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*Paper laid
By the Leader
of the Kenya
party
Hon. Aden
Dunali
On Thursday 2/7/2015*



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA SUGAR RESEARCH
FOUNDATION

FOR THE YEAR ENDED
30 JUNE 2014



KENYA SUGAR RESEARCH FOUNDATION

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2014

**KENYA SUGAR RESEARCH FOUNDATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

CONTENTS	PAGE
COPORATE INFORMATION	1-2
STATEMENT OF COPORATE GOVERNANCE	3-4
REPORT OF THE DIRECTORS	5
STATEMENT OF THE DIRECTORS' RESPONSIBILITIES	6
REPORT OF THE INDEPENDENT AUDITORS	7-8
STATEMENT OF FINANCIAL PERFORMANCE	9
STATEMENT OF FINANCIAL POSITION	10
STATEMENT OF CHANGES IN NET ASSETS	11
STATEMENT OF CASH FLOWS	12
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS	13
NOTES TO THE FINANCIAL STATEMENTS	14-34
PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS	35

KENYA SUGAR RESEARCH FOUNDATION
CORPORATE INFORMATION
FOR THE YEAR ENDED 30 JUNE 2014

BACKGROUND INFORMATION

Research on sugarcane in Kenya started in the 1950's under the auspices of the Ministry of Agriculture. Field experiments were conducted in the farmer's fields in Kibos and Miwani areas, while laboratory analyses were undertaken at the National Agricultural Laboratories – Kabete, in Nairobi. In 1969 the government set up the National Sugar Research Station at Kibos, within the Nyando sugar belt, to enhance research in cane production. In 1988, the station became one of Kenya Agriculture Research Institute's (KARI) centers with the same mandate on sugarcane research. To enhance the efficiency of sugar research, the Kenya Sugar Authority (KSA, now KSB) and KARI commissioned an Inter-ministerial committee to review the status of sugar research in Kenya. The committee recommended, inter alia, the formation of a Sugar Research Foundation to be funded wholly by the sugar industry. Following this recommendation, the Kenya Sugar Research Foundation (KESREF) was incorporated as a company limited by Guarantee on 4 May 2000, and started its operations on 1 February, 2001. Both KARI and KSB provided the initial physical and human resources needed to enable KESREF start its operations.

THE BOARD OF DIRECTORS

Mr. Komora Jilo		Chairman of the Board (Retired 30 June 2014)
Dr. Jamoza Japheth		Secretary -Ag. Director (Retired 30 June 2014)
Mr. Hamisi Williams		Member- Alt. Principal Secretary, MOA (Retired 30 June 2014)
Mr. Protus Sigei		Member -ALT, PS Treasury (Retired 30 June 2014)
Dr. E Mukisira	(MBS)	Member (Director, KARI) (Retired 30 June 2014)
Ms. Rosemary Mkok	(MBS)	Member (CEO, KSB) (Retired 30 June 2014)
Mr. Ibrahim Juma		Member, Chairman-KESGA (Retired 30 June 2014)
Mr. P Kebati		Member, Alt Chairman, KESMA (Retired 30 June 2014)
V Mathenge		Independent member (Retired 30 June 2014)
J Songa		Independent member (Retired 30 June 2014)
Dr. Susan Muringi		Independent member (Retired 30 June 2014)

CHIEF OFFICERS

The key management personnel who held office during the financial year ended 30 June 2014 and who had direct fiduciary responsibility were:

Japhet Jamoza, PhD	Acting Director
Noah Wawire, PhD	Head of Department – Economics and Biometrics
James Wahome	Head of Department – Milling and Processing
James Odenya	Head of Department – Technology Transfer
Betty Mulianga	Head of Department – Agricultural Engineering
Ginson Riungu	Ag. Head of Department – Crop Development
Lilian Nyaluogo	Human Resources Manager
Gideon K. Kirui	Finance Manager
Charles Kamuren	ICT Manager
Alex Angalika	Internal Auditor
Stephen Musewe	Supply Chain Manager

INTERIM BOARD OF DIRECTORS

Kenya Agricultural Livestock Research Organization (KALRO) came into effect from 4th July 2014 through a Kenya Gazette Notice and merged the following institutions under one umbrella (KALRO). These institutions were KESREF, KARI, TRF and CRF.

KALRO is currently being managed by a Director General (Ag) and the Interim Management Committee (IMC) acting of the Board.

IMC COMMITTEE MEMBERS

Ali Daud Mohamed	Chairperson
Victor Wesonga	Member
Ibrahim Mwathane	Member

**KENYA SUGAR RESEARCH FOUNDATION
CORPORATE INFORMATION
FOR THE YEAR ENDED 30 JUNE 2014**

Julius Koros	Member
Hezbon Mariwa	Member
Abdi Yakub Guliye (Prof)	Member
Tito Koiyet	Member
Khadija Mire	Member
Mary Mugo	Member
Mcharo Mwamburi (Dr)	Member
Ikal Angelei	Member

REGISTERED OFFICE

Kisumu – Miwani Road
P O Box 44 – 40100
KISUMU

BANKERS

Co-operative Bank of Kenya Ltd
Haile Selassie Avenue
P O Box 48231 - 00100 GPO
NAIROBI

AUDITORS

Ernst & Young
Kenya-Re Towers, Upperhill
P. O. Box 44286 - 00100
NAIROBI

On behalf of:
The Auditor-General
P. O. Box 30084 - 00100
NAIROBI

PRINCIPAL LEGAL ADVISOR

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112- 00200
City Square
NAIROBI

KENYA SUGAR RESEARCH FOUNDATION
STATEMENT OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED 30 JUNE 2014

THE BOARD OF DIRECTORS

The Board is responsible for developing and implementing strategies for the success of the Foundation, establishing and maintaining the Foundation's system of internal controls so that the objectives of profitability and sustainable growth are fully realized.

The day-to-day running of the business of the Foundation is delegated to the Executive Director but the notices and agenda for all board meetings are circulated on timely basis to all directors together with other relevant reports for discussions.

With effect from 1 July 2014, the Foundation ceased existing due to operationalization of the Kenya Agriculture and Livestock Research Organization Act which created the Kenya Agriculture and Livestock Research Organization (KALRO), converting all the research organizations in the agriculture sector to institutes of KALRO. As from this date, the Foundation stood dissolved, its Board of Directors was disbanded and its assets and liabilities transferred to KALRO, under Kenya Sugar Research Institute.

BOARD MEETINGS

The Board of Directors met on quarterly basis to monitor the implementation of the Foundation's planned strategy, review it in conjunction with its financial and budgetary performance and approve issues of strategic nature. Specific reviews are also undertaken on operational issues and future planning.

The Board held 5 meetings during the period under review.

BOARD COMMITTEES

The Board constituted committees which meet regularly namely audit committee, finance and establishment committee and Research and Technology transfer committee. The terms of reference for each committee are well set by the board.

(a) Audit committee

The audit committee meets on quarterly basis. The committee comprises 3 non-executive members of the Board who are independent of the day-to-day management of the Foundation's operations.

The following are the members of the committee;

- | | |
|-----------------------|------------------------------------|
| 1. Mr. Ibrahim Juma | Ag. Chairman, Chairman (KESGA) |
| 2. Mr Hamisi Williams | Member (ALT, PS Agriculture) |
| 3. Mr. P Kebati | Member, Alt Chairman, KESMA |
| 4. Mr A. Angalika | Secretary (Internal Audit Manager) |

The Head of Internal Audit is the secretary to the committee.

The committee:

1. Reviews and monitors the integrity of the Foundation's annual and interim financial statements
2. Considers the appropriateness of the Foundation's accounting policies and procedures.
3. Monitors and assess the role and effectiveness of the internal audit function.
4. Deals with matters relating to appointment, remuneration and resignation or dismissal of external auditors.

The committee held 4 meetings during the period under audit.

KENYA SUGAR RESEARCH FOUNDATION
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

BOARD COMMITTEES (Continued)

(b) Finance and establishment committee

Ms. Rosemary Mkok (MBS)	Chairman (CEO, KSB)
Mr Hamisi Williams	Member (ALT, PS Agriculture)
Dr. E Mukisira, (MBS)	Member (Director, KARI)
Mr. Protus Sigei	Member (ALT, PS Treasury)
Dr. Susan Muruingi	Member
Dr. Japheth Jamoza	AG. Director KESREF

The committee

1. Approves the budget for the organisation before implementation
2. Monitoring of budget implementation from time to time
3. Approval of human resource policies and manuals
4. Recruitment of staff
5. Appraisal of staff

(c) Research and Technology transfer committee

Dr. E Mukisira, (MBS)	Chairman (Director, KARI)
Mr Hamisi Williams	Member (ALT, PS Agriculture)
Mr. P Kebati	Member, Alt Chairman, KESMA
Mr. Ibrahim Juma	Member, Chairman (KESGA)
Dr. Susan Muruingi	Member
Dr. Japheth Jamoza	AG. Director KESREF

The committee

1. Reviews performance research projects
2. Assesses the sugar industry needs
3. Assesses adoption of new research technologies within the sugar industries

KENYA SUGAR RESEARCH FOUNDATION
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2014

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of the Foundation for the year ended 30 June 2014 which show the state of the Foundation's affairs.

PRINCIPAL ACTIVITY

Until 30 June 2014 the principal activity of the Foundation was to promote research into and investigate all problems relating to sugarcane farming and its manufacture into sugar and by-products, such other crops and systems of husbandry that are associated with sugarcane throughout Kenya including the productivity, quality and sustainability of land in relation to sugarcane planting, and on matters ancillary thereto.

With effect from 1 July 2014, the Foundation ceased existing due to operationalization of the Kenya Agriculture and Livestock Research Organization Act which created the Kenya Agriculture and Livestock Research Organization (KALRO), converting all the research organizations in the agriculture sector to institutes of KALRO.

Results

The results for the year are set out on page 9.

Directors


The members of the Board of Directors who served during the year are shown on page 1. All the directors retired on 30 June 2014. The Interim Management Committee (Interim Board) was established to run the affairs of the Foundation with effect from 1 July 2014

Auditors

The Auditor General is responsible for the statutory audit of the Foundation's books of account in accordance with Section 14 and Section 39 (i) of the Public Audit Act, 2003, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

Ernst and Young Certified Public Accountants were nominated by the Auditor General to carry out the audit of the Foundation for the financial year ended 30 June 2014.

By Order of the Board



Corporate Secretary
Kisumu

..... 30 / 12 / 2014.

KENYA SUGAR RESEARCH FOUNDATION
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 30 JUNE 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act (Cap. 486) 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 Foundation as at the end of the financial year and of the operating results for that year. It also requires the directors to ensure the Foundation keeps proper accounting records which disclose, with reasonable accuracy, the financial position of the Foundation. They are also responsible for safeguarding the assets of the Foundation.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards and the requirements of the Kenyan Companies Act. 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 Foundation and of its operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal control.

Due to the matter described in note 31, the directors acknowledge that the Foundation will remain a going concern for at least the next twelve months from the date of this statement.

Approved by the Interim Management on 31.12. 2014 and signed on its behalf by:



.....
Interim Director-General



.....
Interim Director

REPORT OF THE INDEPENDENT AUDITORS
TO THE AUDITOR GENERAL ON
FINANCIAL STATEMENTS OF
KENYA SUGAR RESEARCH FOUNDATION

Report on the financial statements

We have audited the accompanying financial statements of Kenya Sugar Research Foundation (KESREF), which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 9 to 35.

Directors' responsibility for the financial statements

The Foundation's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards and in the manner required by the Kenyan Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation'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 directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Basis for Qualified Opinion

i. LAND OWNERSHIP

Included in property, plant and equipment is land with reference Number 23410 situated north East of Kisumu Municipality District of the republic of Kenya measuring 40.49 hectares, valued at KShs 819,333,585. However the title of ownership is in the name of Kenya Agricultural Research Institute (KARI). Whereas an agreement of transfer of title was signed between the Foundation and KARI in 2009, the title is yet to be transferred to the Foundation. We were therefore not able to confirm the ownership of the land.

ii. REVALUATION OF PROPERTY, PLANT AND EQUIPMENT

During the previous year, a new office block was completed at a cost of KShs 663,772,203, bringing the total cost of buildings to KShs 807,954,693. Management engaged a professional valuer during the year to value all buildings of the Foundation. The valuation report indicated the value of all the Foundation's buildings, including this new office block, as KShs 447,992,751. We were not able to establish the circumstances under which the value of these new buildings would fall far below its cost.

ii. REVALUATION OF PROPERTY, PLANT AND EQUIPMENT (continued)

In addition, the valuation report does not show the breakdown of the various individual buildings being valued, and hence we were unable to ascertain the write-down attributable to the new building completed during the year, and whether the cost incurred before the write-down, was reasonable when compared to the valuation amount.

Qualified opinion

Except for the possible effects of the matters described in the Basis for Qualified opinion paragraphs, in our opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Sugar Research Foundation as at 30 June 2014, and of its financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards and the requirements of the Kenyan Companies Act.

Emphasis of matter

We draw attention to note 31 of these financial statements which indicates a material uncertainty on the foundation's ability to continue as a going concern in the foreseeable future. Our opinion is not qualified on this respect.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, we report to you, based on our audit that:

- i) except for the effects of such adjustments, as might have been necessary in respect of the matters referred to on the Basis for Qualified opinion paragraphs, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
- ii) in our opinion, except for the effects of such adjustments, as might have been necessary in respect of the matters described in the basis for qualified opinion paragraphs, proper books of account have been kept by the Foundation, so far as appears from our examination of those books; and
- iii) the statement of financial position and statement of financial performance of the Foundation are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Avani S. Gilani- P/No 787.

Nairobi, Kenya

..... 2014

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA SUGAR RESEARCH FOUNDATION FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Kenya Sugar Research Foundation set out on pages 9 to 35, which comprise the statement of financial position as at 30 June, 2014, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Ernst and Young, Auditor appointed under Section 39 of Public Audit Act, 2003. The audit was conducted in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. The Auditor has reported to me, the results of the audit and I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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. Property, Plant & Equipment

i) Land Ownership

Included in property, plant and equipment balance of Kshs.1,359,584,509 as at 30 June 2014 are portions of the Foundation's entire land all valued at Kshs.819,333,585. However, the title documents for some portions in Kibos and Mtwapa are in the name of Kenya Agricultural Research Institute (KARI). Whereas an agreement to transfer the title was signed between the Foundation and KARI in 2009, the titles are yet to be transferred to the Foundation. Further, the Foundation's land at Opapo and Mumias are not registered in its name.

Consequently, it has not been possible to confirm that the Foundation is the beneficial owner of the land, and that the property, plant and equipment balance of Kshs.1,359,584,509 is fairly stated as at 30 June 2014.

ii) Revaluation of Property, Plant & Equipment

As reported in the previous year, the property, plant & equipment balance of Kshs.1,359,584,509 as at 30 June 2014 includes a new office block completed in the year 2012/13 at a cost of Kshs.663,772,203. Management engaged the services of a professional valuer in the year 2012/13 to value all buildings of the Foundation. The valuation report indicated a block value of all the Foundation's buildings, including the new one, as Kshs.447,992,751. It was not possible to establish the circumstances under which the value of the new building would fall far below the construction cost.

Further, the valuation report does not show the breakdown of the various individual buildings valued, and hence it was not possible to ascertain the write-down value

attributable to the new building and whether the cost incurred before the write-down, was reasonable when compared to the valuation amounts.

2. Trade and Other Receivables

As similarly reported in the previous year, the trade and other receivables balance of Kshs.213,446,167 as at 30 June 2014 excludes outstanding temporary imprest of Kshs.5,980,161 issued to one officer of which Kshs.2,964,822 relates to imprests issued in the financial year 2009/2010. Further included in the temporary imprest is Kshs.1,558,396 held by former employees of the Foundation. In the circumstances, the propriety of the trade and other receivables balance of Kshs.213,446,167 as at 30 June, 2014 could not be confirmed.

3. Cash and Cash Equivalents

As reported in the previous year, excluded in the cash and cash equivalents balance of Kshs.349,155,690 as at 30 June 2014 are cash withdrawals totalling to Kshs.6,914,345 made in 2009/2010 against which the related supporting documents were not availed for audit verification. Although management has indicated that the missing documents are a subject of investigations by the Foundation and other arms of the Government, the amount of Kshs.6,914,345 nevertheless remained unaccounted for as at 30 June 2014.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.349,155,690 as at 30 June 2014 could not be ascertained.

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 of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap. 486 of the Laws of Kenya.

Emphasis of matter

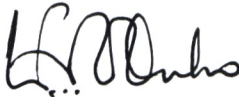
Going Concern

I draw attention to note 31 to these financial statements which indicates the effect of the operationalization of the Kenya Agricultural and Livestock Research Act, 2013 on the Foundation's ability to continue as a going concern in the foreseeable future. My opinion is not qualified in respect of this matter.

REPORT ON OTHER LEGAL AND REPORTING REQUIREMENTS

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

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



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

NAIROBI

23 February 2015

KENYA SUGAR RESEARCH FOUNDATION
 STATEMENT OF FINANCIAL PERFORMANCE
 FOR THE YEAR ENDED 30 JUNE 2014

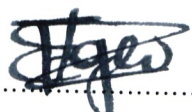
		2014 KShs	2013 KShs
REVENUES			
Revenue from exchange transactions			
Gain on revaluation	2 (i)	426,227	7,394,254
Interest income	2 (ii)	17,991,886	15,963,794
Other income	2 (iii)	<u>11,078,932</u>	<u>15,839,339</u>
		<u>29,497,045</u>	<u>39,197,387</u>
Revenue from non-exchange transactions			
Grant income	3 (i)	508,210,194	469,958,390
Project income	3 (ii)	18,887,468	34,923,620
Donations received		<u>52,532,085</u>	<u>-</u>
		<u>579,629,747</u>	<u>504,882,010</u>
TOTAL REVENUES		609,126,792	544,079,397
OPERATING EXPENSES			
Depreciation	4 (i)	33,524,663	29,723,050
Staff costs	4 (ii)	133,954,239	139,874,520
Research costs	4 (iii)	130,029,464	115,226,157
Revaluation loss	4 (iv)	-	413,345,806
Other	4 (v)	<u>223,702,512</u>	<u>163,596,964</u>
Total		<u>521,210,878</u>	<u>861,847,020</u>
SURPLUS / (DEFICIT) FOR THE YEAR		<u>87,915,914</u>	<u>(317,767,623)</u>

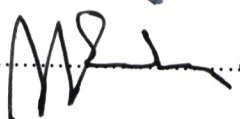
KENYA SUGAR RESEARCH FOUNDATION
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

CURRENT ASSETS		2014 KShs	2013 KShs	2012 KShs Restated
Cash and cash equivalents	5	349,155,690	283,364,367	269,776,697
Receivables from exchange transactions	6	2,457,244	1,760,411	16,110,081
Receivables from non-exchange transactions	7	213,446,167	184,310,871	154,668,141
Current portion of biological assets	8	4,971,103	133,701	1,675,243
Inventories	9	<u>6,917,937</u>	<u>5,344,732</u>	<u>4,129,813</u>
		<u>576,948,141</u>	<u>474,914,082</u>	<u>446,359,975</u>
NON-CURRENT ASSETS				
Biological Assets	8	1,323,849	12,902,885	14,155,243
Property, plant and equipment	10	<u>1,359,584,509</u>	<u>1,328,363,055</u>	<u>924,087,168</u>
		<u>1,360,908,358</u>	<u>1,341,265,940</u>	<u>938,242,411</u>
TOTAL ASSETS		<u>1,937,856,499</u>	<u>1,816,180,022</u>	<u>1,384,602,386</u>
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables from exchange transactions	11	22,050,567	23,290,004	47,163,992
Provisions	12	<u>40,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>
TOTAL LIABILITIES		<u>62,050,567</u>	<u>28,290,004</u>	<u>52,163,992</u>
NET ASSETS		<u>1,875,805,932</u>	<u>1,787,890,018</u>	<u>1,332,438,394</u>
CAPITAL AND RESERVES				
Revaluation Reserves	13	764,933,801	768,589,286	-
Accumulated surplus	14	<u>1,110,872,131</u>	<u>1,019,300,732</u>	<u>1,332,438,394</u>
		<u>1,875,805,932</u>	<u>1,787,890,018</u>	<u>1,332,438,394</u>

*Certain amounts shown here do not correspond to the 2012 and 2013 financial statements and reflect adjustments made as detailed in note 34.

The financial statement were approved by Interim Board of Directors on 31.12.2014 and signed on its behalf by:

 Director

 Director

KENYA SUGAR RESEARCH FOUNDATION
STATEMENT OF CHANGES IN NET ASSETS
AS AT 30 JUNE 2014

	Revaluation reserves KShs	Accumulated surplus KShs	Total KShs
Balance as at 1 July 2012	-	1,332,439,796	1,332,439,796
Deficit for the year	-	(317,767,623)	(317,767,623)
Surplus on revaluation of property, plant and equipment	773,217,845	-	773,217,845
Transfer of excess depreciation	<u>(4,628,559)</u>	<u>4,628,559</u>	<u>-</u>
Balance as at 30 June 2013	<u>768,589,286</u>	<u>1,019,300,732</u>	<u>1,787,890,018</u>
Balance as at 1 July 2013	768,589,286	1,019,300,732	1,787,890,018
Surplus for the year	-	87,915,914	87,915,914
Transfer of excess depreciation	<u>(3,655,485)</u>	<u>3,655,485</u>	<u>-</u>
Balance as at 30 June 2014	<u>764,933,801</u>	<u>1,110,872,131</u>	<u>1,875,805,932</u>

KENYA SUGAR RESEARCH FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus/(deficit) for the year	87,915,914	(317,767,623)
Adjustments for:		
Depreciation	33,524,663	29,723,050
Capital donations of capital items	(52,602,080)	-
Cost of biological assets sold	7,167,861	10,188,854
Loss in value of property, plant and equipment	-	413,345,806
(Gain)/loss in value of biological assets	(426,227)	(10,158,332)
Gain on disposal of fixed asset	(161,161)	-
Interest income	<u>(17,991,886)</u>	<u>(15,963,794)</u>
Cash inflows before working capital changes	<u>57,427,084</u>	<u>109,67,961</u>
WORKING CAPITAL CHANGES		
Increase in Inventories	(1,573,205)	(1,214,919)
Increase in receivables from exchange transactions	(696,832)	11,875,891
Increase in receivables from non-exchange transactions	(29,135,296)	(27,168,951)
Increase in provisions	35,000,000	-
Decrease in Payables	<u>(1,239,438)</u>	<u>(21,109,208)</u>
Net cash flows from operating activities	<u>59,782,313</u>	<u>71,750,774</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, equipment	(12,301,197)	(74,126,898)
Proceeds from disposal of fixed assets	318,320	-
Interest Income	<u>17,991,886</u>	<u>15,963,794</u>
Net cash flows used in investing activities	<u>6,009,009</u>	<u>(58,163,104)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>65,791,323</u>	<u>13,587,670</u>
Cash and cash equivalents at 1 July 2013	283,364,367	269,776,697
Cash and cash equivalents at 30 June 2014	349,155,690	283,364,367

**KENYA SUGAR RESEARCH FOUNDATION
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2014**

REVENUE	Original budget KShs	Adjustments KShs	Final budget KShs	Actual KShs	Performance difference KShs
GOK Recurrent Grant	122,000,000	(4,100,000)	117,900,000	100,575,000	(17,325,000)
GOK Development Grant	100,000,000	(46,500,000)	53,500,000	61,500,000	8,000,000
Sugar Reforms Support Project	101,509,660	-	101,509,660	18,887,468	(30,090,107)
Sugar Development Levy % Share	385,043,833	-	385,043,833	346,135,194	(38,908,639)
Milling Cane	14,000,000	(5,400,000)	8,600,000	7,167,862	(1,432,138)
Seed cane	3,000,000	(1,000,000)	2,000,000	1,296,420	(703,580)
Sale of Other Products	1,000,000	-	1,000,000	66,990	(933,010)
Other income	750,000	-	750,000	1,261,660	511,660
Interest on Fixed Deposit	5,000,000	8,460,000	13,460,000	17,991,886	4,531,886
Donations received	-	-	-	52,532,085	52,532,085
Rental Income	1,500,000	-	1,500,000	1,286,000	(214,000)
Gain in Value of Biological Assets	-	-	-	426,227	426,227
Total income	733,803,493	(48,540,000)	685,263,493	609,126,792	(76,136,701)
EXPENSES					
Personnel Emoluments	222,345,000	-	222,345,000	133,954,239	(88,390,761)
Board Expenses	21,428,000	-	21,428,000	25,944,070	4,516,070
Depreciation	47,957,386	-	47,957,386	33,524,663	(14,432,723)
Office expenses	26,607,172	4,103,238	30,710,410	37,663,027	1,206,861
Motor Running Expenses	20,800,000	-	20,800,000	25,771,655	4,971,655
Staff Welfare	23,200,000	-	23,200,000	18,010,806	(5,189,194)
Travelling	25,000,000	-	25,000,000	32,316,712	7,316,712
Training	10,000,000	-	10,000,000	14,677,241	4,677,241
Conferences and meetings	9,000,000	-	9,000,000	2,107,094	(6,892,906)
Insurance	5,400,000	-	5,400,000	4,709,284	(690,716)
Consultancy and Other charges	13,430,000	-	13,430,000	3,211,088	(10,218,912)
Legal Expenses and Subscriptions	11,100,000	-	11,100,000	7,944,326	(3,155,674)
Publicity and Advertisement	13,850,000	-	13,850,000	3,830,844	(10,019,156)
Experimentation Costs	107,250,000	-	107,250,000	114,420,164	7,170,164
Repairs and Maintenance	15,500,000	-	15,500,000	10,987,063	(4,512,937)
Finance Charges	10,000,000	-	10,000,000	162,900	(9,837,098)
SRSP Expenses	101,509,660	(52,532,085)	48,977,575	15,609,300	(33,368,275)
Loss in Value of buildings	-	-	-	35,000,000	35,000,000
Auditors Remuneration	-	-	-	1,366,400	1,366,400
Total expenditure	684,377,218	(48,428,847)	635,948,371	521,210,877	(114,737,494)
SURPLUS FOR THE PERIOD	49,426,275	(111,153)	49,315,122	35,098,211	14,216,911

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Statement of compliance and basis of preparation

The Foundation's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Foundation. The accounting policies have been consistently applied to all the years presented.

For all periods up to and including the year ended 30 June 2013, the Foundation prepared its financial statements in accordance with International Financial Reporting Standards. These financial statements for the year ended 30 June 2014 are the first the Foundation has prepared in accordance with IPSAS.

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

(b) Revenue recognition

i) Revenue from non-exchange transactions

Sugar Development Levy

The Foundation recognizes revenues from Sugar Development Levy (SDL) when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Foundation and the fair value of the asset can be measured reliably.

Transfers from other government entities

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

Where a grant is related to an asset, the grant is presented in the statement of financial position and is credited in directly to the statement of financial performance in the year the asset is granted/donated..

ii) Revenue from exchange transactions

Rendering of services

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

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

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD ENDED 30 JUNE 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Revenue recognition (continued)

ii) Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Foundation.

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

Rental income

Rental income arising from operating leases on excess office space is accounted for on a straight-line basis over the lease terms and included in revenue.

(b) Budget information

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

(c) Property, plant and equipment

All property, plant and equipment are initially recorded at cost. After initial recognition, property, plant and equipment other than land are shown at their revalued amounts, less accumulated depreciation and any accumulated impairment losses. Land is carried at revaluation amount until a subsequent valuation is done. The revaluations are carried out after every three years, by external independent valuers. Historical cost includes expenditure that is directly attributable to the acquisition of the items and bringing them into place and form ready for use. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value as at the date of acquisition.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Foundation and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Any increase arising on the revaluation of property, plant and equipment is recognised as revaluation reserve in the year of revaluation and subsequently transferred to revenue reserves at the rate equal to depreciation on the gain on revaluation portion of the value of property, plant and equipment. A decrease in the carrying amount arising on the revaluation of property, plant and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD ENDED 30 JUNE 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Property, plant and equipment (Continued)

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Depreciation on assets is calculated using the diminishing balance method to allocate their cost or revalued amounts less their residual values over their estimated useful lives, as follows:

Motor Vehicles	25.00%
Furniture and equipment	12.50%
Computer equipment	30.00%
House furniture	12.50%
Laboratory equipment	12.50%
Farm equipment	12.50%
Tractors	37.50%
Buildings	2.50%

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss when the asset is derecognised. Any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Impairment reviews are performed when there are indicators that the carrying amount of an item of property, plant and equipment may not be recoverable. Impairment losses are recognised in profit or loss as an expense.

(d) Grants

Revenues from non-exchange transactions with other government entities are measured at fair value and

Grants are recognized at their fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Foundation and can be measured reliably. Fair value of a grant is considered to be the prevailing open market monetary value of the grant.

(e) Contingent liabilities

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Foundation determines the classification of its financial assets at initial recognition.

Trade receivables

Trade receivables are initially recognised at fair value including transaction costs. Subsequently they are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Objective evidence of impairment of the receivables is when there is significant financial difficulty of the counter party or when there is a default or delinquency in payment according to agreed terms. When a trade receivable is considered uncollectible it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the surplus or deficit.

Impairment of financial assets

The Foundation assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a group of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or financial liabilities at amortized cost, as appropriate. The Foundation determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD ENDED 30 JUNE 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year.

(h) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Net realizable value may fall below cost when items of inventory have become wholly or partially obsolete, or if their selling prices have declined. In this case the loss in value is recognised in the profit or loss for the year in which the loss occurred.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Foundation.

(i) Provisions

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

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

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

(j) Contingent assets

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

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD ENDED 30 JUNE 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Nature and purpose of reserves

The Foundation creates and maintains reserves in terms of specific requirements. The Foundation currently maintains revaluation reserves, accumulated surplus and capital reserves. Capital reserves comprise the value of fixed assets donated to the Foundation. The reserves are transferred to revenue reserves periodically at the rate of depreciation of the related fixed assets. Details on usage of revaluation reserves are contained in note 1 (c).

(l) Employee benefits

Retirement benefit plans

The Foundation provides retirement benefits for its employees through a Defined contribution plan. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

(m) Foreign currency transactions

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

(n) Biological assets

Living plants with probable future economic benefits which are owned and controlled by the Foundation are accounted for as biological assets. Harvested products from the Foundation's biological assets and agricultural produce are measured on initial recognition and at each reporting date at their fair value less estimated point of sale costs. Harvested products are subsequently measured at lower of cost and net realisable value in accordance with IPSAS 12 once harvested.

The fair value of the biological assets and agricultural produce that have an active market is determined using the quoted price in the market. The fair value of the biological assets that do not have an active market is determined at the present value of the expected net cash flows discounted at the current market determined pre-tax borrowing rate.

Point of sale costs include commissions to brokers and dealers, levies by regulatory agencies and transfer taxes and duties but exclude transport and other costs necessary to get the assets to the market.

For financial reporting purposes, the Foundation classifies its biological assets as follows:

(i) *Consumable biological assets*

Consumable biological assets are those that are to be harvested as agricultural produce or to be sold as biological assets.

Gains or losses arising on initial recognition of biological assets and agricultural produce and from changes in fair value less point of sale costs are recognized in the profit or loss for the year.

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD ENDED 30 JUNE 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Related parties

The Foundation regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Foundation, or vice versa. Transactions with related parties are disclosed when it becomes certain that financial resources will accrue from a related party to the Foundation or vice versa. Details of summary of transactions with related parties are shown in note 29.

(p) Significant judgments and sources of estimation uncertainty

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Foundation based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Foundation. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

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

Provisions

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD ENDED 30 JUNE 2014

2	REVENUE FROM EXCHANGE TRANSACTIONS	2014 KShs	2013 KShs
(i)	Gain on revaluation		
	Gain in value of biological assets	<u>426,227</u>	<u>7,394,254</u>
(ii)	Interest income		
	Interest Income on deposits	<u>17,991,886</u>	<u>15,963,794</u>
(iii)	Other income		
	Milling cane	7,167,862	9,808,652
	Seed cane	1,296,420	380,200
	Sale of other products	66,990	56,420
	Rental income	1,286,000	1,270,500
	Use of lab services	61,850	57,641
	Gain on disposal of fixed assets	161,161	-
	Other income	<u>1,038,649</u>	<u>4,265,926</u>
		<u>11,078,932</u>	<u>15,839,339</u>
		<u>29,497,045</u>	<u>39,197,387</u>
3.	REVENUE FROM NON-EXCHANGE TRANSACTIONS		
i.	Grant income		
	GOK recurrent grants	100,575,000	106,272,000
	GOK development grants	61,500,000	20,000,000
	SDL recurrent grants	<u>346,135,194</u>	<u>343,686,390</u>
		<u>508,210,194</u>	<u>469,958,390</u>
ii.	Project income		
	Sucrose based cane project	-	5,000,000
	Cane census project	-	450,000
	Sugar reforms support project income	<u>18,887,468</u>	<u>29,473,620</u>
		<u>18,887,468</u>	<u>34,923,620</u>
iii.	Donations received	<u>52,532,085</u>	-
	Total	<u>579,629,747</u>	<u>504,882,010</u>
4	OPERATING EXPENSES		
(i)	Depreciation (note 10)	<u>33,524,663</u>	<u>29,723,050</u>
(ii)	Staff costs (note 15)	<u>133,954,239</u>	<u>139,874,520</u>
(iii)	Research costs (note 27)	<u>130,029,464</u>	<u>115,226,157</u>
(iv)	Revaluation loss (note10)	<u>-</u>	<u>413,345,806</u>

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD ENDED 30 JUNE 2014

4 OPERATING EXPENSES (Continued)	2014	2013
	KShs	KShs
(v) Other expenses		
Office expenses (note 16)	37,663,027	28,566,262
Motor running expenses (note 17)	25,771,655	15,949,834
Staff welfare (note 18)	18,010,806	12,739,891
Traveling (note 19)	32,316,712	20,549,784
Training (note 20)	14,677,241	15,726,426
Conferences and meetings (note 21)	2,107,094	6,683,528
Insurance (note 22)	4,709,284	3,832,212
Consultancy and other charges	3,211,089	12,894,278
Auditors remuneration	1,366,400	1,366,400
Repairs and maintenance (note 23)	10,987,063	5,165,042
Legal expenses (note 24)	7,944,326	5,521,261
Publicity advertising and farmer education (note 25)	3,830,844	4,167,783
Board expenses (note 26)	25,944,070	18,334,784
Bank charges (note 28)	162,900	809,442
Provision for legal claims (note 11)	35,000,000	-
Provision for doubtful debts (note 6 and 7)	<u>-</u>	<u>11,370,560</u>
	<u>223,702,512</u>	<u>163,677,487</u>
Total	<u>521,496,495</u>	<u>861,766,497</u>
 5. CASH AND CASH EQUIVALENTS		
Main Current Account	49,604,621	82,214,852
ASDP Dollar Account	(6,619)	(860)
Development Account	50,083,550	83,581
Fixed Deposit Account	230,000,000	180,000,000
ASDP KES Account	2,501,106	2,721,336
SRSP Account PE1	-	463,881
SRSP Account PE2	<u>16,973,032</u>	<u>17,881,577</u>
	<u>349,155,690</u>	<u>283,364,367</u>
 6. RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Trade debtors	1,564,647	1,564,647
Interest receivable	2,426,027	1,729,195
Prepayments	1,592,359	1,592,358
Provision for doubtful debts	<u>(3,125,789)</u>	<u>(3,125,789)</u>
	<u>2,457,244</u>	<u>1,760,411</u>
Provision for doubtful debts		
Balance brought forward	3,125,789	144,745
Provision made during the year	<u>-</u>	<u>2,981,044</u>
	<u>3,125,789</u>	<u>3,125,789</u>

• KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD ENDED 30 JUNE 2014

7. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS	2014 KShs	2013 KShs
SDL debtors	211,030,637	181,837,092
Temporary imprest	9,453,818	8,887,567
Staff debtors	616,419	649,901
Medical debtors	200,207	519,789
Other debtors	-	227,543
Standing imprest debtors	-	43,200
Rent debtors	-	693
Provision for doubtful debts	<u>(7,854,914)</u>	<u>(7,854,914)</u>
	<u>213,446,167</u>	<u>184,310,871</u>
Provision for doubtful debts		
Balance brought forward	7,854,914	-
Provision made during the year	<u>-</u>	<u>7,854,914</u>
	<u>7,874,914</u>	<u>7,874,914</u>
8. BIOLOGICAL ASSETS		
As at 1 July	13,036,586	15,831,186
Sold during the year	(7,167,861)	(10,188,854)
Gain in Value during the year	<u>426,227</u>	<u>7,394,254</u>
As at 30 June	<u>6,294,952</u>	<u>13,036,586</u>
Apportionment:		
Current portion (cane over 6 months)	4,971,103	133,701
Non-current portion (cane below six months)	<u>1,323,849</u>	<u>12,902,885</u>
	<u>6,294,952</u>	<u>13,036,586</u>
Quantities at year-end in number of hectares under sugarcane plantation:		
- Plant	10.24	13.44
- Ratoon	87.52	84.32
Production during the year in tons	<u>1,886.28</u>	<u>2,681.28</u>

Sugar cane plantations are the only biological assets of the Foundation. The plantations are carried at fair value less estimated point-of-sale costs. The fair values were determined based on the discounted net present values of expected net cash flows from those assets, discounted at a current market-determined rate. In determining the fair values, the directors have made certain assumptions about the yields and market prices in future years, and the costs of running the plantations.

The key assumptions made concerning the future (projected over 24 months) are as follows:

- Climatic conditions will remain the same;
- The market price of sugar cane, in monetary terms, will be KSh 3,800 (2013: KShs 3,800) per ton;
- Expected yields from existing sugar cane plantations will remain the same per mature hectare at an average of 60 tons;

The constant price discount rate applied to the expected net cash flows was 10.5% (2013: 10.5%)

KENYA SUGAR RESEARCH FOUNDATION
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE PERIOD ENDED 30 JUNE 2014

8. BIOLOGICAL ASSETS

There are no restrictions on title of ownership of biological assets of the Foundation and no amounts are pledged or charged as securities for liabilities. In addition, the Foundation has entered into no contractual commitments for the acquisition of biological assets.

The Foundation manages financial risk associated with biological through monitoring of market prices and financial performance of its customers.

9. INVENTORIES	2014 KShs	2013 KShs
Farm stocks	2,615,940	1,429,533
Bookshop stocks	53,404	-
Cleaning and sanitary Stocks	64,678	82,052
Oil and lubricants stock	2,899,386	2,110,386
Stationery stocks	747,183	1,417,027
ICT stock	-	850,071
Maintenance stores	874,312	(203,371)
Provision for obsolete stock	<u>(340,966)</u>	<u>(340,966)</u>
	<u><u>6,917,937</u></u>	<u><u>5,344,732</u></u>
Provision for obsolete stock		
Opening balance	340,966	-
Provision during the year	<u>-</u>	<u>340,966</u>
	<u><u>340,966</u></u>	<u><u>340,966</u></u>

KENYA SUGAR RESEARCH FOUNDATION
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE PERIOD ENDED 30 JUNE 2014

10. PROPERTY, PLANT AND EQUIPMENT

	Land KShs	Buildings KShs	Motor vehicles KShs	Furniture and equipment KShs	Computer equipment KShs	Tractors KShs	Laboratory equipment KShs	Garage equipment KShs	Farm equipment KShs	Total KShs
COST OR VALUATION										
At 30 June 2013	819,333,585	447,992,751	32,480,900	8,396,173	9,154,994	5,200,000	14,510,645	6,826,420	12,797,950	1,356,693,418
Additions during the year	-	-	5,575,344	610,508	1,064,900	-	52,602,080	-	6,508,797	66,361,629
Disposal during the year	-	-	-	-	(318,320)	-	-	-	-	(318,320)
At 30 June 2014	<u>819,333,585</u>	<u>447,992,751</u>	<u>38,056,244</u>	<u>9,006,681</u>	<u>9,901,574</u>	<u>5,200,000</u>	<u>67,112,725</u>	<u>6,826,420</u>	<u>19,306,747</u>	<u>1,422,736,727</u>
COMPRISING										
Cost	67,606,000	447,992,751	30,302,626	5,761,189	9,553,274	5,200,000	67,112,725	227,567	15,414,451	649,170,583
Revaluation	<u>751,727,585</u>	-	<u>7,753,618</u>	<u>3,245,492</u>	-	-	-	<u>6,598,853</u>	<u>3,892,296</u>	<u>773,217,844</u>
At 30 June 2014	<u>819,333,585</u>	<u>447,992,751</u>	<u>38,056,244</u>	<u>9,006,681</u>	<u>9,553,274</u>	<u>5,200,000</u>	<u>67,112,725</u>	<u>6,826,420</u>	<u>19,306,747</u>	<u>1,422,388,427</u>
DEPRECIATION										
At 30 June 2013	-	11,199,819	8,120,225	1,049,522	2,746,498	1,950,000	1,813,831	853,303	1,599,744	29,332,942
Charge for the year	-	10,919,823	7,484,005	994,645	2,070,682	1,218,750	8,171,765	746,753	2,213,375	33,524,663
Depreciation on disposal	-	-	-	-	(95,496)	-	-	-	-	(95,496)
At 30 June 2014	-	<u>22,119,642</u>	<u>15,604,230</u>	<u>2,044,167</u>	<u>4,826,174</u>	<u>3,168,750</u>	<u>9,976,192</u>	<u>1,599,943</u>	<u>3,813,119</u>	<u>63,152,218</u>
NET BOOK VALUE										
At 30 June 2014	<u>819,333,585</u>	<u>425,873,109</u>	<u>22,452,014</u>	<u>6,962,514</u>	<u>5,075,400</u>	<u>2,031,250</u>	<u>57,136,533</u>	<u>5,226,477</u>	<u>15,493,628</u>	<u>1,359,584,509</u>
At 30 June 2013	<u>819,333,585</u>	<u>436,792,932</u>	<u>24,360,675</u>	<u>7,346,651</u>	<u>7,272,590</u>	<u>11,198,206</u>	<u>12,835,299</u>	<u>5,973,117</u>	<u>3,250,000</u>	<u>1,328,363,055</u>

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD ENDED 30 JUNE 2014

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Year ended 30 June 2013	Land KShs	Buildings KShs	Motor vehicles KShs	Furniture and equipment KShs	Computer equipment KShs	Tractors KShs	Laboratory equipment KShs	Garage equipment KShs	Farm equipment KShs	Total KShs
COST OR VALUATION										
At 1 July 2012	67,606,000	144,182,490	56,120,614	10,629,827	20,447,842	380,330,672	30,519,253	988,603	17,544,175	1,339,701,630
Additions during the year	-	-	8,025,900	1,296,473	6,084,514	1,915,250	4,364,712	-	-	74,126,898
Transfers	-	663,772,203	-	-	-	-	-	-	-	-
Accumulated depreciation on revaluation date	-	(36,383,444)	(39,419,232)	(6,775,619)	(14,059,692)	(285,044,509)	(16,934,459)	(761,036)	(16,236,471)	(415,614,462)
Revaluation gain	751,727,585	-	7,753,618	3,245,492	-	-	-	6,598,853	3,892,296	773,217,845
Revaluation loss	-	(323,578,498)	-	-	(2,083,250)	(84,403,463)	(3,280,594)	-	-	(413,345,806)
At 30 June 2013	<u>819,333,585</u>	<u>447,992,751</u>	<u>32,480,900</u>	<u>8,396,173</u>	<u>10,389,414</u>	<u>12,797,950</u>	<u>14,668,912</u>	<u>6,826,420</u>	<u>5,200,000</u>	<u>1,358,086,105</u>
ACCUMULATED DEPRECIATION										
At 1 July 2012	-	36,383,444	39,419,232	6,775,619	14,059,692	285,044,509	16,934,459	761,036	16,236,471	415,614,462
Accumulated depreciation on revaluation date	-	(36,383,444)	(39,419,232)	(6,775,619)	(14,059,692)	(285,044,509)	(16,934,459)	(761,036)	(16,236,471)	(415,614,462)
Charge for the year	-	11,199,819	8,120,225	1,049,522	3,116,824	1,599,744	1,833,613	853,303	1,950,000	29,723,050
At 30 June 2013	-	<u>11,199,819</u>	<u>8,120,225</u>	<u>1,049,522</u>	<u>3,116,824</u>	<u>1,599,744</u>	<u>1,833,613</u>	<u>853,303</u>	<u>1,950,000</u>	<u>29,723,050</u>
NET CARRYING AMOUNT										
At 30 June 2013	<u>819,333,585</u>	<u>436,792,932</u>	<u>24,360,675</u>	<u>7,346,651</u>	<u>7,272,590</u>	<u>11,198,206</u>	<u>12,835,299</u>	<u>5,973,117</u>	<u>3,250,000</u>	<u>1,328,363,055</u>

There are no restrictions on title of ownership of property, plant, and equipment of the Foundation and no amounts are pledged or charged as securities for liabilities. In addition, the Foundation has entered into no contractual commitments for the acquisition of property, plant, and equipment.

Property, plant and equipment were last revalued as at 1 July 2013 by Roack Consult Limited. Fair value of the properties was determined by using market comparable method. In arriving at the fair value, the valuer considered prevailing market prices of similar item and the extend of wear and tear and other damages where applicable.

KENYA SUGAR RESEARCH FOUNDATION
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE PERIOD ENDED 30 JUNE 2014

11. TRADE AND OTHER PAYABLES	2014 KShs	2013 KShs
Trade creditors	6,057,863	3,905,926
Capital WIP Dinesh 10% retention	15,856,329	15,856,329
Gratuity payable	<u>136,375</u>	<u>3,527,750</u>
	<u>22,050,565</u>	<u>23,290,004</u>
12. PROVISION FOR LIABILITIES		
Balance brought forward	5,000,000	-
Additional provision	<u>35,000,000</u>	<u>5,000,000</u>
	<u>40,000,000</u>	<u>5,000,000</u>
<p>This amount relates to a legal matter involving Dinesh Construction Company Limited, relating to disputed values of certificates of completion of the new office block. Dinesh Construction Company Limited, the contractors for the development, is acclaiming a sum total of KShs 70 million. The matter is under arbitration and the director, with advice from the legal counsel, estimate that the dispute will be settled with payment of between 50% to 60% of the claimed amount.</p>		
13. REVALUATION RESERVES	2014 KShs	2013 KShs
Opening balance	768,589,286	-
Gain on revaluation of property, plant and equipment	-	773,217,845
Transfer to revenue reserves	<u>(3,655,485)</u>	<u>(4,628,559)</u>
	<u>764,933,801</u>	<u>768,589,286</u>
14. ACCUMULATED SURPLUS/REVENUE RESERVES		
As at 1 July	1,019,300,732	1,332,439,796
Surplus (deficit) for the year	87,630,297	(317,767,623)
Transfer of excess depreciation	<u>3,655,485</u>	<u>4,628,559</u>
	<u>1,110,586,514</u>	<u>1,019,300,732</u>
15. STAFF COSTS		
Basic pay	82,597,634	84,606,901
Transfer allowance	139,965	79,515
House allowance	23,290,950	24,521,925
Commuter allowance	10,904,000	11,293,000
Entertainment allowance	1,356,000	1,412,000
Other allowances	60,000	438,580
Leave allowance	2,516,965	1,726,145
Honoraria	960,000	652,179
NSSF contribution	358,200	312,400
Pension contribution	7,837,961	7,855,018
Special duty allowance	832,388	683,791
Gratuity contribution	200,096	3,527,750
Responsibility allowance	1,356,000	1,352,000
Extraneous allowance	679,600	651,900
Acting allowance	235,930	189,666
Telephone bills allowance	<u>628,550</u>	<u>571,750</u>
	<u>133,954,239</u>	<u>139,874,520</u>

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD ENDED 30 JUNE 2014

16. OFFICE EXPENSES	2014 KShs	2013 KShs
Stationery expenses	4,958,603	2,843,157
Uniforms & clothing	630,593	480,346
Cleaning and sanitary cleaning materials	5,745,756	3,112,350
Books and periodicals	121,006	645,567
Newspapers	434,822	358,680
Telephone and internet expenses	3,341,386	3,828,322
Postage and telegrams	469,971	468,958
Official entertainment	6,009,204	8,315,742
Electricity	3,202,749	2,117,459
Water	130,118	107,766
Hire of security services	12,375,860	6,066,237
Miscellaneous and other charges	136,355	107,618
Rents	5,000	-
Rates	101,605	114,060
	<u>37,663,027</u>	<u>28,566,262</u>
17. MOTOR RUNNING EXPENSES		
Motor vehicle maintenance	12,979,998	10,701,113
Road licence	56,200	4,900
Fuel - premium	2,310,482	443,040
Fuel - regular	373,984	1,218,223
Fuel - diesel	2,609,074	1,896,061
Fuel - gas oil	6,624,330	983,883
Oils and greases	777,178	508,255
Motor cycle	1,000	1,100
Compensation for use of personal vehicles	4,000	-
Parking fees	35,410	193,260
	<u>25,771,655</u>	<u>15,949,834</u>
18. STAFF WELFARE		
Office beverages	2,185,738	762,442
Other kitchen utilities	61,759	52,164
Staff Welfare Expenses	1,750,704	1,539,991
Hospital transport	-	50,750
Medical expenses	12,829,176	10,278,474
Ex-Gratia Expenses	810,000	-
Miscellaneous & Other Charges	373,429	34,255
Medical Expenses	914,115	3,579,674
Uniforms and Clothing	-	21,815
	<u>18,010,806</u>	<u>12,739,891</u>
19. TRAVELING		
Traveling and accommodation administrative	32,290,992	18,657,149
Travelling Employees	-	1,367,385
Travelling Others	25,720	525,250
	<u>32,316,712</u>	<u>20,549,784</u>

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD ENDED 30 JUNE 2014

20. TRAINING	2014 KShs	2013 KShs
Training -scientific	3,380,687	8,523,353
Travelling and accommodation training- scientists	8,290	167,437
Training -administration	11,060,295	3,595,607
Training -employees	62,000	909,160
Travelling and accommodation training- administration	51,270	2,262,085
Training others	76,300	219,060
Travelling and accommodation training- Others	<u>38,400</u>	<u>49,725</u>
	<u>14,677,242</u>	<u>15,726,426</u>
21. CONFERENCES AND MEETINGS		
Conferences - employees	2,107,094	6,529,061
Purchases control	-	2,701
Conferences - others	<u>-</u>	<u>151,766</u>
	<u>2,107,094</u>	<u>6,683,528</u>
22. INSURANCE		
Fire and perils insurance	200,000	100,550
Burglary insurance	20,190	5,063
Computer insurance all risks	110,512	100,550
Irrigation system and equipment all risks	31,700	9,000
Commercial vehicle insurance	1,800,000	1,539,677
Money insurance	27,624	20,130
Public liability insurance	5,123	2,049
Fidelity guarantee insurance	42,691	42,691
Group personal accident insurance (staff)	754,727	816,669
Group personal accident insurance (directors)	103,017	343,146
Directors' insurance	13,700	164,567
Group life Insurance (staff) - pension benefit	<u>1,600,000</u>	<u>688,120</u>
	<u>4,709,284</u>	<u>3,832,212</u>
23. MAINTENANCE AND MAINTENANCE		
Maintenance of buildings and stations	6,405,721	1,728,805
Maintenance of residential houses	937,805	1,557,129
Maintenance of roads	78,780	665,040
Software and computer maintenance	3,074,122	602,191
Maintenance of plant and equipment	<u>490,634</u>	<u>611,877</u>
	<u>10,987,063</u>	<u>5,165,042</u>
24. LEGAL FEES		
Professional fee and commissions	6,336	1,008,797
Other professional fees and commissions	45,800	-
Subs to professional and institutional Associations	228,950	547,277
Legal expenses	6,458,725	3,965,187
Taxes and penalties	<u>1,204,515</u>	<u>-</u>
	<u>7,944,326</u>	<u>5,521,261</u>

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD ENDED 30 JUNE 2014

25. PUBLICITY ADVERTISING AND FARMER EDUCATION	2014	2013
	KShs	KShs
PRO ASK Show expenses	1,092,066	440,519
Publicity	2,628,778	3,727,264
Donations	<u>110,000</u>	<u>-</u>
	<u><u>3,830,844</u></u>	<u><u>4,167,783</u></u>
26. BOARD EXPENSES		
Board travelling and accommodation	10,393,286	9,100,216
Board conferences and meetings	3,126,930	2,428,850
Board sitting allowance	8,519,848	3,133,228
Board mileage claims	407,944	-
Board training costs	3,433,847	3,572,490
Board insurance expenses	<u>62,215</u>	<u>100,000</u>
	<u><u>25,944,070</u></u>	<u><u>18,334,784</u></u>
27. RESEARCH COSTS		
Direct traveling and accommodation	26,033,350	44,916,200
Direct casual labour	51,087,710	20,270,718
Ploughing	68,300	-
Planting	-	81,350
Chemical fertilizers and herbicides	4,360,314	1,210,071
Irrigation	1,111,786	2,888,160
Billboards	1,600	67,682
Harvesting	899	-
Transportation	141,150	76,560
Farmer training	23,300	14,850
ASK show expenses	61,795	364,752
Local sugar industry expenses	101,378	-
Laboratory expenses	3,176,048	2,403,228
Cost of sales - milling and seed cane	7,167,861	-
Sucrose Based CPP	4,140,867	-
Technology transfer- direct traveling and accommodation	1,960,636	2,875,496
Technology transfer- direct casual labour	14,457	41,880
Technology transfer- ploughing	-	1,683
Technology transfer- planting	-	17,600
Technology transfer- furrowing	230	-
Technology transfer- chemical fertilizers and herbicides	40,330	91,420
Technology transfer- irrigation	-	30,000
Technology transfer- billboards	5,820	12,500
Technology transfer- transportation	37,950	-
Technology transfer- farmer training	340,450	1,218,820
Technology transfer- ASK show expenses	6,127,509	13,065,242
Technology transfer- laboratory expenses	18,450	22,179
Technology transfer- extension services	<u>8,397,974</u>	<u>9,982,543</u>
	<u><u>114,420,164</u></u>	<u><u>99,652,934</u></u>
28. BANK CHARGES		
Bank charges	162,902	184,005
Other charges and interests	<u>-</u>	<u>625,438</u>
	<u><u>162,902</u></u>	<u><u>809,443</u></u>

KENYA SUGAR RESEARCH FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD ENDED 30 JUNE 2014

29. RELATED PARTY TRANSACTIONS AND BALANCES	2014	2013
	KShs	KShs
a) Related party balances		
Amounts due from Sugar Development Fund	211,030,637	181,837,092
b) Related party transactions		
Total receipts from Sugar Development Fund	316,941,649	316,517,439
Payments to directors	9,480,000	5,130,000
This comprises the director's sitting allowances at KShs 20,000 per sitting per director.		
Payments to senior management	21,971,508	<u>24,870,751</u>

The Sugar Development Fund is a fund made up of the sugar levy administered by government. The fund is intended at furtherance of research and other development in the sugar industry. Sugar companies pay the levy to government through the Kenya Sugar Board, which in return distributes the collection to targeted entities, the Foundation included.

30. FINANCIAL RISK AND CAPITAL MANAGEMENT

The Foundation's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Foundation's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Foundation does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Foundation's financial risk management objectives and policies are detailed below:

(i) Credit risk

The Foundation has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Foundation's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the Foundation's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Fully performing KShs '000'	Past due KShs '000'	Impaired KShs '000'
At 30 June 2014			
Sugar Development Levy Debtors	213,446	7,855	7,855
Receivables	2,457	3,126	3,126
Bank balances	119,156	-	-
Fixed deposits	<u>230,000</u>	<u>-</u>	<u>-</u>

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and no allowance for uncollectible amounts has been recognised in the financial statements.

The board of directors sets the Foundation's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

KENYA SUGAR RESEARCH FOUNDATION
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE PERIOD ENDED 30 JUNE 2014

30. FINANCIAL RISK AND CAPITAL MANAGEMENT (Continued)

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Foundation directors, who have built an appropriate liquidity risk management framework for the management of the Foundation's short, medium and long-term funding and liquidity management requirements. The Foundation manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the Foundation under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month Sh '000'	Between 1-3 months Sh '000'	Over 5 months Sh '000'	Total Sh '000'
At 30 June 2014				
Trade payables	<u>22,051</u>	<u>-</u>	<u>-</u>	<u>22,051</u>
At 30 June 2013				
Trade payables	<u>23,290</u>	<u>-</u>	<u>-</u>	<u>23,290</u>

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the Foundation on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Foundation's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the audit committee.

The Foundation's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by audit committee) and for the day-to-day implementation of those policies.

There has been no change to the Foundation's exposure to market risks or the manner in which it manages and measures the risk.

Interest rate risk

Interest rate risk is the risk that the Authority's financial condition may be adversely affected as a result of changes in interest rate levels. The Authority's interest rate risk arises from bank deposits. This exposes the Authority to cash flow interest rate risk.

The interest rate risk exposure arises mainly from interest rate movements on the Foundation's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The Foundation analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Changes in interest rates (for assets with fixed and variable interest rates) will have the following impact on profit or loss as well as equity.

KENYA SUGAR RESEARCH FOUNDATION
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE PERIOD ENDED 30 JUNE 2014

30. FINANCIAL RISK AND CAPITAL MANAGEMENT (Continued)

(iii)	Market risk (Continued)			
Sensitivity analysis (continued)				
	% change in base	2014 KShs'000'	% change in base	2013 KShs'000'
Financial assets				
Variable interest rates				
Bank balances	<u>+(-)10.00%</u>	<u>+(-)2,300</u>	<u>+(-)10.00%</u>	<u>+(-)1,800</u>

31. GOING CONCERN

With effect from 1 July 2014, the Foundation ceased existing due to operationalization of the Kenya Agriculture and Livestock Research Organization Act which created the Kenya Agriculture and Livestock Research Organization (KALRO), converting all the research organizations in the agriculture sector to institutes of KALRO. As from this date, the Foundation stood dissolved, its Board of Directors was disbanded and its assets and liabilities transferred to KALRO.

IPSAS 1 - Presentation of Financial Statements and IPSAS 14 - Events after the reporting date require that the financial statements should not be prepared on a going concern basis if management determines that it intends to liquidate the entity or cease trading. In view of this the carrying value of the assets, which are determined in accordance with the going concern basis, have been reviewed for possible impairment and changes which have occurred since the end of the year and consideration has been given as to whether any additional provisions are necessary as a result of the cessation of existence of the Foundation. The assets and liabilities of the Foundation shall revert to the Sugar Research Institute of KALRO at the carrying amount.

Accordingly management does not expect an alternative basis of preparation to be materially different from the going concern basis, and therefore the financial statements have been prepared on a going concern basis.

32. SUBSEQUENT EVENTS

The Kenya Agricultural and Livestock Research Act, 2013 became operational in July 2014 and with this, the operations of KESREF were taken over by the Kenya Agricultural and Livestock Research Organization. More details are contained in note 31.

33. BUDGETARY ADJUSTMENTS

KESREF reviews its budget half way through the financial year to identify and respond to any issues or changes which could have emerged in the course of implementation of the Budget. The Budget for the financial year 2014 was therefore reviewed in January 2014 (this is at the time of preparation of the budget for the financial year 2015). The following changes were approved by the board to be effected in the financial year 2014 budget.

a) GoK Grants

KESREF through the Ministry of Agriculture, Livestock and Fisheries receives support from the Government to meet part of its recurrent and development budget. In the financial year 2014, the Foundation factored in its budget a development budget support of Kshs. 100,000,000 and a recurrent budget support of Kshs. 122,000,000 from the government. By the time the printed estimates were released the amount allocated to KESREF had been reduced to Kshs. 53,500,000 and Kshs. 117,900,000 for development and recurrent budget respectively. The Foundation therefore revised its projected receipts of government grants in the financial year 2014 to match the government printed estimates.

KENYA SUGAR RESEARCH FOUNDATION
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 FOR THE PERIOD ENDED 30 JUNE 2014

33.

BUDGETARY ADJUSTMENTS (Continued)

b) Other income

The change in the income projections was as a result of the following:

- The projected earnings from sale of milling cane and seed cane captured in the financial year 2014 were made in December 2012 during the preparation of the year's budget. The actual earnings realized in the first half of the financial year is much lower due to weather fluctuation which has affected output and also due to reduction in the price of sugarcane sold to millers from Kshs. 3,800 per tonne at the time of projection to Kshs. 3,300 as at December 2013.
- The projected earnings of interest on fixed deposits was based on the estimated amount of funds held in the Foundation's accounts awaiting utilization in implementation of capital projects. There was however a delay in commencement in some of the capital projects, especially partitioning of the new office block, hence increasing interest earning deposits in the Foundation's accounts.

c) Operating and administrative expenses

The Foundation effected changes in the estimates of expenditure for the following expense items:

- The Foundation previously had a mix of contracted security guards and others engaged directly on a casual basis. To improve efficiency in this area, the Foundation opted to fully contract out the security services and hence the need for an additional budget allocation of Kshs 4.1million.

d) Sugar Reform Support Project Expenses

The Foundation is implementing the Sugar Reform Support Project (SRSP) which is funded by the European Union. Some of the expenditure relates to purchase of laboratory equipment and at the time of budget review the Foundation noted that due to the long procurement process, actual expenditure would be stretched to the following financial year. This necessitated the adjustment of budget expenses for the financial year.

34. PRIOR YEAR ADJUSTMENT

At inception of the Foundation, items of property, plant and equipment valued at Ksh 815,392,181 were donated to it by Kenya Agricultural Research Institute (KARI). As consequence a deferred income of equivalent amount was recognized in the books of account.

As at 30 June 2014, a balance of Ksh 178,169,124 was still outstanding as deferred income. IPSAS 23 – Revenue from Non-Exchange Transactions (Taxes and Transfers) requires that non-conditional donations be recognised fully as income in the year of donation.

Effect on statement of financial position

Increase in accumulated surplus

178,169,124

Decrease in deferred income

(178,169,124)

KENYA SUGAR RESEARCH FOUNDATION
ANNUAL REPORT AND FINANCIAL STATEMENT
FOR THE YEAR ENDED 30 JUNE 2014

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.	Land Ownership – not registered in Foundation’s name	Have engaged lawyers to process title transfer	Legal officer	Not resolved	To be determined by KALRO management
2.	Revaluation of property, plant & equipment	To establish basis for building value from the consultant	Finance Manager	Not resolved	To be determined by KALRO management
3.	Provision for gratuity	Amount has since been paid to the officer	Finance Manager	Resolved	N/A

Director



Date.....31.12.2014

Director



Date.....31/12/14

