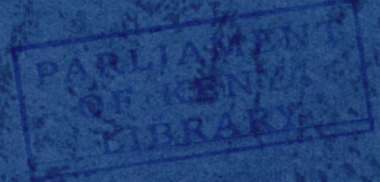


NATIONAL CEREALS AND PRODUCE BOARD

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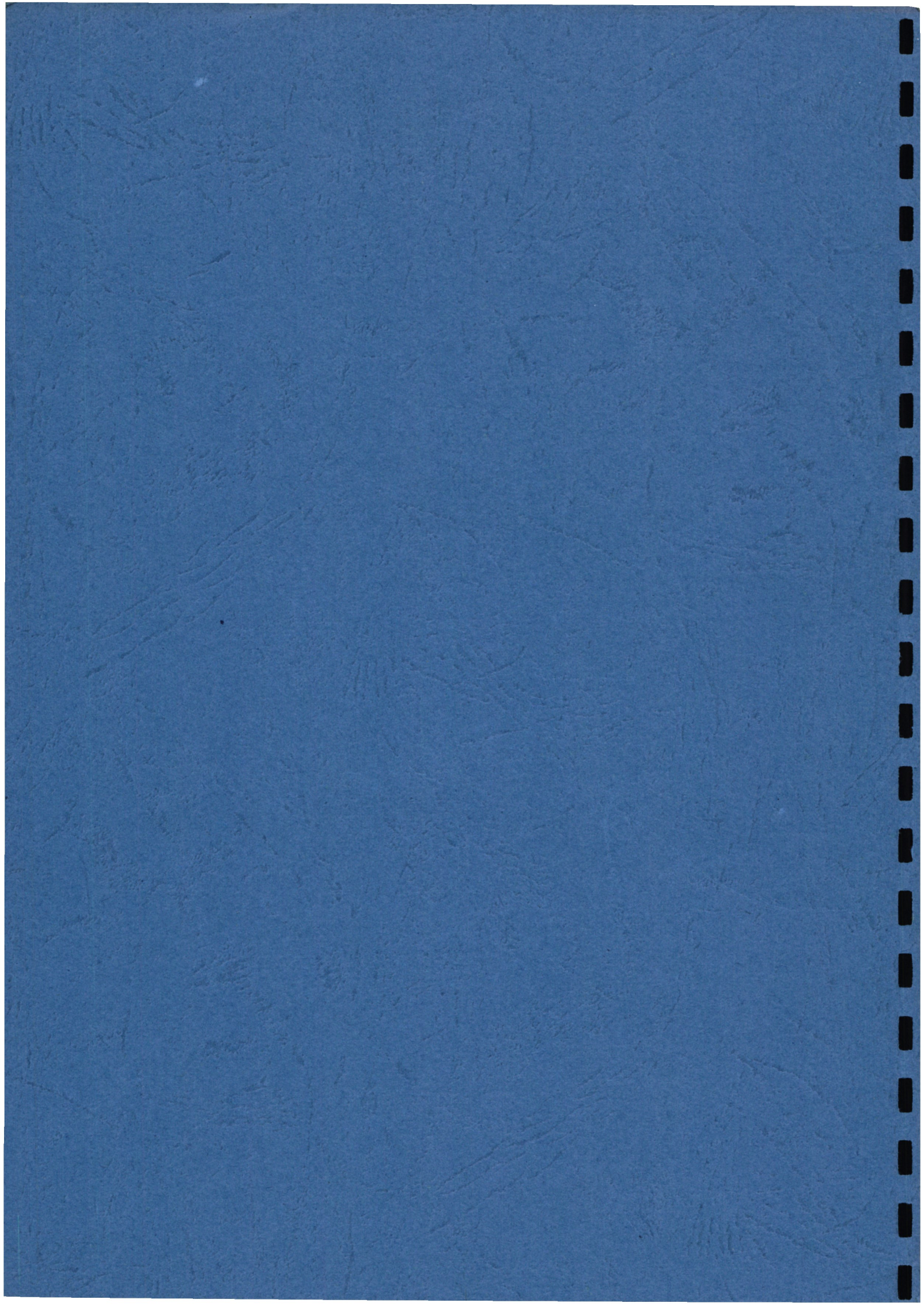


Speaker	141
Deputy Speaker	
Chief Clerk	
Deputy Chief Clerk	
Secretary	
Member	



BALANCE SHEET AND ACCOUNTS WITH THE REPORT OF THE CONTROLLER AND AUDITOR GENERAL FOR THE YEAR ENDED 30TH JUNE 2006

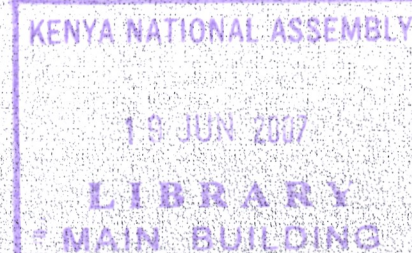
NCPB P.O. BOX 30586
NYUMBA YA NAFKA
MACHAKOS ROAD
INDUSTRIAL AREA
NAIROBI



REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



**REPORT
OF
THE CONTROLLER
AND AUDITOR-GENERAL**

ON

**THE FINANCIAL STATEMENTS OF
NATIONAL CEREALS AND PRODUCE
BOARD FOR THE YEAR ENDED 30
JUNE 2006**



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF NATIONAL CEREALS AND PRODUCE BOARD FOR THE YEAR ENDED 30 JUNE 2006

I have audited the financial statements of National Cereals and Produce Board for the year ended 30 June 2006 in accordance with the provisions of 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. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the Controller and Auditor General

The directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Board and of its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of Opinion

The audit was conducted in accordance with the International Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

1. Financial Position

As has been previously reported, the Board continued to face financial difficulties. During the year ended 30 June 2006 the Board realised a loss of Kshs.568,685,272 (2005 - Kshs.279,530,269) which brought its cumulative revenue reserve deficit to Kshs.4,649,628,533 (2005 Kshs.4,079,524,444). The financial statements have, therefore, been prepared on a going concern basis on the assumption that the Board will continue to receive financial support from the Government, bankers and creditors.

2.0 Property Plant and Equipment

2.1 Donor Funded Projects

The property, plant and equipment figure of Kshs.10,921,242,546 as at 30 June 2006 includes fifty-five (55) donor funded storage facilities whose ownership has not been confirmed by the Government. Although the Public Investment Committee in their sitting on 11 August, 1998 directed the Parent Ministry and the Treasury to consult with regard to formal transfer of these facilities to National Cereals and Produce Board, no evidence has been seen indicating that the Board and the Government have come up with any fruitful conclusion on the ownership status of these Donor Funded facilities/projects. Under the circumstances, it is not possible to confirm the carrying value of Property Plant and Equipment amount of Kshs.10,921,242,546 as at 30 June 2006.

2.2 Land without Title Documents

The property plant and equipment figure of Kshs.10,921,242,546 as at 30 June 2006 also includes sixty-three (63) plots without title documents whose ownership and value could not be determined. In addition, the Board revalued its non current assets during the year, but did not comply with the requirements of IAS 16 paragraph 77 on disclosure when revaluation model is used in that the cost of the Asset has not been separated from the revaluations as required in paragraph 77 (e). Further, the Board spent Kshs.288,709,708 to build storage facilities on twenty-one (21) plots owned by Kenya Railways on a temporary occupation basis. After the expiry of the thirty-three (33) years lease period, Kenya Railways has been reluctant to renew the lease term. This situation is indicative of significant impairment on some of the properties. In the circumstances I am unable to confirm that the carrying values as stated in the financial statements reflect the fair values of the properties as at the balance sheet date. Further, the ownership of the land remains uncertain.

2.3 Work In Progress

Included in the Property, Plant and Equipment figure of Kshs.10,921,242,546 as at 30 June 2006 is a further amount of Kshs.21,935,109 relating to work in progress paid by the Board for projects that stalled many years ago and for which the Board has not indicated any chances of being revived. Further, consultancy services for these projects were single sourced and awarded to a single consultant without competitive bidding. In addition, Kshs.12,511,000 included in the work in progress relates to payments for Information Technology Modernization Contract which failed to take off despite the expenditure having been incurred. In the circumstances, it is not possible to confirm that the Board received value for money in respect of the expenditure incurred on the stalled projects. The future of the stalled Projects and the titles to the Properties has also not been explained.

3. Debtors and Prepayments

Included in the financial statements gross debtors figure of Kshs.998,076,823 are trade debtors amounting to Kshs.848,681,873 out of which Kshs.643,051,795 (2005 Kshs.688,736,348) has remained outstanding for more than seven years and whose recovery has remained uncertain. Also included in the debtors and prepayments figure are staff debtors amounting to Kshs.61,302,866 out of which Kshs.9,110,248 relate to staff who have already left the services of the Board. In addition, Kshs.8,847,180 included in the trade debtors figure is due from National Irrigation Board, which has been outstanding for over ten years. No action appears to have been taken even though the Public Investment Committee in Thirteenth Report Min No. 332/2004/2005 directed that the two Corporations carry out a reconciliation and agree on the amount due to National Cereals and Produce Board. In addition, an amount of Kshs.582,211,452 due from the Government being agency commission is in dispute, while Kshs.178,533,787 being wheat market intervention expenses was completely omitted from the financial statements. Although the Board has made a total cumulative provision for bad and doubtful debts of Kshs.650,557,914 no tangible evidence was seen of the efforts made to recover the long outstanding amounts or arrangements made to write them off.

4. Creditors

Although the creditors balance dropped from Kshs.1,387,760,839 in the year 2005 to Kshs.1,297,880,921 in 2006, Trade Creditors figure increased from Kshs.80,515,668 in 2005 to Kshs.757,614,374 in 2006 while sundry creditors also increased from Kshs.299,098,337 in 2005 to Kshs.490,871,290 in 2006. Further the Board owes the Government Kshs.174,063,028 under the market intervention programme and Kshs.143,195,039 in respect of Agency accounts.

Opinion

Except for the reservations set out in the foregoing paragraphs, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of affairs of the Board as at 30 June 2006 and of its loss and cash flows for the year then ended and comply with the National Cereals and Produce Board Act, Cap 338 of the Laws of Kenya.


P.N. KOMORA
CONTROLLER AND AUDITOR GENERAL

Nairobi

12 March 2007

NATIONAL CEREALS AND PRODUCE BOARD



**ANNUAL REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30TH JUNE 2006**

**NCPB P.O. BOX 30586
NYUMBA YA NAFKA
MACHAKOS ROAD
INDUSTRIAL AREA
NAIROBI**

NATIONAL CEREALS AND PRODUCE BOARD
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2006

<u>CONTENTS</u>	<u>PAGE</u>
Vision, Mission and Values of NCPB	2
Corporate Information	3 - 4
<u>REPORTS</u>	
Chairman's Report	5 - 6
Report of the Directors	7 - 8
Statement of Directors Responsibilities	9
<u>FINANCIAL STATEMENTS</u>	
Balance Sheet	10
Profit and Loss Account	11
Statement of Revenue Reserves Account	12
Cash Flow Statement	13
Notes to the Accounts	14 – 34
<u>ANNEX I</u>	
Financial Highlights and Statistics	1- 5
<u>ANNEX II</u>	
GOK Agency Functions – Balance Sheet and Accounts	1 – 9

NATIONAL CEREALS AND PRODUCE BOARD

VISION, MISSION AND VALUES OF THE NATIONAL CEREALS & PRODUCE BOARD

Vision Statement

A global leader in management and marketing of grains and related enterprises.

Mission Statement

To cost effectively maximize use of resources, in order to achieve the highest level of commercial performance for the benefit of our customers, employees and other stakeholders, by providing high quality products and services, at competitive prices, in a socially responsible manner.

Values

- Commitment
- Quality
- Honesty
- Integrity
- Professionalism
- Stewardship

NATIONAL CEREALS AND PRODUCE BOARD

CORPORATE INFORMATION

The Directors who served during the year under review were the following:-

Gen.(RTD) M.Mohammed-	Chairman(Appointed on 23 rd Dec 2005)
Mr. T. K. Twei	- Chairman (Retired on 23 rd Dec 2005))
Mr N. Mogere	- Managing Director (Appointed on 8 th Feb 2006)
Mr. Tirop Kosgey	- Managing Director (Redeployed on 8 th Feb 2006)
Mr. Arch. K.Njendu	- Member (Appointed on 1 st Feb. 2006)
Mr. F. Wanyonyi	- Member (Appointed on 1 st Feb. 2006)
Dr. V. K. Munyake	- Member (Appointed on 1 st Feb. 2006)
Mr. S. Ahmed	- Member
Mr. A. M. Balala	- Member
Mr. W. K. Maina	- Appointed representative of KFA Ltd
Mr. S. K. Maina	- Alternate Director to the Permanent Secretary Office of the President
Mrs. S. S. Boboti	- Alternate Director to the Permanent Secretary Ministry of Finance.
Mr. E. Gatugu	- Alternate Director to the Permanent Secretary Ministry of Agriculture.
Mr. H. Wood	- Member (Retired on 10 th Dec.2005)
Mr. J. K. M'mutea	- Member (Retired on 10 th Dec.2005)
Mr. F.C. Ganya	- Member (Retired on 10 th Dec.2005)
Mr. M. Cherunya	- Member (Retired on 11 th Jan.2006)

SENIOR MANAGEMENT

Mr N. Mogere	- Managing Director
Mr. Tirop Kosgey	- Managing Director (Redeployed on 8 th Feb 2006)
Mr. R. K. Langat	- Ag. General Manager Marketing & Operation
Mrs. A. G. Kamau	- Board Secretary
Mr. C.S.Khaemba	- Chief Accountant
Mr. N. Gikaria	- Human Resources Manager
Mr. B. O. Umba	- Operations Manager
Mrs. P. C. Ngenoh	- Sales and Marketing Manager
Mr. D.K. Chepkwony	- Quality & Pest Control Manager
Mr. F. K. Sang	- Chief Financial Analyst
Mr. J. C. Boif	- Research & Development Manager
Mr. G. Murithi	- Security Manager
Mr. A. L. Mwakaba	- Information Systems Manager
Mr. A. K. Maritim	- Public Relations Manager
Mr. P. N. Mutua	- Chief Internal Auditor
Mr. S. K. Mbutu	- Ag.Technical Manager

NATIONAL CEREALS AND PRODUCE BOARD**PRINCIPAL PLACE OF BUSINESS****Head Office**

Nyumba ya Nafaka
Machakos Road
P.O. Box 30586
Tel: (020) 536028/555288
NAIROBI

Area Offices:**Nairobi Area**

Area Manager
P. O. Box 30586
Tel: (020) 780384
NAIROBI

North Rift Area

Area Manager
P. O. Box 479
Tel: (053) 32631/22
ELDORET

South Rift Area

Area Manager
P. O. Box 326
Tel: (051) 212420/3
NAKURU

Nyanza/Western Area

Area Manager
P. O. Box 217
Tel: (057) 44891/44135
KISUMU

Coast Area

Area Manager
P. O. Box 84696
Tel: (041) 2490347/2495291
MOMBASA

Eastern/North Eastern Area

Area Manager
P. O. Box 92
Tel: (068) 20126/30675/30180
EMBU

AUDITORS

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

BANKERS

Kenya Commercial Bank
P.O. Box 48400
NAIROBI

NATIONAL CEREALS AND PRODUCE BOARD

CHAIRMAN'S REPORT

ECONOMIC REVIEW

2005 Economic Survey indicated that the Kenyan economy grew from 4.3% in 2004 to a record growth rate of 5.8% for 2005 under new systems of National Accounts (SNA) standards. This growth rate was achieved in spite of unfavourable weather conditions and high oil prices. The annual average inflation rate for the year was 7.4% as compared to 14.97% during the previous year..

GRAIN SUB-SECTOR REVIEW

All sectors of the economy recorded improved growth in 2005 in which the Agricultural sector, which was the largest contributor to the growth expanded by 6.7%. Notable improved growth was in all sectors except coffee which recorded a decline of 6.6%.

Maize, which is the core business of the Board, recorded above average production with 2.81million tones being produced during the year. Though some parts of the country experienced drought, the Government ensured that food reached all parts of the country. The supply of maize was mainly from domestic production and cross border inflows. Though the producer prices were high the Board participated in maize trading to a limited extent.

During the year under review, the Government put measures in place to address the grain marketing constraints while at the same time addressing the requirements of the consumers in order to ensure food security in the country. In this regard the Government procured 122,697.71 metric tonnes of maize locally, released 225,639.14 MT for famine relief and 45,000 MT of SGR maize for sale using NCPB as an Agent for famine relief distribution in the drought stricken areas and market stabilization respectively. The main activities for the year were:-

- a) Trading in agricultural produce, i.e. maize, wheat, rice, beans, millet and sorghum.
- b) Management of the country's Strategic Grain Reserves (SGR) and Famine Relief stocks on Agency basis on behalf of the Government of Kenya.
- c) Provision of grain related services of storage, quality maintenance and storage facilities to third parties and,
- d) Distribution of farm inputs.

NATIONAL CEREALS AND PRODUCE BOARD

CHAIRMAN'S REPORT (Continued)

In order to address the risk associated with grain industry, the Board diversified into a variety of commodities and enhanced its value addition strategy to mill and package rice and millet flour.

The Board procured locally 122,689.71 metric tones of maize and 9,900 metric tones of beans on behalf of the GOK.

The level of commercial operations consisted of procurement and sale of 90,776mt of maize and other food staff 26,904.10mt of farm inputs and rendering of grain related services to third parties.

Owing to non-commercially viable maize prices in the market, the Board made a strategic retreat from engaging in maize trading and concentrated on procurement of this commodity on agency basis.

OPERATING PERFORMANCE

As stated in the previous year's report, the strategic measures put in place are gradually ameliorating the operating performance of the Board. During the year ended 30th June 2006, the Board recorded an operating loss of Kshs. 568.6 million as compared to a loss of Kshs. 279.5 million the previous year. The adverse trading results is partly attributed to increased depreciation charge arising from revaluation of the Board's plant, property and equipment and low trading volumes during the year under review, the feature that was further aggravated by belated approval of commercial borrowing.

The Board's slow pace to turn around is still attributed to in-adequate working capital and a huge infrastructure some of which requires divestiture.

With the Strategic Plan put in place and Performance Contracts signed with the Government for the year 2005/2006, the Board's focus to turn round to profitability will include enhancing revenue generations through high turn over, undertaking asset divestiture, implementation of strict cost control measures, diversification of products, timely debt collection and value addition of commodities and products. These measures will give the Board a competitive edge in the market environment.



GEN. (RTD) MOHAMUD H. MOHAMMED (EGH, UM, CBS, DCO)
CHAIRMAN

NATIONAL CEREALS AND PRODUCE BOARD

REPORT OF THE DIRECTORS

The Directors have a pleasure in submitting their report together with the audited accounts of the Board for the year ended 30th June 2006.

1. INCORPORATION AND HEAD OFFICE

National Cereals and Produce Board was incorporated through an Act of Parliament Chapter 338 and is domiciled in Kenya. The address of its Head office is:

National Cereals and Produce Board
Nyumba ya Nafaka
Machakos Road
P.O. Box 30586
00100 GPO
NAIROBI

2. PRINCIPAL ACTIVITIES

The Board's principal activity is grain handling and marketing with provision of allied services and facilities. This is in addition to undertaking social functions on behalf of the Government of Kenya on Agency basis that relates to the procurement, storage, quality maintenance, and distribution of famine relief food commodities.

3. RESULTS

The operating results for the year were as follows: -

	30 th June 2006 Kshs.	30 th June 2005 Kshs.
Operating Loss before Depreciation, Provision and Extra ordinary Items	(144,006,710)	97,282,950
<u>Deduct</u>		
Depreciation	414,678,562	226,882,657
Bad and doubtful Debts	10,000,000	147,648,325
Obsolete stocks	<u>0</u>	2,282,237
	<u>424,678,562</u>	<u>376,813,219</u>
Net Deficit for the year	<u>(568,685,272)</u>	<u>(279,530,269)</u>

NATIONAL CEREALS AND PRODUCE BOARD

3. DIRECTORS

The Directors who served during the year under review were as set out on page 3.

4. AUDITORS

The Controller and Auditor General is the statutory Auditor of the Board as provided for under Section 14 of Public Audit Act 2003.

By order of the Board



**A. G. Kamau (Mrs.)
BOARD SECRETARY
NAIROBI, KENYA
19TH JANUARY 2007**

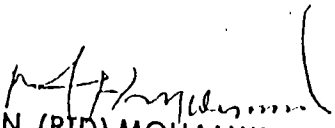
NATIONAL CEREALS AND PRODUCE BOARD


STATEMENT OF DIRECTORS' RESPONSIBILITIES

National Cereals and Produce Board Act Cap 338 and State Corporations Act Cap 44 requires the directors to prepare financial statements for each Financial year which give 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 that year. It also requires the Directors to ensure 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 asset of the Board.

The Directors accept responsibility for the annual 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 NCPB Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the Board's financial affairs and of its operating results. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

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


 GEN. (RJD) MOHAMUD H. MOHAMMED
 (EGH, UM, CBS, DCO)
 CHAIRMAN
 19TH JANUARY 2007


 MR. N.O. MOGERE (MBS)
 MANAGING DIRECTOR

NATIONAL CEREALS AND PRODUCE BOARD

FINANCIAL STATEMENTS

INCOME STATEMENT FOR THE YEAR ENDED 30TH JUNE 2006

	Note	30TH JUNE 2006	30TH JUNE 2005
		KShs	KShs
GROSS SALES	24	1,012,605,447	785,298,985
COST OF SALES	24	<u>848,982,251</u>	<u>623,884,440</u>
GROSS MARGIN GAIN		163,623,196	161,414,545
GROSS MARGIN GAIN AS A PERCENTAGE TO GROSS SALES		16.16%	20.55%
ADD:			
Other Income	25	<u>630,183,349</u>	<u>754,536,297</u>
TOTAL INCOME		793,806,545	915,950,842
LESS: EXPENDITURE			
Import Costs	26	-	734,019
Railage and Road transport costs	26	88,537,465	44,986,283
Staff costs and Wages	26	463,431,396	442,031,974
Administration expenses	26	186,234,906	181,575,124
Other operating expenses	26	<u>108,390,844</u>	<u>91,902,012</u>
		846,594,611	761,229,411
PROFIT/(LOSS) BEFORE DEPRECIATION AND BAD DEBTS		(52,788,066)	154,721,430
Deduct: Provisions			
Depreciation expense	26	414,678,562	226,882,657
Bad and doubtful debts	26	10,000,000	147,648,325
Obsolete stocks	26	<u>0</u>	<u>2,282,237</u>
		<u>424,678,562</u>	<u>376,813,219</u>
PROFIT FROM OPERATIONS		(477,466,628)	(222,091,789)
Finance cost	26	<u>91,218,644</u>	<u>57,438,480</u>
PROFIT/(LOSS) BEFORE TAX		(568,685,272)	(279,530,269)
Income tax expense		-	-
PROFIT/(LOSS) AFTER TAX		(568,685,272)	(279,530,269)
Extra ordinary items		-	-
NET PROFIT/(LOSS) FOR THE PERIOD		<u><u>(568,685,272)</u></u>	<u><u>(279,530,269)</u></u>

NATIONAL CEREALS AND PRODUCE BOARD

FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30TH JUNE 2006

	Capital	Revaluation	Revenue	Total
	<u>Fund</u>	<u>Reserve</u>	<u>Reserve</u>	<u>Equity</u>
	Kshs.	Kshs.	Kshs.	Kshs.
At 1st July 2004	6,304,142,172	2,699,423,826	(3,778,962,559)	5,224,603,439
Prior Year				
Adjustment	0	0	(21,031,616)	(21,031,616)
Net Profit/(Loss)				
For the Year	<u>0</u>	<u>0</u>	<u>(279,530,269)</u>	<u>(279,530,269)</u>
At 30 th June 2005	<u>6,304,142,172</u>	<u>2,699,423,826</u>	<u>(4,079,524,444)</u>	<u>4,924,041,554</u>
At 1st July 2005	6,304,142,172	2,699,423,826	(4,079,524,444)	4,924,041,554
Prior Year				
Adjustment	0	6,889,998,967	(1,418,817)	6,888,580,150
Net Profit/(Loss)				
For the Year	<u>0</u>	<u>0</u>	<u>(568,685,272)</u>	<u>(568,685,272)</u>
At 30 th June 2006	<u>6,304,142,172</u>	<u>9,589,422,793</u>	<u>(4,649,628,533)</u>	<u>11,243,936,432</u>

NATIONAL CEREALS AND PRODUCE BOARD
FINANCIAL STATEMENTS
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2006

	<u>30TH JUNE 2006</u>	<u>30TH JUNE 2005</u>
	<u>Kshs.</u>	<u>Kshs.</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Loss before extraordinary items	(568,685,272)	(279,530,269)
Adjustments for:		
Provision for Depreciation	414,678,562	226,882,657
Provision for stock shrinkage	9,767,077	1,620,761
Provision for doubtful debts	10,000,000	147,648,325
Gain on disposal of equipment	<u>(917,586)</u>	<u>(15,000)</u>
Operating Profit before		
working capital changes	(135,157,220)	96,606,474
(Increase)/decrease in debtors	990,568,017	(1,198,884,611)
(Increase)/decrease in stocks	(798,805,585)	431,863,177
Increase/(decrease) in creditors	(89,879,917)	848,073,001
Increase/(decrease) in bank loan	<u>362,627,269</u>	<u>0</u>
Cash generated from operations	329,352,564	177,658,041
Extraordinary items:		
Early retirement payments	0	0
Prior year adjustments	<u>(1,418,817)</u>	<u>(21,031,616)</u>
Net cash from operating activities	<u>327,933,747</u>	<u>156,626,424</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Additions to Fixed Assets	(16,170,871)	(7,348,603)
Proceeds from Sale of Equipment	917,586	15,000
Reduction to Investments and loans	<u>3,222,616</u>	<u>3,395,964</u>
Net cash flow from investing activities	<u>(12,030,669)</u>	<u>(3,937,638)</u>
Net increase/(decrease) in cash and cash equivalent	315,903,078	152,688,786
Cash and cash equivalent at the beginning		
of the year:		
Cash at Bank and on hand	415,899,730	262,811,867
Bank Overdraft	<u>(414,431,904)</u>	<u>(414,032,829)</u>
Cash and Cash equivalent at end of year	<u>317,370,905</u>	<u>1,467,826</u>
ANALYSIS OF CASH HELD AT		
<u>END OF YEAR</u>		
Cash at Bank and on hand	822,604,088	415,899,730
Bank Overdraft	<u>(505,233,183)</u>	<u>(414,431,904)</u>
	<u>317,370,905</u>	<u>1,467,826</u>

NATIONAL CEREALS AND PRODUCE BOARD
NOTES TO THE FINANCIAL STATEMENTS - 30TH JUNE 2006

(These Notes form an integral part of the Financial statements)

1. **ACCOUNTING POLICIES**

(a) **Accounting Basis**

The accounts of the Board are prepared under the historical cost convention as modified by revaluation of certain fixed assets.

(b) **Income Recognition**

- i) Income is recognized on actual basis as a general policy, except where there is doubt on its collection.
- ii) Income in respect of credit sales is recognized at the date of collection whereas income for cash sales is recognized when cash is received from the buyer for commodities sold and collected or set aside for collection.
- iii) Income from services rendered and facilities provided is recognized at the time of rendering and providing such services and facilities.

(c) **Depreciation**

Depreciation charge on fixed assets is provided on a straight line basis and is calculated on cost or valuation at the following rates which are consistent with prior years:

Freehold Land	Nil
Leasehold Land	Over the term of lease
Buildings, Boreholes, Fences and Roads	2.5%
Silos	6%
Plant, machinery and computer equipment	12.5%
Fumigation equipment	20%
Motor vehicles and drying Equipment	25%
Furniture and equipment	12.5%

NATIONAL CEREALS AND PRODUCE BOARD
NOTES TO THE FINANCIAL STATEMENTS - 30TH JUNE 2006

(Continued)

1. **ACCOUNTING POLICIES (Cont'd)**

(d) **Valuation of Closing Stocks**

- i) Closing Stocks have been valued on the basis of first-in first-out (FIFO) principle, applying the lower of cost and net realizable value, and provision for stock shrinkage computed at a rate of 2.2% of value of the year's purchases.
- ii) Closing Stock quantities have been stated in terms of standard 90 kg weights unless otherwise disclosed.

(e) **Stocks of Consumable Stores and Supplies**

As from 1st July 1997 there was a change in accounting procedure for consumable supplies and stores that are centrally purchased. The items are initially coded to respective control accounts for these stocks at the time of procurement and the cost expensed/charged at the time of dispatch to the respective user budget centers. This new accounting policy ensures that budget centers are only held responsible for the expenditure directly related to what they have requisitioned and consumed. The balance of stocks held at Head Office (Supplies Section) at year-end are included as part of closing stocks and valued on the basis of First in First Out (FIFO).

(f) **Investment (Equity in Subsidiary)**

Equity investment in Kenya Peanuts Limited has been stated at cost. No account of the operating results of this concern has been included in these accounts.

(g) **Funds from Government**

Funds from the Government of Kenya have been, where applicable, incorporated on accrual basis to recognize its related income in the same fiscal year they were to be provided or paid for by the GOK.

(h) **Provision for Bad and Doubtful Debts**

Provision for bad and doubtful debts has been made on the basis of specific debts and consists of 100 % specific provision for some debtors and a general provision of 7.5% on all other outstanding trade debts at the balance sheet date.

(i) **Foreign currencies**

Assets and Liabilities denominated in foreign currencies are translated into Kenya Shillings at the rate of exchange ruling at the balance sheet date. Transactions during the year in foreign currencies are translated at the rate ruling at the dates of the transactions. Gains and losses are dealt with in the income statement.

2. **GOING CONCERN CONCEPT**

The accounts have been prepared on going concern basis.

NATIONAL CEREALS AND PRODUCE BOARD
 NOTES TO THE FINANCIAL STATEMENTS - 30TH JUNE 2006

(continued)

3. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u> KShs	Fencing Driveways & <u>Civil works</u> KShs	Buildings and <u>Grain Silos</u> KShs	Motor <u>Vehicles</u> KShs	Plant & Machinery & <u>Equipment</u> KShs	Construction <u>In Progress</u> KShs	<u>Total</u> KShs
Cost or							
Valuation							
At 30th							7,959,624,406
June 2005	429,609,251	327,311,167	5,539,090,282	50,739,563	1,591,822,496	21,051,646	16,170,869
Additions	976,297	0	0	5,405,040	7,153,061	2,636,470	
Revaluation							3,360,125,834
Adjustment	515,072,749	94,571,323	3,985,161,724	(24,538,563)	(1,210,141,398)		(0)
Transfers	0	297,900	1,455,107	0	0	(1,753,007)	(900,000)
Disposals	0	0	0	(650,000)	(250,000)	0	(900,000)
At 30th							11,335,021,108
June 2006	<u>945,658,297</u>	<u>422,180,390</u>	<u>9,525,707,113</u>	<u>30,956,040</u>	<u>388,584,159</u>	<u>21,935,109</u>	
Depreciation:							
At 30th							3,529,873,136
June 2005	41,034,651	70,222,191	1,801,266,506	46,477,360	1,570,872,427	0	
Charge for							414,678,563
the period	13,350,700	10,547,063	335,033,430	7,604,168	48,143,201	0	(900,000)
On disposals	0	0	0	(650,000)	(250,000)	0	
Revaluation							(3,529,873,136)
Adjustment	<u>(41,034,651)</u>	<u>(70,222,191)</u>	<u>(1,801,266,506)</u>	<u>(46,477,360)</u>	<u>(1,570,872,427)</u>		
At 30th							413,778,563
June 2006	<u>13,350,700</u>	<u>10,547,063</u>	<u>335,033,430</u>	<u>6,954,168</u>	<u>47,893,201</u>	0	
Net Book							
Value:							
At 30th							10,921,242,546
June 2006	<u>932,307,597</u>	<u>411,633,327</u>	<u>9,190,673,683</u>	<u>24,001,872</u>	<u>340,690,958</u>	<u>21,935,109</u>	
At 30th							4,429,751,270
June 2005	<u>388,574,600</u>	<u>257,088,976</u>	<u>3,737,823,777</u>	<u>4,262,203</u>	<u>20,950,069</u>	<u>21,051,646</u>	

17
NATIONAL CEREALS AND PRODUCE BOARD
NOTES TO THE FINANCIAL STATEMENTS - 30TH JUNE 2006
(Continued)

4. **INVESTMENTS**

	<u>30.06.2006</u>	<u>30.06.2005</u>
	<u>Kshs.</u>	<u>Kshs.</u>
<u>Composition</u>		
(a) <u>Investments</u>		
(i) Kenya Peanuts Company Ltd:		
55,167 Ordinary shares of KShs. 100/= each at Acquisition cost	2,168,740	2,168,740
(ii) Kenya Cashews Limited:		
400 Ordinary shares of KShs. 5/= each	<u>2,000</u>	<u>2,000</u>
Sub total	<u>2,170,740</u>	<u>2,170,740</u>
Less: Provisions for bad and Doubtful debts	<u>(2,170,740)</u>	<u>(2,170,740)</u>
Net Investments at year end	<u>0</u>	<u>0</u>

(a) **Kenya Peanuts Company Limited**

The Board owns 46% of the issued share capital of the company. In view of the prevailing uncertainty over the future viability of peanuts industry coupled with effects of market liberalization, a 100 % provision under bad and doubtful debts, amounting to Kshs. 2,168,740 has been made against the Board's investment in the company.

(b) **Kenya Cashews Limited**

As reported in the previous Financial Years, Kenya Cashews Limited (dormant since inception), is a wholly owned subsidiary of the Board. It was originally intended that the Company would construct a new cashew nut processing factory in Kwale District. However, with limited availability of raw-nuts coupled with effects of Government policy on market liberalization, the proposed business venture is no longer viable.

NATIONAL CEREALS AND PRODUCE BOARD
NOTES TO THE FINANCIAL STATEMENTS - 30TH JUNE 2006
(Continued)

5. **LOANS**

	<u>30.06.2006</u>	<u>30.06.2005</u>
<u>Composition</u>	<u>Kshs.</u>	<u>Kshs.</u>
(i) Milling Corporation of Kenya	0	3,483,909
(ii) Kenya Cashew nuts Limited:	120,521,118	120,521,118
(iii) Kenya Cashews Limited	<u>231,080</u>	<u>231,080</u>
Sub total	<u>120,752,198</u>	<u>124,236,107</u>
<u>Less:</u> Provisions for bad and Doubtful debts	<u>(120,752,198)</u>	<u>(121,013,491)</u>
Net loans at year end	<u>0</u>	<u>3,222,616</u>

(i) **Milling Corporation of Kenya Limited**

This loan was fully paid during the year

(ii) **Kenya Cashew nuts Limited**

The loan amount relates to a trade debt and a loan advance to Kenya Cashew Nuts Ltd before it was disposed of under Government divestiture and privatization programme of non-strategic public enterprises. As part of the Sale Agreement the trade debt, which was initially KShs.46.6 Million, was converted into an Interest Free Loan except for any defaulted amount that would attract interest at commercial rates. This Loan was to be redeemed within a period of 5 years commencing from 1st March 1995. Only the first installment of KShs.9, 320,000 has been fully repaid. Similarly the Kshs.10 Million Loan Advance was converted into a loan redeemable within seven years at an interest rate of 18% p.a. commencing on 1st June 1994. 100 % provision for bad and doubtful debts has been made due to uncertainty in repayment of the two loans.

(iii) **Kenya Cashews Limited**

The outstanding loan represents expenditure incurred by the Board on behalf of the Company in past years, and there are no prospects of recovery of this investment. Consequently, 100% Provision for bad and doubtful debts has been made owing to the uncertainty of recovering the Loan and plans are under way to write it off.

NATIONAL CEREALS AND PRODUCE BOARD
NOTES TO THE FINANCIAL STATEMENTS - 30TH JUNE 2006

(Continued)

6. OPERATING STOCKS

6.1 Closing Stocks

The closing stocks of commodities valued at Kshs. 1,021,920,228 (2004/2005 Kshs 232,881,720) were composed of the following:

	<u>30.06.2006</u>	<u>30.06.2005</u>
	<u>Kshs</u>	<u>Kshs</u>
a) <u>Composition of Stocks:</u>		
Local white Maize	3,788,103	98,291,888
Beans	67,819,614	1,081,280
Wheat – Local	43,239,206	88,100
Green grams	0	0
Castor Seeds	640	640
Paddy	26,029,039	24,167,897
Local milled Rice	13,836,750	10,951,726
Wimbi	20,210,618	5,050,107
Fertilizer	611,294,547	65,518,480
Packaging bags (Jute/PP)	224,511,575	7,832,649
Insecticides	<u>252,693</u>	<u>683,046</u>
Sub- Total	1,010,982,785	213,665,813
(b) Stocks of Consumables	<u>22,986,757</u>	<u>23,118,905</u>
Sub- Total	1,033,969,542	236,784,718
<u>Less: - 2.2 % Provision for</u>		
 <u>Stock shrinkage</u>	9,767,077	1,620,761
 <u>-Provision for obsolete</u>		
 <u>Stocks-Consumables</u>	<u>2,282,237</u>	<u>2,282,237</u>
Sub-Total	12,049,314	3,902,998
Total closing stocks at year end	<u>1,021,920,228</u>	<u>232,881,720</u>

7. DEBTORS AND PREPAYMENTS

7.1 Breakdown analysis

	<u>30.06.2006</u>	<u>30.06.2005</u>
<u>Category</u>	<u>Kshs.</u>	<u>Kshs.</u>
Former Associated company	160,078	160,078
Debtors for imported Wheat	35,933,464	35,933,464
Trade Debtors	848,681,873	688,736,345
Staff debtors	61,302,866	60,872,516
Sundry debtors & Prepayments	<u>51,998,542</u>	<u>54,887,652</u>
	998,076,823	840,590,055
<u>Less: Cumulative Provisions for bad and</u>		
<u> doubtful Debts</u>	<u>(650,557,914)</u>	<u>(640,557,914)</u>
Total Debtors and Prepayments as		
At year end	<u>347,518,909</u>	<u>200,032,141</u>

NATIONAL CEREALS AND PRODUCE BOARD
NOTES TO THE FINANCIAL STATEMENTS - 30TH JUNE 2006

Continued)

7.2 **Notes on Debtors and Prepayments:**

(a) Former Associated company indebtedness consists of the following:-

	<u>30.06.2006</u>	<u>30.06.2005</u>
	<u>Kshs.</u>	<u>Kshs.</u>
Kenya Peanuts Company Ltd	160,078	160,078
	<u>160,078</u>	<u>160,078</u>

(b) The Provision for Bad and Doubtful Debts comprises the following:

	<u>30.06.2006</u>	<u>30.06.2005</u>
	<u>Kshs.</u>	<u>Kshs.</u>
Associated companies	160,078	160,078
Debtors for imported wheat	35,933,464	35,933,464
Other trade debtors	543,782,528	534,039,173
Staff debtors	42,041,558	41,223,201
Sundry debtors	<u>28,640,286</u>	<u>29,201,998</u>
Total cumulative Provision	<u>650,557,914</u>	<u>640,557,914</u>

8 GOVERNMENT DEBTORS – OLD DEBT

As part of NCPB commercialization reform process all past Government debts and obligations outstanding as at 30th June 1997 were consolidated and offset against credit balances held in favour of the Government with a net debt of KShs. 3.1 billion established. The net debt was initially recommended to the GOK for repayment over a three-year period but at the request of GOK was varied to six years with annual installment of KShs. 500.0 million from 1st July 1997. Through annual redemptions, the outstanding net debt has been progressively reduced substantially, though not at the agreed level of installments and was standing at KShs 40,816,828.00 as at 30th June 2006 as analyzed here under: -

	<u>30.06.2006</u>	<u>30.06.2005</u>
	Kshs	Kshs
Balance B/F.01/07	40,816,828	390,816,828
Deduct: Amount received		
During the year	<u>0</u>	<u>350,000,000</u>
Balance outstanding		
At year end	<u>40,816,828</u>	<u>40,816,828</u>

NATIONAL CEREALS AND PRODUCE BOARD
NOTES TO THE FINANCIAL STATEMENTS - 30TH JUNE 2006
(Continued)

9 GOVERNMENT DEBTORS – NEW AGENCY ACCOUNT

9.1 In compliance with agreed reform actions on GOK social functions, that involved introduction of new Operating Rules on domestic grain marketing the Board has with effect from 1st July 1997 fully adopted the new mode of charging GOK on agency basis for services rendered and facilities provided. Under the Agency Agreement signed between the Board and the Government, the GOK is under obligation to provide funds upfront to meet direct costs and agency remuneration for services rendered and facilities provided at rates to be annually negotiated and mutually agreed.

9.2 The rates applicable in 2005/2006 FY for various services and facilities that were mutually agreed upon by the two parties and which have been in force since 12th November 2002 were as follows:-

	<u>Nature of Service/facility</u>	<u>Rate</u> <u>Kshs/Percentage</u>
a)	Storage	3.20 per bag per month
b)	Quality maintenance	3.50 per bag per month
c)	Commission on Purchasing	85.00 per bag
d)	Commission on releases	17.00 per bag
e)	Commercial sales commission	8 % of sales value
f)	Commission on transport	8 % of transport cost
g)	Commission on commodity handling (Direct costs)	8 % of handling cost

NATIONAL CEREALS AND PRODUCE BOARD

NOTES TO THE ACCOUNTS - 30TH JUNE 2006

(Continued)

9.3 The breakdown of the amounts outstanding in relation to each activity as well as remittances received from the Government during the year is summarized here below: -

	<u>Cumulative</u> <u>Amounts Due</u>	<u>Amounts</u> <u>Received</u>	<u>Net amounts</u> <u>Outstanding</u> <u>30th June 2006</u>	<u>Net amounts</u> <u>Outstanding</u> <u>30th June 2005</u>
	KShs	KShs	KShs	KShs
a) Strategic Grain				
<u>Reserve Programme- Old Account</u>				
Balance B/F on 1/7/2005	163,807,949	0	163,807,949	163,807,949
2005/2006 expenses:-				
Direct costs	0	0	0	0
Storage Charges	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub - Total	<u>163,807,949</u>	<u>0</u>	<u>163,807,949</u>	<u>163,807,949</u>
b) <u>Famine Relief Programme</u>				
Balance B/F on 1/7/2005	(74,844,539)	0	(74,844,539)	(15,507,514)
2005/2006 expenses -				
Direct costs	2,641,970,816	2,473,648,003	168,322,812	(46,998,557)
Storage Charges	<u>267,197,390</u>	<u>0</u>	<u>267,197,390</u>	<u>-</u>
Sub - Total	<u>2,834,323,666</u>	<u>2,473,648,003</u>	<u>360,675,664</u>	<u>(62,506,071)</u>
c) GOK 17 selected				
<u>Depots for F/Relief</u>				
Balance B/F on 1/7/2005	191,916,638	0	191,916,638	191,916,638
2005/2006 expenses:-				
Direct costs	0	0	0	0
Storage Charges	0	0	0	0
5 % Management fees	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub - Total	<u>191,916,638</u>	<u>0</u>	<u>191,916,638</u>	<u>191,916,638</u>
d) Strategic Grain				
<u>Reserve Programme - New Account</u>				
Balance B/F on 1/7/2005	1,672,571,206	1,577,873,816	94,697,390	(10,476,354)
2005/2006 expenses:-				
Direct costs	29,853,590	221,761,010	-191,907,420	1,358,462,365
Storage Charges	<u>187,752,369</u>	<u>0</u>	<u>187,752,369</u>	324,585,195
Sub - Total	<u>1,890,177,165</u>	<u>1,799,634,826</u>	<u>90,542,339</u>	<u>1,672,571,206</u>
Total (a+b+c+d)	<u>5,080,225,417</u>	<u>4,273,282,830</u>	806,942,590	1,965,789,722
e) <u>Less:</u> Net sales proceeds from sale of returned gunny bags			1,546,122	12,338,467
			805,396,468	1,953,451,255
<u>Deduct:</u> Provision for bad and doubtful Debts			<u>232,563,195</u>	<u>232,563,195</u>
Net Amount outstanding as at 30th June			<u>572,833,273</u>	<u>1,720,888,060</u>

NATIONAL CEREALS AND PRODUCE BOARD
NOTES TO THE FINANCIAL STATEMENTS - 30TH JUNE 2006

(Continued)

10. CASH AT BANK AND IN HAND

The amount of Kshs 822,604,088 represents bank balances and cash-in-hand held in the Board's Cash Offices at Head Office and Depot/Silos as of 30th June 2006.

11. CAPITAL FUND

	30 th June 2006 <u>Amount (KShs)</u>	30 th June 2005 <u>Amount (KShs)</u>
Balance carried forward at Year end	<u>6,304,142,172</u>	<u>6,304,142,172</u>

12. REVALUATION OF FIXED ASSETS

12.1 Valuers and Date of valuation

Land, Buildings, Plant and Machinery and Equipment were revalued during the year under review on the basis of existing use by Tyson and Crystal Valuers Limited. The new values were incorporated into the Board's Asset Register and books of Accounts as at 1st July 2005.

12.2 Methodology and assumptions:

12.2.1 Methodology

Three methods of valuation methods were used namely, Sales Comparison Approach, Income Capitalization Approach and Cost Approach as follows:-

	Method used	Category of assets
1.	Sales Comparison Approach	- Residential properties in major urban centres - All Land - Re-development sites - Industrial properties in major centres
2.	Cost Approach	- Grain Silos. - Stores / Warehouses - All other building in rural or remote areas
3	Income Capitalization Approach.	- Office Block in major urban centres - Industrial properties in major urban centres - Residential properties in major urban

NATIONAL CEREALS AND PRODUCE BOARD
NOTES TO THE FINANCIAL STATEMENTS - 30TH JUNE 2006
 (Continued)

12.2.2 Assumptions

The valuation was subject to the following special condition and assumptions:-

- (i) All un-surveyed land will be surveyed and acreage will remain the same as that indicated in the report
- (ii) All unregistered land will be registered and given freehold interest on long term leases of 45 years and above
- (iii) Expired leasehold titles will be renewed to at least a further term of at least 45 years.
- (iv) Short-term leasehold titles will be extended to at least a further term of 45 years.
- (v) Properties with letters of allotment will be registered under NCPB.
- (vi) All encumbrances will be cleared in favour of NCPB.

12.2 Revaluation Surplus

The incorporation of the new values of assets resulted to a net revaluation gain of Kshs. 6,889,998,967 and together with brought forward balance increased revaluation reserve to Kshs 9,589,422,793 as shown below: -

<u>Asset Category</u>	<u>New Valuation</u>	<u>Old Valuation</u>	Revaluation Gain/ (Loss)
	Kshs	Kshs	Kshs
1. Land	944,682,000	388,574,600	556,107,400
2. Railway siding, Fences & Roads	421,882,490	257,088,978	164,793,512
3. Buildings and Grain silos	9,524,252,006	3,737,823,777	5,786,428,229
4. Motor Vehicles	26,201,000	4,262,203	21,938,797
5. Fittings, Furniture and Equipment	<u>381,681,098</u>	<u>20,950,069</u>	<u>360,731,029</u>
TOTAL	<u>11,298,698,594</u>	<u>4,408,699,627</u>	<u>6,889,998,967</u>
Add: Brought Forward Balance			<u>2,699,423,826</u>
Balance Carried Forward			<u>9,589,422,793</u>

NATIONAL CEREALS AND PRODUCE BOARD
NOTES TO THE FINANCIAL STATEMENTS - 30TH JUNE 2006
(Continued)

13 REVENUE RESERVE ACCOUNT

The Board recorded a Net Operating Loss of Kshs. 568,685,272 during the year under review on its commercial activities. The loss together with the prior year adjustment have been transferred to the Revenue Reserves Account thereby eroding the unappropriated retained surpluses further to a negative position, with a debit balance of Kshs. 4,649,628,533 as reflected in the Balance Sheet. The adverse trading results is partly attributed to increased depreciation charge arising from revaluation of the Board's property, plant and equipment as well as low trading volumes during the year under review.

14 BANK OVERDRAFT AND SHORT TERM LOAN

The Board has a standby overdraft facility of KShs.500 million with the Kenya Commercial Bank Limited to supplement working capital and an additional short-term loan of KShs. 900 million. The balances as at 30th June 2006 were as follows: -

	<u>30.06.2006</u>	<u>30.06.2005</u>
	<u>Kshs</u>	<u>Kshs</u>
Head Office Main Account	505,233,183	414,431,904
Short Term Loan	<u>362,627,269</u>	<u>0</u>
	<u>867,860,452</u>	<u>414,431,904</u>

15. CREDITORS AND PROVISIONS

	<u>30.06.2006</u>	<u>30.06.2005</u>
	<u>Kshs.</u>	<u>Kshs.</u>
Trade creditors	757,614,374	80,515,668
Creditors –Owings to Farmers/Suppliers	45,977,203	1,004,701,614
Creditors – Staff	3,418,054	3,445,219
Sundry Creditors and Provisions	<u>490,871,290</u>	<u>299,098,337</u>
	<u>1,297,880,921</u>	<u>1,387,760,839</u>

16 GOVERNMENT MARKET INTERVENTION MEASURE IN PURCHASING AND DISPOSAL OF SURPLUS MAIZE THROUGH NCPB - 1994/95 TO 1997/98

The balance in this account relates to 1994/95 maize intervention and subsequent maize exports transactions in 1995/96 and 1996/97. As at the Balance Sheet date there was still a retained surplus of Kshs 174,063,028.00 to be offset against other GOK debts still under review as shown below:-

	<u>30.06.2006</u>	<u>30.06.2005</u>
	<u>Kshs.</u>	<u>Kshs.</u>
Balance due to GOK as at year end	<u>174,063,028</u>	<u>174,063,028</u>

26
NATIONAL CEREALS AND PRODUCE BOARD
NOTES TO THE FINANCIAL STATEMENTS - 30TH JUNE 2006
(Continued)

17. **GOVERNMENT AGENCY ACCOUNT (OLD ACCOUNT)**

17.1 **Operating Results**

Prior to liberalization in grain marketing in December 1993 the Board used to receive cereals from overseas under either Food Aid or Loan Programs on behalf of the Government of Kenya. A formal Agency Agreement that is still in force was entered into on 18th January 1990 between the GOK and the Board. The agreement stipulates terms and conditions as well as the accountability procedures to be observed by the Board for these commodities. An Agency Commission of 8% of sales value is charged to meet the Board's management and overhead costs. The balance held on behalf of the Government as at 30th June 2006 remained the same as in previous year.

	<u>30.06.2006</u>	<u>30.06.2005</u>
	<u>Kshs.</u>	<u>Kshs.</u>
Balance due to the Government at year end	<u>143,195,039</u>	<u>143,195,039</u>

18 **TAXATION**

NCPB is a taxable organization and Income Tax Returns have been filed with the Commissioner of Income Tax up to the year of income ended 30th June 2006, which reflected a cumulative taxable losses amounting to KShs 7,553,043,849.00

19 **CONTINGENCIES**

19.1 **Contingent Liabilities**

The Board had contingent liabilities amounting to KShs. 70.97 Million as at 30th June 2006 due to pending disputes with suppliers of goods and services together with other individuals who have filed court cases against the Board for various reasons.

19.2 **Contingent Assets**

The Board was directed by the Government in 2001/2002 FY to export maize and a loss of KShs. 2.20 billion was realized because it was executed at below cost. The claim for compensation has since been lodged with the Government but the compensation is yet to be received.

20. **BANK GUARANTEES**

As at 30th June 2006 the Board had Bank guarantees amounting to Kshs 9,854,319.30 at Kenya Commercial Bank.

NATIONAL CEREALS AND PRODUCE BOARD
NOTES TO THE FINANCIAL STATEMENTS - 30TH JUNE 2006

(Continued)

21 STAFF ESTABLISHMENT

The staff establishment as at 30th June 2006 was 882 employees.

22 CURRENCY

The financial statements are presented in Kenya Shillings (KShs)

23 RETIREMENT BENEFITS OBLIGATIONS

The Board operates a defined Provident Fund Scheme for all its permanent employees. The Board's contributions are charged to the Profit and loss Account in the period in which it relates. The assets of the scheme are held in a separate trustee administered fund, which is funded from contributions from both the Board and the employees.

NATIONAL CEREALS AND PRODUCE BOARD

NOTES TO FINANCIAL STATEMENTS - 30TH JUNE 2004

INCOME STATEMENT FOR THE YEAR ENDING 30TH JUNE 2004

	2004/2005 CONTRIBUTION MARGIN		2003/2004 CONTRIBUTION MARGIN		2004/2005		2003/2004		2004/2005		2003/2004	
	LOCAL	WHEAT	RICE	CASTOR	WHEAT	SOYBEAN	PADDY	BERSEEM	2004/2005	2003/2004	2004/2005	2003/2004
	RSHS	RSHS	RSHS	RSHS	RSHS	RSHS	RSHS	RSHS	RSHS	RSHS	RSHS	RSHS
GROSS SALES	211,177,208	138,436,830	63,737,682	0	171,132,224	533,254	0	177,984,082	1,012,405,447	1,012,405,447	283,218,918	283,218,918
COST OF SALES	311,177,208	138,436,830	63,737,682	0	171,132,224	533,254	0	177,984,082	1,012,405,447	1,012,405,447	283,218,918	283,218,918
Opening stock	96,291,890	86,100	10,951,726	0	1,061,280	440	0	24,147,897	213,445,813	213,445,813	213,445,813	213,445,813
Purchases	157,031,925	144,436,470	338,742,155	0	221,329,345	0	0	45,733,580	1,637,433,744	1,637,433,744	1,637,433,744	1,637,433,744
Transfer (to)/from GOK Refuel Account	0	0	0	0	0	0	0	0	145,790,174	145,790,174	5,010,427	5,010,427
Transfer from third party/milling	0	0	0	0	0	0	0	0	0	0	0	0
Plant/Inventory Realized	0	0	44,878,574	0	0	0	0	0	44,878,574	44,878,574	0	0
Provision for stock shrinkage	3,454,702	0	0	0	4,849,744	0	0	1,004,139	9,747,077	9,747,077	1,420,741	1,420,741
Closing stock	(2,788,103)	(43,239,259)	(13,834,759)	(640)	(67,819,614)	(252,653)	0	(74,079,039)	(1,010,992,785)	(1,010,992,785)	(213,445,813)	(213,445,813)
GROSS PROFIT/(LOSS)	254,990,414	123,467,364	41,993,551	0	159,440,252	430,353	0	141,417,424	8,08,992,751	8,08,992,751	622,803,150	622,803,150
Less: Freight/(Loss) as a percentage to sales	18.06%	7.44%	34.14%	0.00%	10.98%	22.21%	0.00%	20.54%	14.16%	14.16%	14.16%	20.55%
OTHER INCOME	54,184,794	21,744,130	18,454,285	19,471,970	19,471,970	1,551,401	1,354,212,429	31,544,458	430,183,349	430,183,349	75,539,292	75,539,292
Revenue from Services & other miscellaneous income	7,971,994	173,698	4,541,574	212,028	212,028	1,578,081	1,354,212,429	75,415,578	773,806,545	773,806,545	915,910,842	915,910,842
LESS EXPENDITURE	7,971,994	173,698	4,541,574	212,028	212,028	1,578,081	75,415,578	66,537,465	66,537,465	66,537,465	44,984,263	44,984,263
Package and Road transport costs	0	0	0	0	0	0	0	0	0	0	734,019	734,019
Import costs	0	0	0	0	0	0	0	0	0	0	5,545,481	5,545,481
Milling costs	0	0	0	0	0	0	0	0	0	0	463,031,394	463,031,394
Staff costs and wages	0	0	0	0	0	0	0	0	0	0	184,234,909	184,234,909
Administration expenses	0	0	0	0	0	0	0	0	0	0	102,875,143	102,875,143
Other operating expenses	0	0	0	0	0	0	0	0	0	0	846,594,611	846,594,611
PROFIT/(LOSS) BEFORE DEPRECIATION AND BAD DEBTS	48,214,800	17,404,832	13,892,709	17,030	19,459,942	1,700,310	1,354,212,429	39,048,920	52,700,044	52,700,044	154,771,430	154,771,430
Deduct:	0	0	0	0	0	0	0	0	0	0	726,887,657	726,887,657
Depreciation Charges	0	0	0	0	0	0	0	0	0	0	10,000,000	10,000,000
Bad and doubtful debts	0	0	0	0	0	0	0	0	0	0	2,702,222	2,702,222
Obsolete stocks	0	0	0	0	0	0	0	0	0	0	316,813,219	316,813,219
PROFIT/(LOSS) FROM OPERATIONS	48,214,800	17,404,832	13,892,709	17,030	19,459,942	1,700,310	1,354,212,429	39,048,920	52,700,044	52,700,044	154,771,430	154,771,430
Finance charges net of interest earned	0	0	0	0	0	0	0	0	0	0	0	0
PROFIT BEFORE TAX	48,214,800	17,404,832	13,892,709	17,030	19,459,942	1,700,310	1,354,212,429	39,048,920	52,700,044	52,700,044	154,771,430	154,771,430
Income tax expense	0	0	0	0	0	0	0	0	0	0	0	0
PROFIT AFTER TAX	48,214,800	17,404,832	13,892,709	17,030	19,459,942	1,700,310	1,354,212,429	39,048,920	52,700,044	52,700,044	154,771,430	154,771,430
Equity retirement costs	0	0	0	0	0	0	0	0	0	0	0	0
NET PROFIT/(LOSS) FOR THE PERIOD	48,214,800	17,404,832	13,892,709	17,030	19,459,942	1,700,310	1,354,212,429	39,048,920	52,700,044	52,700,044	154,771,430	154,771,430

NATIONAL CEREALS AND PRODUCE BOARD
 NOTES TO THE FINANCIAL STATEMENTS - 30TH JUNE 2005
 (continued)

24.3 STOCK FLOWS PER PRODUCT - 2004/2005

	MAIZE 90Kgs Bogs	WHEAT 90Kgs Bogs	RICE 100Kgs Bogs	GUINNESS Pieces	INSECTICIDES 25 kg Packets	BEANS 90Kgs Bogs	SEEDS 65Kgs Bogs	WIMBI 80Kgs Bogs	MILLET 80Kgs Bogs	SORGHUM 80Kgs Bogs	GREEN GRAMS 80Kgs Bogs	PADDY RICE 80Kgs Bogs	CAN FERTILIZER 50Kgs Bogs	NPK FERTILIZER 50Kgs Bogs
OPENING STOCKS	175,919	0	3,000	2,256,182	396	1,281	4	1,955	0	0	1,734	13,144	111,369	116,203
PURCHASES	9,622	0	0	1,024,400	40	10,051	0	1,818	0	0	20,089	12,825	0	0
STOCK AVAILABLE FOR SALE	2,622	0	0	1,024,400	40	10,051	0	1,818	0	0	20,089	12,825	0	0
SALES	110,230	0	9,525	3,024,097	220	10,950	0	1,521	4,350	127	22,304	1,611	101,523	68,072
TRANSFER TO/(FM) GOK STOCKS	0	0	0	0	0	0	0	0	(4,350)	(1,27)	(2,45)	0	0	
TRANSFER (FM) 3RD PARTY STOCKS	0	0	0	0	0	0	0	0	0	0	0	0	0	
TRANSFER TO/(FM) MILLING			17,238											14,234
STORAGE LOSS/(GAIN)														
ADJUSTMENT	(359)	(64)	(915)	792	(1)	(54)		42	160,650					(236)
DISPOSALS DURING PERIOD	109,821	(64)	822	3,024,894	219	10,896	0	1,568	160,650	283,250	81	0	0	21,823
CLOSING STOCKS	25,625	64	2,128	255,688	212	434	4	2,205	0	0	0	2,230	2,954	48,793

NATIONAL CEREALS AND PRODUCE BOARD

NOTES TO THE FINANCIAL STATEMENTS - 30TH JUNE 2006

(Continued)

25. OTHER INCOME

Other income relate to revenue earned from provision of services and leasing out of Board's properties to third parties, agency remuneration from undertaking GOK social functions and other miscellaneous income derived from sundry items, and the

summary details are as follows:-

	ACTUAL AS AT 30TH JUNE 2006	30TH JUNE 2005
	Kshs.	Kshs.
(a) Revenue from Services/facilities		
Weigh Bridge charges	15,123,309	11,852,897
Bagging and handling charges	4,721,419	4,676,296
Cleaning charges	0	0
Rental charges	98,569,452	98,692,675
Drying and Fumigation	<u>36,198,305</u>	<u>82,074,718</u>
	<u>154,612,485</u>	<u>197,296,586</u>
(b) Agency Services		
GOK Agency remuneration	437,627,570	531,711,123
Agency commission from inputs	<u>0</u>	<u>7,420,601</u>
Sub - total (a+b)	<u>592,240,055</u>	<u>736,428,310</u>
(c) Sundry Income		
Receipts for Private Telephone Calls	50,037	135,474
Insurance Compensation	1,285,954	420,436
Sale of Tender documents	1,071,500	1,451,000
Sale of Obsolete Material	2,282,260	2,784,930
Other Miscellaneous Income	25,147,575	3,758,710
Other fees and charges	2,390,883	2,333,663
Gain/(Loss) on disposal of fixed assets	<u>0</u>	<u>0</u>
	<u>32,228,209</u>	<u>10,884,213</u>
(d) Investment income		
Interest earned on Short term investments (FDR'S)	5,551,601	6,437,897
Interest/penalties charged on loans to former Associated Companies	163,484	785,877
Less: Withholding tax	<u>0</u>	<u>0</u>
	<u>5,715,084</u>	<u>7,223,774</u>
Total other Income per Profit & Loss A/C	<u>630,183,349</u>	<u>754,536,297</u>

NATIONAL CEREALS AND PRODUCE BOARD
NOTES TO THE FINANCIAL STATEMENTS - 30TH JUNE 2006

(Continued)

OPERATING AND ADMINISTRATION EXPENSES

FOR THE YEAR ENDED 30TH JUNE 2006

26 EXPENDITURE DETAILS	ACTUAL AS AT 30TH JUNE 2006	30TH JUNE 2005
	<u>Kshs</u>	<u>Kshs</u>
<u>DIRECT COSTS</u>		
Import Costs	0	734,019
Hired road & rail transport	<u>88,537,465</u>	<u>44,986,283</u>
	<u>88,537,465</u>	<u>45,720,303</u>
<u>STAFF COSTS</u>		
Salaries and wages	366,158,415	343,429,251
Board's contributions to Provident Fund and Staff savings schemes	47,917,809	42,689,796
Board's contribution to National Social Security Fund	2,126,200	2,166,800
Medical expenses	24,253,091	23,005,332
Leave pay and gratuities	12,128,997	18,241,417
Welfare and training	<u>10,846,883</u>	<u>12,499,378</u>
	<u>463,431,396</u>	<u>442,031,974</u>
<u>GENERAL ADMINISTRATION</u>		
Board Members Allowances	2,329,705	4,560,861
Advertising	3,657,678	2,558,646
Conservancy, light and water	28,940,994	25,353,252
Consumable stores	800,165	549,862
Entertainment	27,464	45,880
General expenses	0	0
Insurance	19,402,461	25,402,081
Land rents & rates and siding charges	10,097,163	10,408,221
Maintenance of machinery, furniture and equipment	23,709,869	20,985,221
Maintenance of buildings, fences, gates, roads and railway sidings	18,556,171	11,803,561
Postage, telegram & telephone	12,377,398	13,014,275
Printing and stationery	9,219,395	6,664,552
Security expenses	55,114,255	59,684,179
Subscriptions & Nafaka Newsletter	790,678	383,675
Uniforms and protective clothing	1,048,230	11,017
Donations	<u>163,280</u>	<u>149,840</u>
	<u>186,234,906</u>	<u>181,575,124</u>
<u>GENERAL OPERATING EXPENSES</u>		
Fumigation expenses	11,582,429	14,811,046
Grain dryers operating costs	22,790,598	31,477,030
Commodity handling costs	2,740,303	1,805,644
Hired transport(Non-commodities)	203,126	83,314
Shows and exhibitions	3,099,946	3,303,024
Travelling and subsistence	23,165,593	18,435,490
Vehicle running costs	19,878,360	14,078,829
Milling Costs	5,565,681	3,170,002
<u>PROFESSIONAL EXPENSES</u>		
Audit fees	2,500,000	2,500,000
Legal and other professional fees	<u>16,864,808</u>	<u>2,237,632</u>
	<u>108,390,844</u>	<u>91,902,012</u>

NATIONAL CEREALS AND PRODUCE BOARD
 NOTES TO THE FINANCIAL STATEMENTS - 30TH JUNE 2006

(Continued)

OPERATING AND ADMINISTRATION EXPENSES

FOR THE YEAR ENDED 30TH JUNE 2006

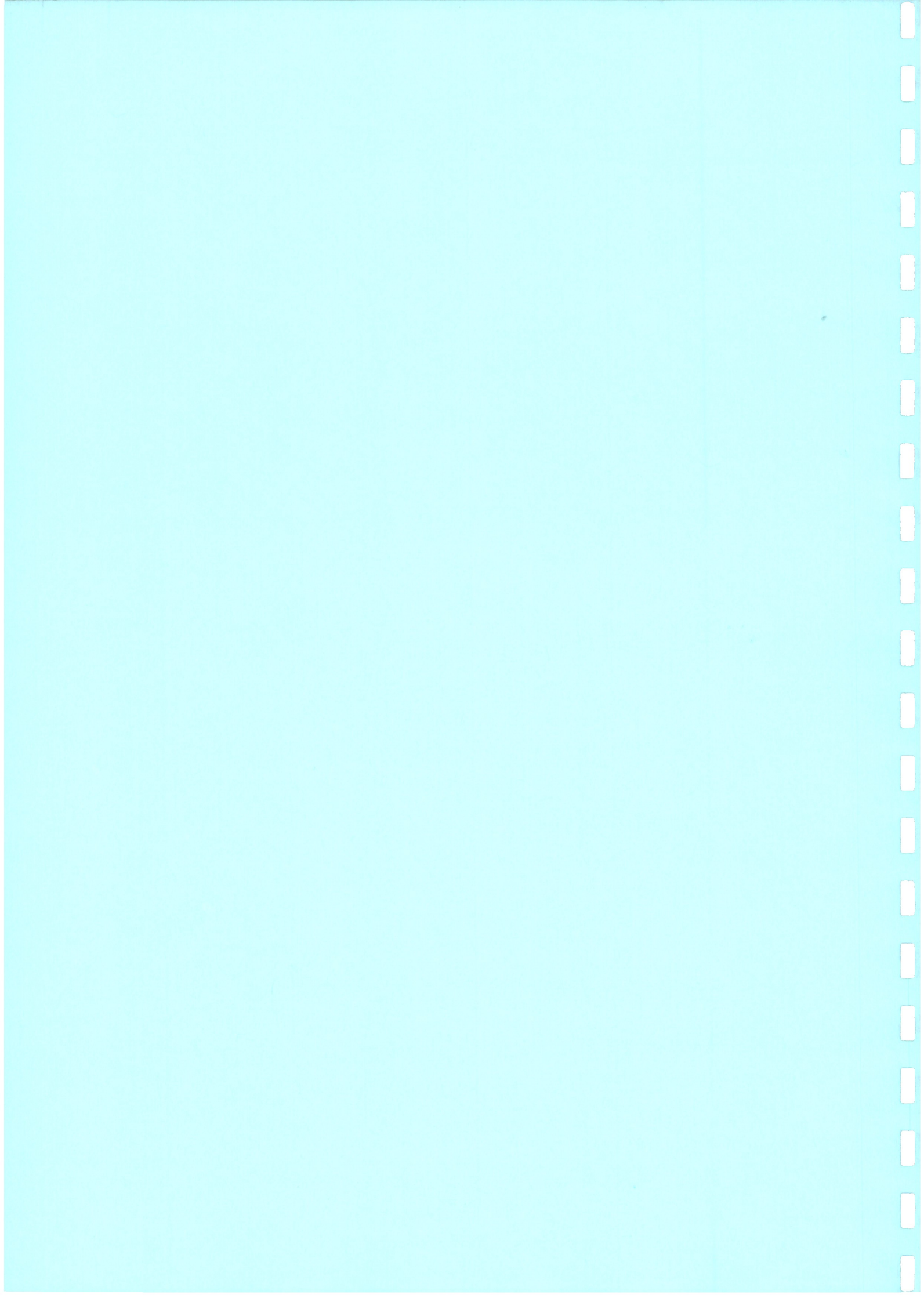
	<u>30TH JUNE 2006</u>	<u>30TH JUNE 2005</u>
	<u>Kshs.</u>	<u>Kshs.</u>
<u>PROVISIONS</u>		
Depreciation charges	414,678,562	226,882,657
Provision for bad and doubtful debts	10,000,000	147,648,325
Provision for obsolete stocks	<u>0</u>	<u>2,282,237</u>
	<u>424,678,562</u>	<u>376,813,219</u>
TOTAL EXPENDITURE BEFORE FINANCE COSTS	<u>1,271,273,173</u>	<u>1,138,042,632</u>
Bank charges	43,515,070	12,300,876
Bank overdraft and loan interest	<u>47,703,574</u>	<u>45,137,605</u>
	<u>91,218,644</u>	<u>57,438,480</u>
TOTAL OPERATING EXPENDITURE		
<u>EXTRA-ORDINARY ITEM OF EXPENSE</u>	<u>1,362,491,817</u>	<u>1,195,481,113</u>
Early retirement staff costs	0	<u>0</u>
TOTAL EXPENDITURE (DIRECT AND INDIRECT)	<u>1,362,491,817</u>	<u>1,195,481,113</u>

FINANCIAL HIGHLIGHTS

AND

STATISTICS

2001/2002 TO 2005/2006



NATIONAL CEREALS AND PRODUCE BOARD

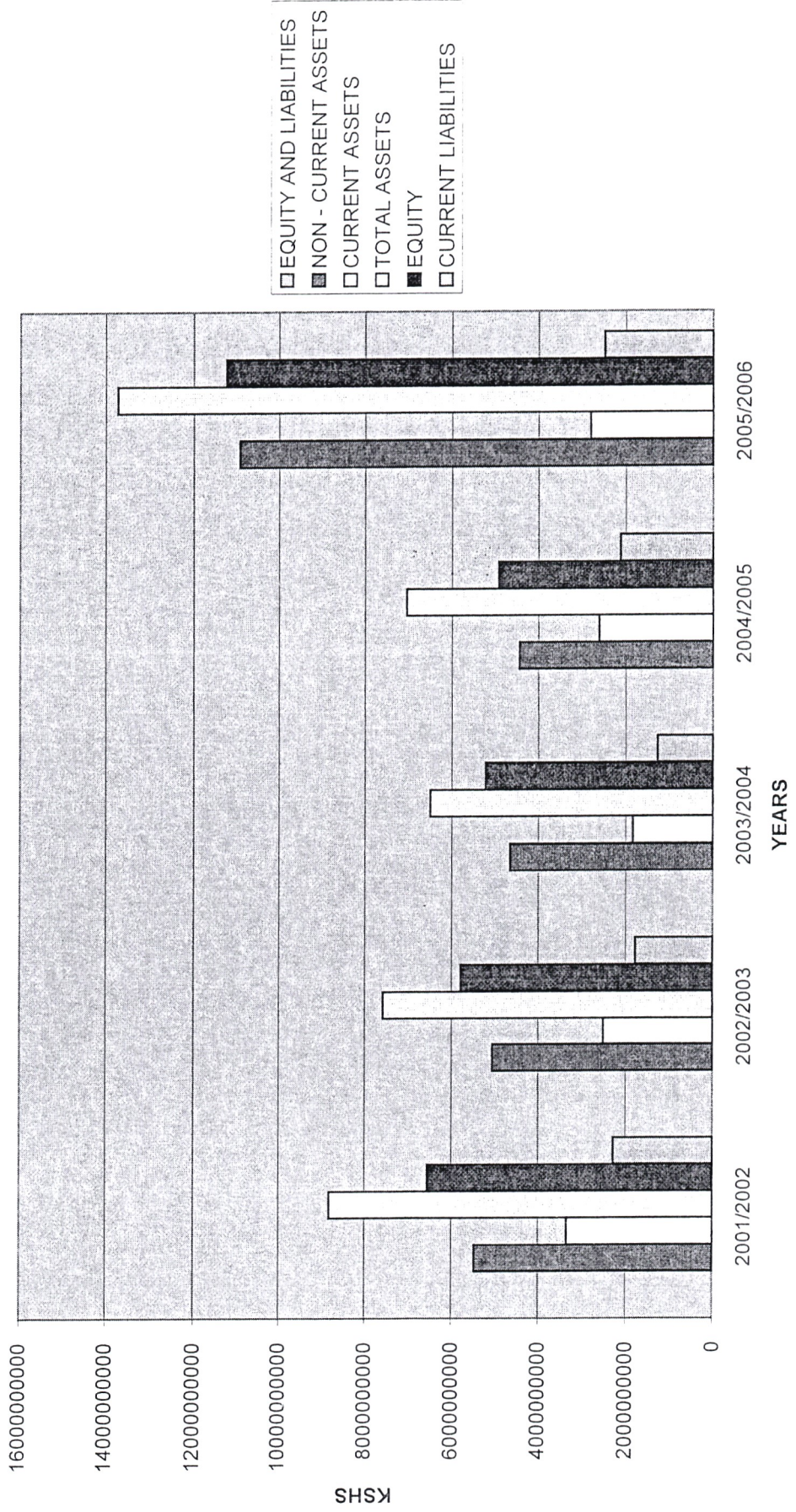
RATIO ANALYSIS 2001/2002 - 2005/2006

	<u>2001/2002</u>	<u>2002/2003</u>	<u>2003/2004</u>	<u>2004/2005</u>	<u>2005/2006</u>	
1	<u>LIQUIDITY RATIOS</u>					
a)	Current Ratio	147.16%	140.62%	144.75%	123.17%	113.00%
b)	Acid Test	114.00%	129.65%	92.32%	112.18%	71.84%
2.	<u>CAPITAL STRUCTURE RATIOS</u>					
a)	Ratio of Debt Total Assets	25.80%	23.54%	19.57%	30.09%	18.09%
b)	Gearing Ratio	0.00%	0.00%	0.00%	0.00%	0.00%
3.	<u>ACTIVITY RATIOS</u>					
a)	Turnover ratio of Sales Capital employed	31.97%	41.07%	8.55%	15.95%	9.01%
b)	Stock Turnover (Days)	201	75	450	263	270
4	<u>PROFITABILITY RATIOS</u>					
a)	Return on capital Employed (ROCE)	-33.65%	-13.20%	-11.45%	-5.68%	-5.06%
b)	Profitability of Sales					
	i) Gross Margin : Sales	-43.32%	2.81%	21.76%	20.55%	16.16%
	ii) Net Profit : Sales	-105.25%	-32.14%	-133.96%	-35.60%	-56.16%

**NATIONAL CEREALS AND PRODUCE BOARD
SUMMARY OF OPERATING RESULTS
2001/2002 TO 2005/2006 FY**

	<u>2001/2002</u> KSHS	<u>2002/2003</u> KSHS	<u>2003/2004</u> KSHS	<u>2004/2005</u> KSHS	<u>2005/2006</u> KSHS
SALES TURNOVER	2,092,846,981	2,377,298,739	446,562,218	785,298,985	1,012,605,447
COST OF SALES	<u>2,999,526,239</u>	<u>2,308,533,226</u>	<u>349,405,468</u>	<u>623,884,440</u>	<u>848,982,251</u>
GROSS MARGIN	(906,679,258)	68,765,513	97,156,750	161,414,545	163,623,196
GROSS MARGIN AS A PERCENTAGE OF SALES	-43.32%	2.81%	21.76%	20.55%	16.16%
OTHER INCOME	<u>483,644,714</u>	<u>405,493,416</u>	<u>434,895,935</u>	<u>754,536,297</u>	<u>630,183,349</u>
GROSS MARGIN & OTHER INCOME	(423,034,544)	474,258,929	532,052,685	915,950,842	793,806,545
TOTAL COSTS BEFORE BAD DEBTS, DEPRECIATION AND EXTRA ORDINARY ITEMS	<u>1,342,737,868</u>	<u>800,734,423</u>	<u>698,679,080</u>	<u>820,950,129</u>	<u>800,164,930</u>
SURPLUS/(DEFICIT) BEFORE BAD DEBTS, DEPRECIATION AND EXTRA ORDINARY ITEMS	(1,765,772,412)	(326,475,494)	(166,626,395)	95,000,713	(6,358,385)
Depreciation Expense	408,837,240	410,725,765	416,342,344	226,882,657	414,678,562
Provision for bad and doubtful debts	13,839,452	21,229,002	15,250,260	147,648,325	147,648,325
Extra-Ordinary Items:	<u>14,312,573</u>	<u>3,359,840</u>	<u>-</u>	<u>-</u>	<u>-</u>
SURPLUS/(DEFICIT)	(2,202,761,677)	(761,790,101)	(598,218,999)	(279,530,269)	(568,685,272)

3
**NATIONAL CEREALS AND PRODUCE BOARD
 BALANCE SHEET 2001/2002 TO 2005/2006**

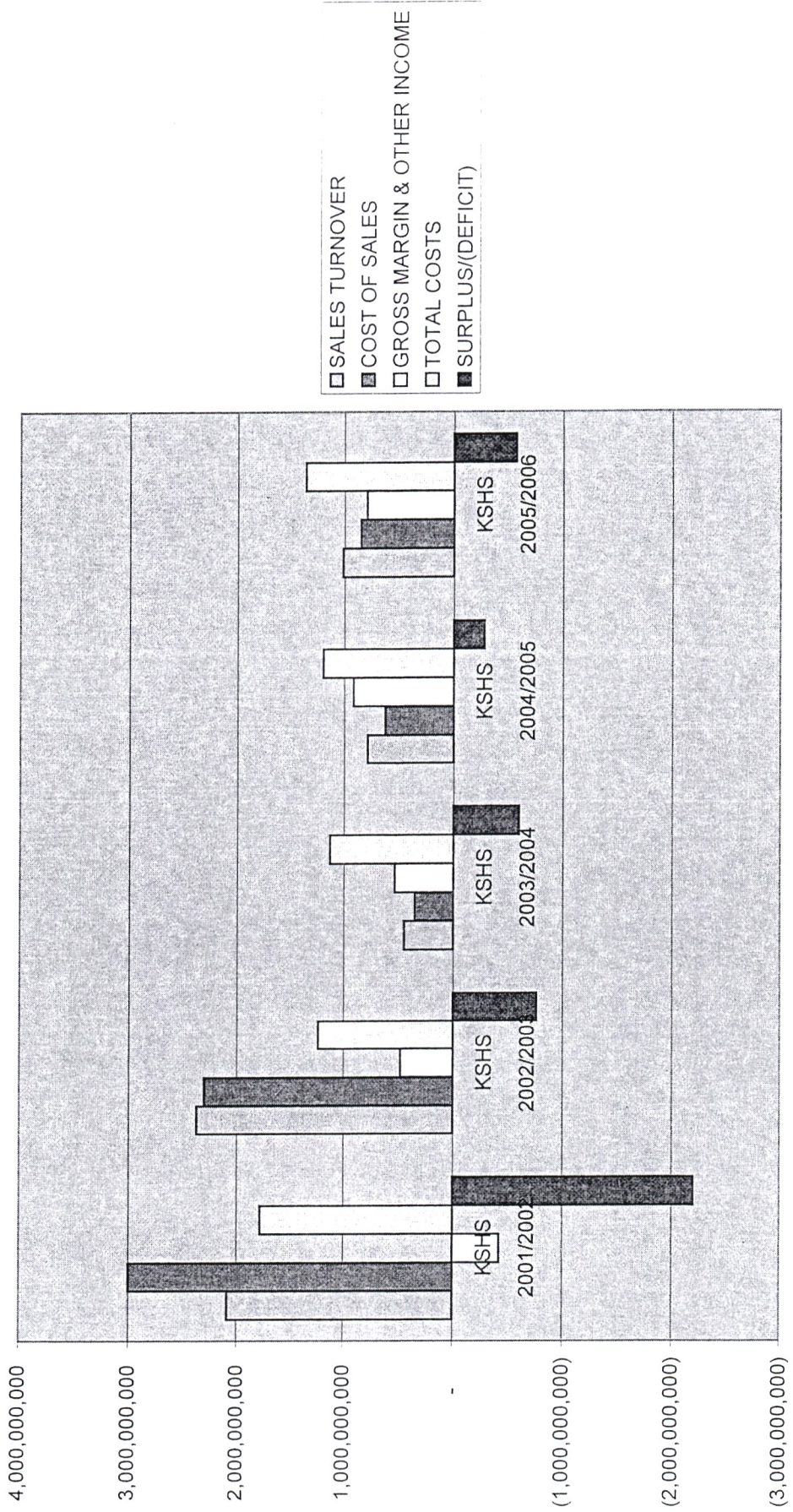


NATIONAL CEREALS AND PRODUCE BOARD

COMPARATIVE BALANCE SHEETS 2001/2002 TO 2005/2006

	2001/2002 KSHS	2002/2003 KSHS	2003/2004 KSHS	2004/2005 KSHS	2005/2006 KSHS
				0	0
ASSETS					
NON - CURRENT ASSETS					
FIXED ASSETS	5,460,996,178	5,055,383,103	4,649,285,324	4,429,751,270	10,921,242,546
INVESTMENT	12,256,379	9,298,856	6,618,580	3,222,616	0
LOANS	0	0	0	0	0
	<u>5,473,252,557</u>	<u>5,064,681,959</u>	<u>4,655,903,904</u>	<u>4,432,973,886</u>	<u>10,921,242,546</u>
CURRENT ASSETS	<u>3,349,890,654</u>	<u>2,506,409,731</u>	<u>1,839,678,269</u>	<u>2,610,518,479</u>	<u>2,805,693,326</u>
	<u>8,823,143,211</u>	<u>7,571,091,690</u>	<u>6,495,582,173</u>	<u>7,043,492,365</u>	<u>13,726,935,872</u>
EQUITY AND LIABILITIES					
EQUITY					
CAPITAL FUND	6,304,142,172	6,304,142,172	6,304,142,172	6,304,142,172	6,304,142,172
REVALUATION RESERVE	2,699,423,826	2,699,423,826	2,699,423,826	2,699,423,826	9,589,422,793
ACCUMULATED SURPLUS	<u>(2,456,838,906)</u>	<u>(3,214,908,413)</u>	<u>(3,778,962,559)</u>	<u>(4,079,524,444)</u>	<u>(4,649,628,533)</u>
CAPITAL FUND	<u>6,546,727,092</u>	<u>5,788,657,585</u>	<u>5,224,603,439</u>	<u>4,924,041,554</u>	<u>11,243,936,432</u>
CURRENT LIABILITIES	<u>2,276,416,119</u>	<u>1,782,434,105</u>	<u>1,270,978,734</u>	<u>2,119,450,811</u>	<u>2,482,999,440</u>
EQUITY AND LIABILITIES	<u>8,823,143,211</u>	<u>7,571,091,690</u>	<u>6,495,582,173</u>	<u>7,043,492,365</u>	<u>13,726,935,872</u>

NATIONAL CEREALS AND PRODUCE BOARD
 SUMMARY OF OPERATING RESULTS 2001/2002 TO 2005/2006



NATIONAL CEREALS AND PRODUCE BOARD



GOK AGENCY OPERATIONS ANNUAL ACCOUNTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2006

NCPB P.O. BOX 30586
NYUMBA YA NAFKA
MACHAKOS ROAD
INDUSTRIAL AREA
NAIROBI

NATIONAL CEREALS AND PRODUCE BOARD
GOK AGENCY OPERATIONS
ANNUAL REPORT AND ACCOUNTS
30TH JUNE 2006

Page

CONTENTS

Balance Sheet	2
Income and Expenditure Account	3
Notes to the Accounts	4 - 9

NATIONAL CEREALS AND PRODUCE BOARD
 GOK AGENCY OPERATIONS - GOK FAMINE RELIEF PROGRAMME
BALANCE SHEET AS AT 30TH JUNE 2006

		<u>30.06.2006</u>	<u>30.06.2005</u>
			<u>Kshs</u>
Famine Relief Stocks	3	320,502,798	1,127,520,123
SGR Stocks		2,902,820,960	3,969,147,241
Shortfall in GOK funding to NCPB	4	<u>805,396,468</u> <u>4,028,720,226</u>	<u>1,953,451,255</u> <u>7,050,118,619</u>
GOK Agency Account	4	805,396,468	1,953,451,255
Net Surplus		0	0
Stock Reserve Account		<u>3,223,323,758</u>	<u>5,096,667,364</u>
		<u>4,028,720,226</u>	<u>7,050,118,619</u>

NATIONAL CEREALS AND PRODUCE BOARD
GOK AGENCY OPERATIONS

INCOME AND EXPENDITURE ACCOUNT AS AT 30TH JUNE 2006

	GOK Strategic Grain Reserve Old Account		GOK 17 Selected Famine Relief Relief Deposits		Haram Food Aid Programmes		Uyuan Food Aid Programmes		2001/2002 Maize Famine Relief Programmes		2001/2002 Beanu Famine Relief Programmes		M&M Sorghum Programme		Green Grams Programme		Cereals/Grains Peas Programme		GOK Maize Importation Programme		Total	Kshs	
	Kshs		Kshs		Kshs		Kshs		Kshs		Kshs		Kshs		Kshs		Kshs		Kshs				Kshs
1 INCOME/RECEIPTS FROM GOK																							
(a) Direct receipts from GOK	0	1,600,000,000	0	0	0	2,117,470,164	0	0	0	331,454,806	0	0	0	0	0	0	24,723,034	0	0	0	4,073,648,003		
(b) Receipts from Rent	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
(c) Sales proceeds of returned/borrowed S/hand Gunny Bags	0	199,634,826	0	0	0	1,546,122	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Sub - Total (1)	0	1,799,634,826	0	0	0	2,119,016,285	0	0	0	331,454,806	0	0	0	0	0	0	24,723,034	0	0	0	4,274,828,951		
2 EXPENDITURE																							
(a) Direct Costs/Remittances																							
Remittances of Sales Proceeds to GC	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Procurement costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Import Costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Loss on foreign exchange	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Transport Costs	0	28,606,520	0	0	0	436,355,171	0	0	0	1,751,257	0	0	0	0	0	0	0	0	0	0	0	0	
Inter-Function Transactions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Direct Handling costs	0	1,247,070	0	0	0	18,988,644	0	0	0	160,005	0	0	0	0	0	0	16,597	0	0	0	0	0	
Operating Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
(b) Sub - Total (a)	0	29,853,590	0	0	0	2,237,131,925	0	0	0	342,205,462	0	0	0	0	0	0	24,561,824	0	0	0	37,169,775	2,671,824,406	
Agency fees and charges for services/facilities provided																							
Storage	0	169,393,296	0	0	0	30,825,988	0	0	0	1,964,538	0	0	0	0	0	0	99,622	0	0	0	0	0	
Quality maintenance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Commission on purchases	0	0	0	0	0	115,873,615	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Commission on releases	0	0	0	0	0	36,348,785	0	0	0	521,815	0	0	0	0	0	0	94,048	0	0	0	0	0	
Commission on direct transport	0	2,288,522	0	0	0	34,908,373	0	0	0	140,101	0	0	0	0	0	0	0	0	0	0	0	0	
Commission on commodity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Handling costs	0	99,766	0	0	0	1,519,097	0	0	0	12,800	0	0	0	0	0	0	1,328	0	0	0	0	0	
Commission on commercial sales	0	15,970,786	0	0	0	123,690	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Drying costs	0	0	0	0	0	17,629,941	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Interest on delayed payments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Storage of stocks supplied by third party	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
5 % management fees on deposits exclusively for GOK use	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Sub - Total (b)	0	187,752,382	0	0	0	239,855,194	0	0	0	2,639,254	0	0	0	0	0	0	194,977	0	0	0	0	0	
Total Expenditure (a + b)	0	217,605,952	0	0	0	2,476,987,121	0	0	0	344,844,916	0	0	0	0	0	0	24,754,821	0	0	0	0	0	
(c) Net Surplus/(Deficit) for the year	0	1,582,028,867	0	0	0	(357,970,835)	0	0	0	(13,390,110)	0	0	0	0	0	0	(33,787)	0	0	0	(61,781,951)	1,148,054,787	
Add:																							
Shortfall/(Surplus) B/F balance 1/07/2005	(163,802,242)	(1,672,571,206)	(121,821,638)	(1,68,480)	68,040,763	(20,245,183)	7,775,073	667,951	15,306,612	(1,953,451,255)													
Net due (to)/from the Agent as at 30.06.2006	(163,802,242)	(70,542,332)	(121,821,638)	(1,68,480)	(289,130,072)	(34,135,295)	6,865,235	780,372	(46,475,340)	(805,396,468)													

* Included in the outstanding balance in respect of SGR Account are sales proceeds amounting to Kshs 199,634,826.00 which were remitted to the Trustees Account in July 2006

NATIONAL CEREALS AND PRODUCE BOARD
GOK AGENCY OPERATIONS
NOTES TO THE ACCOUNTS - 30TH JUNE, 2006

1. **ACCOUNTING POLICIES**

(a) **Valuation of closing stocks**

- i) Closing stocks of maize and beans have been valued at cost while the gunnies have been valued at net realizable value.
- ii) Closing stocks of maize and beans have been stated in terms of standard weight of 90 kg bags.

(b) **Funds from the Government (Principal)**

Funds from the Principal for undertaking the GOK social functions have been incorporated in the Accounts on accrual basis to recognize it as income in the same fiscal year that funds were to be provided to the Agent by the Principal for specific operations carried out at the express instructions of the Principal.

(c) **Allocation of Expenses**

Expenses that are specifically and directly attributable to GOK social functions have been charged to the relevant Agency function.

2. **GOK AGENCY ACCOUNT**

2.1 **Guiding Reform Policies and Principles on GOK Social Functions**

In conformity with the new Operating Rules on domestic grain marketing that were introduced as part of NCPB commercialization process, the Government signed an Agency Agreement on 11th May 1998 that requires both the Agent and the Principal to enter into separate Operational Contracts for each specific function and to negotiate and agree on rates for services and facilities to be provided by the Agent. The Agency functions identified for the purpose of the Agency Agreement are as follows:-

- (i) Procurement, handling, storage and maintenance of Strategic Grain Reserve Stocks of up to 3.0 million X 90 Kg bags of maize
- (ii) Procurement, handling, storage, maintenance and distribution of GOK famine Relief/Emergency stocks of commodities
- (iii) Management and up-keep of 17 selected depots for use in storage and distribution of GOK famine relief/emergency programmes
- (iv) Undertaking market intervention measures as directed by the Government from time to time

NATIONAL CEREALS AND PRODUCE BOARD
GOK AGENCY OPERATIONS
NOTES TO THE ACCOUNTS – 30TH JUNE 2006

2.2 Provisions of Agency Agreement

Under the Agency Agreement, the Government (Principal) is required to avail funds upfront to the Agent (NCPB) to meet direct costs and the agency fees and charges which are payable on the basis of pre-costing of activities to be undertaken.

The rates applicable in 2005/2006 FY for various services and facilities which were mutually agreed upon on 12th November 2002 by the two parties were as follows:-

<u>Nature of Service/facility</u>	<u>Rate</u> <u>KShs/Percentage</u>
a) Storage	3.20 per bag per month
b) Quality maintenance	3.50 per bag per month
c) Commission on Purchasing	85.00 per bag
d) Commission on releases	17.00 per bag
e) Commercial on sales	8 % of sales value
f) Commission on direct transport cost	8 % of transport cost
g) Commission on commodity handling	8 % of handling cost

3. CLOSING STOCKS

3.1 Details of quantities and valuation of closing stocks under GOK Famine Relief function were as follows:

<u>Category/Product</u>	<u>As at 30.06.2006</u>		<u>As at 30.06.2005</u>	
	<u>Bags</u>	<u>Value KShs</u>	<u>Bags</u>	<u>Value KShs</u>
GOK Famine Relief – Maize(90 kg)	0	0	576,960	1,046,969,207
GOK Famine Relief – Beans (90 Kg)	30,660	103,419,394	9,992	71,538,565
GOK Famine Relief - S/hand Gunnies	153,748	9,577,400	183,573	6,211,266
Green Grams	1,139	1,879,350	1,689	2,708,530
Millet/Sorghum	1,224	1,058,760	107	92,555
Garden peas	1,374	3,572,400	0	0
Imported wheat	128,911	202,390,270	0	0
Pigeon peas	2,164	3,605,224	0	0
Sub Total F/Relief Stock		325,502,798		1,127,520,123
SGR Maize Stocks	1,892,457	2,902,820,960	2,600,452	3,969,147,241

NATIONAL CEREALS AND PRODUCE BOARD
GOK AGENCY OPERATIONS
NOTES TO THE ACCOUNTS - 30TH JUNE, 2006

3.2 **Stock Movement**

	2005/2006FY						2004/2005FY				
	SGR MAIZE	F/RELIEF MAIZE	GUNNIES	Green Grams	BEANS	MILLET/SORGHUM	SGR MAIZE	GUNNIES	F/RELIEF MAIZE	BEANS	MILLET/SORGHUM
	(90kg Bags)	(90kg Bags)	Pieces	(90kg Bags)	(90kg Bags)	(90kg Bags)	(90kg Bags)	Pieces	(90kg Bags)	(90kg Bags)	(90kg Bags)
OPENING STOCKS	2,600,000	576,960	183,573	1,689	9,992	107	984,215	141,757	237,915	4,571	7,960
Transfer from SGR stock to F/Relief Stock	0	577,281	0	0	0	0	0	0	315,517	0	0
Purchases/Surrendered	0	1,363,219	216,031	000	110,000	1,127	1,962,354	247,656	1,482,931	9,600	0
Stocks Available For Distribution/Sale	2,600,452	2,517,460	399,604	1,689	119,992	1,234	2,946,569	389,413	2,036,363	14,171	7,960
Deduct Disposals:											
Releases/Sales	125,308	2,517,460	245,856	330	89,332	10	14,608	205,840	1,459,403	4,179	2,854
Transfer to F/Relief Stock from SGR Stocks	577,281	0	0	0	0	0	315,517	0	0	0	4,999
Storage Loss/(Gain Adjustment)	5,406	0	0	0	0	0	15,992	0	0	0	0
Sub-Total	707,995	2,517,460	245,856	330	89,332	10	346,117	205,840	1,459,403	4,179	7,853
CLOSING STOCKS	1,892,457	0	153,748	1,359	30,660	1,224	2,600,452	183,573	576,960	9,992	107

NATIONAL CEREALS AND PRODUCE BOARD
GOK AGENCY OPERATIONS

NOTES TO THE ACCOUNTS - 30TH JUNE 2006

(Continued)

5 **AMOUNTS OWING ON AGENCY SERVICES**

5.1 **Composition**

The breakdown of the amounts owing to the Agent as at 30th June 2006 in relation to each Agency operation as well as remittances received from the Government (OP-R&R) during the year are summarized here below:-

	<u>Cumulative</u> <u>Amounts Due</u> KShs	<u>Amounts</u> <u>Received</u> KShs	<u>Net amounts</u> <u>Outstanding</u> KShs
a) <u>Strategic Grain</u>			
<u>Reserve</u>			
Balance B/F on 1/7/2005	163,807,949	0	163,807,949
2005/2006 expenses:-			
Direct costs	0	0	0
Storage Charges	<u>0</u>	<u>0</u>	<u>0</u>
Sub – Total	<u>163,807,949</u>	<u>0</u>	<u>163,807,949</u>
b) <u>Famine Relief</u>			
Balance B/F on 1/7/2005	(74,844,539)	0	(74,844,539)
2005/2006 expenses:-			
Direct costs	2,641,970,816	2,473,648,003	168,322,812
Storage Charges	<u>267,197,390</u>	<u>0</u>	<u>267,197,390</u>
Sub – Total	<u>2,834,323,667</u>	<u>2,473,648,003</u>	<u>360,675,664</u>
c) <u>GOK 17 selected</u>			
<u>Depots for F/Relief</u>			
Balance B/F on 1/7/2005	191,916,638	0	191,916,638
2005/2006 expenses:-			
Direct costs	0	0	0
Storage Charges	0	0	0
5 % Management	<u>0</u>	<u>0</u>	<u>0</u>
Sub – Total	<u>191,916,638</u>	<u>0</u>	<u>191,916,638</u>
d) <u>Strategic Grain</u>			
<u>Reserve</u>			
Balance B/F on 1/7/2005	1,672,571,206	1,577,873,816	94,697,390
2005/2006 expenses:-			
Direct costs	29,853,590	221,761,010	-191,907,420
Storage Charges	<u>187,752,369</u>	<u>0</u>	<u>187,752,369</u>
Sub – Total	<u>1,890,177,165</u>	<u>1,799,634,826</u>	<u>90,542,339</u>
Total (a+b+c+d)	<u>5,080,225,418</u>	<u>4,273,282,830</u>	<u>806,942,590</u>
e) <u>Less:</u> Net sales			<u>1,546,122</u>
Net Amount outstanding as at 30th June 2006			<u>805,396,468</u>

NATIONAL CEREALS AND PRODUCE BOARD
GOK AGENCY OPERATIONS
NOTES TO THE ACCOUNTS - 30TH JUNE, 2006

5 **COMMODITY PURCHASES**

6.1 **Purchases on Agency Basis**

During 2005/2006 FY the Agent (NCPB), at the request of the Principal (Government – OP-R&R) procured on agency basis, the under listed commodities for GOK Famine Relief/Emergency Programmes :-

<u>Commodity</u>	2005/2006 FY Quantity (90Kgs)	2004/2005 FY Quantity (90Kgs)
Maize F/R	1,363,219	1,482,931
Beans	110,000	9,600
Green Grams	0	20,000
Millet/Sorghum	1,127	0
SGR Maize	0	1,962,354

7 **RELIEF COMMODITIES DISTRIBUTED IN 2005/2006 FY**

7.1 **Commodities Distributed**

During 2005/2006 FY the Agent (NCPB) distributed on behalf of the Government through requisition orders raised in favour of various beneficiary districts, the under-listed commodities under GOK famine Relief/Emergency Programme.

	2005/2006 FY Quantity (90Kgs)	2004/2005 FY Quantity (90Kgs)
Maize	2,517,460	1,459,403
Beans	89,332	4,179
Green Grams	330	18,066
Millet/Sorghum	10	2,854
Pigeon peas	9,958	0
SGR Maize	125,308	0

NATIONAL CEREALS AND PRODUCE BOARD
GOK AGENCY OPERATIONS
NOTES TO THE ACCOUNTS - 30TH JUNE, 2006

7.2 **Quantity Transported**

For purpose of servicing the Principal's requisition orders raised during the year as well as pre-positioning commodities at the required destinations, the Agent moved relief commodities and SGR maize by road transport services as summarized below:-

	2005/2006 FY		2004/2005 FY	
	Quantity (90Kgs)	Cost KShs	Quantity (90Kgs)	Cost KShs
Maize F/R	1,473,534	472,022,747	1,592,559	305,094,916.35
Maize SGR	146,461	28,606,520	231,584	33,617,256.40
Beans	11,320	1,751,257	2,743	798,549.50
Green Grams	0	0	6,883	572,493.60
Sorghum	0	0	3847	1,122,802.80
Total		502,380,524		105,539,257.00

8 **CONTINGENT LIABILITIES**

A contingent liability amounting to KShs 178,533,987.00 continued to remain unsettled as at 30th June 2006. This liability relates to a GOK market intervention measure implemented by the Agent (NCPB) in providing a market outlet for local wheat at pre-determined buying prices as directed by the Government during 1997/98 FY. In addition to the above contingent liability there is also an amount of KShs. 2.20 billion which arose from maize export losses during 2001/2002 FY.

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