

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
COTTON DEVELOPMENT AUTHORITY**

**FOR THE THIRTEEN MONTHS
ENDED 31 JULY 2014**

COTTON DEVELOPMENT AUTHORITY

KENYA NATIONAL AUDIT OFFICE
P. O. Box 30084 - 00100, NAIROBI.

- 5 FEB 2015

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FINANCIAL REPORT FOR THIRTEEN MONTHS PERIOD ENDED 31 JULY 2014

COTTON DEVELOPMENT AUTHORITY

COTTON DEVELOPMENT AUTHORITY

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COTTON DEVELOPMENT AUTHORITY

KEY ENTITY INFORMATION AND MANAGEMENT

Background information

The authority is incorporated in Kenya under the Cotton Act (Amendment) 2006 and is domiciled in Kenya. At cabinet level, the entity is represented by the Cabinet Secretary for Agriculture who is responsible for the general policy and strategic direction of the authority.

Principal Activities

The principal activity of the authority is to promote, co-ordinate, direct and regulate the Cotton Industry in Kenya.

Key Management

The directors who served the authority during the year were as per the table of the board of directors on page 5.

Place of Business

Cotton Development Authority Head Office
Riverside Lane off Riverside Drive
P.O. Box 66271 – 00800,
NAIROBI
Tel. +254 20 4444155/6
Email: info@cottondevelopment.co.ke
Website: www.cottondevelopment.co.ke

Principal Banker

Kenya Commercial Bank Ltd.
Sarit Centre, Westlands
P.O. Box 14959 – 00800
NAIROBI

Auditors

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

Principal Legal Adviser

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

COTTON DEVELOPMENT AUTHORITY
MEMBERS OF THE LAST BOARD OF THE AUTHORITY



Maj. Dennis Ochwada (Rtd)
Board Chairman



Mr. David Masika
Vice Chairman



Mr. Anthony G. Muriithi
Ag. Chief Executive Officer



Mr. Albert Chebiegon
Member



Mrs. Mary Mtoka
Member



Mr. Wilfred Lesilale
Member



Mr. Joseph M. Migwi
Member



Mr. Peter Ngari Njeru
Member



Mr. Joseph K. Orlale
Member



Mr. Hassan M. Yarrow
Member



Mr. Rameshchandra Khagram
Member



Mr. Daniel M. Magondu
Member



Mrs. Teresa Nyakweba
Member



Mr. Eliud Mathu
Member



Mrs. Phanice Kajumbe
Member





COTTON DEVELOPMENT AUTHORITY

The Board Members of the last Board of the Authority - Term expired on 2/9/2013





<u>Name</u>	<u>Title</u>
Major Dennis Ochwada (Rtd)	Chairman - Appointed on 3-9-2010
David Masika	Vice Chairman - Appointed on 3-9-2010
Anthony G. Muriithi	Ag. Chief Executive Officer from 3 Sept. 2012
Albert Chebiegon	Board Member - Appointed on 3-9-2010
Mary Mtoka	Board Member - Appointed on 3-9-2010
Wilfred Lesilale	Board Member - Appointed on 3-9-2010
Joseph Mwangi Migwi	Board Member - Appointed on 3-9-2010
Peter Ngari Njeru	Board Member - Appointed on 3-9-2010
Joseph K. Orlale	Board Member - Appointed on 3-9-2010
Hassan Mohamed Yarrow	Board Member - Appointed on 3-9-2010
Rameshchandra Khagram	Board Member - Appointed on 3-9-2010
Daniel M. Magundu	Board Member - Appointed on 3-9-2010
Mr. Eliud Mathu	Alternate to PS, Ministry of Agriculture
Mrs. Teresa Nyakweba	Alternate to PS, Ministry of Finance
Mrs. Phanice Kajumbe	Alternate to PS, Ministry of Co-operatives

COTTON DEVELOPMENT AUTHORITY





MANAGEMENT TEAM

	Main area of responsibility
 <p data-bbox="325 808 625 842"><i>Anthony Gikandi Muriithi</i></p> <p data-bbox="231 853 722 887"><i>MBA (Agric. Econ); BSc (Agric. Eng.)</i></p>	<p data-bbox="890 539 1251 573">Ag. Chief Executive Officer</p> <p data-bbox="780 607 1361 801">Responsible for the day to day running of the organization and ensuring the organization carries out its mandate within the provisions of the law</p>
 <p data-bbox="379 1133 571 1167"><i>Hesbon Olweny</i></p> <p data-bbox="285 1178 667 1211"><i>MBA (BA); BSc (Agribusiness.)</i></p>	<p data-bbox="810 887 1342 920">Head of Production and research Liaison</p> <p data-bbox="788 954 1366 1048">Oversees cotton field activities with a view to production promotion and expansion</p>
 <p data-bbox="352 1447 635 1480"><i>Joseph Waweru Muigai</i></p> <p data-bbox="301 1491 691 1559"><i>MBA (Finance) (UoN); B.Com (Hon.) (UoN); CPA (K)</i></p>	<p data-bbox="887 1223 1283 1256">Head of Finance and Accounts</p> <p data-bbox="804 1301 1377 1440">Responsible for Financial Management, Reporting and Accounting for the financial resources entrusted to the organization</p>
 <p data-bbox="424 1794 571 1827"><i>Kellen Njue</i></p>	<p data-bbox="954 1570 1238 1603">Head of Legal Affairs</p> <p data-bbox="810 1637 1390 1783">Responsible for organizational legal matters and id.the period under review responsible for human resource management</p>

COTTON DEVELOPMENT AUTHORITY

 <p style="text-align: center;">Fanuel Lubanga BSc (Agric. Eng.); Dip.</p>	<p style="text-align: center;">Head of Marketing</p> <p>Facilitating the seed cotton price setting process and marketing of cotton and cotton products</p>
 <p style="text-align: center;">Alex Kimani Mungai BSc (Agric. Eng.); Dip.</p>	<p style="text-align: center;">Head of Value Addition Promotion</p> <p>Promotion of value addition along the cotton value chain; Cotton classification and standards management</p>
 <p style="text-align: center;">Paul Ndung'u Muchendu MBA (BA); BSc (Agribusiness); Dip.</p>	<p style="text-align: center;">Regional Manager - Eastern</p> <p>Responsible for all cotton issues in the Eastern Region, working with county governments and other stakeholders in the cotton industry</p>
 <p style="text-align: center;">John Okumu Adhola Master of Rural Systems Management; BSc. in Agricultural Education & Extension</p>	<p style="text-align: center;">Regional Manager - Western</p> <p>Responsible for all cotton issues in the Western Region working with county governments and other stakeholders in the cotton industry</p>

COTTON DEVELOPMENT AUTHORITY

 <p align="center">Stephen Theuri Mugi MSc (Fin.): BBA: CPA (K)</p>	<p align="center">Internal Auditor</p> <p>Responsible for internal audit with a view to ensuring functional internal control systems</p>
 <p align="center">Winfred Mbithe BSc. IT</p>	<p align="center">Principle ICT Officer</p> <p>Responsible for Information Technology matters of the organization ensuring effective communication and maintenance of the ICT infrastructure.</p>
 <p align="center">Elvina Atieno Osodo BBA Dip.</p>	<p align="center">Principal Procurement Officer</p> <p>Responsible for procurement processes of the organization ensuring that the organization adheres to the legal requirements of public institutions</p>
 <p align="center">Victor Amos O. Ogunya MBA: BCom: HDip</p>	<p align="center">Principle Accountant</p> <p>Manages the book keeping and accounting processes of the organization</p>

COTTON DEVELOPMENT AUTHORITY

REPORT OF THE CHIEF EXECUTIVE OFFICER



Chief Executive Officer

While the period of thirteen months ended 31 July 2014 was not without its challenges, the management team of Cotton Development Authority continued to successfully implement its mandate and to advance its goals and objectives as outlined by the strategic plan and the Board of Directors.

The Cotton Development Authority Management Team is grateful for the continued support of the Chairman and the entire Board of Directors which has enabled us to accomplish our mission during the period.

Cotton has over the years moved from a crop that was a significant source of livelihood for rural communities in low potential areas, a source of raw material for both the cotton by-product-based agro industry and the once vibrant textile industry to a sub-sector beleaguered by market collapse, low returns, lack of appropriate cotton varieties, inadequate certified planting seed and still competition from cheap and efficiently produced imported lint and cotton products. These experiences have been brought about by dynamic and volatile situation of local as well as international developments.

Recognizing the potential the cotton industry retains in contributing to national economic development in general and the agricultural sector growth in particular, the Government has committed to transforming the sector to enable the industry make its rightful contribution in creating employment, income generation and poverty reduction. Over the last few years Cotton Development Authority undertook reforms to revive the industry by initiating a seed multiplication programme, purchased and distributed seed to growers, established a cotton fibre testing and classification laboratory to facilitate both research and regulatory function.

Cotton Development Authority has also developed its second Five year Strategic Plan covering the period 2013/2014-2018/2019. The Strategic Plan outlines the strategic concerns that need to be addressed in order to overcome constraints that continue to limit the industry performance and focuses interventions around eight strategic objectives needed to revive, revitalize and guide the industry on a sustainable growth path. In the first two years of the Strategic Plan, focus will be strengthening Authority institutional and infrastructural capacity necessary to enable it effectively and efficiently carry out its mandate. Attention will be paid to addressing bottle necks to cotton

COTTON DEVELOPMENT AUTHORITY

production, meeting market demands on quality standards and streamlining of the worsening situation of cotton marketing in the face of liberalization.

In subsequent years, gains will be consolidated in production, strengthening of the Authority, adherence to market quality demands, marketing of cotton and integration of the value chain. Simultaneously the focus will shift to addressing research and development, promoting use of modern technologies, accessing financial services by industry players and promoting partnerships with institutions and other stakeholders for improved industry synergy. The Cotton industry retains the potential to contribute to the Agricultural Sector vision of *"transforming Kenya's agricultural sector into a profitable economic activity capable of attracting private investments and providing gainful employment for the people"* and the Ministry of Agriculture, Fisheries and Livestock's strategy of *"employment creation, income generation and poverty reduction in Kenya"*

In the coming year, the Management Team of Cotton Development Authority will focus primarily on implementing the key areas of focus as identified in the Strategic Plan. We will remain dedicated and committed in achieving our vision *"to be the leading agent in the creation of a vibrant and sustainable cotton industry"* and our mission *"to promote development of competitive cotton industry for improved livelihoods and industrialization"*.

The Management Team will continue to ensure the effective implementation of the programmes of Cotton Development Authority including supporting the work of the Board of Directors and the various board committees.



Ag. Chief Executive Officer

COTTON DEVELOPMENT AUTHORITY

CORPORATE GOVERNANCE STATEMENT

Sound corporate governance is critical to achievement of our mandate and ensuring prudent use of public resources entrusted to our Authority. Responsibility for good governance lies with the Cotton Development Authority Board of Directors.

Governance- the manner in which power is exercised in the management and control of organizations- had assumed critical importance in these days of political pluralism. Cotton Development Authority recognizes that governance is a vital ingredient in the maintenance of a dynamic balance between the need for order and equality in society, protection of public interest, efficiency in service delivery to the public, and maintenance of organized corporate framework within which each citizen can contribute fully towards finding innovative solutions to common problems.

Good Corporate Governance seeks to promote:

- An efficient, effective and sustainable Authority that contributes to the welfare of society by creating wealth, employment and solutions to emerging challenges.
- A responsive and accountable Authority
- A legitimate Authority that is managed with integrity, probity and transparency
- Recognition and protection of stakeholder rights
- An inclusive approach based on democratic ideals, legitimate representation and participation

Cotton Development Authority is committed to the highest standards of integrity, behavior and ethics in dealing with all its stakeholders. The Board of Directors adheres to the code of corporate governance as well as its own stringent standards of governance and control. A formal Code of Ethics is available and is fully implemented to guide Board of Directors, Management, Employees and Stakeholders on acceptable behavior in conducting our operations. These include among others: requirement to act honestly, in good faith and in the best interest of the Authority; exercise duty of care and diligence; avoidance and disclosure of conflict of interest and maintenance of confidentiality of information about the Authority.

The Board of Directors have a collective responsibility for establishing and management of appropriate systems on internal control and for reviewing their effectiveness. The Authority has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information and safeguarding public resources. Internal control and risk management systems are designed to mitigate rather than eliminate the risks identified in the financial reporting process. The Management is responsible for ensuring that the internal control activities are performed and documented, and is required to report to the Audit Committee on the compliance on quarterly basis.

COTTON DEVELOPMENT AUTHORITY

Governance Structure:

Board of Directors:

1. Maj. Dennis Ochwada (Rtd)	Chairman
2. Mr. David Masika	Vice Chairman
3. Mr. Albert Chebiegon	Member
4. Mrs. Mary Mtoka	Member
5. Mr. Wilfred Lesilale	Member
6. Mr. Joseph M. Migwi	Member
7. Mr. Peter Ngari Njeru	Member
8. Mr. Joseph K. Orlale	Member
9. Mr. Hassan M. Yarrow	Member
10. Mr. Rameshchandra Khagram	Member
11. Mr. Daniel M. Magondu	Member
12. Mrs. Rebecca Wahome	Alternate to PS, Ministry of Agriculture
13. Mrs. Teresa Nyakweba	Alternate to PS, Ministry of Finance
14. Mrs. Phanice Kajumbe operative	Alternate to PS, Ministry of Co-
15. Mr. Anthony G. Muriithi	Ag. Chief Executive Officer

Finance and General Purpose Committee

1. Mr. Albert Chebiegon	Chairman
2. Mr. Peter Ngari Njeru	Member
3. Mr. David Masika	Member
4. PS Agriculture	Member
5. PS Finance	Member
6. PS Co-operative and Marketing Development	Member

Staff and Administration Committee

1. Mrs. Mary Mtoka	Chairperson
2. Mr. Hassan Yarrow	Member
3. Mr. Peter Ngari Njeru	Member
4. PS Agriculture	Member
5. PS Finance	Member

Audit Committee

1. Mr. Wilfred Lesilale	Chairman
2. Mr. Daniel Magondu	Member
3. Mr. Albert Chebiegon	Member
4. PS Agriculture	Member
5. PS Finance	Member

COTTON DEVELOPMENT AUTHORITY

Technical and Development Committee

- | | |
|--|----------|
| 1. Mr. Joseph Migwi | Chairman |
| 2. Mr. Joseph Orlale | Member |
| 3. Mr. Rameshchandra Khagram | Member |
| 4. PS Agriculture | Member |
| 5. PS Finance | Member |
| 6. PS Co-operative and Marketing Development | Member |

COTTON DEVELOPMENT AUTHORITY

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Cotton Development Authority recognizes its obligations to act responsibly, ethically and with integrity in its interactions with all stakeholders be they, employees, customers, suppliers, neighbors and the environment as a whole.

To this end:

1. The Authority has in place policies that clarify its commitment to negating its impact on the environment.
2. The Authority carries out regular risk assessments to guarantee the wellbeing of employees and visitors, in accordance with Occupational Health and Safety regulations.
3. The Authority actively manages its reputation, and drives best practice, through the application of prudent public procurement practices as outlined in the Public Procurement and Disposal Act.
4. The Authority is an Equal Opportunities Employer which promotes diversity and does not differentiate on grounds of gender, ethnicity, religion, race, or physical ability.
5. The Authority actively contributes to social and environmental initiatives in the republic through donation of time and funds.
6. The Authority commits to being open and transparent in the interests of promoting best practice.

It is important to our employees to work for a socially responsible organization and our approach therefore reflects our people. We recognize **that** our activities as an Authority have an impact on our communities and the general public. We are committed to not only managing that impact but also using the public resources we have been entrusted with in making a real and sustainable difference.

To this end:

1. The Authority is actively involved in supporting and developing the local community to make a lasting positive impact.
2. The Authority works hard to ensure that the negative impact our work has on the environment is minimized.
3. The Authority provides the tools to enable employee growth and fulfillment for individuals and for the organization to work together to make a difference as a team.

COTTON DEVELOPMENT AUTHORITY

REPORT OF THE MANAGEMENT OF THE AUTHORITY

The Management of the Authority submits its report together with the audited financial statements for 13 months period ended 31 July 2014 which disclose the state of affairs of the Authority.

Principal Activities

The principal activities of the Authority (CODA) are to promote, co-ordinate, direct and regulate the Cotton Industry in Kenya.

Results

	July 2014	2013
	<u>KSh</u>	<u>KSh</u>
Net Surplus	29,964,544	7,348,599

Board Members

The board members who held office during part of the period under review are those listed on page 5 above.

COTTON DEVELOPMENT AUTHORITY

STATEMENT OF BOARDS' RESPONSIBILITIES

The State Corporations Act Cap 446 requires the Board of the Authority to prepare financial statements which give a true and fair view of the state of affairs of the authority as at the end of Financial Year and of its surplus for the period. The Board is also required to ensure that the Authority maintains proper accounting records which disclose, with reasonable accuracy, the financial position of the Authority. The Board is also responsible for safeguarding the assets of the Authority.

The Board of the Authority accepts responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, consistent with previous years (where applicable), and in conformity with International Financial Reporting Standards

The Board is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority for the period ended 31 July 2014 and of its surplus for the period then ended. The Board further confirms the accuracy and completeness of the accounting records maintained by the Authority which has been relied upon in the preparation of the financial statements, as well as on the adequacy of the systems of internal financial controls.

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

By order of the Board of the Authority



AG. CHIEF EXECUTIVE OFFICER

Anthony Gikandi Muriithi

Date: 2 - 2 - 2015

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON COTTON DEVELOPMENT AUTHORITY FOR THE THIRTEEN MONTHS ENDED 31 JULY 2014

REPORT OF THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Cotton Development Authority set out on pages 17 to 40, which comprise the statement of financial position as at 31 July 2014, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable presentation 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. 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 Authority'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

Property, Plant and Equipment

As previously reported, property, plant and equipment figure of Kshs.40,152,757 excludes the value of Riverside Estate property LR.No. 208/4389/3 where the Authority's Head Office is located. According to information available, the property that belonged to the defunct Cotton Board of Kenya had been charged against a bank loan that the Board failed to service. The bank subsequently sold the property for Kshs.21.5 million through a public auction held in November 2000. Further, records show that the purchaser of the property paid the bank an amount of Kshs. 8,375,000 representing the balance of the outstanding loan, whereupon the bank released the documents of the property to the purchaser. The purchaser thereafter, and before clearing the balance of Kshs. 13,125,000 sought to transfer the title of the property in his name. The Board however declined to execute the transfer documents and as a result and shortly thereafter, the purchaser filed a case in the High Court in November 2008. The matter is still pending in court.

Additional information shows that as at 30 June 1993, the defunct Cotton Board of Kenya had fixed assets with a net book value of Kshs. 210,759,785 and investments in Meru Ginnery Ltd of Kshs. 13,940,758. The management has however not satisfactorily explained how these assets were accounted for upon the creation of the Cotton Development Authority.

In the circumstances it has not been possible to confirm that the property, plant and equipment balance of Kshs. 40,152,757 as at 31 July, 2014 is fairly stated.

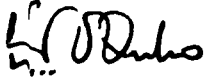
Qualified Opinion

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 Authority as at 31 July 2014, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Cotton Act, Cap.335 of the Laws of Kenya.

Emphasis of Matter

Going Concern

With the operationalization of the Agriculture, Fisheries and Food Act and Crops Act of 2013 on 1 August 2014, the Authority has ceased to exist as a legal entity and it now operates as a Directorate under the Agriculture, Fisheries and Food Authority (AFFA). My opinion is not qualified in respect of this matter.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

4 March 2015



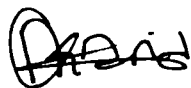
COTTON DEVELOPMENT AUTHORITY
STATEMENT OF FINANCIAL PERFORMANCE
For Thirteen Month Period Ending 31 July 2014

	<u>Note</u>	July 2014 KSh	2013 KSh
Revenue from Non-Exchange Transaction			
Government Grants	3	185,250,000	155,520,000
Registration of Ginneries & Buying Centers	4	<u>223,205</u>	<u>245,900</u>
Total Income		185,473,205	155,765,900
Revenue from Exchange Transaction			
Cotton Classification Fee	5	100,800	-
Other Income	7	<u>86,000</u>	<u>115,375</u>
Total Revenue		186,800	115,375
		185,660,005	155,881,275
Expenses			
Staff Costs	6	43,518,638	40,946,055
General Expenses	8	73,047,487	53,822,910
Cotton Seed	9	22,718,795	30,691,270
Board Expenses	10	3,109,940	12,324,499
Depreciation	12(b)	6,306,550	6,709,690
Repairs & Maintenance	11	<u>6,843,495</u>	<u>4,038,252</u>
Total Expenditure		155,544,905	148,532,676
Other gains/(losses)			
Loss on Assets write off	13	<u>150,556</u>	-
Net Surplus		29,964,544	7,348,599

COTTON DEVELOPMENT AUTHORITY
STATEMENT OF FINANCIAL POSITION
As At 31 July 2014

ASSETS	<u>Note</u>	<u>July 2014</u>	<u>2013</u>
<u>Current Assets</u>		<u>KSh</u>	<u>KSh</u>
Cash and Cash Equivalents	14	48,327,965	14,007,431
Receivables from Exchange Transactions	15	2,245,923	3,072,776
Receivables from Non-exchange Transactions	16	<u>18,228,792</u>	<u>358,440</u>
Total Current Assets		68,802,680	17,438,647
<u>Non - Current Assets</u>			
Property, Plant & Equipment	12(a)	<u>40,152,757</u>	<u>47,740,542</u>
TOTAL ASSETS		<u>108,955,437</u>	<u>65,179,189</u>
LIABILITIES			
<u>Current Liabilities</u>			
Trade and other Payables from Exchange Transactions	17	626,400	9,575,519
CFC Project Funds	18	2,711,741	3,055,973
BCI Project Funds	18	4,999,120	-
Farm Inputs Funds	18	<u>20,000,000</u>	-
Total Liabilities		28,337,261	12,631,492
General Reserve		<u>78,123,136</u>	<u>49,150,197</u>
Revaluation Reserve		<u>2,495,040</u>	<u>3,397,500</u>
TOTAL NET ASSETS AND LIABILITIES		<u>108,955,437</u>	<u>65,179,189</u>

The Financial Statements set out on pages 13 to 40 were signed on behalf of the Board of Directors by:



AG. CHIEF EXECUTIVE OFFICER

Date: 2-2-2015



BOARD MEMBER

Date: 2-2-2015

COTTON DEVELOPMENT AUTHORITY

STATEMENT OF CHANGES IN NET ASSETS

For Thirteen Month Period Ending 31 July 2014

	General Reserve KSh.	Revaluation Reserve KSh.	Total KSh.
As at 1 July 2012	41,801,598	4,530,000	46,331,598
Annual Amortization	-	(1,132,500)	(1,132,500)
Prior Year Adjustment	<u>(991,605)</u>	-	(991,605)
Surplus for the year	<u>7,348,599</u>	-	7,348,599
Balance as at 30 June 2013 Restated	<u>48,158,592</u>	<u>3,397,500</u>	<u>51,556,092</u>
As at 1 July 2013	48,158,592	3,397,500	51,556,092
13 Months Amortization	-	(902,460)	(902,460)
Surplus for the 13 Months to 31/7/2014	<u>29,964,544</u>	-	<u>29,964,544</u>
Balance as at 31 July 2014	<u>78,123,136</u>	<u>2,495,040</u>	<u>80,618,176</u>

COTTON DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS

For Thirteen Month Period Ending 31 July 2014

OPERATING ACTIVITIES	July 2014	2013
	KSh	KSh
Net Surplus	29,964,544	7,348,599
Adjustment for loss on disposal of fixed assets	150,556	-
Adjustment for depreciation	6,306,550	6,709,690
Operating Surplus before working capital changes	36,421,650	14,058,289
Working Capital Changes		
(Increase)/Decrease in Receivables	(17,043,499)	573,289
Increase/(Decrease) in Payables	<u>15,705,769</u>	<u>(1,424,606)</u>
Net cash generated from operations	35,083,920	13,206,972
INVESTING ACTIVITIES		
Acquisition of Fixed Assets	<u>(763,386)</u>	<u>(10,712,495)</u>
Net cash used in Investing Activities	(763,386)	(10,712,495)
Change in Cash and Cash Equivalents	34,320,534	2,494,477
Cash and Cash Equivalents at 1 July 2013	<u>14,007,431</u>	<u>11,512,954</u>
Cash and Cash Equivalents at 31 July 2014	<u>48,327,965</u>	<u>14,007,431</u>

COTTON DEVELOPMENT AUTHORITY

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Description	Budget 2013 / July 2014	Actual 2013 / July 2014	Performance Difference
Revenue			
GoK Grants	185,250,000	185,250,000	-
Cotton Classification fee	150,000	100,800	(49,200)
Other Incomes	296,900	309,205	12,305
Total Income	185,696,900	185,660,005	(36,895)
Expenses			
Staff Remuneration	52,615,129	43,518,638	9,096,491
Operating & Administrative Exp.	71,261,600	73,198,043	(1,936,443)
Seed Purchase & Supply Expenses	26,200,000	22,718,795	3,481,205
Board Expenses	5,487,596	3,109,940	2,377,656
Repairs & Maintenance	5,765,102	6,843,495	(1,078,393)
Depreciation Expense	6,709,700	6,306,550	403,150
Total Expenditure	168,039,127	155,695,461	12,343,666
Surplus for the period	17,657,773	29,974,544	12,306,771

Explanation of Variances:

- i. **Staff Remuneration:** The apparent saving was because the entity budgeted for a salary adjustment in line with civil service salary alignment of 2012 which was not granted. The staff salaries are lower than those of the mainstream civil servants
- ii. **Operating & Administration Expenses:** The apparent excess is only 2% of the budget and can be attributed to economic factors in the country
- iii. **Seed Supply:** The apparent saving on the account arose from lower demand from the farmers for cotton seed
- iv. **Board Expenses:** The board was there for only three months in the period
- v. **Repairs & Maintenance:** Apparent excess arose from major unexpected motor vehicle repairs

COTTON DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation

The Cotton Development Authority has adopted the new standards with respect to the pronouncement of the PSASB via Gazette Notice No. 5440 dated 8 August 2014 in preparing the financial report for 2013/July 2014 financial year. The Authority's financial statements have therefore been prepared in accordance to and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

2. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Government Grants, Licenses and Permits

Cotton Development Authority recognizes revenues from Government Grants, Licenses and Permits when they are received and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to Cotton Development Authority and the fair value of the asset can be measured reliably.

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to Cotton Development Authority and can be measured reliably.

ii) Revenue from exchange transactions

Rendering of services

Cotton Development Authority recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours.

COTTON DEVELOPMENT AUTHORITY

Notes to the Financial Statements (Continued)

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

b) Budget information

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of Cotton Development Authority. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

e) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, Cotton Development Authority recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Except for the building, depreciation is calculated on the reducing balance method to write off the cost or the revalued amount of each asset to its estimated residual value over its estimated useful life. The annual rates used are:

Buildings	5% on Straight Line Basis
Computers & IT Equipment	30%
Office Equipment	12½%
Motor vehicles	25%
Furniture & Fitting	12½%

COTTON DEVELOPMENT AUTHORITY

Notes to the Financial Statements (Continued)

g) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

j) Provisions

Provisions are recognized when Cotton Development Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where Cotton Development Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

Cotton Development Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

Cotton Development Authority does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Cotton Development Authority in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

COTTON DEVELOPMENT AUTHORITY

Notes to the Financial Statements (Continued)

k) Nature and purpose of reserves

Cotton Development Authority creates and maintains reserves in terms of specific requirements.

l) Changes in accounting policies and estimates

Cotton Development Authority recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

m) Employee benefits

Retirement benefit plans

The Authority contributes to a statutory defined contribution pension scheme, the National Social Security Fund. The contributions are determined by the Kenyan statutes and are currently limited to KSh. 200 per employee per month. The Authority also contributes to Cotton Development Authority Staff Retirement Scheme, a defined contribution scheme, at 15% of employees' basic salary.

The company's contributions to the above schemes are charged to the income and expenditure statement in the year to which they relate.

n) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

p) Related parties

Cotton Development Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over Cotton Development Authority, or vice versa. Members of key management are regarded as related parties and comprise the Chief Executive Officer, Heads of Departments and senior managers.

COTTON DEVELOPMENT AUTHORITY

Notes to the Financial Statements (Continued)

r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

Bank account balances include amounts held at the various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

s) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

t) Significant judgments and sources of estimation uncertainty

The preparation of the Authority's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

i) Critical accounting judgments in applying the entity's accounting policies ***Impairment losses on trade and other receivables***

The authority reviews its trade and other receivables to assess impairment regularly. In determining whether an impairment loss should be recognized through profit or loss, the company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the receivables, before a decrease can be identified. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers or local economic conditions that correlate with defaults on assets in the company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts

COTTON DEVELOPMENT AUTHORITY

Notes to the Financial Statements (Continued)

of assets and liabilities within the next financial year, are described below. The Authority based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due

to market changes or circumstances arising beyond the control of the Authority. Such changes are reflected in the assumptions when they occur.

i) **Key sources of estimation uncertainty**

Impairment of assets

At the end of each reporting period, the authority reviews the carrying amount of its assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment (if any).

Plant and equipment

Critical estimates are made by the directors in determining depreciation rates for property, plant and equipment. The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the authority
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

Fair value estimation – financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, judgment is required in establishing fair values. Judgment includes the consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

COTTON DEVELOPMENT AUTHORITY

Notes to the Financial Statements (Continued)

u) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the period ended July 31, 2014.

3. Government Grants – KSh. 185,250,000

Represents grant received on approved budget of KSh. 185,250,000 (2012/13: KSh. 155,520,000). The Government also allocated KSh. 20m to Cotton Development Authority in the supplementary budget which the Authority has dedicated to manage as a Farms Inputs Fund for the cluster farming arrangement.

4. Registration of Ginneries and Buying Centers

The Authority in the discharge of her regulatory mandate does license ginneries and buying centers annually. In the 13 months period the authority earned KSh. 223,205 in this activity. (2012/13: KSh. 245,900)

5. Cotton Classification Fee

Cotton classification fee is charged on cotton lint samples from ginneries for grading cotton at the HVI Laboratory from specific bales at KSh. 150. A total of KSh. 100,800 was earned in the year (2012/13: nil)

COTTON DEVELOPMENT AUTHORITY

Notes to the Financial Statements (Continued)

6. Staff Costs

	July 2014	2013
	KSh.	KSh.
Basic Pay	24,269,912.00	22,410,428
Casual Employees	194,943.00	216,408
House Allowance	9,034,594.00	8,326,225
Acting Allowance	172,442.00	125,159
Hardship Allowance	830,000.00	682,333
Extraneous Allowance	179,500.00	234,000
Commuter Allowance	4,377,935.00	4,181,429
Non-Practicing Allowance	91,000.00	76,000
Responsibility Allowance	91,000.00	76,000
Entertainment Allowance	65,000.00	52,000
Staff Leave Allowance	505,000.00	540,000
NSSF Employer's Contribution	127,960.00	117,000
Pension Employer's Contribution	3,579,352.00	3,229,392
Staff Service Gratuity	-	679,681
Total	<u>43,518,638</u>	<u>40,946,055</u>

7. Other Income:

Other income is comprised of:

	July 2014	2013
	KSh	KSh.
Tender Documents Sales	46,000	51,000
Miscellaneous Income	<u>40,000</u>	<u>64,375</u>
Total Other Incomes	<u>86,000</u>	<u>115,375</u>

COTTON DEVELOPMENT AUTHORITY

Notes to the Financial Statements (Continued)

8. General Expenses

	July 2014	2013
	KSh.	KSh.
Utilities	820,008	582,086
Communication Expenses	3,658,388	3,516,070
Domestic Travel & Subsistence	18,613,494	7,697,775
Foreign Travel & Subsistence	3,992,051	995,804
Advertising & Publicity Expense	1,099,700	1,449,947
Rentals, Rates & Hire Expenses	1,342,315	3,567,421
Training, Seminars & Workshops	2,976,844	3,176,515
Hospitality and Entertainment	4,252,408	1,952,115
Insurance Expenses	7,796,195	6,946,044
General Supplies & Services	3,766,972	2,604,420
Fuels & Lubricants	6,042,770	5,666,505
Bank Charges	151,466	117,660
Security & Guarding Services	1,698,053	1,693,256
Photography Materials & Service	3,080	2,400
Subscriptions & Membership Fee	1,980,849	1,919,540
Audit Fees	580,000	604,450
Consultancy & Professional Services	4,480,712	2,500,356
Cotton Farming Support Expenses	999,540	1,975,050
Field Days Expenses	2,420,570	1,274,870
Stakeholders Forums Expenses	1,008,256	756,369
Stakeholders Training Expenses	1,580,184	593,730
ASK Shows & Trade Exhibitions	3,139,482	2,144,377
Inspection - Ginnery & B/Center	90,500	43,260
Monitoring & Evaluation	<u>553,650</u>	<u>2,042,900</u>
Total General Expenses	<u>73,047,487</u>	<u>53,822,910</u>

9. Cotton Seed:

The Cotton Seed item represents the cost incurred in purchasing and distributing cotton seed to farmers during the financial year.

	July 2014	2013
	KSh.	KSh.
Cotton Seed	22,718,795	30,691,270

COTTON DEVELOPMENT AUTHORITY

Notes to the Financial Statements (Continued)

10. Board Expenses

	July 2014	2013
	KSh.	KSh.
Sitting Allowance	1,382,000	3,960,000
Accommodation , Subsist & Travel Exp.	1,553,940	7,320,499
Honoraria	<u>174,000</u>	<u>1,044,000</u>
Total Board Expenses	<u>3,109,940</u>	<u>12,324,499</u>

11. Repairs and Maintenance

The following comprise repairs and maintenance cost

	July 2014	2013
	KSh.	KSh.
M/Vehicle Repairs & Maintenance	5,223,053	3,030,438
Plant & Machinery Repairs	152,708	28,900
Furniture & Equipment Repairs	171,064	82,340
Buildings Repairs & Maintenance	772,635	576,999
Computers Repairs & Maintenance	465,985	319,575
Grounds Maintenance	<u>58,050</u>	<u>-</u>
Total Repairs & Maintenance	<u>6,843,495</u>	<u>4,038,252</u>

COTTON DEVELOPMENT AUTHORITY

Notes to the Financial Statements (Continued)

12. Property Plant & Equipment

a. Fixed Assets Schedule

	WORK - IN - PROGRESS	BUILDINGS	MOTOR VEHICLES	COMPUTERS	OFFICE EQUIPMENT	FURNITURE & FITTINGS	TOTAL
COST		KES	KES	KES	KES	KES	30.6.2013
AS AT 1/7/2012	12,152,952	12,901,561	26,531,776	4,197,775	4,092,535	1,579,056	61,455,651
ADDITIONS	10,038,989				104,178	569,328	10,712,495
TRANSFERS	(22,191,941)				22,191,941		
AS AT 30-6-2013		12,901,561	26,531,776	4,197,775	26,388,654	2,148,384	72,168,150
CUMULATIVE DEPRECIATION							
AS AT 1/7/2012		637,015	12,235,443	2,290,565	901,853	520,542	16,585,418
DEPRECIATION FOR THE YEAR		306,614	3,574,083	572,163	3,185,850	203,480	7,842,190
AS AT 30-6-2013		943,629	15,809,526	2,862,728	4,087,703	724,022	24,427,608
NBV AS AT 30-6-2013		11,957,932	10,722,250	1,335,047	22,300,951	1,424,362	47,740,542
COST							
AS AT 1/7/2013		12,901,561	26,531,776	4,197,775	26,388,654	2,148,384	72,168,150
ADDITIONS					763,386		763,386
DISPOSALS				(581,200)			
AS AT 31-7-July 2014		12,901,561	26,531,776	3,616,575	27,152,040	2,148,384	72,350,336
CUMULATIVE DEPRECIATION							
AS AT 1/7/2013		943,629	15,809,526	2,862,728	4,087,703	724,022	24,427,608
DISPOSALS				(430,644)			
Prior Year Adjustment		991,605					
DEPRECIATION FOR 13 MONTHS		698,835	2,849,751	376,079	3,093,313	191,033	7,209,011
AS AT 31-7-July 2014		2,634,069	18,659,277	2,808,163	7,181,016	915,055	31,636,619
NBV AS AT 31-7-July 2014		10,267,492	7,872,499	808,412	19,971,024	1,233,329	40,152,756

- b. **Depreciation:** Of the KSh. 7,209,011 shown as Depreciation for the period KSh 6,306,551 is debited to depreciation while KSh. 902,460 relating to revalued motor vehicles is debited to the Revaluation Reserve

COTTON DEVELOPMENT AUTHORITY

Notes to the Financial Statements (Continued)

13. Loss from Fixed Assets Write off

The Authority wrote off four laptops and a tablet from the books of account. Their total cost was KSh. 581,200 while their total accumulated depreciation was KSh. 430,644. The net effect of the write off was a loss of **KSh. 150,556.** (2012/13: nil)

14. Cash and Cash Equivalents:

This represents cash at bank and cash at hand as follows:

	July 2014	2013
	KSh.	KSh.
Kenya Commercial Bank	45,775,947	10,789,845
CFC Current Account - KSH	1,642,330	270,049
CFC/ICAC/44 Current A/c USD	408,763	2,785,924
Head Office Cash Accounts	118,195	73,034
Regional / Zonal Cash Imprests	382,730	88,579
Total Cash at bank and in hand	48,327,965	14,007,431

15. Receivables from Exchange Transactions:

	July 2014	2013
	KSh.	KSh.
Trade Receivables	99,528	-
Prepayments	<u>2,146,395</u>	<u>3,072,776</u>
Total	<u>2,245,923</u>	<u>3,072,776</u>

Trade receivables represent amounts not received for cotton classing services from various ginneries. Prepayments are mainly made up of prepaid insurance expenses for medical, group life and group personal accident, and motor vehicle insurances.

COTTON DEVELOPMENT AUTHORITY

Notes to the Financial Statements (Continued)

16. Receivables from Non-Exchange Transactions

	July 2014	2013
	KSh.	KSh.
GoK Grants Receivable	14,250,000	-
Bank Charge reversed After Year end	-	200
Staff Travel & Activity Imprest	3,743,604	22,909
Staff Salary Advance	234,880	335,331
Overpaid Payroll Deductions	<u>308</u>	<u>-</u>
Total Trade and Other Receivables	<u>18,228,792</u>	<u>358,440</u>

Trade Receivables comprise of KSh. 14,250,000 being Grants for July 2014 that was received in the month of July 2014

17. Trade & Other Payables from Exchange Transactions

	July 2014	2013
	KSh.	KSh.
Trade Payables	626,400	9,575,519

18. Project Funds

i. CFC /ICAC/44 Project Funds

These are funds for CFC/ICAC/44 cotton classing project financed by CFC. The amount in the accounts is the balance of KSh. 408,763 in the USD Bank Current Account and KSh. 1,642,330 in the project KES Bank current Account as at 31 July 2014. In addition there was outstanding cash imprest of KSh. 679,292 given to officers for an activity in Germany running up to 31 July 2014 but less project expenditure of KSh. 18,644 paid through the Main Current Bank Account of the Authority. The fund is being maintained on replenishment basis maintained at a maximum of USD 50,000.

ii. BCI Project Funds

These are funds for Better Cotton Initiative Project financed through Solidaridad Kenya. The amount in the accounts is the balance not spent of KSh. 4,999,120 in the CODA Main Bank Current Account as at 31 July 2014. The project runs for three years to FY 2015/2016.

iii. Farm Inputs Funds

These are funds provided by the government for farmers support with farm inputs for cotton production, KSh. 20m

COTTON DEVELOPMENT AUTHORITY

Notes to the Financial Statements (Continued)

	CFC Project	BCI Project	Farm Inputs	Total
Balance as at 1/7/2013	3,055,973	-	-	3,055,973
Receipts	3,122,619	9,798,993	20,000,000	32,921,612
Expenditure	(3,466,851)	(4,799,873)	-	(8,266,724)
Balance as at 31 July 2014	2,711,741	4,999,120	20,000,000	27,710,861

19. Prior Year Adjustments

Prior year adjustments have been made on these financial statements in relation to depreciation of the Laboratory Building at Narl. The depreciation has been changed from 2.5% on reducing balance to 5% p.a. on straight line basis in light of the fact the lease agreement between CODA and KARI lasts for only twenty years after which the laboratory reverts to KARI.

20. Related party transactions

The remuneration of key management who received remuneration directly from the authority during the year is as follows:

	KSh	KSh.
Director's emoluments	3,109,940	12,324,499
Key management compensation	17,916,122	17,246,615
Total	19,472,122	22,250,615

21. Financial Risk Management

Exposure to currency, commodity, interest rate, liquidity and credit risk arises in the normal course of the authority's operations. This note presents information about the authority's exposure to each of the above risks, policies and processes for measuring and managing risk, and the authority's management of capital. Further quantitative disclosures are included throughout these financial statements.

Fair values

Set out below, is a comparison by class of the carrying amounts and fair value of the authority's financial instruments.

COTTON DEVELOPMENT AUTHORITY

Notes to the Financial Statements (Continued)

	Carrying amount	Fair value
	KSh	KSh
Financial Assets		
At 31 July 2014		
Receivables from non-exchange transactions	18,228,792	18,228,792
Receivables exchange transactions	2,146,923	2,146,923
Cash and cash equivalents	<u>48,327,965</u>	<u>48,327,965</u>
	<u>68,703,680</u>	<u>68,703,680</u>
	Carrying amount	Fair value
	KSh	KSh
Financial Assets		
At 30 June 2013		
Receivables from non-exchange transactions	358,440	358,440
Receivables exchange transactions	3,072,776	3,072,776
Cash and cash equivalents	<u>14,007,431</u>	<u>14,007,431</u>
	<u>17,438,647</u>	<u>17,438,647</u>
	Carrying amount	Fair value
	KSh	KSh
Financial Liabilities		
At 31 July 2014		
Trade & other payables from exchange transactions	626,400	626,400
CFC Project Funds	2,746,672	2,746,672
BCI Project Funds	4,999,120	4,999,120
Farm Inputs Funds	<u>20,000,000</u>	<u>20,000,000</u>
	<u>28,372,192</u>	<u>28,372,192</u>
	Carrying amount	Fair value
	KSh	KSh
Financial Liabilities		
At 30 June 2013		
Trade & other payables from exchange transactions	9,575,519	9,575,519
CFC Project Funds	3,055,973	3,055,973
	<u>12,631,492</u>	<u>12,631,492</u>

COTTON DEVELOPMENT AUTHORITY

Notes to the Financial Statements (Continued)

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Credit risk

Credit risk is the risk of financial loss to the authority if customers or counterparties to financial instruments fail to meet their contractual obligations. The authority's credit risk is primarily attributable to its receivables and cash and cash equivalents. The company's management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors before extending credit. The carrying amount of financial assets represents the maximum credit exposure. The credit risk on liquid funds with financial institutions is low, because the counter parties are banks with high credit-ratings. The maximum exposure to credit risk as at 31 July 2014 was:

	Fully performing KSh	Past due KSh	Impaired KSh	Total KSh
GOK grants receivable	14,250,000	-	-	
Trade receivables	-	99,528	-	
Cash and cash equivalents	48,344,251	-	-	
Maximum exposure to credit	=====	=====	=====	=====

The average credit period on services rendered is 90 days from date of invoice. Debts above 90 days old are classified as past due. The authority provides fully for all receivables outstanding over 365 days where there is no evidence of expected recovery. The customers under the fully performing category are paying their debts as they continue dealing with the authority. The default rate is low. The debt that is overdue is not impaired and continues to be paid.

COTTON DEVELOPMENT AUTHORITY

Notes to the Financial Statements (Continued)

Credit quality

Credit quality is assessed risk of default attached to counterparties to which the authority extends credit and also those parties with whom the authority invests. As such, the credit quality assessed extends to the customers, donors and banks of the authority. For financial statement purposes, the investments and balances with banks are limited to the receivable and cash and cash equivalents line items in the statement of financial position. The authority determines credit quality of the banks from past dealings with them and from information readily available from the regulatory authority, the Central Bank of Kenya.

The client base of the authority is diverse and consists mainly of companies (ginneries) and government entities. For the purpose of determining the credit quality of clients, the authority applies its past experience with them in determining the risk of default they pose.

Receivables

Receivable amounts are owed by clients and the government of Kenya and are presented net of any impairment losses. There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The authority's exposure to credit risk is monitored on an ongoing basis. The authority's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial performance.

Cash and cash equivalents

The authority limits its exposure to credit risk by investing cash and cash equivalents with only reputable financial institutions that have a sound credit rating. Consequently, the authority does not consider there to be any significant exposure to credit risk.

Liquidity risk

Liquidity risk is the risk of the authority not being able to meet its obligations as they fall due. The authority's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the authority's reputation. Prudent liquidity risk management includes maintaining sufficient cash to meet the authority's obligations.

COTTON DEVELOPMENT AUTHORITY

Notes to the Financial Statements (Continued)

Market risk

Market risk is the risk of changes in market prices, such as foreign-exchange rates and interest rates, affecting the authority's income or the value of its financial instrument holdings. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on the risk.

(i) Price risk

The authority does not hold investments that would be subject to price risk; hence this risk is not relevant.

(ii) Interest rate risk

The authority does not hold any interest bearing liabilities or assets; hence this risk is not relevant.

(iii) Foreign currency risk

The authority is exposed to foreign-currency risk through foreign currency denominated bank balances. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

The carrying amounts of the company's foreign currency denominated monetary assets and liabilities at the end of the reporting period are shown below.

Description	July 2014	2013	July 2014	2013
	USD	USD	Total in KSh	Total in KSh
Assets				
Bank and cash balances	4,655	32,392	408,783	2,785,924
	=====	=====	=====	=====

COTTON DEVELOPMENT AUTHORITY

Notes to the Financial Statements (Continued)

Capital risk management policies

The primary objective of managing the authority's capital is to ensure that there is sufficient cash available to support the authority's funding requirements, including capital expenditure, to ensure that the authority remains financially sound. The authority monitors capital using a gearing ratio, which is net debt, divided by total capital, plus net debt. As at the end of the year, the authority had no debt.

The capital structure of the authority consists only of a general fund. The gearing ratio of the authority is therefore 0%.

22. Contingent Liability

Cotton Development Authority's head office is located at a property that was previously owned by the defunct Cotton Board of Kenya. Cotton Board of Kenya had charged the property against a bank loan that the Board failed to service. The bank subsequently sold the property for KSh. 21.5m through a public auction held in November 2000. The purchaser paid the bank only KSh. 8.375m representing the balance of the outstanding loan whereupon the bank released the title documents of the property to the purchaser. The purchaser thereafter sought to transfer the title to his name before clearing the balance of KSh. 13.125m. The board declined to execute the transfer and as a result the purchaser filed a case in the High Court in November 2008. As at the end of the year under review, the matter was still before the courts.

Cotton Development Authority occupies the property courtesy of the Ministry of Agriculture, and does not pay any rents for the tenancy. There therefore exists a potential liability which if calculated at KSh. 1.2m per year may estimate at KSh.6.6m to 31 July 2014 and that is contingent on the determination of the case.

23. Taxation

Being a non-trading entity the Authority is not subject to taxation

24. Events after the reporting period.

With effect from 1 August 2014, all the functions of CODA have been transferred to the Directorate of Fibre under Agriculture, Fisheries and Food Authority (AFFA). In accordance with IPSAS 14, Events after the Reporting Period, this has been classified as a non-adjusting event