

REPUBLIC OF KENYA



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REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
COFFEE RESEARCH FOUNDATION
LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2014**





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

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**THE FINANCIAL STATEMENTS OF
COFFEE RESEARCH FOUNDATION
FOR THE YEAR ENDED
30TH JUNE 2014**

Coffee Research Foundation

Financial statements for the year ended 30th June 2014

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Coffee Research Foundation
Financial statements for the year ended 30th June 2014

COMPANY INFORMATION

REGISTERED OFFICE Jacaranda, off Ng'enda Road
P.O Box 4-00232
RUIRU

BANKERS CFC Stanbic Bank
Kenyatta Avenue Branch
P.O Box 30550-00100
NAIROBI

Co-operative Bank of Kenya
Ruiru Branch
P.O Box 48231-00100
NAIROBI

National Bank of Kenya
Ruiru Branch
P.O Box 93-00232
RUIRU

LAWYERS Gathii Irungu & Co. Advocates
Bushgate House 3rd Floor
P.O Box 1209-00232
Ruiru

AUDITORS Kenya National Audit Office
Anniversary Towers
P.O Box 30084-00100
NAIROBI

Coffee Research Foundation
Financial statements for the year ended 30th June 2014

BOARD OF DIRECTORS

Mr. Joseph M. Malu	Ag. Chairman
Prof. Jenesio Kinyamario	Member
Prof. Elijah Biamah	Member
Eng. Henry K. Tonui	Member
Mrs. Philomena Chege	Alternate Director, PS, State dept of Agriculture(until 21st August 2013)
Mrs. Rebecca Wahome	Alternate Director, PS, State dept of Agriculture(w.e.f 22nd August 2013)
Mr. Lazarus Keizi	Alternate Director, PS, The National Treasury
Dr Elijah Gichuru	Ag. Director of Research

MANAGEMENT TEAM

Dr Elijah Gichuru	Ag. Institute Director
Dr Harrison Mugo	Ag. Deputy Institute Director (w.e.f 1st September 2013)
Mr Robert Gitau	Chief Accountant
M/s Rose Mayoli	Head Crop Physiology
Dr. Bernard Gichimu	Head Breeding(until 9th April 2014)
Mrs. Jane Cheserek	Head Breeding(w.e.f 10th April 2014)
M/s Gertrude Alwora	Head Pathology(w.e.f 10th April 2014)
Mr Joseph Mburu	Head Chemistry
Mr Kennedy Gitonga	Head Agricultural Economics(until 18th March 2014)
Mrs Lucy Muriithi	Head Agricultural Economics(w.e.f 19th March 2014)
Mr Danstan Odeny	Head Experimental Agronomy
Mr James Minai	Head Research Liaison & Advisory
Mr Nyaga Kainga	Principal, KCC
Mr Stephen Muchoki	Internal Auditor
Mr Richard Njue	Estates & Transport Officer
Mr Kennedy Alusa	Human Resource & Administrative Manager
Mr Victor Kobia	Procurement Officer

Coffee Research Foundation

Financial statements for the year ended 30th June 2014

Vision

To be an excellent global institution of Research and Development for sustainable wealth creation in coffee industry

Mission

To research, develop and disseminate modern and innovative technologies through efficient utilization of resources for prosperity of stakeholders in the coffee industry

Mandate

To promote research into and investigate all issues relating to coffee and other agricultural and commercial systems as are related with coffee and on matters ancillary thereto

Coffee Research Foundation
Financial statements for the year ended 30th June 2014

DIRECTORS' REPORT

The directors submit their report and the audited Financial statements for the year ended 30th June 2014 which disclose the state of affairs of Coffee Research Foundation("Foundation").

PRINCIPAL ACTIVITIES

To promote research into and investigate all issues relating to coffee and other agricultural and commercial systems as are related with coffee and on matters ancillary thereto

RESULTS FOR THE YEAR

	2014 Kshs	2013 Kshs
Net Surplus(Deficit)	(43,427,055)	(150,833,431)

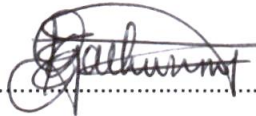
DIVIDENDS

The directors do not recommend the declaration of a dividend for the year.

DIRECTORATE

The directors who held office at the date of this report are shown on page 2.

DR. ELIJAH K. GICHURU



Ag. DIRECTOR OF RESEARCH
COFFEE RESEARCH FOUNDATION

Date..... 11/5/15

MR.MAGERIA MURIITHI



Ag.CHIEF ACCOUNTANT
COFFEE RESEARCH FOUNDATION

Date..... 11/05/15

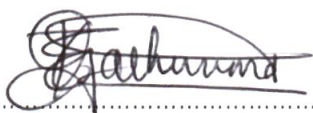
STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act (Cap 486) requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the Foundation as at the end of the financial year and of the operating results for that year. It also requires the directors to ensure that the company maintains proper accounting records which disclose with reasonable accuracy the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept the responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates consistent with previous years, and in conformity with the International Financial Reporting Standards and the requirements of the Companies Act (Cap 486). The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company as at 30th June 2014 and of its operating results for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the company which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the systems of internal financial controls.

With effect from 1st July 2014, Coffee Research Foundation (CRF) was dissolved in pursuant to the Kenya Agricultural and Livestock Research Act 2013. Its newly acquired name is the Coffee Research Institute (CRI) which is an institute of Kenya Agricultural and Livestock Research Organisation (KALRO). This will not affect the going concern for at least the next twelve months from the date of this statement.

Approved and signed on its behalf by:



.....
DR. ELIJAH K. GICHURU
COFFEE RESEARCH FOUNDATION
Ag. DIRECTOR OF RESEARCH



.....
MR. MAGERIA MURIITHI
COFFEE RESEARCH FOUND.
Ag. CHIEF ACCOUNTANT

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COFFEE RESEARCH FOUNDATION LIMITED FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Coffee Research Foundation set out on pages 6 to 22, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in equity 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 International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor-General's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the

purpose of expressing an opinion on the effectiveness of the Foundation's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Financial Performance

As previously reported, the Foundation reported a deficit of Kshs.43,427,055 for the year ended 30 June 2014. The revenue reserve fund also declined by a similar amount from Kshs.346,246,248 in 2012/2013 to Kshs.302,819,194 in 2013/2014. In the absence of clear strategies put in place to generate additional revenue and minimize operating costs in a sustainable manner, the Foundation is likely to experience difficulties in reversing the trend, and in the long term may face serious financial constraints.

2. Property, Plant and Equipment

- i. As similarly reported in previous periods, the property, plant and equipment balance of Kshs. 1,844,847,644 as at 30 June 2014 excludes undetermined value of parcels of land located in Azani and Koru measuring 99 ha and 127 ha respectively, which the Foundation uses for farming. However, the titles to the parcels of land are in the name of Coffee Board of Kenya (CBK). Although the management has explained that the Foundation has made several requests to have the land transferred in its name, no positive response has been forthcoming.
- ii. The Agricultural Mechanization Services (AMS) – a department within the Ministry of Agriculture occupies a portion of the Foundation's land at Rukera and has set up their own buildings. Although management clarified that the value of the constructions/improvements by AMS are not included in the asset balances, and that AMS was devolved from the National Government to the County Government which is to sign a lease agreement with the Foundation, the County Government had not signed any lease agreement with the Foundation and did not pay any rent to the Foundation for use of the land as at the date of this report.

In the circumstances, it was not possible to confirm whether property, plant and equipment balance of Kshs.1,844,847,644 as at 30 June 2014 is fairly stated.

3. Trade and Other Receivables

3.1 Long Outstanding Debts

As disclosed under note 9 to the accounts, trade and other receivables from non-exchange transactions balance includes long outstanding debts amounting to Kshs.124,495,782 due from Kenya Planters Cooperative Union (in receivership), Kshs.23,445,376 from Coffee Board of Kenya, Kshs.1,862,901 from Mugama Co-op Union, and Kshs.6,318,504 from sundry debtors. Although the Foundation has made provisions for the debt of Kshs.124,495,782 in respect of the KPCU debt and forwarded a claim to KPCU receiver manager, no meaningful progress has been reported towards the recovery of these debts. In addition, the Foundation has not made provisions for bad and doubtful debts for the other balances whose recovery remains doubtful. Consequently, the full recoverability of these debts is in doubt.

3.2 Rent Dues and Amounts Owed from Former Staff Debtors

Clause 2 of the tenancy agreements signed between the Foundation and its tenants provides that rent is payable on a monthly basis before the 5th day of every month. Clause 4 (ii) of the agreement further provides for the right of the landlord to evict tenants in the event of breach of the tenancy agreement. However, examination of records revealed that an amount of Kshs.361,335 was outstanding from rent defaulters for more than one month. In addition, audit verification revealed that the Foundation is owed Kshs.663,465 by former employees. However, the Foundation has not made a provision for bad and doubtful debts for these amounts whose recovery remains doubtful.

In the circumstances, it was not possible to confirm that receivables from exchange transactions balance of Kshs.12,224,860 as at 30 June 2014 is fairly stated.

4. Board Expenses

Section 6(1) of the State Corporations Act, Cap 446 of the laws of Kenya states that unless the written law by or under, which a State Corporation is established or the articles of association of a State Corporation otherwise require, the Board shall consist of a chairman, the chief executive, the Permanent Secretary of the parent Ministry, the Permanent Secretary to the Treasury and not more than seven (7) other members not being employees of the State Corporation appointed by the Minister. Section10(1) of the Act allows the Chairman and Board members to be paid sitting allowances out of the funds of the Corporation in attendance of Board/ committee meetings. Documents examined, however, revealed that the Foundation paid a total of Kshs.145,365 as sitting allowances to non-board members in attendance during Board Committee meetings. The Foundation was therefore in breach of the law.

Qualified Opinion

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

Emphasis of Matter

Going Concern

I draw attention to Note 23 to the financial statement which discloses the dissolution of the Foundation. With the operationalization of the Kenya Agricultural and Livestock Research Act, 2013 on 1 July 2014, the Foundation has ceased to exist as a legal entity and it now operates as an institute under the Kenya Agricultural and Livestock Research Organization (KALRO). My opinion is not qualified in respect of this matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, Cap 486 of the Laws of Kenya, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my Knowledge and belief, were necessary for the purpose of the audit; and,
- ii. In my opinion, proper books of account have been kept by the company, so far as appears from my examination of those books; and,
- iii. The Company's statement of financial position is in agreement with the books of account.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

27 May 2015

Coffee Research Foundation
Financial statements for the year ended 30th June 2014

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30th June

	Note	2014	2013
		Kshs	Kshs
Revenue from non-exchange transactions			
Revenue (advalorem levy)	2	327,221,630	276,511,512
Government of Kenya Grant	3	49,500,000	41,472,000
Projects Income	4	41,248,057	26,283,364
		417,969,687	344,266,876
Revenue from exchange transactions			
Other Operating Income	5(a)	90,745,650	98,489,520
		90,745,650	98,489,520
Total revenue		508,715,336	442,756,396
Expenses			
Cost of production	7(a)	242,229,345	240,356,412
Employee costs	7(b)	221,930,616	252,150,409
Board expenses	7(c)	9,162,863	14,411,358
Repairs and maintenance	7(d)	18,502,991	19,760,696
Depreciation	13(a)& (c)	66,100,428	66,785,702
Total Expenditure		557,926,243	593,464,578
Other gains/(losses)			
Gain on sale of assets	5(b)	2,021,992	-
Gain/(Loss) on foreign exchange	6	3,761,859	(125,249)
Surplus for the period		(43,427,055)	(150,833,431)
Made up as follows:			
Surplus(deficit) arising from operating activities		(43,427,055)	(150,833,431)
		(43,427,055)	(150,833,431)

Coffee Research Foundation
Financial statements for the year ended 30th June 2014

STATEMENT OF FINANCIAL POSITION

As at 30th June

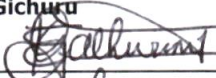
	Note	2014	2013
		Kshs	Kshs
ASSETS			
Current Assets			
Cash and cash equivalents	11	328,763,959	337,026,485
Receivables from exchange transactions	9(b)	12,224,860	11,714,037
Receivables from non-exchange transactions	9(a)	58,977,550	38,959,438
Inventories	8	51,914,750	75,832,410
		451,881,119	463,532,371
Non Current Assets			
Property, plant and equipment	13(a)	1,844,847,644	1,820,884,551
Intangible asset	13 (c)	2,288,371	9,153,484
Investments	10	2,149,020	2,149,020
		1,849,285,035	1,832,187,055
TOTAL ASSETS		2,301,166,154	2,295,719,426
LIABILITIES			
Current liabilities			
Trade and other payables	12	27,944,060	27,006,623
Non-Current liabilities			
Deferred Income	14	82,299,453	34,363,108
Total Liabilities		110,243,513	61,369,731
Net assets		2,190,922,641	2,234,349,695
Equity			
Capital Reserve Fund	15	1,842,725,427	1,842,725,427
Research Reserve Fund	16	1,400,000	1,400,000
Revaluation Reserve	17	23,978,020	23,978,020
GOK Development grant	22	20,000,000	20,000,000
Revenue Reserve Fund	18	302,819,194	346,246,248
Total Equity		2,190,922,641	2,234,349,695
TOTAL EQUITIES AND LIABILITIES		2,301,166,154	2,295,719,426

Ag. Director of Research

Dr. Elijah K. Gichuru

Signature

Date

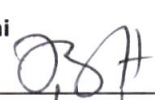

 11/5/15

Ag. Chief Accountant

Mr. Mageria Muriithi

Signature

Date


 11/05/2015

Coffee Research Foundation
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**STATEMENT OF CASHFLOWS FOR THE
YEAR ENDED 30 JUNE**

	Note	2014 Kshs	2013 Kshs
Operating activities			
Cash flow from operations	19	(16,270,514)	(92,619,116)
Net cash (used in) operating activities		<u>(16,270,514)</u>	<u>(92,619,116)</u>
Investing activities			
Purchase property and equipment	13(a&c)	(83,237,416)	(40,587,800)
Amount (invested) divested in fixed deposits			
Proceeds of disposal of property, plant and equipment		2,061,000	-
Net cash (used in) investing activities		<u>(81,176,416)</u>	<u>(40,587,800)</u>
Financing activities			
Receipts from Projects	14	89,184,403	11,065,466
Receipts from GOK development grant	18	-	20,000,000
Net cash (used in) financing activities		<u>89,184,403</u>	<u>31,065,466</u>
Increase(Decrease) in cash and cash equivalents		<u><u>(8,262,526)</u></u>	<u><u>(102,141,450)</u></u>
Movement in cash and cash equivalents			
At start of year		337,026,485	439,167,935
Increase (Decrease) during the year		(8,262,526)	(102,141,450)
At end of year		<u><u>328,763,959</u></u>	<u><u>337,026,485</u></u>

Coffee Research Foundation
Financial statements for the year ended 30th June 2014

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

	Capital Reserve Fund	Research Reserve Fund	Revaluation Reserves	GOK Development grant	Revenue Reserve Fund	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Year ended 30th June 2013						
At start of year	1,842,725,427	1,400,000	23,978,020	-	497,079,679	2,365,183,126
Receipts				20,000,000		20,000,000
Net Surplus(Deficit)					(150,833,431)	(150,833,431)
Revaluation Surplus						
Adjustments						-
At end of year	1,842,725,427	1,400,000	23,978,020	20,000,000	346,246,248	2,234,349,695
Year ended 30th June 2014						
At start of year	1,842,725,427	1,400,000	23,978,020	20,000,000	346,246,248	2,234,349,695
Receipts						-
Net Surplus(Deficit)					(43,427,055)	(43,427,055)
Revaluation Surplus						-
Adjustments						-
At end of year	1,842,725,427	1,400,000	23,978,020	20,000,000	302,819,194	2,190,922,641

Coffee Research Foundation
Financial statements for the year ended 30th June 2014

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2014

	Original budget	Adjustments	Final budget	Actual	Performance difference
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue					
Advalorem levy	350,000,000	-	350,000,000	327,221,630	(22,778,370)
Government of Kenya Grant	107,000,000	-	107,000,000	49,500,000	(57,500,000)
Projects Income	8,814,110	-	8,814,110	41,248,057	32,433,947
Rendering of Services	11,326,250	-	11,326,250	13,487,861	2,161,611
Sale of coffee, seeds and seedlings	135,044,193	-	135,044,193	57,352,121	(77,692,072)
Rent	9,859,467	-	9,859,467	9,648,008	(211,459)
Income from investments	12,525,000	-	12,525,000	9,987,818	(2,537,182)
Other income	1,645,000	-	1,645,000	269,842	(1,375,158)
Gain on foreign exchange transactions	-	-	-	3,761,859	3,761,859
Gain on sale of assets	3,000,000	-	3,000,000	2,021,992	(978,008)
Total income	639,214,020	-	639,214,020	514,499,188	(124,714,832)
Expenses					
Cost of production	274,469,924	-	274,469,924	242,229,345	32,240,579
Employee costs	259,787,455	-	259,787,455	221,930,616	37,856,839
Depreciation	57,110,537	-	57,110,537	66,100,428	(8,989,890)
Board expenses	13,290,000	-	13,290,000	9,162,863	4,127,137
Repairs and maintenance	18,934,640	-	18,934,640	18,502,991	431,649
Total expenditure	623,592,557	-	623,592,557	557,926,243	65,666,315
Surplus for the period	15,621,463	-	15,621,463	(43,427,055)	(190,381,146)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE 2014

1. SIGNIFICANT ACCOUNTING POLICIES

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note here below:

- a) The financial statements are prepared under in accordance with the accrual basis of accounting method under the International Public Sector Accounting Standards (IPSAS) as pronounced by Public Sector Accounting Standards Board(PSASB) which took effect for the Financial year ending 30 June 2014

The financial statements are presented in the functional currency, Kenya shillings. The preparation of financial statements in conformity with IPSAS requires the use of critical estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires directors to exercise judgments in the process of applying the Foundations policies. The financial statements have been prepared on a going concern basis which assumes that the Foundation will be in operational/existence for the foreseeable future.

b) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods or services in the ordinary course of business and is stated net of Value Added Tax, rebates and discounts (where applicable). The Foundation recognizes revenue when the amount of revenue can be reliably measured, it is probable the future economic benefits will be realized and when the specific criteria have been met for each of the Foundation's activities as described below.

Coffee levy accrues at a rate of 2% of coffee sales as provided by the Coffee Act and is therefore recognized when the auction has taken place. Sale of goods is recognized when the significant risks and rewards of ownership of goods have passed to the customer. Sale of services is recognized upon performance of service and client's acceptance of the service. Interest income is recognized on a time basis, by reference to the principal outstanding and the applicable interest rate. Rent income is recognized on a straight line as it becomes due unless collectability is in doubt. Dividend income is recognized when the Foundation's right to receive payment is established. Project income is recognized on deferred basis and amortized in proportion to expenditure incurred on specific project. Government grants are recognized where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

c) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Revaluation increases arising on revaluation are recognized in the statement of comprehensive income and accumulated in the revaluation reserve in equity except to the extent that it reverses a revaluation decrease for the same asset previously recognized as expense.

Upon disposal, any surplus remaining in the revaluation reserve relating to a particular asset being sold is transferred to revenue reserves. No depreciation is provided on land. Other items of property, plant and equipment are depreciated to write down the cost or revalued amount to their residual values over their estimated useful life as follows:

Buildings	2.5%
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Coffee Research Foundation
Financial statement for the year ended 30th June 2014

Motor vehicles	25%
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE 2014 (Continued)

Farm equipment/machinery	20%
Miscellaneous equipment	25%
Computers	30%
Furniture & fittings	12.5%
Office equipment	30%
Laboratory equipment	12.5%
Infrastructural assets (Greenhouses/fences & street lighting)	30%

d) Intangible assets

An intangible asset arises from purchase of software or patents whose benefits accrue to the Foundation in the long run. Such intangible asset is measured on initial recognition at cost. The Foundation recognizes an intangible asset at cost if and only if it is probable that future economic benefit attributable to the asset will flow to the Foundation and the cost can be measured reliably. Following initial recognition, intangible assets are carried at cost less any amortization and impairment losses. Such assets are amortized over their useful life.

e) Work-in-progress

Work in progress represents costs incurred in acquisition/installation of an item of Property, Plant and equipment or intangible asset which is not in use. CWIP is not depreciated until the asset is completed and brought to use. However, review for impairment losses is made where circumstances exist that indicate that the recoverable amount on work in progress is less than the carrying value.

f) Deferred income

Grants received from donors for specific projects are classified as non-current liabilities. They are carried at amortized cost which amortization is recorded as projects income in proportion to expenditure incurred on the project over the life of the project.

g) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings (functional currency) at rates ruling on the transaction dates. Monetary assets and liabilities at the balance sheet date which are denominated in foreign currencies are translated into Kenya Shillings at rates ruling at that date (87.63). The resulting differences from conversion and translation are dealt with in the income statement.

h) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average method. Net realizable value is the estimate of the selling price in the ordinary course of business, less the cost of completion and selling expenses. Consumable stores are stated at the weighted average cost less provisions for obsolescence, slow moving and defective stores.

Coffee Research Foundation
Financial statement for the year ended 30th June 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE 2014 (Continued)

i) Trade receivables

Trade receivables are carried at their original invoiced amount less an estimate made for allowances for credit losses based on a review of all outstanding amounts, on account by account and portfolio basis at the year end. Impairment of trade receivables is recognized in the income statement when there is objective evidence that the Foundation will not be able to collect all amounts due per the original terms of the receivables.

Significant financial difficulties of the debtor as well as the probability that the debtor will enter bankruptcy or financial reorganization and default in payments are considered indicators that the trade receivable is impaired. The provision is based on the difference between the carrying amount and the present fair value of the expected cash flows, discounted at the effective interest rate. Receivables not collectible are written off against the impairment. Subsequent recoveries of amounts previously written off are credited to the income statement in the year of their recovery.

j) Trade payables

Trade payables are non-interest bearing financial obligations and are carried at amortized cost, which is measured at the fair or contractual value of the consideration to be paid in future in respect of goods/services supplies by suppliers whether billed or not less any payments made to the suppliers.

k) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and short term liquid investments which are readily convertible to known amounts of cash, within three months. Cash and cash equivalent are measured at amortized cost.

l) Investments

The Foundation's principal financial instruments as at 30th June 2014 included quoted equity investments, and unquoted equity investments. Unquoted equity investments are measured at fair value in reference to the market value of similar investments where applicable. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Quoted equity investments designated available for sale are measured at fair value with unrealized gains or losses recognized as other comprehensive income until the investment is derecognized; otherwise, it is measured at amortized cost less impairment losses using effective interest rate method.

m) Employees benefits obligations

Since 1st January 2012, the Foundation operates a defined contribution retirement benefit scheme for its employees. The scheme is funded by contributions from both the Foundation and employees. Contributions by the Foundation to the scheme are limited to 15% of the employee's basic salary. The contributions are expensed in the year the services are rendered and are paid over to a separate trustee-administered fund.

The Foundation also contributes to a statutory defined contribution pension scheme (NSSF). Contributions are determined by local statute and are limited to kshs 200 per employee per month. The Foundation's contributions to NSSF are charged to the surplus or deficit in the year to which they relate.

Coffee Research Foundation
Financial statements for the year ended 30th June 2014

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2014(continued)

	2014 Kshs	2013 Kshs
2 REVENUE(advalorem levy)		
Coffee Levy	<u>327,221,630</u>	<u>276,511,512</u>
3 GOVERNMENT OF KENYA GRANT		
Recurrent	49,500,000	41,472,000
	<u>49,500,000</u>	<u>41,472,000</u>
4 PROJECT INCOME		
Leaf Rust	456,617	2,147,128
QCPC	11,188,016	13,303,575
EAFCFA	1,192,269	1,382,190
IFC	5,066,215	5,909,039
WCR	117,775	-
CPP	13,687,977	-
CBD Resistance	308,328	404,522
Tissue Culture	412,905	471,891
Insecticide trials	569,142	390,516
Fungicide evaluation	5,505,873	1,399,105
Herbicide trials	788,598	312,863
Chemistry trials	1,954,342	562,535
	<u>41,248,057</u>	<u>26,283,364</u>
5(a) OTHER OPERATING INCOME		
Rent	9,648,008	6,411,626
Sale of coffee, seeds and seedlings		
Coffee Sales	43,794,366	35,851,559
Sale of seeds and Seedlings	13,557,755	20,732,295
Finance income - external investments		
Interest and Dividend income	9,987,818	23,682,126
Rendering of Services		
Rendering of Services	13,487,861	10,328,393
Other income		
Miscellaneous income	269,842	1,483,522
	<u>90,745,650</u>	<u>98,489,520</u>
5(b) Gain on sale of Motor vehicles	<u>2,021,992</u>	<u>-</u>
6 NET FINANCE INCOME(COSTS)		
Net unrealised foreign exchange gains(losses)	1,528,011	(196,964)
Net realised exchange gains/(losses)	2,233,848	71,714
	<u>3,761,859</u>	<u>(125,249)</u>

Coffee Research Foundation
Financial statements for the year ended 30th June 2014

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2014(continued)

	2014 Kshs	2013 Kshs
7(a) Cost of production		
Transport operating expenses	19,564,109	18,254,680
Travelling and Accomodation	31,086,508	37,981,975
External Travel & accomodation	2,911,779	8,459,673
Telephone & communication expenses	3,579,366	3,012,208
Electricity, water & conservancy	14,847,867	10,711,861
Cost of production	131,042,389	97,449,009
Publishing and Printing Expenses	1,291,040	1,922,095
Staff training & Development	3,428,498	7,054,687
Purchase of stationery	2,676,699	419,556
Advertising & publicity	11,214,945	16,729,720
Bank charges	426,848	453,263
Audit fees	1,194,800	1,173,200
Insurances	15,078,621	8,496,044
Professional fees	2,981,552	6,400,789
Library expenses	904,324	621,783
Provision for Bad debts	-	21,215,870
	<u>242,229,345</u>	<u>240,356,412</u>
7(b) Employee costs		
Personnel Emoluments	188,541,411	205,668,128
Acturial deficit financing	28,000,000	38,402,532
Staff medical expenses	1,558,815	7,282,615
Uniform and Safety gear	3,830,391	797,134
	<u>221,930,616</u>	<u>252,150,409</u>
7(c) Board expenses		
Board expenses	9,162,863	14,411,358
	<u>9,162,863</u>	<u>14,411,358</u>
7(d) Repairs and maintenance		
Upkeep and maintenance	18,502,991	19,760,696
	<u>18,502,991</u>	<u>19,760,696</u>
8 INVENTORIES	2014	2013
	Kshs	Kshs
Administration	-	649,832
Agronomy	2,229,205	2,512,516
Azania	5,622,599	23,607,226
Breeding	5,339,148	3,016,186
Bulk store	5,370,584	5,160,312
Chemistry	7,391,861	12,816,942
Dispensary	1,469,965	594,057
Economics	6,249	19,121
Entomology	862,047	769,558
Estate	691,631	1,307,507
Garage	1,381,417	1,615,665
KCC	141,221	189,483
Kisii	1,270,645	6,438,995
Kitale	5,328,434	1,581,879
Koru	3,997,675	4,316,729
Mariene	3,258,357	2,507,311
Namwela	1,672,476	1,161,262
Pathology	655,377	489,429
Physiology	2,830,890	2,808,322
Research Liason	58,701	12,819
Rukera	2,336,270	4,257,259
	<u>51,914,750</u>	<u>75,832,410</u>

The amount of write-down of inventories recognized as an expense is nil(2012/2013:nil)

Coffee Research Foundation
Financial statements for the year ended 30th June 2014

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2014(continued)

	2014 Kshs	2013 Kshs
9(a) TRADE AND OTHER RECEIVABLES		
Receivables from non-exchange transactions		
Receivables from coffee levy	35,532,175	15,309,863
Coffee Board of Kenya	23,445,376	23,649,576
KPCU	124,495,782	124,495,782
Less: Provision for doubtful debts	(124,495,782)	(124,495,782)
	<u>58,977,550</u>	<u>38,959,438</u>
9(b) Receivables from exchange transactions		
Rent dues	361,335	361,548
Bungoma Union	745,532	745,532
Mugama Co-op Union	1,862,901	1,862,901
Sundry Debtors	6,318,504	5,373,368
Staff Imprest	340,173	265,002
Staff advances	1,297,196	257,722
Former staff debtors	663,465	663,465
Interest Receivable	635,753	2,184,500
	<u>12,224,860</u>	<u>11,714,037</u>

10 INVESTMENTS

	2014 Kshs	2013 Kshs
Quoted Investments:		
1,672 B A T Kenya Limited shares- Fairvalue is Kshs 1,078,440 (2012/2013: Kshs 906,224)	16,720	16,720
	<u>16,720</u>	<u>16,720</u>
Other Investments:		
KPCU Unsecured Loan Stock	39,830	39,830
KPCU Redeemable Ordinary shares	2,092,470	2,092,470
	<u>2,132,300</u>	<u>2,132,300</u>
	<u>2,149,020</u>	<u>2,149,020</u>

The fair value of BAT shares is determined by reference to published price quotation in the active market(NSE) On 30th June 2014, the shares traded at Kshs 645 per share.

The KPCU unsecured loan stock and redeemable ordinary shares are unquoted investments classified as available for sale and measured at cost

Coffee Research Foundation
Financial statements for the year ended 30th June 2014

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014(continued)

	2014	2013
	Kshs	Kshs
11 CASH AND CASH EQUIVALENTS		
Cash at hand	834,275	697,335
Cash at Bank	257,929,684	136,329,150
Short term deposits	70,000,000	200,000,000
	<u>328,763,959</u>	<u>337,026,485</u>

The short term deposit comprise of the fixed deposits held with financial institutions whose maturity period is not more than three months

12 TRADE AND OTHER PAYABLES

Trade payables	15,024,247	1,411,023
Deposits	480,615	508,545
PAYE Penalty Payable	4,592,506	4,592,506
PAYE Payable	84,000	-
Withholding Taxes	-	4,072,038
Withholding VAT	-	1,667,388
Employee Benefit Obligation	6,902,532	13,902,532
Bank Overdraft	13,430	-
Other payables	846,729	852,591
	<u>27,944,060</u>	<u>27,006,623</u>

Trade payables are non-interest bearing and are normally settled on a 30 days terms
Other payables are also non-interest bearing. Bank balances relates to two accounts with negative running balance.

Coffee Research Foundation
Financial statements for the year ended 30th June 2014

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2014 (continued)

13(a) Property, plant and equipment

For the year ended 30th June 2014

	Land Kshs	Furniture and Fittings Kshs	Office Equipment Kshs	Lab Equipment Kshs	Farm Equip Kshs	Farm Machinery Kshs	Motor Vehicles Kshs	Computers Kshs	Miscellaneous Equipment Kshs	Ghsses, fences, streetlight (infrastructure) Kshs	Buildings & Improve ments Kshs	Capital work-in- progress		Totals
												Kshs	Kshs	
Cost/Valuation	993,276,944	47,673,467	5,815,100	175,106,953	14,978,609	17,698,225	110,032,690	3,372,724	15,820,891	64,594,504	710,592,407	710,592,407	3,452,074	2,162,414,588
At start of year			2,110,854	1,787,470			(4,125,482)	675,178					78,663,914	83,237,416
Additions			2,937,074											
Disposals														
Transfer from CWIP														
Adjustment														
At end of year	993,276,944	47,673,467	10,863,028	176,894,423	14,978,609	17,698,225	105,907,208	4,047,902	15,820,891	64,594,504	710,592,407	710,592,407	79,178,914	2,241,526,522
Comprising:														
At Cost	993,276,944	47,673,467	10,863,028	176,894,423	14,978,609	17,698,225	110,032,690	4,047,902	15,820,891	64,594,504	710,592,407	710,592,407	79,178,914	2,245,652,004
At Valuation	993,276,944	47,673,467	10,863,028	176,894,423	14,978,609	17,698,225	110,032,690	4,047,902	15,820,891	64,594,504	710,592,407	710,592,407	79,178,914	2,245,652,004
Depreciation														
At start of year		31,502,225	2,102,352	105,294,252	11,097,221	10,519,813	81,392,957	1,147,047	11,428,905	34,243,728	52,801,537	52,801,537	-	341,530,037
Disposals														
Change for the year		2,021,405	2,006,727	8,791,329	776,278	1,435,682	6,128,563	1,154,212	1,097,997	19,378,351	16,444,772	16,444,772		59,235,315
Disposal							(4,086,474)							(4,086,474)
Adjustment														
At end of year		33,523,631	4,109,079	114,085,581	11,873,499	11,955,496	83,435,045	2,301,259	12,526,901	53,627,079	69,246,309	69,246,309		396,678,878
Net book value														
At 30th June 2014	993,276,944	14,149,836	6,753,949	62,808,842	3,105,110	5,742,729	22,472,163	1,746,643	3,293,990	10,972,425	641,346,098	641,346,098	79,178,914	1,844,847,644
At 30th June 2013	993,276,944	16,171,242	3,712,748	69,812,701	3,881,388	7,178,412	28,639,734	2,225,677	4,391,987	30,350,776	657,790,870	657,790,870	3,452,074	1,820,884,551

13(b) Land Reg No Kisilimuni/Block/17252

The land with a book value Kshs 182,570,125 included in the Financial statements (Under land) is a subject of a court case the outcome of which will determine the treatment of the same in the books.
 The Foundation has been in possession of the land since inception of Kisilimuni substation.

Coffee Research Foundation

Financial statements for the year ended 30th June 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014(continued)

	2014 Kshs	2013 Kshs
13(c) Intangible asset		
Cost		
Balance brought forward	22,883,710	22,883,710
Additions	-	-
At 30th June	22,883,710	22,883,710
 Amortization		
Balance brought forward	13,730,226	6,865,113
Charge for the year	6,865,113	6,865,113
Disposals		
At 30th June	20,595,339	13,730,226
 Net book value		
At 30th June	2,288,371	9,153,484

Intangible asset relates to acquisition of ERP software

Coffee Research Foundation
Financial statements for the year ended 30th June 2014

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2014(continued)

14 DEFERRED INCOME

Amortization schedule
 For the year ended 30th June 2014

	Tissue Culture	CBD	Fungicide	Insecticide	Herbicide	Chemistry Trials	Leafrust	QCPCP	WCR	CPP	IFC	EAFA	Totals
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Opening balance	3,303,240	1,412,266	10,054,113	2,380,371	2,552,885	545,925	1,071,201	11,186,517	-	-	1,282,861	573,729	34,363,108
Receipts	-	-	5,441,403	907,026	675,801	1,453,327	(60,917)	1,499	572,950	75,297,580	3,783,354	1,112,379	89,184,402
Transfer to income	(412,905)	(308,328)	(5,505,873)	(569,142)	(788,598)	(1,954,342)	(456,617)	(11,188,016)	(117,775)	(13,687,977)	(5,066,215)	(1,192,269)	(41,248,056)
Adjustment													
At end of year	2,890,335	1,103,939	9,989,643	2,718,255	2,440,088	44,910	553,667	0	455,175	61,609,603	-	493,839	82,299,453
At 30th June 2013	3,303,240	1,412,266	10,054,113	2,380,371	2,552,885	545,925	1,071,201	11,186,517	-	-	1,282,861	573,729	34,363,108

Deferred income relates to grants received from donors for projects.

15 CAPITAL RESERVE FUND

This relates to land donated to the Foundation by the Government of Kenya. It also encapsulates all contributions of capital nature from donors.

16 RESEARCH RESERVE FUND

This relates to advance given to the Foundation by Coffee Board of Kenya upon incorporation

17 REVALUATION RESERVE FUND

The revaluation reserve records movements in fair values of property, plant and equipment as measured against the carrying amounts of related assets. No revaluations were carried out during the year

18 REVENUE RESERVES

	2014 Kshs	2013 Kshs
Balance b/f	346,246,248	497,079,679
Surplus(deficit) for the year	(43,427,055)	(150,833,431)
Adjustments		
Balance C/f	302,819,194	346,246,248

Coffee Research Foundation
Financial statements for the year ended 30th June 2014

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014(continued)

	2014	2013
	kshs	kshs
19 Cash from operating activities		
Reconciliation of surplus to cash used in operations		
Net surplus(deficit)	(43,427,055)	(150,833,431)
Adjustments for Non-cash items:		
Depreciation on property plant and equipment (Note 13a&d)	66,100,428	66,785,702
Gain on disposal of assets	(2,021,992)	-
Projects income	(41,248,057)	(26,283,364)
Changes in working capital		
Increase/(Decrease) in Payables	937,437	1,296,160
(Increase)/Decrease in Receivables	(20,528,934)	46,120,490
(Increase)/Decrease in Inventories	23,917,659	(29,704,674)
Cash inflow/(outflow) from operations	<u>(16,270,514)</u>	<u>(92,619,115)</u>

20 Retirement Benefits

Up to 31st December 2011, the Foundation operated a defined benefit scheme which was funded by contributions from both the Foundation and employees.

The scheme was administered by Octagon pension services Ltd and Coop trust Limited being fund managers

The scheme was frozen as at 31st December 2011 and member's accrued benefits were escalated at a rate of 4% p.a until the date of retirement or exit date whichever comes earlier

The professional actuarial valuation was undertaken on the scheme as at 31st December 2011 by Actuarial Services(E.A) Ltd

The actuarial valuation entailed comparison of the value of the scheme's assets at the valuation date with its liabilities and an assesment of the scheme's ability to meet the obligations to its members

The results of the valuation disclosed a past service actuarial deficit of Ksh 281,872,674. The level of funding is 31.9%

To fund the deficit, the Foundation entered a remedial plan that was approved by the Retirement benefits Authority

The remedial plan entailed the following:

- i) Transfer 7.967Ha land registration No Kisii/Municipality/ BlockII/135(valued at Kshs 117,200,000) by M/s Zenith Management Valuers on 12th November 2011 and meet costs incidental to transfer
- ii) Cash payment at a rate of Kshs 2 million per month w.e.f. Jan 2012 to June 2012 and thereafter Kshs 3.2 million per month
- iii) Repay the balance over a period of 6 years i.e. July 2012 to December 2017

Pursuant to the above remedial plan, a further cash payment of Kshs 35 million was made to the fund during the year and the same has been expensed to the statement of financial performance.

As at 30th June 2014, the amount owed to the scheme in regard to actuarial deficit is Kshs 86,238,554 made up as follows:

	2014	2013
	Kshs	Kshs
Actuarial deficit b/f	121,238,554	145,738,554.00
Cash payments	<u>(35,000,000)</u>	<u>(24,500,000.00)</u>
Balance	<u>86,238,554</u>	<u>121,238,554.00</u>



Coffee Research Foundation
Financial statements for the year ended 30th June 2014

21 The total remuneration of members of staff, on a full-time basis, receiving remuneration from the entity are:

	2014	2013
Total remuneration	176,630,364	180,284,897
Number of persons	207	225

22 Commitments

	2014	2013
Approved and contracted:		
Hostel Block at Kenya Coffee College	118,895,621	-
Building of Training Hall and Offices for Namwela Substation	7,602,469	-
Total	126,498,089.80	-

23 Post- reporting period events

With effect from 1st July 2014, Coffee Research Foundation(CRF) was dissolved in pursuant to the Kenya Agricultural and Livestock Research Act 2013. Its newly acquired name is KALRO, Coffee Research Institute(CRI) which is an institute of the Kenya Agricultural and Livestock Research Organisation (KALRO).



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