

REPUBLIC OF KENYA

Vol. 10



KENYA NATIONAL AUDIT OFFICE



REPORT

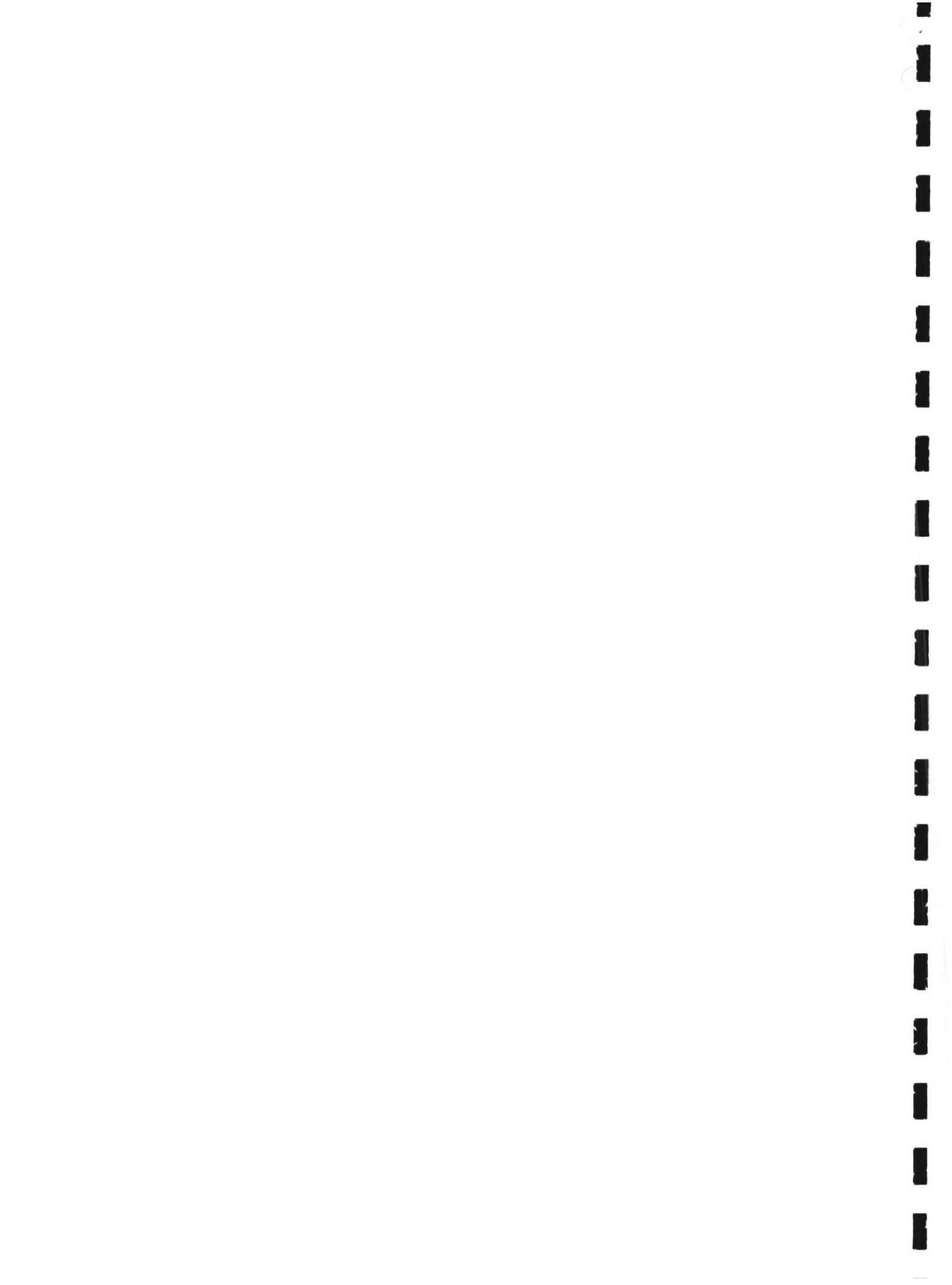
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
COFFEE DEVELOPMENT FUND**

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



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

27 APR 2015

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COFFEE DEVELOPMENT FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 13 MONTHS ENDED
JULY 31, 2014

Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)

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I. KEY FUND INFORMATION AND MANAGEMENT

(a) Background information

Coffee Development Fund (CoDF) is a State Corporation under the Ministry of Agriculture. It was established under Section 34 of the Coffee Act No. 9 of 2001 as amended by the Finance Act of 2005. Its operations began in May 2006 following the gazettment of the Board of Trustees via Gazette Notice No. 1388 of 5th May 2006 and subsequent inauguration on 15th May 2006.

CoDF is mandated to provide sustainable and affordable credit to coffee farmers for farm inputs, farming operations and coffee price stabilization.

It is run by a nine member Board of Trustees, comprising of three Government representatives, five independent members appointed by name and the Managing Trustee who is the Secretary to the Board and Chief Executive Officer of the Fund. The Board is assisted by a management team headed by the Managing Trustee with departmental managers namely, the Field Credit Manager, the Finance Manager, and the Information and Communications Technology Manager. Other departmental heads are the Internal Auditor, Human Resource Officer, the Corporate Communications Officer, the Legal Officer and the Resource Mobilization Officer.

(b) Principal Activities

The purpose of the Fund is to provide sustainable, affordable credit and advances to coffee farmers for farm development, farm inputs, farming operations and coffee price stabilization.

(c) Key Management

The Fund's day-to-day management is under the following key organs:

- Ag. Managing Trustee	-Nancy Chelangat
- Ag. Credit Manager	-John Amimo
- Ag. Finance Manager	-Judith Nyambura
- Legal Manager	-Nesline Okiko
- ICT Manager	-Solomon Kirwa
- HR and Admin Manager	-Benard Atonga
- Corporate Communications Manager	-James Singa
- Ag.Internal Auditor	-Edwin Okiah

(d) Fiduciary Management

The Board Members who held office during the financial year ended 31st July 2014 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Chairman	- Mr Lee W. Waruingi
2.	Member	- Mr.Kennedy M. Nyaundi
3.	Member	- Mr. Nelson Otieno Aloys
4.	Member	-Mr.Peter Kuguru
5.	Member	-Dr.Lillian Mwenda

No.	Designation	Name
6.	Rep.Ministry of Agriculture	Beatrice Kingori
7.	Rep.Ministry of Industrialisation	Mr. Michael Aloyce Mbeka
8.	Rep.Treasury	Mr Joseph Ngugi
9.	Board Secretary	Nancy Chelangat

The above board members serve in different committees as outlined below:

Audit and Governance Committee

The Audit and Governance Committee strengthens the control environment, the financial Reporting and auditing function while ensuring that ethical standards are maintained by the Fund.

Finance, Staff and General Purposes Committee

The main functions of the Finance, Staff and General Purposes Committee are to monitor the Fund's financial performance and viability, as well as set and review human resources policies and the approval of senior management appointments.

Credit Committee

The Credit Committee oversees the Fund's key mandate of providing affordable, accessible and innovative financial solutions to the coffee industry.

(e) Fund Headquarters

2nd floor, Railway Headquarters Building - Block D
Workshop Road
Off Haile Selassie Avenue
P.O. Box 52714 - 00200
CITY SQUARE
NAIROBI

(f) Fund Contacts

Phone: +254-20-210806/7/9
Mobile: +254-770-587333/355
+254-737-204278/9
Fax: +254-20-2210816
E-mail: info@codf.co.ke
Website: www.codf.co.ke

(g) Fund Bankers

Co-operative Bank of Kenya Ltd
Hailé Selassie Avenue
P.O. Box 48231-00100

Nairobi

Tel: +254-20-3276000

Fax: +254-20-219821

Website: www.co-opbank.co.ke



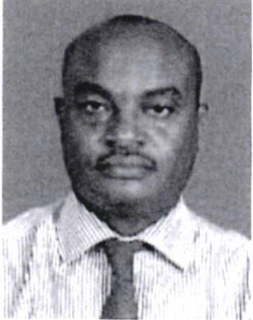

(h) Independent Auditors





Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya


(i) Principal Legal Adviser

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


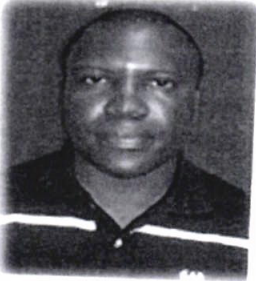

II. THE BOARD OF DIRECTORS




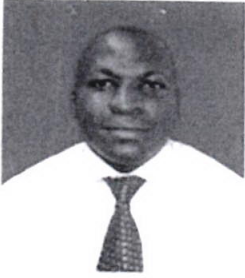

<p>1. Mr. Lee W. Waruingi:</p> 	<ul style="list-style-type: none"> • Date of Birth: 4th May 1947 • Profession/Academic: BSc. Agriculture • Experience: 40 years in Agriculture related field.
<p>2. Mr. Nelson Otieno Aloys:</p> 	<ul style="list-style-type: none"> • Date of Birth: October 1956. • Profession/Academic: BSC – Business Administration Degree, from United States International University (Africa). MBA -Institute of Technology, Australia. Qualified as a Certified Public Accountant (K). Practicing Certificate as an Accountant. • Experience: 29 years work experience. Currently working as Managing Partner at Otieno & Associates since October 2003. Assignments undertaken workings as Tax Consultant, Lead Financial Consultant and Lead Auditor in various organizations.
<p>3. Mr. Kennedy M. Nyaundi:</p> 	<ul style="list-style-type: none"> • Date of Birth: 3rd January 1967 • Profession/Academic: PhD, International Law • Experience: Legal practice and legal consultancies.
<p>4. Dr.Lilian K. Mwenda</p> 	<ul style="list-style-type: none"> • Date of Birth: 6th January 1959. • Profession/Academic: PhD Business Administration and Management, MSC.. Managerial Technology, BSC. Hospitality Management, Dip. Hotel Mgt and Human Resource Management. • Experience: Over 25 years' experience in; Manpower Development and training, Organization management and Leadership. • Experience in consultancy and research.

<p>5. Mr. Peter N. Kuguru Hsc. AIFST (UK):</p> 	<ul style="list-style-type: none"> • Date of Birth: 30/11/1946. • Profession/Academic: BTECH (FOOD TECH) NZ 1972 and MBA (EXEC) MUA (on-going). • Experience: 40 Years' experience in Food & Agribusiness & Industry.
<p>6. Ms. Beatrice W. King'ori:</p> 	<ul style="list-style-type: none"> • Date of Birth: 20th October 1956. • Profession/Academic: BSc Agriculture, MSc Agronomy. • Experience: 35 years of work experience in both research, extension, project management, food security, liaising with parastatals (Formerly -KARI, CRF, TRFK, KESREF), Sugar, coffee, tea, Directorates (AFFA), NCPB among others.
<p>7. Mr. Joseph Z. Ngugi:</p> 	<ul style="list-style-type: none"> • Date of Birth: 14th June, 1966. • Profession/Academic: BTECH (FOOD TECH) NZ 1972 and MBA (EXEC) MUA (on-going). • Experience: I have been working in the Government for the last 18 years as an Economist. In the past 15 years to date, I have been working in the National Treasury in the Economic Affairs Department. The major duties being tax policy analysis.
<p>8. Mr. Michael Aloyce Mbeka:</p> 	<ul style="list-style-type: none"> • Date of Birth: 4th July 1956. • Profession/Academic: BSc. Agriculture, MSc. Agricultural Economics, MBA (Executive). • Experience: 35 Years of Public Service.

<p>9. Ms. Nancy Chelangat Cheruiyot:</p> 	<ul style="list-style-type: none"> • Area of Responsibility: Ag. Managing Trustee (Accounting Officer) • Academic Qualification: MBA-Financial Management, Bachelor of Arts - Economics & Sociology • Professional Qualification: ACCA
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III. MANAGEMENT TEAM

<p>1. Ms. Nancy Chelangat Cheruiyot:</p> 	<ul style="list-style-type: none"> • Area of Responsibility: Ag. Managing Trustee (Accounting Officer) • Academic Qualification: MBA-Financial Management, Bachelor of Arts - Economics & Sociology • Professional Qualification: ACCA
<p>2. Mr. John Joel Amimo:</p> 	<ul style="list-style-type: none"> • Area of Responsibility: Credit & Resource Mobilisation. • Academic Qualification: M.Sc. in Sustainable Environmental Management, Bachelor of Science - Biology & Chemistry <p>Professional Qualification: Certificate in Microfinance</p>
<p>3. Mr. Solomon Kirwa:</p> 	<ul style="list-style-type: none"> • Area of Responsibility: ICT • Academic Qualification: M.Sc. in I.T.(Systems Security & Audit), MBA Finance Option, Bachelor of Science in IT, • Professional Qualification: PRINCE2, ITIL, CCNA, Oracle OCP,MCSE & JAVA Programmer

<p>Ms. Judith Thogori:</p> 	<ul style="list-style-type: none"> • Area of Responsibility: Finance • Academic Qualification: Bachelor of Commerce - Finance. <p>Professional Qualification: CPA (K)</p>
<p>Mr. Bernard Atonga:</p> 	<ul style="list-style-type: none"> • Area of Responsibility: Human Resources & Administration. • Academic Qualification: M.Sc. in HRM, Bachelor of Commerce in HRM <p>Professional Qualifications: Higher Diploma in HRM, Certificate in Workplace Counselling, Certificate in Corporate Governance</p>
<p>Mr. James Mailu Singa:</p> 	<ul style="list-style-type: none"> • Area of Responsibility: Corporate Communications. • Academic Qualification: Bachelor of Arts in Communication/Media Technology
<p>Mr. Edwin Okiah:</p> 	<ul style="list-style-type: none"> • Area of Responsibility: Internal Audit. • Academic: Bachelor of Commerce - Finance. <p>Professional Qualification: CPA (K).</p>
<p>Mr. Nesline Gechuki Okiko:</p> 	<ul style="list-style-type: none"> • Area of Responsibility: Legal Services • Academic Qualification: Bachelor of Law <p>Professional Qualification: Diploma in Law.</p>

IV. PRINCIPAL SECRETARY'S STATEMENT

1.0: Foreword

It is with great pleasure that I present Coffee Development Fund's Annual Report and Financial Statement for the financial year ending 31st July 2014. In the past financial year, the Fund has focused mostly on prudent lending, strengthening the operations and partnership with other stakeholders.

2.0: The Board Composition

The Board of Trustees is serving the Second year of its first term. The Board Committees are as set out on page iii.

3.0: Coffee sector Outlook and Fund's Strategy

The improving coffee market prices have acted as an incentive to rehabilitate existing and neglected coffee farms as well as creating desire to establish new farms in non-traditional coffee growing areas.

3.1: Challenges and Opportunities in the Coffee Sector

- a. Lack of affordable and accessible financing: Farmer's decisions to invest and produce are closely linked to access to finance. If appropriate financing instruments are lacking, farmers may be discouraged to adopt better technologies, to purchase agricultural inputs or to make decisions that can improve their efficiency.
- b. Price fluctuations and Access to Markets: Price fluctuation is a systemic challenge particularly for coffee due to global market forces. This poses grave concerns in particular, to the livelihoods of small holders since maintaining reliable and sustainable incomes is a constant challenge
- c. Low Private Sector Involvement in Agriculture, specifically coffee sector: Private sector investment in Agriculture is generally low. Statistics reveal that less than 4% of loans go to Agriculture.
- d. Value Chain Financing: Traditionally, financing interventions in coffee sector have mainly focussed on the production segments of value chains.
- e. Women and Youth in Agriculture: Succession issues in agriculture remain of great concern and stakeholders need to intensify efforts to address the barriers faced by both women and youth to ultimately increase their involvement along agriculture.
- f. Other challenges:
 - Cherry hawking and theft at the farm and factory,
 - Shrinking coffee acreage in eastern and central regions,
 - Competition from other enterprises such as horticulture, dairy and floriculture,
 - Unpredictable weather patterns, periodic pests and diseases outbreaks.

3.2: Integrated Coffee Productivity project

In order to address the question of reducing coffee production, the Fund has proposed a comprehensive Integrated Coffee Productivity Project, which is to be implemented with Coffee sector stakeholders, including the county governments. This project is meant to not only to promote coffee

growing in new/ emerging regions, but also integrate its farming with other related enterprises. This would ensure unbroken flow of income for our farmers, while enabling them to have alternative sources of security to enable them access affordable coffee credit facilities.

3.3: Strategy:

Looking forward, the Fund strategy will evolve in response to changes in the coffee value chain but remain committed to sustainable credit provision. I believe our Long term goal and focus will remain steady with the Fund endeavouring to reach out other stakeholders in order to exploit new lending opportunities and meet financial need for the sector while maintaining financial prudence that will sustain our business growth.

4.0: Conclusion

I would like to extend my appreciation to the management, staff and our intermediaries for their dedicated service and execution of the Funds strategies towards achieving the Fund's Mandate, Vision and Mission. I recognize the Ministry of Agriculture, livestock and Fisheries, and by extension, the Government for their advices, support and for providing an enabling environment that has made it possible for the Coffee Development Fund to flourish.



Ms. Beatrice W. King'ori
Rep.P.S Ministry of Agriculture

V. REPORT OF THE MANAGING TRUSTEE

1.0: Introduction:

I am pleased to announce the financial results for the Fund year ending 31st July 2014. This is the Fund's ninth year of operation. In this fiscal period, the Funds focus was on promotion of the new products launched in the previous period, consolidating recoveries, repositioning and diversifying our loan portfolio.

2.0: Parastatals reforms:

The current financial year coincided with a time when the government was implementing the reforms, more so, specifically within the agricultural sector.

During the year, AFFA Act came into effect, paving way for the formation of one singular Authority within the agriculture sector. The Crops Act 2013 is expected to come into effect within the next financial year. This will result to merging of regulatory state corporations within the sector. In addition, Coffee Development Fund will also cease to exist, to pave way for formation of **Commodities Fund**, as proposed in the new **Crops Act, 2013**.

As a result, the government, in managing the transition period, issued several circulars that put on hold the planned expansion of the Fund.

3.0: Corporate performance overview

3.1: Financial Highlights

- The Fund's total assets grew by (7.3%) to KES 2 Billion from KES 1.9 Billion.
- The Revolving Loan Fund grew from KES 1.8 Billion, to KES1.9 Billion during the year under review, representing a (9.75%) growth.
- Total income for the year was KES 183 Million compared to KES 175 Million 2012/2013.
- Expenditure Increased) from KES 164.4 Million to KES 183.8 Million.
- The deficit for the year was KES 819,324 versus a surplus of KES 10.6 Million in the previous year.

3.2: Credit portfolio

The Fund's portfolio comprising of products that supported coffee production and asset financing grew to Kshs 1.7 billion, with 67,000 coffee Farmers both from 338 Coffee Cooperatives and 575 Estates having benefited, as at the closure of the fiscal period. The growth of the portfolio was achieved through partnership lending as well as direct lending to estate growers and societies. In addition to the existing products, the Fund developed cherry advance product with the aim of addressing the problem of cherry hawking.

3.3: Human Capital

CoDF recognizes that its human capital is core to achieving its mandate. As such and in addition to rewarding careers, the Fund offers opportunities for leadership building and skills enrichment through various development programs, on-the-job training and structured personal career growth.

The Fund upholds good citizenship practices by adhering to disability and gender mainstreaming as well as continually striving to be the employer of choice. CoDF will continue to use the balanced score card as tool to monitor employees output.

4.0: ISO 9001:2008 Certification

The Fund aims at constantly improving its customer service delivery. This is why its Fund Quality Management System is ISO 9001: 2008 Certified. The Certification ensures that the Fund continue to implement a Management System that conforms to the International standards. The ISO 9001:2008 Certification:

- Commits the Fund to continuously deliver improved and excellent services to all its stakeholders while being sensitive to their needs through the quality policy.
- Strengthens the operations and management of the Fund through clearly documented processes of work.
- Ensures monitoring for continuous improvement of products and services through scheduled auditing of the Quality Management System, guaranteeing the stakeholders continued improvement in line with their needs and expectations.
- Ensures the Fund's work is technically and manageably sustainable through continuous capacity building of the Fund staff to meet stakeholder requirements.
- Enhances mutually beneficial Fund - stakeholder relationships through clear and open communication; pooling of expertise and recognizing our stakeholders' achievements.
- Demonstrates that the Fund is a quality organization that is internationally recognized, since ISO 9001:2008 is universally accepted and renowned Standard.

Since the Fund is on its third and final year of the current ISO 9008:2008 certification, it has embarked on the process to retain the ISO certificate via re-certification. In the fiscal period, the performance of the Fund was ranked 'Good' during the annual Performance Contract valuation.

5.0: Corporate Social Responsibility

The Fund recognizes that the institution's social, environmental and ethical conduct has an impact on our reputation. We therefore take our corporate social responsibilities seriously and are committed to advancing our policies and systems to ensure we address and monitor all aspects of Corporate Social Responsibility that are relevant to us. These include good ethical behaviour, concern for employees' health and safety and community involvement.



Mrs. Nancy Chelangat Cheruiyot
Ag. Managing Trustee



XI. STATEMENT OF FINANCIAL PERFORMANCE
For the thirteen (13) months ending 31 July 2014


	Note	2013-2014 Kshs	2012-2013 Kshs
Revenue from exchange transactions			
Interest from Loans and advances	3	57,975,594	62,182,348
Loan processing fees	6	5,254,577	2,613,329
Finance income –external investments	4	104,450,493	101,350,788
Finance income-interest receivable from investments	5	15,082,922	7,540,924
Other income	7	305,500	1,432,000
Total revenue		183,069,086	175,119,389
Expenses			
Employee costs	8	70,484,737	65,544,013
Board Expenses	9	10,314,456	6,523,432
Depreciation and amortization expense	10	12,621,110	8,731,135
Repairs and maintenance	11	2,369,939	2,785,673
Contracted professional services	12	1,792,910	2,323,175
Provision for bad debts	13	2,806,835	8,000,636
Operating expenses	14	83,498,423	70,561,836
Total expenses		183,888,410	164,469,900
Surplus /(Deficit)		(819,324)	10,649,489

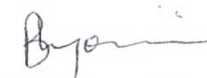
The notes set out on pages 6 to 16 form an integral part of the Financial Statements

XII. STATEMENT OF FINANCIAL POSITION
As at 31 July 2014

	Note	2013-2014 Kshs	2012-2013 Kshs
Assets			
Current Assets			
Cash and cash equivalents	15	1,085,147,483	1,010,411,846
Short term loans and advances from exchange transactions	16	137,780,016	223,404,731
Trade and other receivables from exchange transactions	17a	87,313,960	56,458,822
Other Receivables from non-exchange transactions	17b	37,164,750	12,343,394
Total Current Assets		1,347,406,209	1,302,618,793
Non-Current Assets			
Property, plant and equipment	18	35,499,584	16,766,759
Investments	19	150,000,000	150,000,000
Long term loans from exchange transactions	16	531,733,141	449,032,621
Total Non-Current Assets		717,232,725	615,799,380
Total Assets		2,064,638,934	1,918,418,173
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions	20a	8,414,944	9,751,755
Other payables from non-exchange transactions	20b	12,500	52,690
Commissions payable from exchange transactions	21	76,727,725	104,991,641
Total liabilities		85,155,169	114,796,086
Revolving Fund	22	1,979,483,765	1,803,622,087
Total Funds and liabilities		2,064,638,934	1,918,418,173

The Financial Statements set out on pages 1 to 4 were signed on behalf of the Board of Directors by:


Managing Trustee
Date..... 27/4/2015


Rep.P.S Ministry of Agriculture
Date..... 27/04/2015

XIII. STATEMENT OF CHANGES IN NET ASSETS
For the thirteen (13) months ending 31 July 2014

	Accumulated surplus	Revolving Fund	Total
	Kshs	Kshs	Kshs
Balance as at 30 JUNE 2012	290,346,081	1,345,825,301	1,636,171,382
Government grants		124,000,000	124,000,000
Surplus/(deficit) for the period	-	10,649,489	10,649,489
Transfers from reserves	-290,346,081	323,147,297	32,801,216
Balance as at 30 JUNE 2013	-	1,803,622,087	1,803,622,087
Surplus for the period	-	-819,324	-819,324
Transfers to/from accumulated surplus	-	-49,940,070	-49,940,070
Government grants		223,200,000	223,200,000
Revaluation reserve		3,421,072	3,421,072
Balance as at 30 JULY 2014	-	1,979,483,765	1,979,483,765



XIV. STATEMENT OF CASH FLOWS

	Note	2013-2014 Kshs	2012-2013 Kshs
Surplus/Loss		(819,324)	10,649,489
Adjustment for:			
Net adjustments recognized directly in equity	24	(49,940,070)	(9,305,974)
Depreciation of property plant and equipment		12,621,110	8,731,135
Provision for bad and doubtful debts	13	2,806,835	8,000,636
Investment income	4&5	(119,533,415)	(108,891,712)
Operating profit before working capital changes		(154,864,864)	(90,816,426)
(Decrease)/increase in Loans and advances		117,361	(50,694,468)
Increase/(Decrease) in trade and other receivables		(55,676,495)	4,644,565
(Decrease)/increase in commissions payable		(28,263,917)	12,238,605
(Decrease)/increase in Trade and other payables		(1,377,001)	971,929
Net cash flows from operating activities		(85,200,052)	(32,839,369)
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	19	(27,932,862)	(7,062,286)
Investments in fixed deposits	4&5	119,533,415	108,891,712
Net cash flows used in investing activities		91,600,553	101,829,426
Cash flows from financing activities			
Grants	23	223,200,000	124,000,000
		223,200,000	124,000,000
Movements in cash and cash equivalents			
At the beginning of the period	15	1,010,411,846	908,238,215
Increase in cash and cash equivalents		74,735,637	102,173,631
	15	1,085,147,483	1,010,411,846

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget 2013-2014 Kshs	Adjustments 2013-2014 Kshs	Final budget 2013-2014 Kshs	Actual on comparable basis 2013-2014 Kshs	Performance difference 2013-2014 Kshs	Notes
Revenue						
Internally Generated revenue	156,628,487	-	156,628,487	183,069,085	26,440,594	24a
Revenue Grants	<u>90,000,000</u>	<u>-90,000,000</u>	-	-	-	
Total income	<u>246,628,487</u>	<u>-90,000,000</u>	<u>156,628,487</u>	<u>183,069,081</u>	<u>26,440,594</u>	
Expenses						
Employees costs	76,829,679	(3,746,240)	73,083,439	70,484,737	2,598,702	24b
Board Expenses	9,918,835	2,185,165	12,104,000	10,314,456	1,789,544	24c
Operational expenses	114,522,046	(10,847,109)	103,674,937	88,098,168	15,576,769	24d
Repairs and Maintenance	11,350,833	8,250,833	3,100,000	2,369,939	730,061	
Depreciation	<u>16,791,351</u>	4,157,351	<u>12,634,000</u>	<u>12,621,110</u>	<u>12,890</u>	
Total expenditure	<u>229,412,744</u>	-	<u>204,596,376</u>	<u>183,888,410</u>	<u>20,707,966</u>	
Surplus for the period	17,215,742	-	(47,967,889)	(819,324)	-	

XVI. NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation

The Fund'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 Fund. The accounting policies have been consistently applied to all the years presented.

This is the first year of adoption of with International Public Sector Accounting Standards (IPSAS) accounting Standards by the Fund. Previous year financial statements of the Fund were prepared in accordance with International Financial Reporting Standards (IFRS) as well as the accrual basis.

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.

In the process of applying the Fund's accounting policies, the Fund's Trustees make certain judgments, estimates and assumptions that are continuously evaluated and assessed for adjustments based on prior experience and other determinants, including expectations of future events that are believed to be reasonable under the prevailing circumstances. Although these estimates are based on the Trustees' best knowledge of current events and actions, in practice actual results may differ from these estimates. Such estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described in these notes to the Financial Statements.

2. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from exchange transactions

Interest income

Interest income is recognized on an accruals basis in the Statement of Comprehensive Income using the effective yield on the loan. When financial assets become impaired, any inherent income/revenue is thereafter recognized at rates used to discount future cash flows for the purpose of measuring the recoverable amount.

i) Interest Income and Expense

Interest income and expenses are recognized in the Statement of Comprehensive Income for all interest bearing Instrument on an accrual basis taking into account the effective yield on the assets.

ii) Fees and Commission Income

Fees and commission income is generally recognized on an accrual basis.

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iii) Interest Computation

The Fund's loans are on lent to coffee farmers at a rate of 10% per annum broken down as follows:

4.5%	-	Coffee Development Fund
4.5%	-	Intermediary
1.0%	-	Primary Society
10.0%	-	Total

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 Fund. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Fund 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 stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Depreciation is calculated on a straight-line basis to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates.

Motor Vehicles	-	25%
Office Equipment	-	20%
Computers, Copiers, Faxes	-	33 ¹ / ₃ %
Furniture and Fittings	-	12.5%

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Property and equipment are periodically reviewed for impairment. Where the carrying amount of property and equipment is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating surplus.

d) Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential

will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

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

Contingent liabilities

From time to time, the Fund is involved in routine litigation that arises in the ordinary course of business. There are no pending significant legal proceedings to which the Fund is a party for which management believes the ultimate outcome would have a material adverse effect on the Fund's financial position.

e) Originating loans and provision for loans impairment

Loans are originated by the Fund by providing money through intermediaries to the farmer and are categorized as loans originated by the Fund. All loans and advances are recognized when cash is advanced to farmers.

Specific provision is made against loans and advances considered to be doubtful of recovery. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows including amounts recoverable from guarantors and collateral, discounted at the effective interest rate of loans.

A general provision of 3% is maintained based on an evaluation of the portfolio of loans and advances in respects of loses, which, although not specifically identified, based on experience can be traced or are present in any such portfolio. This provision is based on the Trustee's assessment of the risk of non-recovery known to be present in the Fund's lending portfolio.

Where a loan or an advance is deemed irrecoverable, it is written off against the related provision for impairments. Subsequent recoveries of amount previously written off are credited to the Statement of Comprehensive Income in the year of recovery. Loans and advances are stated after deduction of specific and general provisions.

f) Financial Risk Management Objectives and Policies

The Fund's activities expose it to a variety of financial risks. Risk management is carried out by the finance function under policies approved by the Board of Trustees. The Finance function identifies, evaluates and hedges against the financial risk.

i) liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Fund's management. It is unusual for a lending institution's maturities and interest rates of assets and liabilities to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturity of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities, as they mature are important factors in assessing the liquidity of the Fund and its exposure to interest rates. The Fund does not maintain cash resources to meet all liabilities as they fall due as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

ii) Credit Risk

Credit risk is the risk that a borrower will default on any type of debt by failing to make required payments. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances. The Fund has no significant concentrations on credit risk. The Fund has policies in place to ensure loans are given to farmers with an appropriate credit history. The credit department assesses the credit quality of each farmer, taking into account their financial position, past experience and other factors.

f) Nature and purpose of reserves

The Fund creates and maintains reserves in terms of specific requirements. Fund to state the reserves maintained and appropriate policies adopted.

g) Changes in accounting policies and estimates

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

h) Employee benefits

The Fund changed its terms for all staff except the Managing Trustee from on-contract employment to permanent and pensionable terms on March 1, 2012. The Fund operates a gratuity scheme for the Managing Trustee which is fully funded. The Fund has sponsored the establishment of a defined contribution pension scheme funded partly by the employees and partly by the Fund that is currently administered as a guaranteed scheme by Jubilee Insurance Company Ltd. Where employees are entitled to annual leave and long service awards, these are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long service awards as a result of services rendered by the employees up to the balance sheet date.

The Fund also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF) a national retirement benefit scheme. It also contributes to a statutory defined health insurance scheme, the National Hospital Insurance Fund (NHIF). Both of these contributions are defined by local statutes.

The Fund's contributions to all the above schemes are charged to the Statement of Comprehensive Income in the year to which they relate.

i) 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.

j) Comparative figures

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

k) Subsequent events

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

3. Interest on loans and advances	2014	2013
	Shs	Shs
Interest income from loans and advances	57,975,594	62,182,348
Total interest on loans and advances	57,975,594	62,182,348
4. Finance income - external investments	2014	2013
	Shs	Shs
Cash investments and fixed deposits	104,450,493	101,350,788
Total finance income – external investments	104,450,493	101,350,788
5. Finance income – Interest receivable on investments	2014	2013
	Shs	Shs
Accrued interest on cash investments and fixed deposits	15,082,922	7,540,924
Total – Interest receivable on investments	15,082,922	7,540,924
6. Loan Processing fees	2014	2013
	Shs	Shs
Processing fees for loans and advances	5,254,577	2,613,329
Total Loan processing fee	5,254,577	2,613,329
7. Other Income	2014	2013
	Shs	Shs
Miscellaneous income	281,500	-
Sale of tenders	24,000	657,000
Gain on disposal	-	775,000
Total other income	305,500	1,432,000

8. Employee costs	2014	2013
	Shs	Shs
Employee related costs - salaries and wages	48,969,247	46,926,703
Employee related costs - contributions to pensions	5,842,406	6,242,639
Travel, motor car, accommodation, subsistence and other allowances	12,931,424	9,868,852
Gratuity expense	-	1,217,370
Leave expense	2,741,660	1,288,449
Employee costs	70,484,737	65,544,013

9. Board Expenses	2014	2013
	Shs	Shs
Sitting Allowance	4,436,500	3,002,520
Lunch refunds	324,000	106,500
Accommodation refunds	1,118,000	479,500
Domestic travel (Air tickets,taxi)	447,354	432,085
Foreign travel(Air tickets,taxi,sundry items)	-	396,012
Milleage	456,036	181,277
Chairman Airtime	49,000	14,000
Chairman Honoraria	1,040,000	301,746
Board training	692,375	479,040
Insurance for board members	769,270	303,678
Board Conferences and retreats	591,949	457,976
Board Others	389,972	369,098
Total Board Expenses	10,314,456	6,523,432

10. Depreciation and amortization expense	2014	2013
	Shs	Shs
Property, plant and equipment	12,621,110	8,731,135
Total depreciation and amortization	12,621,110	8,731,135

11. Repairs and maintenance	2014	2013
	Shs	Shs
Building	179,270	115,600
Equipment	79,380	51,107
Vehicles	1,607,485	1,236,130
Computers	503,804	1,382,836
Total repairs and maintenance	2,369,939	2,785,673

12. Contracted professional services	2014	2013
	Shs	Shs
Professional services	1,792,910	2,323,175
Total contracted professional services	1,792,910	2,323,175

13. Provision for bad debts

	2014	2013
	Shs	Shs
Provision For the period	2,806,835	8,000,636
	2,806,835	8,000,636

14. Operating expenses

The following are included in Operating expenses:

	2014	2013
	Shs	Shs
Advertising	2,566,299	3,359,546
Commissions to intermediaries	31,886,577	34,200,291
Audit fees	696,000	1,488,000
Conferences and delegations	1,479,453	2,543,610
Bank Charges	579,532	710,834
Corporate social responsibility	554,000	242,250
General office supplies and consumables	1,166,913	1,283,688
Computer accessories and Consumables	611,647	300,853
Electricity	355,272	-
Fuel and oil	1,630,680	2,406,989
Insurance	20,215,833	9,164,599
Legal expenses	331,065	303,660
Catering services	705,232	334,286
Internet expenses	621,645	507,205
Telephone, Telex and Facsimile	333,402	546,654
Courier and Postal services	89,820	70,924
Printing and publishing	609,120	468,680
Hire charges	21,500	95,965
Rent and rates	8,807,474	5,167,674
Contracted guards and cleaning	182,724	-
Trade shows and exhibitions	2,902,194	1,332,149
Staff party and annual dinner	244,669	168,200
Subscriptions to newspapers and magazines	219,920	254,500
Leased communication lines	327,241	1,648,680
Staff training	3,974,581	2,355,818
Membership fees-local bodies	532,375	545,378
Membership fees-International organisations	260,300	396,764
Medals,awards and honour	386,440	383,000
Pension expenses	1,108,665	158,500
Binding of records	70,427	51,997
Training Levy	25,808	69,675
Other	1,615	1,467
Total operating expenses	83,498,423	70,561,836

15. Cash and cash equivalents

Bank	2014	2013
Cash-on-hand	Shs	Shs
Short term deposits	56,894,045	78,167,069
Total cash and cash equivalents	100,000	100,000
	1,028,153,438	932,144,777
	1,085,147,483	1,010,411,846

16a. Loans and Advances

Short term loans and advances	2014	2013
Total current receivables	Shs	Shs
Non-current portion	137,780,016	223,404,731
Coffee Rehabilitation Loan	137,780,016	223,404,731
Other Loans		
Total non-current portion		
Total Loans and advances		

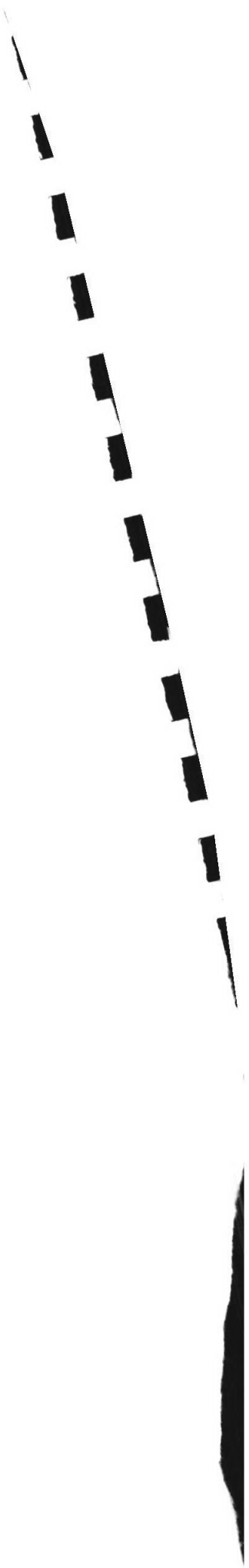
16.b The Loan balance in 16a above excludes repayments of Ksh 51,921,889 from farmers that is under reconciliation.

17 a. Trade and other receivables from exchange transactions

Prepayments	2014	2013
Revenue receivable on sale of loan forms	Shs	Shs
Utility deposits	1,823,742	1,066,258
Interest receivable on fixed deposits	2,251,300	2,251,300
Interest receivable on loans and advances	2,878,903	2,860,785
Total Trade and other receivables-exchange transactions	15,082,922	7,540,928
	65,277,093	42,739,551
	87,313,960	56,458,822

17b. Trade and other receivables from Non -exchange transactions

Staff debtors	2014	2013
Cash in transit-disbursements	Shs	Shs
VAT Receivable	1,276,179	871,000
Disbursements held at intermediary	651,964	572,934
Total Receivables non -exchange transactions	3,273,517	-
	31,963,090	10,899,460
	37,164,750	12,343,394



18. Property, plant and equipment

	Equipment Shs	Motor vehicle Shs	Furniture & Fittings Shs	Computers & Accessories Shs	Total Shs
Cost					
At 1 July 2012	2,196,465	15,472,665	2,617,825	40,028,514	60,315,469
Additions	859,495	6,129,791	-	73,000	7,062,286
Disposals	-	(2,210,020)	-	-	(2,210,020)
At 30 June 2013	3,055,960	19,392,436	2,617,825	40,101,514	65,167,735
Additions	65,000	-	21,661,767	6,206,095	27,932,862
Disposals	-	-	-	-	-
Revaluations	381,352	2,177,793	177,334	684,593	3,421,072
Adjustment on reclassification of asset	(731,221)	-	-	731,221	-
At 31 July 2014	2,771,091	21,570,229	24,456,926	47,723,423	96,521,669
Depreciation					
At 1 July 2012	(1,600,587)	(9,691,318)	(1,296,727)	(29,291,228)	(41,879,860)
Depreciation	(453,740)	(2,467,228)	(324,922)	(5,485,245)	(8,731,135)
Disposal	-	2,210,020	-	-	2,210,020
At 30 June 2013	(2,054,327)	(9,948,526)	(1,621,649)	(34,776,473)	(48,400,975)
Depreciation	(776,173)	(5,335,067)	(1,313,361)	(5,196,509)	(12,621,110)
Disposal	-	-	-	-	-
Adjustment on reclassification of asset	624,527	-	-	(624,527)	-
At 31 July 2014	(2,205,973)	(15,283,593)	(2,935,010)	(40,597,509)	(61,022,085)
Net book values					
At 31 July 2014	565,118	6,286,636	21,521,916	7,125,914	35,499,584
At 30 June 2013	1,001,633	9,443,910	996,176	5,325,041	16,766,759

19. Investments	2014	2013
	Shs	Shs
12 year GOK Infrastructure Bonds	150,000,000	150,000,000
Total Investments	150,000,000	150,000,000
20a. Trade and other payables from exchange transactions	2014	2013
	Shs	Shs
Bank Overdraft	967,317	-
Trade payables	3,252,827	4,825,923
Gratuity	74,749	1,980,319
Leave allowance	2,728,051	1,250,948
Insurance premium liability	-	998,565
Audit fees	1,392,000	696,000
Total Trade & other payables from exchange transactions	8,414,944	9,751,755
20b. Other payables from non-exchange transactions		
Staff Welfare Fund	12,500	52,690
Total other payables non-exchange transactions	12,500	52,690
21. Commissions payable	2014	2013
	Shs	Shs
55% Commissions payable to intermediaries and societies	76,727,725	104,991,641
Total Commissions payable	76,727,725	104,991,641
22. Revolving Fund	2014	2013
	Shs	Shs
Revolving Fund at 1 July 2013	1,803,622,087	1,345,825,301
Capital grant for the year	223,200,000	124,000,000
Transfer to/from reserves	(49,940,070)	323,147,297
Revaluation Reserve	3,421,072	-
Surplus for the year	(819,324)	10,649,489
Total Revolving Fund	1,979,483,765	1,803,622,087

23. Notes explaining the variances between the budget and the actual amounts

- a. The **actual revenue** received was more by **Ksh 26,440,594** compared to the budgeted amount because of the investment income earned on fixed and call deposits. The negotiated interest rates were favourable.
- b. In **Employee costs**, the actual amount was less compared to the budgeted amount by **Ksh 2,598,702** because some staff who resigned during the year were not replaced due to the freeze on recruitment by the Government
- c. In **board expenses**, the actual amount was less compared to the budgeted amount by **Ksh 1,789,544** because some of the planned activities (e.g foreign travel) in the Board Calendar did not take place due to austerity measures issued by the Government.
- d. In **Operational expenses**, the actual amount was less compared to the budgeted amount by **Ksh 15,576,769** because some of the planned activities in the procurement plan did not take place due to austerity measures issued by the Government.

24. Events after the reporting period

There are no material non-adjusting events after the reporting date.

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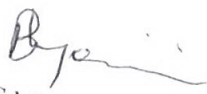
XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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)
CDF/267/2012/2013/(10)	Long outstanding loan balances -Included in the longterm and short term loans balances is Ksh 161,994,969 relating to advances made to coffee farmersthrough various intermediaries which has been outstanding since 2008.	The Fund established a Credit control Unit which has been handling all outstanding loans that are over three years old. The Fund has also made a general provision of 3% of these outstanding of ksh 161,994,969 in addition to the 4% general provision on all loans.	Ag Credit Manager Richard Omelu	Not fully resolved	By 2014/2015 financial year
CDF/267/2012/2013/(10)	Budgetary control. -The Fund incurred an over expenditure on rent expense in comparison to the approved budget	The fund sought an approval from the parent ministry for hire of additional space.	Ag.Managing Trustee Nancy Cheruiyot	Resolved	N/A


Managing Trustee

Date..... 27/4/2015


Rep.P.S Ministry of Agriculture

Date..... 27/04/2015

