in alignment with the Constitution of Kenya 2010, raising the total number of aligned instruments to fourteen. As a constitutional obligation, we prepared a report to the Ministry of Interior & Coordination of National Government, on the progress of implementation of the national values and principles of governance within JKF as espoused by Article 10 of the Kenya Constitution, 2010.



We also undertook the obligations of implementing a corruption risk mapping/assessment and anti-corruption plan with measures to mitigate against the risk, conducted environmental audit, the health and safety audit and saw implementation of their recommendations.

Staff Welfare and Development

The JKF spent KShs. 4.7 million in staff training programs during the year to develop the human capital. We participated in various fora on staff welfare for purpose of motivating staff, namely team building activity at Rapid Camp in Sagana, and celebrating staff for long service awards. At the end of the year staff were successfully appraised and rewarded for good performance.

Other notable achievement for the human resource department included; reviewing terms and conditions of service, developing and implementation of Job Evaluation, implementation of open office plan and procurement of the work stations.

Our outpatient medical scheme is self-funded, and managed by an insurance broker. In 2013/2014 JKF spent KShs. 5.3 million in the scheme, compared to KShs. 5 million spent in 2012/13. The insured inpatient scheme is managed by an underwriter who performed well to the satisfaction of the staff. The claims for the year stood at KShs. 2.8 million against premium of KShs. 2.9 million.

Internal Audit Department

The department is an independent review function that reports administratively to the Managing Director and functionally to the Board of Audit Committee. It is mandated to undertake independent risk based internal audits aimed at providing assurance that appropriate institutional policies and procedures and good business practices are followed by the entity.

In the year under review, the department carried out various audit assignments throughout the year as mandated by the Audit Charter, made appropriate recommendations and offered the requisite advice for the implementation of the recommended actions. As one of its roles, the department performed monitoring and evaluation of the goals, objectives and activities of the organizations strategic plan, and reported its findings to the management on a quarterly basis.



Jomokenyatta Foundation

Internal Audit also contributes to the organization's governance process by evaluating and improving the process through ensuring that accomplishment of goals is monitored, accountability is ensured and values are preserved.

We thank God for a successful year and look forward for better results in the coming years.

May God bless you all.

A handwritten signature in blue ink, appearing to read 'Rosemary K.A. Barasa'.

MRS. ROSEMARY K.A. BARASA

Ag. MANAGING DIRECTOR



CORPORATE GOVERNANCE STATEMENT

The Jomo Kenyatta Foundation's Board of Directors is accountable to the shareholders for ensuring that The Foundation complies with the law, the highest standards of corporate governance and business ethics. During the year under review, The Foundation complied with the law and the principles of best practice for corporate governance in Kenya.

The Board of Directors

The Jomo Kenyatta Foundation was incorporated under the Companies Act as a company limited by guarantee on 2nd March 1966. The principal activity of The Foundation is to advance education and knowledge. The principal stakeholder, The Government of Kenya, provided the initial capital to establish The Foundation and appoints members to the Board to carry out the mandate.

The Board met 5 times during the financial year under review. Their performance is subject to a performance contract signed with The Ministry of Education that is reviewed every financial year. The Board is entitled to information on the operations of The Foundation, which is normally availed to the Board members in advance of scheduled Board meetings.

The Primary Responsibilities of the Board

The Board's primary responsibility is establishing the long-term goals of The Foundation and providing leadership to ensure that strategic objectives and plans are established to achieve those goals. The current strategic plan that covers five years from 2012 to 2017 was completed in June 2012.

Board Composition and Meetings

During the year under review, the Board was made up of thirteen members as listed in the Directors' Report. They included the Chairman, alternate directors representing Principal Secretaries from The Office of the President, The National Treasury, The Ministry of Education and The Managing Director, who is the secretary to the Board and the only Executive Director. However, the term of four members ended in December 2013 rendering the Board to remain partially constituted for the rest of the period.

The Chairman of the Board is appointed by the President of the Republic of Kenya and serves for a period of 3 years. The non- executive directors are appointed by the Cabinet



Secretary for Education and serve for a period of 3 years while The Managing Director is appointed by the Cabinet Secretary for Education on recommendation of the Board for a term of 3 years.

The Board delegates some of its responsibilities to Standing Committees, which operate within defined terms of reference. During the period under review, the Board had three Standing Committees as follows:

- Finance and General Purpose Committee
- Audit Committee
- Staff Welfare Committee

Finance and General Purpose Committee

The Finance and General Purpose Committee is made up of 6 non-executive Directors and the Managing Director. Two (2) Senior Management staff attend the meetings on invitation. The Committee met 3 times in the year under review.

Audit Committee

The Audit Committee is composed of 6 non-executive Directors. The Internal Audit Manager is the secretary to the Committee. The Managing Director and other Senior Management staff attend the meetings on invitation. The Committee met 2 times in the year under review.

Staff Committee

The Staff Welfare Committee is composed of 7 non-executive Directors and The Managing Director. Senior Management staff attends the meetings on invitation. The Committee met 3 times in the year under review.

Accountability and Audit

The Board usually presents a balanced and understandable assessment of The Foundation's financial position and prospects. The assessment is provided in the Chairman's statement and in the audited financial statements attached to this report.

The financial report produced complies with the International Financial Reporting Standards (IFRS) as recommended by the Institute of Certified Public Accountants of Kenya and also comply with the Kenya Companies Act (Cap 486) of the Laws of Kenya.



Stakeholder Relationships

The Foundation is a company limited by guarantee and has set up a Scholarship Fund to assist bright and needy students in public secondary schools pay fees in accordance with its Articles and Memorandum of Association.

The Board recognizes its responsibility to communicate to the stakeholders the performance of The Foundation towards achieving its mandate. This is done through the publication of its annual reports and financial statements, which are circulated to parliament and filed with the Registrar of Companies in addition to being displayed prominently at our premises.

The JKF Scholarship Programme

The Foundation's core business is the advancement of education and knowledge. As part of its mandate and responsibility to the society, the Foundation has been setting aside part of its income to pay school fees for bright-needy students in public secondary schools selected from all counties in Kenya. During the year under review, The Foundation spent KShs. 61.8 million under its Scholarship Programme for this purpose. This programme has benefited 10,000 students since it was started in 1968.

Corporate Social Responsibility

The Foundation donates books as part of its Corporate Social Responsibility. During the year under review, The Foundation made book donations valued at KShs. 2.6 million to various schools around the country. Of these, books worth KShs.0.9 million were from the obsolete stock warehouse and KShs.1.7 million came from the active warehouse.. The Foundation also contributed a total of KShs.490, 000 towards needy causes among them, the Mater Heart Run, Mwea Classic Marathon,Lions Eye Sight First and Cerebral Palsy Society among others.

Compliance with the Law

The Board is satisfied that The Foundation has, to the best of their knowledge complied with all applicable laws and conducted its affairs in accordance with the Companies Act. The Foundation has not, to the knowledge of the Board been involved in any activity



Jomokenyatta Foundation

incompatible with national and international laws or any international treaty to which our country is a signatory.

Human Resource Development

The Foundation had a staff establishment of 120 employees as at 30th June 2014 and has continued to support the training and development of staff through sponsorship to various colleges, courses and workshops. During the year under review the Company spent KShs. 4.7 million on training of staff at various levels

Future Prospects

The company's future prospects are high as indicated by the annual report from pages 19 to 52.

A handwritten signature in black ink, appearing to read 'Jacob K. Mwirigi', is written over a horizontal line.

for: **MR. JACOB K. MWIRIGI, HSC**

CHAIRMAN OF THE BOARD



CORPORATE INFORMATION

INCORPORATION

The Jomo Kenyatta Foundation was incorporated under the Companies Act as a Company Limited by guarantee on 2nd March 1966.

DIRECTORS

1. Mr. Jacob K. Mwirigi, HSC - Chairman
2. Mrs. Nancy W. Karimi, MBS - Managing Director/Secretary to the Board
3. Mr. Joseph K. Kinyua, CBS - Chief of Staff and Head of Public Service
4. Dr. Kamau Thugge, EBS - Principal Secretary, The National Treasury
5. Dr. Belio R. Kipsang - Principal Secretary, Ministry of Education
Science and Technology
6. Prof. Isaac N. Kimengi - Member
7. Mr. Simon M. Ole Kingi - Member - Retired 31st December 2013
8. Mr. Muhidin M. Sheikh - Member - Retired 31st December 2013
9. Ms. Sophia Lepuchirit - Member - Retired 31st December 2013
10. Prof. Nathan O. Ogechi - Member - Retired 31st December 2013
11. Mr. Mohammed Jabane Service - Alternate to Chief of Staff and Head of Public
Service
12. Mrs. Margaret Thiong'o - Alternate to Principal Secretary, Ministry of
Education Science and Technology
13. Mrs. Teresia K. Nyakweba - Alternate to Principal Secretary, The National
Treasury

SECRETARY

Mrs. Rosemary K. A. Barasa

Ag. Managing Director and Secretary to the Board

P. O. Box 30533 – 00100

NAIROBI



Jomokenyatta Foundation

REGISTERED OFFICE

The Jomo Kenyatta Foundation
Headquarters and Principal Offices
51 Enterprise Road, Industrial Area
P. O. Box 30533 – 00100

NAIROBI.

AUDITORS

The Auditor General
Kenya National Audit Office
P. O. Box 30084 – 00100

NAIROBI.

PRINCIPAL BANKERS

Kenya Commercial Bank Limited
Moi Avenue Branch
P. O. Box 30081 – 00100

NAIROBI.

PRINCIPAL LEGAL ADVISORS

The Attorney General
State Law Office, Harambee Avenue
P.O. Box 40112- 00200

NAIROBI.

Miller & Company Advocates
Bruce House 13th Floor, Standard Street
P. O. Box 45707 – 00100

NAIROBI.



DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended 30th June 2014.

1. The Principal Activities

The Foundation publishes school textbooks and other educational materials and provides scholarships to the bright and needy students in secondary schools in Kenya.

2. Results

The net profit for the year of Ksh. 63 million (2013: profit of Ksh.48 million) has been added to/deducted from retained earnings.

3. Appropriation of Profits

The Foundation is a company limited by guarantee and in accordance with its Memorandum and Articles of Association has set up a scholarship fund to assist in meeting the school fees needs of bright but needy students. During the year, KSh. 61.8 million was utilized for this purpose.

4. Directors

The Directors who served during the year are as listed in the Corporate Information Section of this report page 3.

5. Auditors

The Auditor General is responsible for the statutory audit of the Foundation in accordance with the Section 18 of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

Mbaya and Associates Certified Public Accountants were nominated by the Auditor General to carry out the audit of the Foundation for the year/period ended June 30, 2014.

By order of the Board

ROSEMARY K.A. BARASA

Ag. SECRETARY TO THE BOARD



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 Foundation, which give a true and fair view of the state of affairs of the Foundation at the end of the financial year and the operating results of the Foundation for that year. The Directors are also required to ensure that the Foundation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Foundation. The Directors are also responsible for safeguarding the assets of the Foundation.

The Directors are responsible for the preparation and presentation of the Foundation's financial statements, which give a true and fair view of the state of affairs of the Foundation for and as at the end of the financial year ended on June 30, 2014. 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 Foundation;
- (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 Foundation;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Foundation'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 Foundation's financial statements give a true and fair view of the state of Foundation's transactions during the financial year ended June 30, 2014, and of the Foundation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Foundation, which have been relied upon in the preparation of the Foundation's financial statements as well as the adequacy of the systems of internal financial control.

REPUBLIC OF KENYA

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E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON JOMO KENYATTA FOUNDATION FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Jomo Kenyatta Foundation set out on pages 23 to 52, which comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Mbaya & Associates auditors appointed under section 39 of the Public audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the

financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

Trade and Other Receivables.

The trade and other receivables balance of Kshs.95,522,000 under note 14 to the financial statements includes a VAT recoverable balance of Kshs.21,312,000 which is at variance with VAT 3 returns filed with the Kenya Revenue Authority figure of Kshs.26,028,000. Although the management has explained that resultant difference of Kshs.4,716,000 was a write-off which was not reflected in the VAT 3 returns, the required authority for write-off was not made available for audit review.

In the circumstance, the accuracy of the trade and other receivables balance of Kshs.95,522,000 as at 30 June 2014, could not be confirmed.

Qualified Opinion

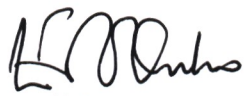
In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Foundation as at 30 June, 2014, its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap. 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief were necessary for the purpose of the audit;
- ii. In my opinion, proper books of account have been kept by the Foundation, so far as appears from my examination of those books; and,

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



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

NAIROBI

7 April 2015



STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30TH JUNE 2014

		2014	2013
	Notes	Ksh'000	Ksh'000
Turnover	2	577,572	578,391
Cost of Sales	3	(283,634)	(307,724)
Gross Profit		<hr/> 293,938	<hr/> 270,667
Interest Income	4a	397	162
Other Operating Income	4b	4,438	3,254
Operating Profits		<hr/> 298,773	<hr/> 274,083
Selling and Distribution Expenses	5	85,233	88,824
Administrative Expenses	6	135,890	122,577
Other Operating Expenses	7	15,590	13,069
Total Operating Expenses		<hr/> 236,713	<hr/> 224,470
Profit / (Loss) from Operations		62,060	49,613
Finance Income	8a	769	1,165
Finance Costs	8b	(493)	(2,488)
Net Profit / (Loss)		<hr/> 62,335	<hr/> 48,290

**STATEMENT OF FINANCIAL POSITION****AS AT 30TH JUNE 2014**

	Notes	2014 Ksh'000	2013 Ksh'000
Non- Current Assets			
Plant, Property & Equipment	11	920,293	287,469
Intangible Assets	12	2,927	417
Total Non -Current Assets		923,219	287,886
Current Assets			
Inventories	13	167,121	109,657
Trade and Other Receivables	14	95,522	122,014
Cash and Cash Equivalents	15	12,807	11,022
Total Current Assets		275,450	242,693
Total Assets		1,198,670	530,579
EQUITIES AND LIABILITIES			
Capital and Reserves			
Capital Reserve	16	4,000	4,000
Revaluation Reserves		964,575	317,887
Retained Earnings		25,167	50,469
Scholarship Fund		0	(25,787)
Total Capital and Reserves		993,742	346,569
Current Liabilities			
Trade and Other Payables	17	204,928	184,010
Total Capital and Liabilities		1,198,670	530,579

The financial statements on pages 23 to 52 were authorised for issue by the Board of Directors on 19th September 2014 and were signed on its behalf by:

..... Director

..... Director/Secretary



**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2014**

	Capital Reserve Ksh'000	Revaluation Reserve Ksh'000	Retained Earnings Ksh'000	Scholarships Fund Ksh'000	Total Ksh'000
As at 1st July 2012	4,000	319,287	19,637	13,545	356,409
Net Profit/(Loss) for the Year			48,290		48,290
Scholarships Appropriation			(18,858)	18,858	
Scholarships Applied				(58,187)	(58,187)
Revaluation on disposal of assets		(1,400)	1,400		
As at 30 th June 2013	4,000	317,887	50,469	(25,787)	346,569
As at 1st July 2013	4,000	317,887	50,469	(25,787)	346,569
Net Profit/(Loss) for the Year			62,335		62,335
Scholarships Appropriation			(87,637)	87,637	-
Scholarships Applied				(61,850)	(61,850)
Surplus on Revaluation of Assets		646,688			646,688
As at 30 th June 2014	4,000	964,575	25,167	-	993,741

Capital Reserves:

Capital Reserves represent the initial seed money invested in the company on incorporation in 1966.

Revaluation reserves:

Revaluation reserves represent the increase in value of property plant and equipment arising from revaluation of Company assets. The valuation was carried out in June 2014.

Retained earnings:

Retained earnings are undistributed cumulative profits made by the company.

Scholarship fund:

Scholarship fund account represents the unutilised balance of amount appropriated to the scholarship programme.



STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2014

	Notes	2014 Ksh'000	2013 Ksh'000
Cashflow from operating activities			
Profit / (loss) for the year	7	62,335	48,290
Adjustments for:			
Depreciation	11	16,435	14,026
Amortization of Intangible Assets	12	652	432
(Profit)/Loss on sale of Non-Current Assets	4b	88	(430)
Changes in working Capital:			
Decrease/(increase) in:			
Trade and Other Receivables		26,492	(3,934)
Inventories		(57,464)	62,742
Increase/(decrease) in Trade and Other Payables		20,917	(21,234)
Cash Generated from Operations		69,454	99,892
Investing Activities			
Purchase of Property, Plant & Equipment	11	(2,767)	(14,105)
Purchase of Intangible Assets	12	(3,161)	920
Proceeds from sale of Fixed assets		109	
Net cash from Investing Activities		(5,819)	(13,185)
Financing Activities			
Scholarship Applied		(61,850)	(58,187)
Net Increase/ (Decrease) in Cash & Cash Equivalents		1,785	28,520
Cash and Cash Equivalents as at 1st July 2013		11,022	(17,498)
Cash and Cash Equivalents as at 30th June 2014	15	12,807	11,022



NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2014

Annual improvements to IFRS

The following new and revised IFRSs have been applied in the current year and had no material impact on the amounts reported in these financial statements.

IFRS 13 Fair Value Measurement	<p>IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes additional disclosure requirements.</p> <p>IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such</p>
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	<p>that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Foundation has not made any new disclosures required by IFRS 13 for the 2012 comparative period</p> <p>The application of IFRS 13 has not had any impact on the amounts recognized in the financial statements as the Foundation does not have assets and liabilities at fair value</p>
<p>IFRS 13 Fair Value Measurement</p>	<p>The Foundation has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.</p> <p>The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes)</p>
<p>Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle</p>	<p>The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Foundation are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented.</p> <p>The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the</p>



issued in May 2012)	retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position. This amendment did not have any impact on the Foundation's financial statements as the Foundation did not restate its prior period financial statements
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ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2014

New and Amendments to standards	Effective for annual periods beginning on or after
New and Amendments to standards	
IFRS 9 (2014)	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2017
Amendments to IAS 19 Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements 2010-2012 Cycle	1 July 2014
Annual Improvements 2011-2013 Cycle	1 July 2014
Amendments to IAS 16 and IAS 38. Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016

(iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2014

• IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Key requirements of IFRS 9:

All recognised financial assets that are within the scope of IAS 39 Financial Instruments:

Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods.

All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of inequity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The directors of the Foundation anticipate that the application of IFRS 9 in the future may not have a significant impact on amounts reported in respect of the Foundation's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

• IFRS 14, Regulatory Deferral Accounts

IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

‘regulatory deferral account balances’ in accordance with its previous GAAP, both on initial adoption of Island in subsequent financial statements.

Note: Entities which are eligible to apply IFRS 14 are not required to do so, and so can chose to apply only the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards when first applying IFRSs. However, an entity that elects to apply IFRS 14 in its first IFRS financial statements must continue to apply it in subsequent financial statements. IFRS 14 cannot be applied by entities that have already adopted IFRSs.

The directors of the Foundation do not anticipate that the application of the standard will have significant impact on the Foundation’s financial statements

• IFRS 15, Revenue from Contracts with Customers

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The directors of the Foundation do not anticipate that the application of the standard will have significant impact on the Foundation’s financial statements

• Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’ and ‘simultaneous realisation and settlement’.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The directors of the Foundation do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Foundation's financial statements as the Foundation does not have any significant financial assets and financial liabilities that qualify for the offset.

• Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

Amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The directors of the Foundation do not anticipate that the application of these amendments to IAS 36 will have a significant impact on the Foundation's financial statements.

• Annual Improvements 2010-2012 Cycle

The annual improvements 2010-2012 cycle makes amendments to the following standards:

IFRS 2 — Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'.

- IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.

- IFRS 8 — Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.

- IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).

- IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- IAS 24 – Clarify how payments to entities providing management services are to be disclosed.

• Annual Improvements 2011-2013 Cycle

Makes amendments to the following standards:

- IFRS 1 – Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only).
- IFRS 3 – Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- IFRS 13 – Clarify the scope of the portfolio exception in paragraph 52.
- IAS 40 – Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

These IFRS improvements are effective for accounting periods beginning on or after 1 January 2014. The directors of the Foundation do not anticipate that the application of these improvements to IFRSs will have a significant impact on the Foundation's financial statements

(iv) Early adoption of standards

The Foundation did not early-adopt new or amended standards in 2014.

(b) Basis of Preparation

The financial statements are prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRS). They are presented in Kenya Shillings, rounded to the nearest thousand (Ksh'000). The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below

(c) Revenue Recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Foundation and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

ordinary course of the Foundation’s activities, net of value-added tax (VAT), and discounts where applicable, and when specific criteria have been met for each of the Foundation’s activities as described below

- a. Sales are recognized upon delivery of goods and customer acceptance of the same, net of VAT and discounts.
- b. Interest is accounted for on receipt basis.
- c. Rental income is recognised in the income statement as it accrues using the effective lease agreements
- d. Other income is recognised as it accrues

(d) Property Plant and Equipment

All property, plant and equipment are initially recorded at cost and subsequently shown at market value, based on valuations by external independent valuer less subsequent depreciation.

Increases in the carrying amount arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve, all other decreases are charged to the statement of comprehensive income.

Depreciation is calculated to write down the cost of each asset, or the re-valued amount over its estimated useful life using the following basis and annual rates.

Asset Category	Method	Rate
Leasehold land	straight-line	lease Period
Buildings	straight line	2%
Motor vehicles	reducing balance	25%
Computers & Intangibles	straight line	25%
Office furniture fittings & equipment	straight line	15%
Printing machine	straight line	12.5%

Lease hold land depreciated over 50 years lease period and free hold land is not depreciated.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining their



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

operating profit. On disposal of re-valued assets, amounts in the revaluation reserve relating to that asset are transferred to the retained earnings.

(e) Intangible assets

All computer software programmes acquired that are not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the acquisition of identifiable computer software controlled by the company are recognised as intangible assets. Amortisation is calculated using the straight line method to write down the cost of each licence or item of software to its residual value over its estimated useful life using an annual rate of 25%.

(f) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted-average-cost basis. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads, but excludes interest expense. Net realizable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

The value of inventories is reviewed annually to determine whole or partial obsolescence due to factors such as curriculum change or slow movement of inventory. The values of inventories affected by curriculum change are written down to nil and an estimate is made for slow moving inventories. The write down values are charged to the statement of comprehensive income.

(g) Taxation

The Foundation is exempted from income tax on all income through the Income Tax Act (cap.470) Section 13(10) and first schedule part 1. Its profits are applied for the payment of scholarships and /or retained to solidify the financial base.

(h) Post-employment benefit obligations

The company operates a defined contribution retirement benefits plan for its employees, the assets of which are held in a separate trustee administered scheme managed by Jubilee Insurance Company Ltd. A defined contribution plan is a plan



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

under which the company 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 company's contributions are charged to the statement of comprehensive income in the year to which they relate.

The Company and all its employees also contribute to the National Social Security Fund (NSSF), which is a national defined contribution scheme. 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.

The estimated monetary liability for employees' accrued annual leave and staff gratuity entitlement at the balance sheet date is recognized as an expense accrual.

(i) Trade Receivables

Trade receivables are carried at original invoiced amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the year-end. Provision for doubtful debts is charged to statement of comprehensive income in the year they are identified. Bad debts are written off against the provision when they are determined to be unrecoverable.

(j) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included as borrowings under current liabilities.

(k) Risk Management

The Company is exposed to credit risk from account receivables arising from credit granted to customers. A Risk Management Committee has been set up to evaluate customers to be given credit facility. Credit limits are granted to customers depending on their turnover for prior years' sales, thereby ensuring that the company only deals with customers who have trading history with the company.

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

Additionally, large customers are required to provide bank guarantees to mitigate against default.

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the company's short, medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The company manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls.

(I) Comparatives

Where necessary, comparatives have been adjusted to conform with changes in presentation in the current year.

2. Turnover:	2014	2013
	Ksh'000	Ksh'000
Sales of Primary Titles	750,166	688,208
Sales of Sec. Titles	82,445	93,718
Sales of Tertiary Titles	4,537	14,789
Sales of General Titles	14,774	16,343
Sales of Service Jobs	2,588	18,758
Sales of E-Books	1,185	1,177
Gross Sales	855,695	832,993
Less Discounts	(278,123)	(254,602)
Net Sales	577,572	578,391

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3. Cost of Sales:**

Cost of Sales Primary Titles	188,945	188,916
Cost of Sales Secondary Titles	26,372	34,026
Cost of Sales Tertiary Titles	1,241	3,176
Cost of Sales General Titles	3,358	5,317
Cost of Sales Adjustment	-	-
Cost of Sales miscellaneous	(1,186)	(15)
Cost of Sales Service Job	1,592	14,218
Purchase Price Variance/Adjustments	467	(918)
Stock Obsolescence Provision	17,482	18,394
Production Overheads (note 3b)	45,363	44,610
Cost of Sales	283,634	307,724

3. b Production Overheads:

	2014	2013
	Ksh'ooo	Ksh'ooo
Staff Salaries	21,725	21,574
Staff Housing	6,560	7,312
Staff Medical & Welfare	1,588	2,165
Staff Training	676	464
Provident Fund Contribution	2,136	2,124
Product Development Expenses	10,658	9,168
Insurance	32	15
Depreciation Plant and Machinery	1,988	1,788
	45,363	44,610

4. Other operating income**a) Interest Income**

Interest from Call Deposit	291	-
Car Loan Interest	106	162
	397	162

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4b) Other operating Income**

Rental Income	2,071	1,692
Profit/(Loss) on Sale of Fixed Assets	(88)	430
Miscellaneous Income	2,455	1,132
	<u>4,438</u>	<u>3,254</u>

5. Selling and Distribution Expenses:

Salaries & Wages	22,308	23,145
Staff Housing	5,839	7,310
Staff Medical & Welfare	2,504	2,918
Staff Training	271	170
Provident Fund	1,690	1,996
Vehicle Running Expenses	5,138	5,482
Staff Travelling & Accommodation	519	550
Marketing & Sales Promotion	22,031	23,903
Electricity & Water	256	205
Postage & Telephone	619	536
Packaging Material	79	733
Depreciation	6,881	5,168
Royalties to Authors	15,544	15,045
General Expenses	49	63
Security	1,105	1,199
Standard Levy	400	400
	<u>85,233</u>	<u>88,824</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6. Administrative Expense:**

Salaries & Wages	61,837	52,357
Staff Housing	19,690	17,483
Staff Medical & Welfare	10,560	10,694
Provident Fund Contribution	6,674	5,636
Staff Training	3,797	3,698
Directors Remuneration	4,257	3,900
Subscriptions	416	845
Printing & Stationery	2,269	2,018
Postage & Telephone Expenses	4,798	3,831
Legal & Professional Fees	1,816	2,744
Library Expenses	90	112
Audit Fees	772	557
Vehicle Running Expenses	3,006	2,583
Staff Travelling & Accommodation	2,296	1,547
Depreciation	8,325	7,502
General Expenses	4	198
Ground Cleaning & Maintenance	1,885	2,142
Provision for Bad Debts	2,126	3,872
Bank Charges & Commissions	1,092	813
Penalties	52	43
	<hr/>	<hr/>
	135,890	122,577

7. Other operating expenses:

Rent & Rates	486	360
Light & Water	2,878	1,948
Repairs & Maintenance	5,669	4,213
Industrial Training Levy	72	26
Insurance	4,676	4,598
Security	1,380	1,397
Licenses	430	527
	<hr/>	<hr/>
	15,590	13,069

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****8a. Finance Income:**

Foreign Exchange Gain	769	1,165
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8b. Finance Costs

Bank interest	493	2,488
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9. Items Charged to profit and loss

The following items have been charged in arriving at Net profit/(loss):

Depreciation on Property, Plant & Equipment	16,435	14,026
Amortization of Intangible assets	652	432
Staff Costs (note 6)	163,110	154,698
Auditors' Remuneration	772	557
Directors' Remuneration:		
- Fees	900	675
- Other	3,357	3,225
Repairs & Maintenance	5,669	4,213
Provision for Bad and Doubtful debts	2,126	2,872

	193,022	180,728
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10. Staff Costs:

Salaries and other allowances	152,611	143,731
Compulsory social security schemes	321	338
Other pension contributions	8,650	9,418
Leave pay and gratuity provisions	1,528	1,211

	163,110	154,698
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Jomokenyatta Foundation

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Property, Plant & Equipment Movement Schedule:

	Leasehold Land	Buildings	Plant & Machinery	Motor Vehicles	Furniture Fittings & Office Equip.	Computers & Peripherals	Totals
Cost or valuation:	Ksh'000	Ksh'000	Ksh'000	Ksh'000	Ksh'000	Ksh'000	Ksh'000
As at 1 st July 13	85,000	189,643	8,015	31,348	7,274	10,072	331,355
Additions	-	-	461	-	1,233	1,072	2,767
Disposals	-	-	(39)	-	(18)	(594)	(650)
Revaluation Surplus	-	632,861	1,313	8082	2,287	2,145	646,688
As 30 th June 14	85,000	822,504	9,750	39,430	10,776	12,696	980,159

Depreciation:

As at 1 st July 13	-	18,811	3,853	11,330	3,517	6,370	43,880
Disposal	-	-	(18)	-	(8)	(463)	(489)
Charge for the year	-	7,284	961	5,057	997	2,135	16,435
As at 30 th June 14	-	26,095	4,796	16,387	4,506	8,043	59,826
Net Book Value As at 30 th June 14	85,000	796,409	5,001	23,010	6,270	4,592	920,293

The figure of depreciation charge for year of Ksh.16, 435 excludes depreciation of Intangible assets of Ksh.652 which is reflected in note 12.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****Property, Plant & Equipment Movement Schedule:**

	Leasehold Lands Ksh'000	Buildings Ksh'000	Plant & Machinery Ksh'000	Motor Vehicles Ksh'000	Furniture Fittings & Office Equip. Ksh'000	Computers & Peripherals Ksh'000	Totals Ksh'000
As at 1 st July 12	85,000	189,643	7,697	20,248	7,063	8,764	318,415
Additions	-	-	431	12,200	113	1,361	14,105
Disposals	-	-	(65)	(1,100)	-	-	(1,165)
As 30 th June 13	85,000	189,643	8,063	31,348	7,176	10,125	331,355
Depreciation:							
As at 1 st July 12	-	12,602	2,267	8,053	3,232	4,384	30,539
Disposal	-	-	(4)	(646)	-	-	(650)
Charge for the year	-	6,209	923	3,938	943	1,983	14,026
As at 30 th June 13	-	18,811	3,186	11,345	4,175	6,367	43,885
Net Book Value As at 30 th June 13	85,000	170,832	4,939	20,002	2,939	3,758	287,470

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

Property Plant & Equipment were re-valued by an independent valuer in June 2014. Valuations were made on the basis of open market values. Book values for all asset categories have been adjusted in these accounts and revaluation surplus credited to the revaluation reserves. Leasehold land included above represents two properties, one on Kijabe Street L.R No. 209/4360/18 on a 50 years lease effective 1st January 2001 the other one on Enterprise Road LR. No. 209/1127 on a 99 year lease effective 1st May 1997. The land rates applicable to the properties are Kshs. 95,000 and Kshs. 527,510 for the Kijabe Street and Enterprise Road respectively.

If the revalued asset categories were stated on historical cost basis, the amounts would be as follows

Property, Plant & Equipment

	Leasehold, Land & Building Ksh'000	Plant & Machinery Ksh'000	Motor Vehicles Ksh'000	Computer & Peripheral Ksh'000	Furniture Fittings & Office Equip. Ksh'000	Totals Ksh'000
Cost as at 30 th June 2014	34,326	9,137	43,666	20,624	8,506	116,259
Accumulated Depreciation	18,141	8,920	41,625	19,105	4,526	92,316
Net Book Value 30 th June 2014	16,185	217	2,041	1,519	3,980	23,943
Cost at 30 th June 2013	34,326	8,715	43,666	16,984	7,290	110,981
Accumulated Depreciation	17,397	7,595	30,709	14,847	3,394	73,999
Net Book Value 30 th June 2013	16,929	1,120	12,958	2,137	3,896	36,982

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****12 Intangible Assets:**

	2014	2013
Cost:	Ksh'000	Ksh'000
As at 1 st July 2013	7,292	7,292
Additions during the year	3,161	-
As at 30 June 2014	<u>10,453</u>	<u>7,292</u>
Amortisation:		
As at 1 st July 2013	6,875	6,444
Amortisation during the year	652	431
As at 30 June 2014	<u>7,527</u>	<u>6,875</u>
Net Book Value:		
As at 30 June 2014	<u>2,927</u>	<u>417</u>

The intangible assets comprise of Software purchased by the Foundation for use in its operations

13. Inventories:

	2014	2013
	Ksh'000	Ksh'000
Finished Goods	271,147	197,908
Consumables	2,062	1,301
	<u>273,209</u>	<u>199,209</u>
Obsolescence provision	(106,088)	(89,552)
	<u>167,121</u>	<u>109,657</u>

Obsolescence provision represents the cost of old edition stock held and determined to be unsalable and a general provision for slow moving stock. Kshs. 17.5 million provision was made in the current financial year and obsolete books worth Kshs. 0.9 million were disposed of by way of donations.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****14. Trade and other Receivables:****Trade Receivables**

Total Trade Receivable(14b)	72,880	84,704
Prepayment and Other Receivables		
Deposits and prepayments	6,568	2,965
VAT recoverable	21,312	38,645
Staff receivables	4,795	5,150
Royalties Advances	3,600	3,534
Other receivables	6,840	7,707
Gross Trade and other Receivables	115,995	142,705
Less: Provision for doubtful debts	(20,473)	(20,691)
Total Trade Receivables	95,522	122,014

14.b Gross Trade receivable

Total Trade Receivable	72,880	84,704
Less: Provision for doubtful debts	(14,132)	(14,351)
Net Trade payables	58,748	70,353

At 30 June 2014, the ageing analysis of the gross trade receivables was as follows:

Less than 30 days	15,565	18,561
Between 30 and 60 days	7,021	34,489
Between 61 and 90 days	1,221	3,739
Between 91 and 120 days	2,902	6,211
Over 120 days	46,171	22,242
Gross Trade and other Receivables	72,880	84,704

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

Current trade receivables represent balances that are within the credit period of 30 days. Other balances apart from those provided for in the accounts are considered recoverable and are primarily delayed because of non-release of funds by the Ministry of Education for the Free Primary Education (FPE) and Free Day Secondary Education (FDSE). Some of these delayed balances are supported by post-dated cheques and bank guarantees held against them. A general provision is made of 10% of the trade receivable amount with an yearly review for under or over provision.

15. Cash and Cash Equivalents

	2014	2013
	Ksh'000	Ksh'000
Cash at Bank	12,542	10,796
Cash in Hand	265	226
Total cash & Bank balance	12,807	11,022

The facility approved by the Board of Directors was a composite of KShs. 30 million (KShs. 30 million at June 2013). The facility is secured by a charge of KShs. 50 million on our properties on L.R. No. 209/11277 on Enterprises Road. The overdraft is necessary to fund operations during the low sales season that normally runs from the months of April to September. This facility was utilized in the year at 17% interest.

16. Capital Reserve:

Initial Grant to set up The Foundation	4,000	4,000
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Capital Reserves represent the initial seed money invested in the company on incorporation in 1966.

17. Trade and other payables:

	2014	2013
	Ksh'000	Ksh'000
Trade Payables	164,388	134,565
Other Payables	40,540	49,445
	204,928	184,010



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Other payables include provision for royalties to authors of KShs.20.2 million (2012/2013 - KShs.21.3 million). The provision is calculated as a percentage of sales for titles that are subject to royalty and are payable during the following financial year. Also included in the other payables is an amount of KShs. 6.2 million for statutory deductions that had not been paid by the year end.

18. Related party disclosures

Government of Kenya

The Government of Kenya is the principal shareholder of the Foundation, holding 100% of the Foundation equity interest and through the Ministry of Education Science and Technology, approves the authority for the Foundation to incur long-term debts which are guaranteed by the Foundation’s assets.

There were no other Foundation’s transactions involving the Government of Kenya.

a) Staff loans

The company operates a company car loan scheme for all employees. The cars are registered in joint names of the company and the employees as security for the car loans. The interest income earned on staff loans in the year amounted to Kshs. 105,958 (2013 – Kshs. 162,317).

The distribution of the loans is as follows;

Due from key management	669,615	529,392
Due from other staff	200,000	1,221,250
	<u>869,615</u>	<u>1,750,642</u>



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b) Key management Compensation

Salaries and other benefits	25,586	23,628
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c) Director's Remuneration

Fees for services as directors	900	675
Other emoluments	3,375	3,225
	<hr/>	<hr/>
	4,275	3,900

19. FINANCIAL RISK MANAGEMENT

The company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the unpredictability of the industry and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the finance department under policies approved by the Board of Directors. The Board provides principles for overall risk management

a) Market risk

Foreign exchange risk

The company undertakes certain transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed on the basis that the company receives its revenue at exchange rates which would guarantee a similar amount upon translation as would have been received at the date of transaction hence providing a material degree of effective internal hedging.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****b) Credit risk**

Credit risk arises from cash and cash equivalents as well as trade receivables and balances due from related parties.

The amount that best represents the company's maximum exposure to credit risk as at 30 June 2014 and 30 June 2013 is as shown below:

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
30 June 2014	Sh'000	Sh'000	Sh'000	Sh'000
Trade receivables	26,709	32,039	14,132	72,880
Due from related parties	870	-	-	869
Other Receivables	35,904	-	6,341	42,245
Bank balances	12,869	-	-	261,927
	76,352	32,039	20,473	115,125

b) Credit risk

The amount that best represents the company's maximum exposure to credit risk as at 30 June 2013 is as shown below:

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
30 June 2013	Sh'000	Sh'000	Sh'000	Sh'000
Trade Receivables	62,462	7,891	14,351	84,704
Other Receivables	49,911	-	6340	56,251
Due from related party	1,750	-	-	1,750
Bank balances (including short-term deposits)	11,022	-	-	11,022
	125,145	7,891	20,691	153,727



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Bank balances are held with creditable financial institutions and are fully performing. Trade receivables are due from customers with good credit rating.

c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash to meet company obligations. The company manages this risk by maintaining adequate cash balances in the bank, maintaining banking facilities and by continuously monitoring forecast and actual cash flows.

The table below analyses the company’s financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month Sh’000	Between 1- 3 months Sh’000	Over 3 months Sh’000	Total Sh’000
At 30 June 2014:				
Trade payables	16,911	37,155	110,322	164,388
	<hr/> 16,911	<hr/> 37,155	<hr/> 110,322	<hr/> 164,388
At 30 June 2013:				
Trade payables	17,985	49,637	66,943	134,565
	<hr/> 17,985	<hr/> 49,637	<hr/> 66,943	<hr/> 134,565



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Capital commitments:

	2014	2013
	Ksh'000	Ksh'000
Amounts authorised	37,572	34,470
Less: Amounts incurred	5,929	14,105
	<u>31,643</u>	<u>20,365</u>

The Foundation shelved purchase of some budgeted capital items e.g renewal of vehicles fleet to enable us utilise the available cash for main operations.

21. Incorporation status:

The Foundation is a company limited by guarantee domiciled in Kenya and incorporated under the Companies Act and does not have a share capital. The capital reserve represents the initial grant by the Government to set up the Foundation.