

REPUBLIC OF KENYA



Paper laid
By Hon Aden Duale
Leader of Majority
on Thurs 13/11/14
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REPORT
OF
THE AUDITOR-GENERAL
ON
THE FINANCIAL STATEMENTS
OF KENYA DAIRY BOARD
FOR THE YEAR ENDED
30 JUNE 2013

KENYA DAIRY BOARD

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2013**

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VISION AND MISSION STATEMENT

BOARD OVERVIEW

Kenya Dairy Board was established through an Act of Parliament, the Dairy Industry Act, Cap 336 of 1958.

Mandate

To regulate, promote and develop dairy industry in Kenya.

Vision

"To be a world class dairy development and regulatory authority."

Mission

"To facilitate the stakeholders activities towards a sustainable Dairy Industry that provides quality and competitive Dairy products."

Core Values

Kenya Dairy Board believes in an organisation whose people strongly uphold the following values:

Integrity:	High standards of integrity and professionalism will be demanded from every member of staff.
Knowledge Based Organisation:	Strive to become a one stop shop for information dissemination for the mutual benefit of the dairy industry.
Quality Service:	Strive to become a Service delivery and client focused organization that offers high value services which meet and exceed the expectation of its clientele.
Fairness:	Uphold the principles of fairness and due process in its dealing with internal and external public.
Honesty:	Promote a culture of openness and exalt the virtues of truthfulness and honesty within and without the Board.
Democratic Leadership:	Promote a participatory management style that recognises the contribution of all team members.
Equal opportunity:	Give equal chances to all interested parties in all its transactions irrespective of status, gender, age, race, and ethnicity.

BOARD MEMBERS AND BOARD INFORMATION

BOARD MEMBERS

Martha K. Mulwa	Chairperson
Everet S Wafula	Vice Chairman
Machira Gichohi MBS	Managing Director
Hon. Matu Wamae EBS	Director - Processors Representative
Alice J. Chesire	Director - Farmer Representative North rift Region
Idris M Yusuf	Director - Farmer Representative North Eastern Region
Hussein Tene	Director - Farmer Representative Upper Eastern Region
James Karanja	Director - Farmer Representative Central rift Region
Muthoni Muturi	Director - Farmer Representative Central Region
Mwenda Thiribi	Director - Farmer Representative Upper Eastern Region
Omolo Kayila HSC	Director - Farmer Representative Nyanza Region
Maison T. Sasai	Director - Farmer Representative South rift Region
Michael Njuguna Numi	Director - Farmer Representative Central Region
Margaret Nyadong'	Alternate to PS in the Ministry of Agriculture, Livestock and Fisheries
Teresia Nyakweba	Alternate to PS in the National Treasury

MANAGEMENT

Humphrey Maina	Finance Manager
Peter Mutua	Administrative Manager
Dr. Philip Cherono	Technical Services Manager

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

NSSF Building, Block A, Eastern wing,
10th Floor,
P.o. Box 30406-00100,
Nairobi.

AUDITORS

Auditor General
P.o. Box 30084,
Nairobi.

BANKERS

Kenya Commercial Bank Limited
P.o. Box 69695,
Nairobi.

Co-operative Bank of Kenya Limited
P.o. Box 48231, 00200,
Nairobi.

National Bank of Kenya Limited
P.o. Box 72866,
Nairobi.

LAWYERS

Wambugu Motende & Co. Advocates,
P.o. Box 41765-00100,
Nairobi.

Cheptumo & Co. Advocates,
P.o. Box 35556-00200,
Nairobi.

CHAIRPERSON'S STATEMENT

The Dairy industry in Kenya continues to play a major role in the socio-economic wellbeing of the country especially among the rural households. The industry supports an estimated 1.8million smallholder dairy farmers who produce approximately 5billion litres of milk per annum. The value of the dairy industry is further demonstrated by its contribution to the national GDP which currently stands at 4.5%

The Kenyan Constitution of 2010 has devolved key responsibilities to the County Governments including matters to do with dairy development. This is an interesting development for the Kenyan dairy industry as it is expected to enhance service delivery in dairy production leading to improved productivity and efficiency. At the national level, the Board will mainly focus on regulatory and promotional roles for the purpose of consumer protection in relation to the quality and safety of dairy products and also promoting consumption and trade in dairy products in the domestic, regional and international markets.

The Kenyan Government, through the Ministry of Agriculture, Livestock and Fisheries has continued to develop an appropriate policy and regulatory framework to support dairy development in the Country. The Ministry has drafted a Livestock Bill which is before Parliament to re-align the Livestock sector to the new Constitutional dispensation. This, when passed, will guide the development of the dairy industry at the national level. The Ministry has already developed a Dairy Master Plan which aims at improving the value of the dairy industry by enhancing efficiency in milk production, bulking, processing and marketing. The other policy areas that the Ministry is addressing include animal breeding, nutrition and health.

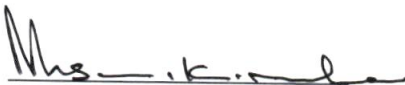
The Board has developed draft Dairy Technical Regulations to improve our dairy inspectorate framework to meet the changing requirements for food safety at the national and international dairy markets. We will therefore pursue the passing and gazattement of this regulations to enable the Board adequately manage and regulate the Dairy industry for the benefit of all stakeholders.

The growth of the Kenyan Dairy industry has been made possible by the combined efforts of various stakeholders in the public and private domains. As a Board, we have actively engaged, through partnerships and collaborations, with a number of stakeholders to pool the diverse competencies and resources available for dairy development in the country. These partners include Government, stakeholder associations, development partners, training institutions, research institutions, development programs and NGOs among others.

The Board acknowledges the need for enhancing formalization of the dairy industry, promoting value addition, enhancing consumption of value added products and capitalizing on the large dairy market in the region. To achieve this, the Board is working closely with the East Africa Dairy Regulatory Authority Council (EADRAC), East Africa Business Council (EABC), East and Southern Africa Dairy Association (ESADA) and Kenya Dairy Processors Association (KDPA) among others

We remain grateful to the various stakeholders for their support and input to the dairy industry. I wish to acknowledge the continued financial, material and moral support by Government to the Board and the Dairy industry at large.

We reiterate our commitment to transform the Kenyan dairy industry to match the best in the world.



Martha Mulwa
Chairperson

Nairobi, Kenya

MANAGING DIRECTOR'S STATEMENT

The Kenya Dairy Board is a statutory body established in 1958 through an Act of Parliament, the Dairy Industry Act, Cap 336 of the Laws of Kenya with the specific mandate of organizing and regulating the Kenyan dairy industry

The continued good performance of the Dairy industry has attracted considerable investments in the last few years ranging from establishment of dairy farms, cooling centres, milk hubs and expansion of milk processing capacity. This has seen a growth in the levels of milk production and volumes of milk chilled, processed and marketed. Milk production is currently estimated at 5 billion litres out of which approximately 2 billion litres is marketed formally and informally. The formal milk marketing channel has grown over the last decade from 144 million in 2002 to 553 million litres in 2012/2013. This has coincided with the expansion of the milk processing capacity which is currently estimated at over 3.5 million litres per day.

The regulatory mandate of the Board is aimed at consumer protection. This is achieved through inspection and licensing of milk handing establishments, surveillance and testing of milk and milk products and management of dairy imports and exports among others. It also aims at creating a level playing ground amongst stakeholders involved in dairy production, processing and marketing.

The operations of the Board are financed from fees and levies charged on the dairy industry and from government grants. In the 2012/2013 period, the income to the Board increased by 16% to KSh 265 million from the KSh 228 million received in 2011/2012. The grants from the Exchequer for recurrent expenditure dropped in the same period from Ksh 20.3 million to 19.5 million. The Board's reliance on grants from the Exchequer has been declining with this support currently at 7% of the Board's income.

The funds generated by the Board are utilized to support regulation, promotion and development of the dairy industry. Some of the activities supported using these funds include conducting inspections, surveillance and testing of dairy products, capacity building of staff and stakeholders, support to the establishment of the school milk programme, consumer education and awareness, dairy export promotion, support to stakeholder associations, benchmarking and research and development.

As part of our strategic vision, the Board is working towards improving the quality of Kenyan dairy produce by promoting Quality Based Milk Payment Systems. This will motivate dairy farmers to invest in quality. To manage the industry better, the Board is also promoting automation of the dairy value chain to entrench traceability of dairy produce, develop information sharing mechanisms and increase efficiency of operations in management of dairy farmer groups.

The Board recognizes the need for highly organized stakeholders in the dairy value chain. To this end we will continue to encourage the grouping of dairy farmers into dairy cooperatives, self help groups and companies. The Board will also continue to work with the national stakeholder associations representing dairy farmers, breeders, service providers, processors and animal feed manufacturers among others.



Machira Gichohi, MBS
Managing Director.

Nairobi, Kenya

BOARD MEMBER'S REPORT

The Board Members have pleasure in submitting their annual reports and Audited Financial Statements for the year ended 30th June 2013 which disclose the state of affairs of the Board.

PRINCIPAL ACTIVITIES

The principal activity of the Board is to organise, regulate and develop the efficient production, marketing, distribution and supply of dairy produce.

RESULTS

Surplus for the financial year ended 30 th June 2013	Kshs.	4,005,701
as compared to financial year ended 30 th June 2012	Kshs.	(4,881,145)


BOARD MEMBERS

The present Board Members are set out on page 3.

AUDITORS

The Auditor General will continue in office in accordance with Section 30(1) of the Dairy Industry Act (Chapter 336) and the Public Audit Act, 2003.

BY ORDER OF THE BOARD



Machira Gichohi, MBS
Managing Director/Secretary

Nairobi, Kenya

STATEMENT OF BOARD MEMBERS RESPONSIBILITIES

The Dairy Industry Act requires the Board Members to prepare financial statements for each financial year that gives a true and fair view of the state of affairs of the Board, as at the end of the financial year and of its operating results for the year.

It also requires the Board Members to ensure that the Board keeps proper accounting records, which disclose, with reasonable accuracy, at any time, the financial position of the Board. They are also responsible for safeguarding the assets of the Board.

The Board Members accept the responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Dairy Industry Act. The Board Members are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Board and its operating results.

The Board Members further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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



Martha Mulwa
Chairperson

Nairobi, Kenya



Machira Gichohi, MBS
Managing Director/Secretary

REPUBLIC OF KENYA

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NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KENYA DAIRY BOARD FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Dairy Board set out on pages 9 to 22, which comprise the statement of financial position as at 30 June 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows, and a summary of significant accounting policies and other explanatory information for the year then ended 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 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 its 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 accordance 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 judgment, 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 Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Property, Plant and Equipment

As similarly reported in the previous year, the property, plant and equipment balance of Kshs.42,997,457.00 as at 30 June 2013 includes a plot No.PDB/R163/99/15 in Narok valued at Kshs.300,000.00 allocated to the Board in the year 2000 for office development. However, despite the valuation, the Board has not obtained a title deed for the plot from the Ministry of Lands. Consequently, it has not been possible to confirm the ownership status of the plot and that the property, plant and equipment balance of Kshs.42,997,457.00 is fairly stated as at 30 June 2013.

2. Long Outstanding Debtors

- i. The Trade and Other Receivables balance of Kshs.39,306,207.00 as at 30 June 2013 includes a balance of Kshs.3,405,271.00 representing trade debtors due from various Institutions. Although according to the records available the amounts have been outstanding for a considerably long period of time, no concrete measures appear to have been taken by the Management to recover them.
- ii. Further, included in the Trade and Other Receivables figure of Kshs.39,306,207.00 are imprests of Kshs.207,800.00 outstanding for a long period of time. The debts also include an amount of Kshs.400,782.00 outstanding from ex-employees. Although a provision for bad and doubtful debts has been made in the financial statements, the recovery of the entire amount owed by ex-employees appears doubtful.

In the circumstances, it has not been possible to confirm the full recoverability of the trade and other receivables balance of Kshs.39,306,207.00 as at 30 June 2013.

3. Trade and Other Payables

The Trade and Other Payables balance of Kshs.17,144,398.00 includes a figure of Kshs 823,055.00 which, according to records available, has been outstanding for a considerably long period of time. However, the management has not provided a satisfactory reason for not settling these debts.

Consequently, it has not been possible to confirm whether the trade and other payables balance of Kshs.17,144,398.00 is fairly stated as at 30 June 2013.

Qualified Opinion

In my opinion, except for the matters described in the Basis for Qualified Opinion paragraph, the financial statements fairly present, in all material respects, the financial position of the Board as at 30 June 2013, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Dairy Industry Act, Cap 336 of the Laws of Kenya.



Edward R. Ouko, CBS
AUDITOR-GENERAL

Nairobi

4 April 2014

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30TH JUNE 2013

	NOTES	2013 KSHS.	2012 KSHS.
INCOME			
Revenue	4	264,233,257	224,857,253
Other Income	5	113,155,354	102,125,631
TOTAL INCOME		377,388,611	326,982,884
EXPENSES			
Administration Expenses	6	33,539,278	29,438,474
Board Members Expenses	7	10,108,960	8,687,847
Depreciation and Amortization Expense	8	14,903,814	12,962,939
Employee Benefits Expenses	9	110,142,025	89,585,468
Operating Expenses	10	88,083,529	84,705,074
Development Expenses	11	110,124,389	100,783,315
Other expenses	12	6,480,915	5,700,912
TOTAL EXPENSES		373,382,910	331,864,029
SURPLUS/ (DEFICIT) FOR THE YEAR		4,005,701	(4,881,145)

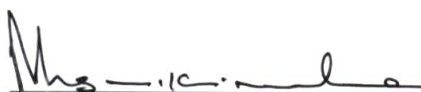
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

**STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2013**

ASSETS	NOTES	2013 KSHS.	2012 KSHS.
Non current assets			
Property, Plant & Equipment	13	42,997,457	38,656,544
Intangible Assets	14	<u>2,994,195</u>	<u>1,369,045</u>
		<u>45,991,652</u>	<u>40,025,589</u>
Current assets			
Trade and other Receivables	15	39,306,207	20,678,416
Cash and Cash Equivalents	16	<u>5,597,346</u>	<u>15,633,490</u>
		<u>44,903,553</u>	<u>36,311,906</u>
TOTAL ASSETS		<u>90,895,205</u>	<u>76,337,495</u>
EQUITY AND LIABILITIES			
Capital Reserves	17	17,958,456	17,958,456
Revenue Reserve	18	<u>53,505,550</u>	<u>49,499,849</u>
		<u>71,464,007</u>	<u>67,458,305</u>
Current Liabilities			
Trade and other payables	19	17,144,398	5,215,990
Short Term Provisions	20	<u>2,286,800</u>	<u>3,663,200</u>
		<u>19,431,198</u>	<u>8,879,190</u>
TOTAL EQUITY AND LIABILITIES		<u>90,895,205</u>	<u>76,337,495</u>

The financial statements were approved by the Board Member's on _____ and signed on behalf by:

Martha K. Mulwa
Chairperson



Signature

Machira Gichohi, MBS
Managing Director/Secretary



Signature

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30TH JUNE 2013

	Notes	Capital Reserves Kshs.	Revenue Reserve Kshs.	Total Kshs.
At 1st July 2011		17,958,456	54,380,994	72,339,450
Surplus for the year		-	(4,881,145)	(4,881,145)
Increased in the year	16	90,000,000		90,000,000
Utilised in the year	17	(90,000,000)	-	(90,000,000)
At 30th June 2012		17,958,456	49,499,849	67,458,305
At 1st July 2012		17,958,456	49,499,849	67,458,305
Surplus for the year		-	4,005,701	4,005,701
Increased in the year	17	92,600,000	-	92,600,000
Utilised in the year	17	(92,600,000)	-	(92,600,000)
At 30th June 2013		17,958,456	53,505,550	71,464,006

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2013

	NOTES	2013 KSHS.	2012 KSHS.
SURPLUS FOR THE YEAR		4,005,701	(4,881,145)
ADJUSTMENTS:			
Depreciation for the year	13	13,004,800	11,866,574
Amortization of intangible assets	14	1,899,014	1,096,365
Profit on disposal of assets		(15,081)	(2,609,400)
Operating surplus before working capital changes		18,894,434	5,472,394
(Increase)/Decrease in debtors		(18,627,791)	2,654,915
Increase/(Decrease) in creditors		10,552,009	84,334
Net cash flow from operating activities		10,818,653	8,211,643
Cash flow from Investing Activities			
Purchase of property, plant and equipment	13	(17,406,929)	(10,338,815)
Purchase of intangible assets		(3,524,164)	(963,750)
Proceeds on sale of asset		76,836	2,609,400
Net Cash flow from Investing Activities		(20,854,257)	(8,693,165)
Cash flow from Financing Activities			
Capital reserve	17	-	-
Net Cash flow from Financing Activities		-	-
Net increase/(decrease) in cash and cash equivalents		(10,035,604)	(481,522)
Cash and cash equivalents at beginning of period	16	15,633,490	16,115,013
Cash and cash equivalents at end of period	16	5,597,886	15,633,490

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The Financial statements are prepared in compliance with International Financial Reporting Standards (IFRSs) The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Kshs) rounded into the nearest shilling.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Board's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policy and disclosures

(i) Amendments to existing standards adopted by the Board

IAS 24 (Revised) 'Related party disclosures' – effective 1 January 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

Classification of rights issues' (amendment to IAS 32) – effective 1 February 2010. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The amendment does not have an impact on the Board's financial statement.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments' - effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. It is not expected to have any impact on the Board's financial statements.

(ii) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant

Amendments to IFRS 2: Group cash-settled share-based payment transactions – effective 1 January 2010. The amendment clarifies the accounting for group cash-settled share-based payment transactions. The entity receiving the goods or services shall measure the share-based payment transaction as equity-settled only when the awards granted are its own equity instruments, or the entity has no obligation to settle the share-based payment transaction. The entity settling a share-based payment transaction when another entity in the group receives the goods or services recognises the transaction as equity-settled only if it is settled in its own equity instruments. In all other cases, the transaction is accounted for as cash-settled.

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Board.

IFRS 9, 'Financial instruments' – effective 1 January 2013. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. It introduces new requirements for classifying and measuring financial assets and is likely to affect the Board's accounting for its financial assets.

The Directors have assessed the relevance of the new standards, interpretations, and amendments to existing standards with respect to the Board's operations and concluded that they will not have a significant impact on the Board's financial statements.

b) Income recognition

The Board recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Board and when specific criteria have been met for each of the Board's activities as described below. The Board bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

- i) Cess receipts are from licensees charged at the rate of twenty cents per litre of milk traded and is recognised when it is due.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30TH JUNE 2013**

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- ii) Processors levy from licensees who process milk is charged at the rate of twenty cents per litre of processed milk is recognised when it is due.
- iii) GOK Grants are Appropriations in Aid from the Government and approved utilisation of capital reserves and are recognised when there is reasonable assurance that they will be received.
- iv) Interest received is interest earned on bank deposit and call up accounts and is recognised when earned.
- v) Import levy is levy charged on milk import or any other dairy produce charged at seven percent of gross cost, insurance and freight and is recognised when received.
- vi) Assurance fee is from any person who want to start a milk processing plant and is recognised when received.
- vii) Application fees are charged to any person who applies for a licence and is recognised when received.
- viii) Licence fees are charged on various types of licences and are recognised when received.

c) Bad and doubtful debts

Specific provision is made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success.

d) Expenditure

Expenditure incurred comprise of expenses paid in the year and charges in the provision for outstanding expenses. All expenditure has been accounted for on accrual basis.

e) Property, Plant, Equipment and Depreciation.

All categories of property, plant and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at market value, based on periodic, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Board and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate

	Rate(%)
Motor vehicles	25.00%
Office and Laboratory equipment	12.50%
Furniture and fittings	12.50%
Computers	30.00%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in the profit and loss account. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

f) Intangible Assets

Intangible assets acquired are capitalized at cost.

The cost incurred to acquire and bring to use specific computer software licences are capitalized. The cost are amortized on a straight-line basis over the expected useful life at rate of 30% per annum. Computer development costs that are directly associated with production of identifiable and unique software products that will probably generate economic benefits beyond one year are capitalized. The costs are amortized on a straight-line basis at the rate of 30%.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30TH JUNE 2013**

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

g) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

h) Employees' benefits

i) Retirement benefit obligations

The Board operates a defined benefit pension scheme for its employees. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the Board and employees. Benefits are paid to retiring staff in accordance with the scheme's rules. The Board and all its employees also contribute to the National Social Security Fund, a statutory defined contribution pension scheme. The Board's obligation under the scheme is limited to the specific contributions legislated from time to time and are currently limited to a maximum of Ksh. 200 per month per employee.

The Board's contribution in respect of retirement benefit costs are charged to the income statement in the year in which they relate.

ii) Other entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the balance sheet date. The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

i) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Board will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

j) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

k) Comparatives

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

l) Accounting for Leases

Leases of assets are classified as operating leases since a significant proportion of the risk and reward of ownership are retained by the lessor. Payment under operating leases are charged to income on a straight line basis over the period of the lease.

m) Financial support

The Government of Kenya as a major financier of the Board has confirmed to continue supporting the Board in its operations. In view of the above the Board members consider it appropriate to prepare these Financial Statement on a going concern basis.

n) Provisions

Provisions are recognised when the Board 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 will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30TH JUNE 2013**

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Board's activities expose it to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and interest rates. The board's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effects of such risks on its performance by setting acceptable level of risks.

(a) Market risk

(i) Currency risk

The Board undertakes very limited transactions denominated in foreign currencies. The exposure to exchange rate fluctuations is therefore minimal.

(ii) Price risk

The Board does not hold investments that would be subject to price risk.

(iii) Interest rate risk

As the Board has no interest bearing borrowings, the Board's income and operating cash flows are substantially independent of changes in market interest rates.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to meet the Board's financial obligations. Management monitors monthly forecast of the board's cash requirements against expected cash inflow.

The table below analyses the Board's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2013	Less than 1 year Kshs
Trade and other payables	<u>17,144,397</u>
At 30 June 2012	
Trade and other payables	<u>5,215,990</u>

(c) Credit risk

Credit risk refers to the risk that a counter party will default on their obligations resulting in financial loss to the Board. Credit risk arises principally from cash and cash equivalents, deposits with banks as well as trade and other receivables. The credit risk on liquid funds is, however, minimal as they held in reputable financial institutions. The amount that best represents the Board's maximum exposure to credit risk is made up as follows:

At 30 June 2013	Fully Performing Kshs	Past Due Kshs	Impaired Kshs
Trade and other receivables	39,306,207	3,836,054	-
Cash and bank balances	<u>5,597,346</u>	<u>-</u>	<u>-</u>
At 30 June 2012	Fully Performing Kshs	Past Due Kshs	Impaired Kshs
Trade and other receivables	20,678,416	3,836,054	-
Cash and bank balances	<u>15,633,490</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30TH JUNE 2013

Environmental risk

The Board Activities are dependant on rain fed Agriculture which fluctuate from time to time affecting income generation.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(i) Critical accounting estimates and assumptions

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

The present value of the pension obligations depends on a number of factors that are determined on an a defined contribution using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Board determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Board considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 9

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

- Whether assets are impaired
- The Classification of financial assets
- Provision and contingencies

4 REVENUE

Income shown in the financial statement is arrived at after recognizing the following income:

	2013	2012
	KSHS.	KSHS.
Cess Receipts	110,797,553	102,104,042
Processors Levy	107,561,698	82,520,462
Import levy	33,312,801	26,518,510
Licence fees	9,665,624	10,130,505
Application fees	2,098,448	2,098,460
Interest received	797,134	1,485,274
	<u>264,233,257</u>	<u>224,857,253</u>

5 OTHER INCOME

G.o.K Recurrent Grants	19,507,200	20,320,000
G.o.K Development Grants	92,600,000	78,697,435
Profit on disposal of Assets	-	2,609,400
Confiscated Milk sale	264,263	99,146
Cess penalties and others	558,625	107,164
Tender Sale and Business forms	208,000	262,100
Sale of publications	17,265	30,386
	<u>113,155,354</u>	<u>102,125,631</u>

6 ADMINISTRATION EXPENSES

Electricity Expenses	44,598	96,080
Bank Charges	551,543	964,619
Professional fees	1,398,412	1,145,105
Audit fees	754,000	650,000
Insurance	3,995,586	3,230,607
Medical Expenses	5,170,316	5,004,211
Postal and Telegram Expenses	651,055	698,999
Printing & Stationery Expenses	2,884,211	3,717,260
Rent & Rates	12,963,339	10,040,482
Staff Welfare	5,126,219	3,891,111
	<u>33,539,278</u>	<u>29,438,474</u>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30TH JUNE 2013**

BOARD MEMBERS EXPENSES

	2013	2012
	KSHS.	KSHS.
Mileage Allowances	1,546,801	2,587,546
Travel & Accommodation allowances	4,986,159	2,495,551
Sitting allowances	2,532,000	2,582,500
Chairman's Honoraria	1,044,000	1,022,250
	<u>10,108,960</u>	<u>8,687,847</u>

8 DEPRECIATION AND AMORTIZATION EXPENSES

	2013	2012
	KSHS.	KSHS.
Depreciation	13,004,800	11,866,574
Amortization of intangible assets	1,899,014	1,096,365
	<u>14,903,814</u>	<u>12,962,939</u>

9 EMPLOYEE BENEFITS EXPENSES

	2013	2012
	KSHS.	KSHS.
Gratuity & Pension Contribution	14,357,337	10,311,623
Passage & Leave Expenses	6,271,255	6,421,571
Salaries and wages	89,513,432	72,852,274
	<u>110,142,025</u>	<u>89,585,468</u>

The Board makes contribution to a defined provident fund scheme administered by CFC Life Limited and the National Social Security Fund. The Board will continue paying contributions to the provident fund at a rate of 10% of basic salary by employees and employer 20% and NSSF Kshs. 200 per month. The contributions made during the year were as follows;

	2013	2012
	KSHS.	KSHS.
NSSF Employer Contributions	226,400	229,000
Employer Pension Contributions	12,494,137	10,082,623
	<u>12,720,537</u>	<u>10,311,623</u>

	2013	2012
	KSHS.	KSHS.
Staff Salaries and Wages	83,443,432	68,652,274
MD's emoluments: - Basic Salary	5,110,000	3,240,000
- House Allowance	960,000	960,000
	<u>89,513,432</u>	<u>72,852,274</u>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30TH JUNE 2013**

OPERATING EXPENSES

	2013	2012
	KSHS.	KSHS.
Advertising & Publicity	10,568,497	11,492,213
External Travelling and Accommodation	2,338,254	2,770,457
Information Technology Services	2,930,123	1,839,980
Laboratory Expenses	1,930,593	1,698,980
Show Expenses	6,941,782	6,744,523
Standardization and Traceability	2,795,300	3,912,501
Telephone Expenses	2,510,439	2,520,948
Training Expenses	17,377,171	16,197,003
Transport & Operating Expenses	21,797,882	18,892,398
Travelling and Accommodation Expenses	18,893,488	18,636,071
	<u>88,083,529</u>	<u>84,705,074</u>

11 DEVELOPMENT EXPENSES

Marketing and Benchmarking	8,362,494	8,203,130
Product Value Addition	3,412,330	3,779,677
Research and Dairy Development	5,765,587	5,078,373
Generic milk consumption Campaign	7,499,283	6,512,645
Export Promotion Activities	10,966,014	9,253,050
Support to Stakeholder Organisations	21,204,639	17,116,300
World School milk Programme	7,480,045	7,569,000
Control of informal milk marketing (Anti-hawking activities)	13,415,435	12,192,663
Milk Consumption promotions	9,485,349	6,576,230
School Milk Programme	10,453,439	6,612,355
CSR - supply of milk to disadvantaged	1,652,200	4,523,645
Conference & Exhibitions	10,427,575	13,366,246
	<u>110,124,389</u>	<u>100,783,315</u>

12 OTHER EXPENSES

Donations	1,060,000	1,190,346
Maintenance of Plant & Equip.	2,881,947	1,708,180
Maintenance of Stations	1,968,590	2,794,385
Uniform & Clothing Expenses	519,820	8,000
Loss on disposal of assets	50,558	-
	<u>6,480,915</u>	<u>5,700,912</u>

Loss on disposal resulted mainly from the write off of furniture worth Kshs. 60,000 which were never delivered in Kericho during the Post election violence.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30TH JUNE 2013**

PROPERTY, PLANT AND EQUIPMENT

	Land	Motor Vehicles	Furniture & Fitting	Computers & Accessories	Office & Lab Equipment	TOTAL ASSET
	Kshs	Kshs	Kshs	Kshs	Kshs	Ksh
Cost						
As at 30 June 2011	18,100,000	38,679,813	7,945,729	13,761,831	5,354,960	83,842,333
Additions	-	4,663,415	733,250	4,244,250	697,900	10,338,815
Disposal	-	(7,042,760)	-	-	-	(7,042,760)
As at 30 June 2012	18,100,000	36,300,468	8,678,979	18,006,081	6,052,860	87,138,388
Accumulated Depreciation						
As at 30 June 2011	-	23,802,035	5,199,050	10,530,604	4,126,341	43,658,030
Disposal	-	(7,042,760)	-	-	-	(7,042,760)
Charge for the year	-	7,735,420	557,934	3,238,307	334,913	11,866,574
As at 30 June 2012	-	24,494,695	5,756,984	13,768,911	4,461,254	48,481,844
Net Book Value						
As at 30 June 2012	18,100,000	11,805,773	2,921,995	4,237,170	1,591,606	38,656,544

PROPERTY, PLANT AND EQUIPMENT

	Land	Motor Vehicles	Furniture & Fitting	Computers & Accessories	Office & Lab Equipment	TOTAL ASSET
	Kshs	Kshs	Kshs	Kshs	Kshs	Ksh
Cost						
As at 30 June 2012	18,100,000	36,300,468	8,678,979	18,006,081	6,052,860	87,138,388
Additions	-	9,385,374	77,075	7,843,979	100,500	17,406,928
Disposal	-	-	(1,137,850)	(4,632,331)	(1,137,298)	(6,907,479)
As at 30 June 2013	18,100,000	45,685,842	7,618,204	21,217,729	5,016,062	97,637,835
Accumulated Depreciation						
As at 30 June 2012	-	24,494,695	5,756,984	13,768,911	4,461,254	48,481,844
Disposal	-	-	(1,137,850)	(4,622,441)	(1,085,973)	(6,846,264)
Charge for the year	-	7,469,311	556,130	4,669,835	309,525	13,004,801
As at 30 June 2013	-	31,964,006	5,175,264	13,816,305	3,684,806	54,640,381
As at 30 June 2013	18,100,000	13,721,836	2,442,940	7,401,424	1,331,257	42,997,457

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30TH JUNE 2013**

INTANGIBLE ASSETS (SOFTWARE)	2013	2012
	KSHS.	KSHS.
COST		
At 1 July 2011	2,690,800	1,273,000
Additions	963,750	1,417,800
At 30 June 2012	<u>3,654,550</u>	<u>2,690,800</u>
AMORTISATION		
At 1 July 2011	1,189,140	381,900
Charge for the year	1,096,365	807,240
At 30 June 2012	<u>2,285,505</u>	<u>1,189,140</u>
NET BOOK VALUE		
At 30 June 2012	<u>1,369,045</u>	<u>1,501,660</u>
COST		
At 1 July 2012	3,654,550	2,690,800
Additions	3,524,164	963,750
At 30 June 2013	<u>7,178,714</u>	<u>3,654,550</u>
AMORTISATION		
At 1 July 2012	2,285,505	1,189,140
Charge for the year	1,899,014	1,096,365
At 30 June 2013	<u>4,184,519</u>	<u>2,285,505</u>
NET BOOK VALUE		
At 30 June 2013	<u>2,994,195</u>	<u>1,369,045</u>

Intangible Assets consist of computer software licences costs and website development costs. They are amortised on the straight-line method to write them off over their expected useful life at the rate of 30% per annum.

15 TRADE AND OTHER RECEIVABLES

	2013	2012
	KSHS.	KSHS.
Trade and other receivables comprises of the following:-		
Trade debtors	23,901,485	6,617,990
Other receivables (IFAD)	175,001	175,001
Staff car loan	9,064,807	9,385,143
Deposits	2,639,835	2,639,835
Staff Imprest	4,702,893	1,184,715
Prepayments	515,553	824,847
Staff salary advances	1,741,905	3,286,157
Ex- Staff debtors	400,782	400,782
Provision for Doubtful debts	<u>(3,836,054)</u>	<u>(3,836,054)</u>
	<u>39,306,207</u>	<u>20,678,416</u>

Provision for doubtful debts has been made for long outstanding trade debtors and ex-staff who owes the Board but have since left the service.

16 CASH AND BANK BALANCES

	2013	2012
	KSHS.	KSHS.
Co-operative Bank call account	-	5,868,704
Co-operative Current account	1,462,763	6,748,743
KCB saving account	319,550	262,282
KCB Current account	3,077,721	1,998,547
NBK Current account	534,537	542,037
Undeposited funds.	202,776	213,177
	<u>5,597,346</u>	<u>15,633,490</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30TH JUNE 2013

CAPITAL RESERVE

Capital reserves are as a result of capital G.o.K grants, utilisation of accumulated reserves and valuation of non- current assets.

	2013	2012
	KSHS.	KSHS.
At Start of year	17,958,456	17,958,456
G.o.K Grants received in the Year	92,600,000	90,000,000
Utilised Capital reserves	<u>(92,600,000)</u>	<u>(90,000,000)</u>
	<u>17,958,456</u>	<u>17,958,456</u>

18 REVENUE RESERVE

This comprises of accumulated surplus/deficit and prior year adjustments over the years.

	2013	2012
	KSHS.	KSHS.
At start of year	49,499,849	54,380,994
Surplus for the year	4,005,701	(4,881,145)
	<u>53,505,550</u>	<u>49,499,849</u>

19 TRADE AND OTHER PAYABLES

	2013	2012
	KSHS.	KSHS.
Trade Payables	8,240	8,240
Accrued Expenses	118,489	31,489
KMR Staff Pension	109,299	109,299
KNAC Staff Pension	354,095	354,095
Alico Insurance claims	145,932	145,932
Payroll Liabilities	16,321,342	4,479,935
Chairlady Honoraria	87,000	87,000
	<u>17,144,397</u>	<u>5,215,990</u>

20 SHORT TERM PROVISIONS

	2013	2012
	KSHS.	KSHS.
Audit Fees Provision	650,000	650,000
MD Gratuity	1,636,800	3,013,200
	<u>2,286,800</u>	<u>3,663,200</u>

21 TAXATION

The Board is a Non-profit making organisation hence exempt from Income Tax

22 CONTINGENCIES

Save for the pending case between the Board and Githunguri, Lari and Limuru Processors on payment of Processors' Levy, the Board members are not aware of any other litigation arising from normal operations of the Board which may have material effect on the financial position.

23 CAPITAL COMMITMENTS

The Board has no capital commitments as at 30th June 2012.

24 IMPAIRMENT OF ASSETS

Loss on impaired assets is recognized if the recoverable amount has declined below the carrying amount.

25 INCORPORATION

The Board is established under Section 4 of the Dairy Industry Act CAP 336.

