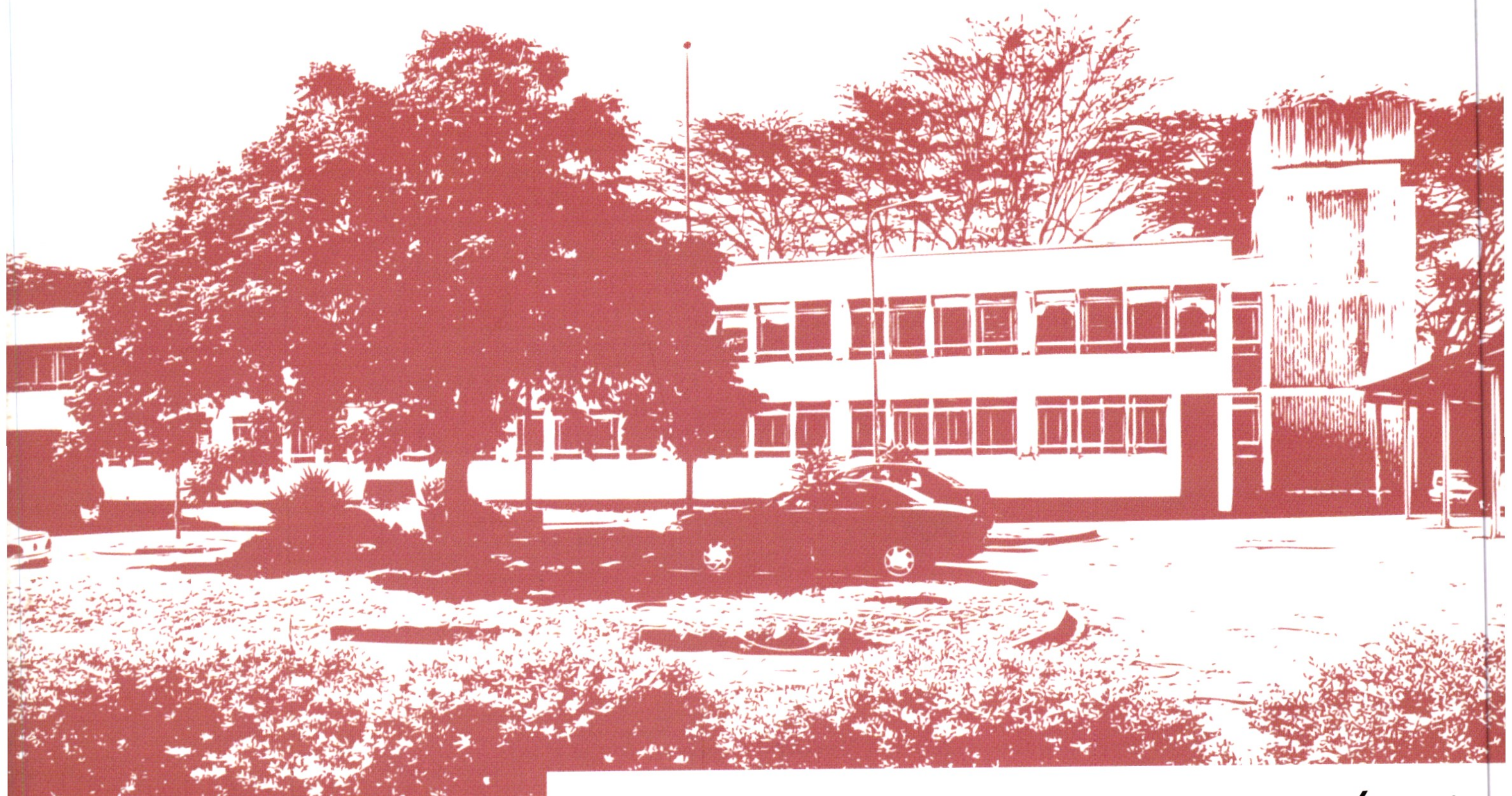
The Jomo Kenyatta Foundation

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2012



... supporting your education

MISSION

To advance education and knowledge for poverty alleviation through quality publishing and provision of Scholarships.

VISION

To be the premier Publishing House in Eastern Africa and a leading scholarship provider to the needy in Kenya.

MOTTO

Supporting your Education

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

THE JOMO KENYATTA FOUNDATION

...supporting your education

P O BOX 30533 - 00100 NAIROBI

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BOARD OF DIRECTORS

Mr. Jacob K. Mwirigi, HSC - Chairman

Mr. Francis T. Kimemia, CBS - Permanent Secretary, Office of the President, Secretary to the Cabinet and Ag. Head of Public Service

Mr. Mohammed Jabane - Alternate to Permanent Secretary, Office of the President, Secretary to the Cabinet and Head of Public Service

Prof. George Godia, EBS, - Permanent Secretary, Ministry of Education

Mrs. Margaret Thiong'o - Alternate to Permanent Secretary, Ministry of Education

Mr. Joseph Kinyua, CBS - Permanent Secretary, Ministry of Finance

Mrs. Teresia K. Nyakweba - Alternate to Permanent Secretary, Ministry of Finance

Mr. Simon Ole Kingi - Member

Mr. Muhidin M. Sheikh - Member

Dr.Reginalda N. Wanyonyi - Member

Ms. Sophia Lepuchirit - Member

Prof. Nathan O. Ogechi - Member

Mrs. Nancy W.Karimi, MBS - Managing Director/Secretary to the Board

JKF MANAGEMENT

Mrs. Nancy W. Karimi, MBS - Managing Director

Mrs. Pamela Muchera - Human Resource and Administration Manager

(Resigned May 2012)

Mrs. Rosemary Barasa - Company Secretary

Mr. Fredrick O. Oyuga - Publishing Manager

Mr. Carylus O. Odiango - Finance Manager

Mr. Joram Ngunyi - Chief Internal Auditor

Mr. Bethuel O. Oduo - Marketing Manager

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 43rd ANNUAL GENERAL MEETING of The Jomo Kenyatta Foundation will be held at the offices of The Foundation in Industrial Area, Enterprise Road, Nairobi on 4th June 2013 at 10.00 am

AGENDA

1. The Secretary to read the Notice convening the 43rd Annual General Meeting.
2. To receive and confirm the Minutes of the last Annual General Meeting held on 29th March, 2012.
3. To receive and adopt the Chairperson's Report and The Foundation's operations for the year ended 30th June 2012.
4. To receive, discuss and adopt the External Auditor's Report on the Accounts of The Foundation for the year ended 30th June 2012.
5. To receive and adopt The JKF Directors' Report and the Company's Financial statements for the year ended 30th June 2012.
6. To appoint the Company's External Auditors for the year ending 30th June 2013 and fix their fees.
7. To fix Directors fees, allowances and other remunerations for the year ended 30th June 2012 and authorize Management to seek Government approval for their payment.
8. To transact any other ordinary business of the Company.

By order of the Board.

Nkarimi

MRS. NANCY W. KARIMI, MBS

MANAGING DIRECTOR/SECRETARY TO THE BOARD

NB: In accordance with section 136(2) of the Companies Act (Cap 486), every member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his/her behalf. A proxy needs to be a member. A form is enclosed and should be returned to the Secretary, P.O. Box 30533-00100, Nairobi to arrive not later than 48 hours before the meeting or any adjournment thereof.

CHAIRMAN'S REPORT

It gives me pleasure to present the Annual Report and Financial Statements for The Jomo Kenyatta Foundation for the year ended 30th June 2012.

Performance Review

The Company's turnover reduced by 14% from Kshs. 577 million in the prior year to Kshs. 496 million in the year under review. The turnover was 25% below the budgeted level of Kshs. 664 million. The gross profit of Kshs. 217 million was below budget by 21% while operating profits, at KShs.220 million was 30% below budget. Overall the Company recorded a loss of Kshs. 16 million. This was below the revised budgeted profit of Kshs. 55 million and 133% below the prior year's profit of Kshs. 48 million.This can be attributed to the reduced spending by the government on textbooks due to challenging economic factors such as high inflation and weakened currency which forced the government to reorganise its spending to the loss of publishers.

Performance Framework

The year under review represented the eighth cycle of operation of performance contract signed between the Board and the Government. In the evaluation results for the year ended 30th June 2012, the Company's composite score was 3.348 representing a significant decline from that of June 2011 that was 2.045. The score which rated JKF's performance 'good' was mainly because of of the loss realized in that year.

Corporate Social Responsibility

The Jomo Kenyatta Foundation subscribes to the principle and practice of responsible corporate citizenship. During the year under review, The Foundation donated books valued at Kshs. 15.7 million to various schools in the country. This is in addition to Kshs. 59.8 million paid out to secondary schools as part of our scholarship scheme.

Staff Development

In line with the Company's commitment to staff development and in a bid to improve service delivery and the quality of the Company's products, during the year under review, the Company spent Kshs. 7.5 million in sponsoring its staff for training at various professional and skills upgrading institutions. In addition, a number of staff members are still pursuing various professional and higher degree courses in fields related to their work.

Future Projection

The outlook for the future is bright and we project good performance over the next 5 years. The Company completed the formulation of its strategic plan for the period 2012 to 2017 in June 2012 and align it to the country strategies as envisioned in the Constitution of Kenya 2010 and Vision 2030. The new strategic plan has formulated strategies expected to support the two core functions of publishing and scholarships in a sustainable manner.

Acknowledgement

On behalf of the Board, I would like to thank our customers, suppliers, the Government and staff of The Jomo Kenyatta Foundation for their efforts that enabled the Company to carry out its business for the year under review.

My special thanks go to the Directors for providing diligent policy guidance and direction for the prudent Management of the Company's affairs. I wish to pay tribute to our teachers and scholars for buying and using our books as well as the authors of the various publications that comprise the Company's core products. I also wish to thank JKF Scholarship Beneficiaries Association for their support in funding the scholarship programme. Above all, I thank God for seeing us through the difficult year and look forward to a better year.

Thank you and God bless.

MR. JACOB K. MWIRIGI, HSC

CHAIRMAN OF THE BOARD

THE CHIEF EXECUTIVE'S REPORT

I take this opportunity to report on the performance of The Foundation for the twelve months ended 30th June 2012.

Financial Performance

Turnover reduced from KShs.577 million in the year ended June 2011 to Kshs. 496 million in the current year representing a 14% decrease. The decrease was mainly because of low sales due to reduced spending by Government on textbooks.

Operating profits reduced from Kshs 263 million to Kshs 220 million primarily because of low sales realized in the year. Operating expenses increased by 9% from Kshs. 208 million in the year ended 30 June 2011 to Kshs 228 million in the current year. The net effect of these changes resulted in a loss of Kshs 16 million in the current year compared to a profit of Kshs. 48 million in June 2011 representing a 133% decline in profits.

Operating Environment

The Foundation's principal activity is advancing education and allievation of poverty. These activities are carried out through the core functions of publishing ,scholarship and expansion of the revenue base through a much broader interpretation of the Company's Memorandum and Articles of Association.

Publishing

Over the years, The Foundation has taken pride in publishing books that have become household names. The Company publishes books and other instructional materials for all levels of formal education in Kenya as well as general readership.

The Foundation has embarked on new markets that offer good economic prospects. We have developed products for Early Childhood Development Education as well as Life Skills Education which is one of the newly introduced subjects in schools.

In a bid to penetrate the East and Central Africa market, The Foundation has continued to participate in international book publishing tenders floated by various governments in the region. This has seen us make an entry into Rwanda and South Sudan markets. We are following up on Uganda where we have submitted bids. In the year under review, one of the significant achievements of JKF was the conversion of 36 of our children's readers into e-books for Amazon's Kindles. This was done in partnership with Worldreader at minimal cost. The revenue generated by the books is already promising and we intend to add more titles into the program.

The JKF Scholarships Scheme

The number of the JKF scholarship beneficiaries in the 2011/2012 financial year stood at 1,610 with fees amounting to KShs 59.8 million. This was an increase from 1,416 students in the previous year.

It is encouraging that JKF was able to match the rising number of the needy students, taking into account the current economic challenges.

In the year under review, the JKF scholarship policy was revised to reflect the counties defined in the new constitution. This saw the successful selection and subsequent award of 320 new scholarships to the 2012 Form Ones.

The year boasts an improved communication network, following the update of the scholarship website. This registered an increase in donor interest in the scheme.

Strategic Plan

During the year under review The Foundation formulated a new strategic plan for the five year from July 2012 to July 2017. In the new strategic plan the Mission and Vision statements of the Foundation were revised to correctly reflect the mandate of the organisation of advancing education and allievation of poverty.

The focus of the strategic plan for the five years is the expansion of products and markets and sourcing of independent funds for the scholarship scheme. The Foundation has also adopted the Balanced Score Card framework as a performance management tool to help in the implementation of the plan.

Marketing Activities

The main objective of the Sales and Marketing department is to stimulate demand for the business goods and services and to generate leads to new customers who are likely to purchase the Foundation's products. Demand is generated in schools and other educational institutions. In the year 2011-12, the Sales and Marketing team held various activities like book displays and teacher workshops to promote our products in Kenya and Rwanda. In Kenya the public institutions still remain our biggest customers and the government is their key financier.

Our strategy to expand our market beyond Kenya saw us record growth in Rwanda where we achieved a 50% increase in orders for Cycle 2 compared to the previous year. With an increased growth potential, the Company has now set up a duly registered office in Rwanda.

Our recently launched strategic plan for the year 2012-2017 spells out our deliberate intention to introduce high value products like Dictionaries, Atlases, Bible and Kamusi into our catalogue. Besides filling the gaps in our book list, these products will also enhance our revenue turnover.

Legal Risk management

During the year under review the Foundation embarked on review of its legal instruments to align then with the Constitution of Kenya 2010. Five policies were reviewed during the year.

Staff Welfare and Development

The JKF spent 7.5 million in staff training programs during the year to develop the human capital. We participated in various forums on staff welfare with our partners in the industry while a number of service providers imparted skills to our staff on various fields at subsidized rates.

Our outpatient medical scheme is self-funded, and managed by an insurance broker. In 2011/2012 we spent Kshs. 4.5 million in the scheme, compared to Kshs. 4.7 million spent in 2010/11. The insured inpatient scheme is managed by an underwriter and performed well as the claims experienced for the year stood at Kshs. 2.8 million against premium of Kshs. 2.9 million.

Internal Audit Department

The Department is an independent review activity that reports administratively to the Managing Director and functionally to the Board Audit Committee.

In the year under review, the department assessed the risks of auditable activities of the Foundation and issued the recommendations to the affected departments on enhancing controls. The Board of Audit Committee also enhanced implementation of the recommendations and offering further advice. Other inputs were received from the top management, the Board of Directors and the external auditors.

Internal audit also carried out monitoring and evaluation of the organization's established objectives and goals, and released a quarterly report to the management.

The department also contributes to the organization's governance process by evaluating and improving the process by ensuring that accomplishment of goals is monitored, accountability is ensured, and values are preserved.

I wish to thank the Board for giving me their full support and for their much-valued advice, which has helped in reshaping the organization. I also thank the entire Management and staff for their contribution in ensuring that The Foundation remained steadfast even in the face of stiff competition.

May God bless you all.

Nkarimi

MRS. NANCY W. KARIMI, MBS

<u>MANAGING DIRECTOR</u>

CORPORATE GOVERNANCE STATEMENT

The Jomo Kenyatta Foundation's Board of Directors is accountable to the shareholders for ensuring that The Foundation complies with the law, the highest standards of corporate governance and business ethics. During the year under review, The Foundation complied with the law and the principles of best practice for corporate governance in Kenya.

The Board of Directors

The Jomo Kenyatta Foundation was incorporated under the Companies Act as a company limited by guarantee on 2nd March 1966. The principal activity of The Foundation is to advance education and knowledge. The principal stakeholder, The Government of Kenya, provided the initial capital to establish The Foundation and appoints members to the Board to carry out the mandate.

The Board met 7 times during the financial year under review. Their performance is subject to a performance contract signed with The Ministry of Education that is reviewed every financial year. The Board is entitled to information on the operations of The Foundation, which is normally availed to the Board members in advance of scheduled Board meetings.

The Primary Responsibilities of the Board

The Board's primary responsibility is establishing the long-term goals of The Foundation and providing leadership to ensure that strategic objectives and plans are established to achieve those goals. The current strategic plan that covers five years from 2012 to 2017 was completed in June 2012.

Board Composition and Meetings

During the year under review, the Board was made up of thirteen members as listed in the Directors' Report. They included The Chairman, alternate directors representing permanent secretaries from The Office of the President, The Ministry of Finance and The Ministry of Education and The Managing Director, who is the secretary to the Board and the only Executive Director.

The Chairman of the Board is appointed by The President of The Republic of Kenya and serves for a period of 3 years, the non- executive directors are appointed by The Minister for Education and serve a period of 3 years and The Managing Director is appointed by The Minister for Education on recommendation by the Board.

The Board delegates some of its responsibilities to standing committees, which operate within defined terms of reference laid down by the Board. During the period under review, the Board had three standing committees as follows:

- Finance and General Purpose Committee
- Audit Committee
- Staff Welfare Committee

Finance and General Purpose Committee

The Finance and General Purpose Committee is composed of 6 non-executive Directors and The Managing Director. 2 Senior Management staff attend the meetings on invitation. The Committee met 5 times in the year under review.

Audit Committee

The Audit Committee is composed of 6 non-executive Directors, The Managing Director and the Chief Internal Auditor. 2 Senior Management staff attend the meetings on invitation. The Committee met 5 times in the year under review.

Staff Committee

The Staff Welfare Committee is composed of 7 non-executive Directors and The Managing Director. 2 Senior Management staff attend the meetings on invitation. The Committee met 6 times in the year under review.

Accountability and Audit

The Board usually presents a balanced and understandable assessment of The Foundation's financial position and prospects. The assessment is provided in the Chairman's statement and in the audited financial statements attached to this report.

The financial report produced complies with the financial reporting standards recommended by the Institute of Certified Public Accountants of Kenya and also comply with the Kenya Companies Act (Cap 486).

Stakeholder Relationships

The Foundation is a company limited by guarantee and has set up a scholarship fund to assist bright and needy students in public secondary schools pay fees in accordance with its Articles and Memorandum of Association.

The Board recognizes its responsibility to communicate to the stakeholders the performance of The Foundation towards achieving their stated objectives. This is done through the publication of its annual reports and financial statements, which are circulated to parliament and filed with the Registrar of Companies in addition to being displayed prominently in our premises.

The JKF Scholarship Programme

The Foundation's core business is the advancement of education and knowledge. As part of its responsibility to the society, the Foundation has been setting aside part of its income to pay school fees for bright needy students in public secondary schools selected from all districts in Kenya. During the year under review, The Foundation set aside Kshs. 59.8 million under its Scholarship Programme for this purpose. This programme has benefited more than 10,000 students since it was started in 1968.

Corporate Social Responsibility

The Foundation donates books as part of its Corporate Social Responsibility. During the year under review, The Foundation made book donations valued at Kshs. 15.7 million, of which books worth Ksh.9.6 million were obsolete and Ksh.6.1 million came from the active warehouse, to various schools around the country and also contributed KShs.100,000 towards the Mater Heart Run and Kshs.50,000 towards Kenya Freedom from Hunger Walk sponsoring 10 staff members' participation in these event.

Compliance with the Law

The Board is satisfied that The Foundation has to the best of their knowledge complied with all applicable laws and conducted its affairs in accordance with the Companies Act. The Foundation has not to the knowledge of the Board been involved in any activity incompatible with the national laws or any international treaty to which our country is a signatory.

Human Resource Development

The Foundation had a staff establishment of 121 employees as at 30th June 2012 and has continued to support the training and development of staff through sponsorship to various colleges, courses and workshops. During the year under review the Company spent Kshs. 7.5 million on training of staff at a various levels.

Future Prospects

The annual report highlights the company's future prospects in pages 1 to 26.

MR. JACOB K. MWIRIGI, HSC

CHAIRMAN OF THE BOARD

CORPORATE INFORMATION

INCORPORATION

The Jomo Kenyatta Foundation was incorporated under the Companies Act as a Company Limited by guarantee on 2nd March 1966.

DIRECTORS:

1.	Mr. Jacob K. Mwirigi, HSC	-	Chairman
2.	Mr. Francis T. Kimemia, CBS	-	Permanent Secretary, Office of the President, Secretary to the Cabinet and Ag. Head of Public Service.
3.	Mr. Mohamed A. Jabane	-	Alternate to Permanent Secretary, Office of the President, Secretary to the Cabinet and Head of Public Service.
4.	Prof. George Godia,EBS	-	Ag. Permanent Secretary, Ministry of Education
5.	Mrs. Margaret Thiong'o	-	Alternate to Permanent Secretary, Ministry of Education
6.	Mr. Joseph K. Kinyua,CBS	-	Permanent Secretary, Ministry of Finance
7.	Mrs. Teresia K. Nyakweba	-	Alternate to Permanent Secretary, Ministry of Finance
8.	Mr. Simon M. Ole Kingi	-	Member
9.	Mr. Muhidin M. Sheikh	-	Member
10.	Ms. Sophia Lepuchirit	-	Member
11.	Dr.Reginalda N. Wanyonyi	-	Member
12.	Prof. Nathan O. Ogechi	-	Member
13.	Mrs. Nancy W. Karimi,MBS	-	Managing Director/Secretary to the Board

SECRETARY

Mrs. Nancy W. Karimi, MBS

Managing Director and Secretary to the Board

P. O. Box 30533 - 00100

NAIROBI

REGISTERED OFFICE

The Jomo Kenyatta Foundation

Headquarters and Principal Offices

Enterprise Road, Industrial Area

P. O. Box 30533 - 00100

NAIROBI.

AUDITORS

The Auditor General

Kenya National Audit Office

P. O. Box 30084 - 00100

NAIROBI.

PRINCIPAL BANKERS

Kenya Commercial Bank Limited

Moi Avenue Branch

P. O. Box 30081 - 00100

NAIROBI.

LEGAL ADVISORS

Ojiambo & Company Advocates

Finance House, Loita Street

P. O. Box 1021 - 00100

NAIROBI.

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements for the year ended 30th June 2012.

1. The Principal Activities

The Foundation publishes school textbooks and other educational materials and provides scholarships to the bright and needy students in secondary schools in Kenya.

2. Results

The net loss for the year of Kshs. 16 million (2011: profit of Kshs.48.6 million) has been added to/ deducted from retained earnings.

3. Appropriation of Profits

The Foundation is a company limited by guarantee and in accordance with its Memorandum and Articles of Association has set up a scholarship fund to assist in meeting the school fees needs of bright but needy students. During the year, Kshs. 59.8 million was utilized for this purpose.

4. Directors

The Directors who served during the year are as listed in the Corporate Information Section of this report page 1.

5. Auditors

The Auditor General continues in office in accordance with the Public Audit Act, 2003.

By order of the Board

Nkarimi

MRS. NANCY W. KARIMI, MBS

SECRETARY TO THE BOARD

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;

ii) selecting and applying appropriate accounting policies; and

iii) making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company as at 30th June 2012 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

Approved by the Board of Directors on 27th September, 2012 and signed on its behalf by:

Director: ______________

Managing Director: ______________

REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE JOMO KENYATTA FOUNDATION FOR THE YEAR ENDED 30th JUNE 2012

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of The Jomo Kenyatta Foundation set out on pages 7 to 28, which comprise the Statement of Financial Position as at June 30, 2012, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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 judgment, including the assessments 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 controls 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management as well as evaluating the overall presentation of the financial statement.

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

Basis for Qualified Opinion

1. Financial Performance

During the year under review, the Foundation reported a loss of Kshs. 16,093,000 (2011-profit - Kshs. 48,631,000). Although the management has explained that strategies have been put in place to reverse the trend , in the event the strategies may fail to yield positive results, the Foundation may experience financial challenges.

2. Trade and Other Receivables

Note 11 to the financial statements reflects net trade receivables of Kshs. 76,921,000 which has been arrived at after deducting provision for doubtful debts of Kshs. 16,030,000 described as impaired balances which management considers doubtful.

The management has not provided satisfactory explanations as to the measures it intends to take to improve recovery of such debts.

3. Trade and Other Payables

The trade and other payables balance of Kshs. 205,224,000 includes trade payables of Kshs. 163,280,000 out of which Kshs. 1, 288,605 are debtors with credit balances which have not been reconciled.

In the circumstances, it has not been possible to confirm that the trade and other payables balance of Kshs. 205,244,000 as at 30 June 2012 is fairly stated.

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 30th June 2012, and of it's financial performance and it's cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the Companies Act, Cap. 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenya 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

<u>AUDITOR GENERAL</u>

Nairobi

4th April 2013

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2012 Kshs'000	2011 Kshs'000
Turnover	15	496,122	576,873
Cost of Sales	16	(279,138)	(316,824)
Gross Profit		216,984	260,049
Other Operating Income	17	3,443	2,653
Operating Profits		220,427	262,702
Distribution Expenses	18	86,855	81,768
Administrative Expenses	19	129,943	115,336
Other Operating Expenses	20	11,968	10,981
Total Operating Expenses		228,766	208,085
Profit / (Loss) from Operations		(8,339)	54,617
Finance Costs	21	(7,754)	(5,986)
Net Profit / (Loss)		(16,093)	48,631

STATEMENT OF FINANCIAL POSITION

		2012	2011
CAPITAL EMPLOYED	**Notes**	**Kshs'000**	**Kshs'000**
Capital Reserve	7	4,000	4,000
Revaluation Reserves		319,287	319,620
Retained Earnings		19,577	103,837
Scholarship Fund		13,545	4,931
Total Capital and Reserves		**356,409**	**432,387**
REPRESENTED BY			
Non- Current Assets			
Plant, Property & Equipment	8	287,878	289,464
Intangible Assets	9	848	1,570
		288,726	291,034
Current Assets			
Inventories	10	172,345	160,632
Trade and Other Receivables	11	118,080	79,768
Cash and Cash Equivalents	12	910	13,478
		291,335	253,877
Current Liabilities			
Trade and Other Payables	13	205,244	112,524
Bank Overdraft	12	18,408	-
		223,652	112,524
Net Current Assets		67,683	141,353
Net Assets		**356,409**	**432,387**

The financial statements on pages 1 to 28 were authorised for issue by the Board of Directors on 27th September, 2012 and were signed on its behalf by:

.... Director

.... Director/Secretary

STATEMENT OF CHANGES IN EQUITY

	Capital Reserve Kshs'000	Revaluation Reserve Kshs'000	Retained Earnings Kshs'000	Scholarships Fund Kshs'000	Total Kshs'000
As at 1st July 2010	4,000	315,978	109,848	5,828	435,654
Net Profit /(Loss) for the year			48,631		48,631
Scholarships Appropriation			(51,000)	51,000	-
Scholarships Applied				(51,897)	(51,897)
Revaluation on disposal of assets		3,642	(3,642)		-
As at 30th June 2011	4,000	319,620	103,837	4,931	432,388
As at 1st July 2011	4,000	319,620	103,837	4,931	432,388
Net Profit/(Loss) for the Year			(16,093)		(16,093)
Scholarships Appropriation			(68,500)	68,500	-
Scholarships Applied				(59,886)	(59,886)
Revaluation on disposal of assets		(333)	333		-
As at 30th June 2012	4,000	319,287	19,577	13,545	356,409

Capital Reserves:

Capital Reserves represent the initial seed money invested in the company on incorporation in 1966.

Revaluation reserves:

Revaluation reserves represent the increase in value of property plant and equipment arising from revaluation of Company assets. The last such valuation was carried out in April 2010.

Retained earnings:

Retained earnings are undistributed cumulative profits made by the company.

Scholarship fund:

Scholarship fund account represents the unutilised balance of amount appropriated to the scholarship programme.

STATEMENT OF CASH FLOWS

	Notes	2012	2011
Cashflow from operating activities		Kshs'000	Kshs'000
Profit / (loss) before tax	7	(16,093)	48,631
Adjustments for:			
Depreciation	8	13,644	13,366
Amortization of Intangible Assets	9	722	761
Profit on sale of Non Current Assets		(1,155)	190
Changes in working Capital:			
Decrease/(increase) in:			
Inventories		(11,713)	(10,272)
Trade and Other Receivables		(38,312)	(4,512)
Increase/(decrease) in Trade and Other Payables		92,720	10,064
Cash Generated from Operations		39,813	58,229
Scholarships Applied		(59,886)	(51,897)
Net cash from operating activities		(20,073)	6,332
Investing Activities			
Purchase of Property, Plant & Equipment	8	(12,547)	(7,533)
Purchase of Intangible Assets		-	(1,001)
Proceeds from Sale of Non Current Assets		1,644	2,559
Net cash from Investing Activities		(10,903)	(5,975)
Net Increase/ (Decrease) in Cash & Cash Equivalents		(30,976)	357
Cash and Cash Equivalents as at 1st July 2011		13,478	13,121
Cash and Cash Equivalents as at 30th June 2012		(17,498)	13,478

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial Statements are set out below:

(a) Basis of Preparation

The financial statements are prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRS). They are presented in Kenya Shillings, rounded to the nearest thousand (Kshs'000). The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

(b) Statement of Compliance

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the accounting policies adopted by the company. Although such estimates and assumptions are based on the directors' best knowledge of the information available, actual results may differ from those estimates. The judgements and estimates are reviewed at the end of each reporting period, and any revisions to such estimates are recognised in the year in which the revision is made.

(c) Revenue Recognition

a. Sales are recognized upon delivery of goods and customer acceptance of the same, net of VAT and discounts.

b. Interest is accounted for on receipt basis.

c. Rental income is recognised on a straight line basis over the period of the lease

(d) Property Plant and Equipment

All property, plant and equipment are initially recorded at cost and subsequently shown at market value, based on valuations by external independent valuers less subsequent depreciation.

Increases in the carrying amount arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve, all other decreases are charged to the statement of comprehensive income.

Depreciation is calculated to write down the cost of each asset, or the re-valued amount over its estimated useful life using the following basis and annual rates.

Asset Category	Method	Rate
Leasehold land	straight-line	lease Period
Buildings	straight line	2%
Motor vehicles	reducing balance	25%
Computers & Intangibles	straight line	25%
Office furniture fittings & equipment	straight line	15%
Printing machine	straight line	12.5%

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining their operating profit. On disposal of re-valued assets, amounts in the revaluation reserve relating to that asset are transferred to the retained earnings.

(e) Intangible assets

All computer software programmes acquired that are not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the acquisistion of identifiable computer software controlled by the company are recognised as intangible assets. Amortisation is calculated using the straight line method to write down the cost of each licence or item of software to its residual value over its estimated useful life using an annual rate of 25%.

(f) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted-average-cost basis. The cost of finished goods and work-in- progress comprises raw materials, direct labour, other direct costs and related production overheads, but excludes interest expense. Net realizable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

The value of inventories is reviewed annually to determine whole or partial obsolescence due to factors such as curriculum change or slow movement of inventory. The values of inventories affected by curriculum change are written down to nil and an estimate is made for slow moving inventories. The write down values are charged to the statement of comprehensive income.

(g) Taxation

The Foundation is exempted from income tax on all income through the income tax act (cap.470) section 13 and first schedule part 1. Its profits are applied for the payment of scholarships and /or retained to solidify the financial base.

(h) Post-employment benefit obligations

The company operates a defined contribution retirement benefits plan for its employees, the assets of which are held in a separate trustee administered scheme managed by Jubilee Insurance Company Ltd. A defined contribution plan is a plan under which the company pays fixed contributions into a separate fund, and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The company's contributions are charged to the statement of comprehensive income in the year to which they relate.

The Company and all its employees also contribute to the National Social Security Fund (NSSF),which is a national defined contribution scheme. Contributions are determined by local statute and the company's contributions are charged to the statement of comprehensive income in the year to which they relate.

The estimated monetary liability for employees' accrued annual leave and staff gratuity entitlement at the balance sheet date is recognised as an expense accrual.

(i) Trade Receivables

Trade receivables are carried at original invoiced amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the year-end. Provision for doubtful debts are charged to statement of comprehensive income in the year they are indentified. Bad debts are written off against the provisionwhen they are determined to be unrecoverable .

(j) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included as borrowings under current liabilities.

(k) Risk Management

The Company is exposed to credit risk from account receivables arising from credit granted to customers. A Risk Management Committee has been set up to evaluate customers to be given credit facility. Credit limits are granted to customers depending on their turnover for prior years' sales, thereby ensuring that the company only deals with customers who have trading history with the company. Additionally, large customers are required to provide bank guarantees to mitigate against default.

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The board has developed a risk management framework for the management of the company's short,medium and long-term liquidity requirements thereby ensuring that all financial liabilities are settled as they fall due. The company manages liquidity risk by continuously reviewing forecasts and actual cash flows, and maintaining banking facilities to cover any shortfalls.

(l) Comparatives

Where necessary , comparatives have been adjusted to comform with changes in presentation in the current year.

	2012	2011
2. Turnover:	**Kshs'000**	**Kshs'000**
Sales of Primary Titles	631,078	729,725
Sales of Sec. Titles	62,525	68,898
Sales of Tertiary Titles	4,557	5,573
Sales of General Titles	13,295	14,934
Sales of Service Jobs	8,298	19,302
Gross Sales	719,753	838,432
Less Discounts	(223,631)	(261,559)
Net Sales	**496,122**	**576,873**
3. Other operating income		
Interest	166	63
Rental Income	1,725	1,632
Gain on Sale of Fixed Assets	1,155	-
Miscellaneous Income	397	958
	3,443	2,653
4. Finance Costs:		
Bank Charges & Commissions	1,047	1,010
Bad Debts expense	3,694	4,278
Bank Interest	3,072	756
Foreign exchange loss/gain	(59)	(96)
Penalties	-	36
	7,754	5,986

5. Items Charged:

	2012 Kshs'000	2011 Kshs'000
The following items have been charged in arriving at Net profit/(loss):		
Depreciation on Property, Plant & Equipment	13,645	13,336
Amortization of Intangible assets	722	761
Staff Costs (note 6)	153,746	143,158
Auditors' Remuneration	406	350
Directors' Remuneration:		
- Fees	675	675
- Other	7,865	6,204
Repairs & Maintenance	4,080	5,072
Gain on Disposal of Non-Current Assets	(1,155)	190
	179,984	169,746

6. Staff Costs:

	2012 Kshs'000	2011 Kshs'000
Salaries	145,703	135,413
Social Security Costs	310	317
Pension costs - Defined Contribution Plans	7,733	7,428
	153,746	143,158

7. Capital Reserve:

	2012 Kshs'000	2011 Kshs'000
Initial Grant to set up The Foundation	4,000	4,000

8. Property, Plant & Equipment:

	Leasehold Lands	Buildings	Plant & Machinery	Motor Vehicles	Furniture Fittings & Office Equip.	Computers & Peripherals	Total
	Kshs'000	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**
Cost or valuation:							
As at 1st July 11	85,000	184,997	6,172	16,150	6,416	7,971	306,706
Additions	-	4,646	1,525	4,748	712	916	12,547
Disposals	-	-	-	(650)	(65)	(123)	(838)
As 30th June 12	85,000	189,643	7,697	20,248	7,063	8,764	318,415
Depreciation:							
As at 1st July 11	-	6,504	1,458	4,290	2,326	2,665	17,243
Disposal	-	-		(291)	(19)	(40)	(350)
Charge for the year	-	6,098	809	4,053	925	1,759	13,644
As at 30th June 12	-	12,602	2,267	8,052	3,232	4,384	30,537
Net Book Value As at 30th June 12	85,000	177,041	5,430	12,199	3,830	4,380	287,878

Property, Plant & Equipment

	Leasehold Lands	Buildings	Plant & Machinery	Motor Vehicles	Furniture Fittings & Office Equip.	Computers & Peripherals	Total
	Kshs'000	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**
Cost or valuation:							
As at 1st July 10	85,000	182,000	6,059	18,100	6,022	5,252	302,433
Additions	-	2,997	665	-	464	3,407	7,533
Disposals	-	-	(552)	(1,950)	(69)	(688)	(3,259)
As 30th June 11	85,000	184,997	6,172	16,150	6,416	7,971	306,707
Depreciation:							
As at 1st July 11	-	500	1289	375	860	1,361	4,385
Disposal	-	-	(1)	(348)	(20)	(139)	(508)
Charge for the year	-	6,004	170	4,262	1,486	1,443	13,366
As at 30th June 11	-	6,504	1,458	4,289	2,326	2,665	17,243
Net Book Value as at 30th June 11	85,000	178,493	4,714	11,861	4,090	5,306	289,464

Property Plant & Equipment were re-valued by an independent valuer in April 2010. Valuations were made on the basis of open market values. Book values for all asset categories have been adjusted in these accounts and revaluation surplus credited to the revaluation reserves. Leasehold land included above represents two properties, one on Kijabe Street L.R No. 209/4360/18 on a 50 years lease effective 1st January 2001. The second one on Enterprise Road LR. No. 209/1127 on a 99 year lease effective 1st May 1997. The land rates applicable to the properties are Kshs. 42,500 and Kshs. 263,755 for the Kijabe Street and Enterprise Road respectively.

If the devalued asset categories were stated on historical cost basis, the amounts would be as follows:

Property, Plant & Equipment

	Leasehold, Land & Building Kshs'000	Plant & Machinery Kshs'000	Motor Vehicles Kshs'000	Computer & Peripheral Kshs'000	Furniture Fittings & Office Equip. Kshs'000	Totals Kshs'000
Cost as at 30th June 2012	34,326	8,284	32,566	15,623	7,242	98,041
Accumulated Depreciation	17,397	7,350	29,461	14,504	3,293	72,004
Net Book Value 30th June 2012	16,929	934	3,105	1,120	3,949	26,037
Cost at 30 June 2011	29,680	6,759	28,468	14,830	6,595	86,332
Accumulated Depreciation	16,768	6,328	22,338	10,810	2,310	58,554
Net Book Value 30th June 2011	12,912	431	6,130	4,020	4,285	27,778

9. Intangible Assets:

	2012 Kshs'000	2011 Kshs'000
Cost:		
As at 1st July 2011	7,292	6,291
Additions during the year	-	1,001
As at 30th June 2012	7,292	7,292
Amortisation:		
As at 1st July 2011	5,722	4,961
Amortisation during the year	722	761
As at 30th June 2012	6,444	5,722
Net Book Value:		
As at 30th June 2012	848	1,570
Cost:		
As at 1st July 2010	6,291	5,901
Additions during the year	1,001	390
As at 30th June 2011	7,292	6,291
Amortisation:		
As at 1st July 2010	4,961	3,960
Amortisation during the year	761	1,001
As at 30th June 2011	5,722	4,961
Net Book Value:		
As at 30th June 2011	1,570	1,330

10. Inventories:

Finished Goods	243,274	226,979
Consumables	1,728	2,298
	245,002	229,277
Obsolescence provision	(72,657)	(68,645)
	172,345	160,632

Obsolescence provision represents the cost of old edition stock held and determined to be unsalable and a general provision for slow moving stock. Kshs. 13.6 million provision was made in the current financial year and obsolete books worth Kshs. 9.6 million were disposed of by way of donations.

11. Trade and other Receivables:

Trade Receivables

	2012 Kshs'000	2011 Kshs'000
Current	37,984	14,891
Past due not impaired	38,937	25,708
Past due impaired	16,030	12,705
Total Trade Receivable	92,951	53,304
Less: Provision for doubdful debts	(16,030)	(12,075)
Net Trade Receivables	76,921	41,229
Others Receivables		
Prepayment and Other Receivables	46,238	43,879
Less:Provision for doubtful debts	(5,080)	(5,340)
Net Prepayments and other receivables	41,158	38,539
Total Trade Receivables	118,080	79,768

Current trade receivables represent balances that are within the credit period of 30 days. The past due balances that are not provided are considered recoverable and are primarily delayed because of non-release of funds by the Ministry of Education for the Free Primary Education (FPE) and Free Day Secondary Education (FDSE). Some of the delayed balances are supported by post-dated cheques and bank guarantees held against them.

All past due impaired balances represent accounts that management considers doubtful and have been provided for in these Financial Statements.

Prepayments and other receivables include VAT refunds due from KRA of Kshs. 36.4 million, prepaid expenses of Kshs. 3.3 million and other staff related receivables. These are considered recoverable in the subsequent year and are therefore not included in the provision. Provision for doubtful of Kshs.5 million against other receivables relates to VAT refunds considered doubtful.

During the year the provision for doubtful debts on trade and other receivables increased by Kshs. 3.6 million to Kshs. 21.1 million from Kshs. 17.4 million provided for in the previous year.

12. Cash and Cash Equivalents

	2012	2011
	Kshs'000	**Kshs'000**
Cash and Bank Balances	910	13,478
Bank Overdraft	(18,408)	-
Total cash & Bank balance	(17,498)	13,478

The facility approved by the Board of Directors was Kshs. 30 million (Kshs. 30 million at June 2011) made of overdraft of Kshs 20 million and guarantees of Kshs 10 million. The facility is secured by a charge of Kshs. 50 million on our properties on L.R. No. 209/11277 on Enterprises Road. The overdraft is necessary to fund operations during the low sales season that normally runs from the months of April to September. This facility was utilized in the year at 16% interest.

13. Trade and other payables:

	2012	2011
	Kshs'000	**Kshs'000**
Trade Payable	163,280	71,263
Other Payables	41,964	41,261
	205,244	112,524

Other payables include provision for royalties to authors of Kshs.17.8 million (2010/2011 - Kshs.17 million). The provision is calculated as a percentage of sales for titles that are subject to royalty and are payable during the following financial year. Also included in the other payables is an amount of Kshs. 6.2 million for statutory deductions that had not been paid by the year end.

14. Corporate status:

The Foundation is a company limited by guarantee and does not have a share capital. The capital reserve represents the initial grant to set up The Foundation.

		2012	2011
		Kshs'000	Kshs'000
15.	**Turnover:**		
	Sales of Primary Titles	631,078	729,725
	Sales of Sec. Titles	62,525	68,898
	Sales of Tertiary Titles	4,557	5,573
	Sales of General Titles	13,295	14,934
	Sales of Service Jobs	8,298	19,302
	Gross Sales	719,753	838,432
	Less Discounts	(223,631)	(261,559)
	Net Sales	496,122	576,873

16(a).	**Cost of Sales:**		
	Cost of Sales Primary Titles	192,938	213,651
	Cost of Sales Secondary Titles	19,975	22,271
	Cost of Sales Tertiary Titles	1,351	1,283
	Cost of Sales General Titles	3,276	4,275
	Cost of Sales Adjustment	-	(18)
	Cost of Sales Miscellaneous	185	23
	Cost of Sales Service Job	6,793	8,215
	Purchase Price Variance/ Adjustments	477	2,615
	Stock Obsolescence Provision	13,603	24,215
	Add Production Overheads (note 16b)	40,540	40,294
	Cost of Sales	279,138	316,824

16(b). Production Overheads:

	2012	2011
	Kshs'000	Kshs'000
Staff Salaries	21,611	18,748
Staff Housing	7,252	6,934
Staff Medical & Welfare	1,415	1,681
Staff Training	1,231	456
Provident Fund Contribution	1,957	1,811
Product Development Expenses	5,416	9,037
Insurance	51	70
Depreciation Plant and Machinery	1,607	1,557
	40,540	40,294

17. Other Operating Income:

	2012	2011
	Kshs'000	Kshs'000
Interest	166	63
Rental Income	1,725	1,632
Gain on Sale of Fixed Assets	1,155	-
Miscellaneous Income	397	958
	3,443	2,653

18. Distribution Expenses:

	2012	2011
Salaries & Wages	22,268	20,817
Staff Housing	7,239	7,123
Staff Medical & Welfare	2,104	2,105
Staff Training	742	556
Provident Fund	1,803	1,778
Vehicle Running Expenses	5,509	4,013
Staff Travelling & Accommodation	351	323
Marketing & Sales Promotion	20,827	22,023
Electricity & Water	178	130
Postage & Telephone	470	505
Packaging Material	372	539
Depreciation	4,823	4,224
Royalties to Authors	18,801	16,195
General Expenses	53	87
Security	915	950
Standard Levy	400	400
	86,855	81,768

19. Administrative Expense:

	2012	2011
	Kshs'000	**Kshs'000**
Salaries & Wages	54,985	49,651
Staff Housing	17,930	17,870
Staff Medical & Welfare	10,899	10,484
Provident Fund Contribution	5,363	4,157
Staff Training	5,509	4,003
Directors Remuneration	8,540	6,879
Subscriptions	634	454
Printing & Stationery	3,013	2,963
Postage & Telephone Expenses	2,558	2,038
Legal & Professional Fees	4,400	248
Library Expenses	85	30
Audit Fees	406	350
Vehicle Running Expenses	2,760	2,486
Staff Travelling & Accommodation	2,459	2,542
Depreciation	7,938	8,372
General Expenses	119	204
Ground Cleaning & Maintenance	2,344	2,521
Retrenchment Costs	-	84
	129,943	115,336

20. Other operating expenses:

	2012 Kshs'000	2011 Kshs'000
Rent & Rates	360	304
Light & Water	2,230	1,832
Repairs & Maintenance	4,080	2,551
Industrial Training Levy	63	73
Insurance	3,719	4,729
Security	1,310	1,240
Licenses	206	110
Loss on disposal on Non-Current Assets	-	142
	11,968	10,981

21. Finance costs:

Bank Charges & Commissions	1,047	1,011
Provision for Bad & doubtful Debts	3,694	4,279
Bank interest	3,072	756
Foreign exchange loss/gain	(59)	(96)
Penalties	-	36
	7,754	5,986

Cheque presentation ceremony to Form One, class of 2012, by the French Ambassodor, Mr. Etienne de Poncins.

QUALITY POLICY

The Jomo Kenyatta Foundation (JKF) is committed to provide and sustain high quality Publishing and Scholarship services by operating a Quality Management System in accordance with ISO 9001:2000 International Standard.

This policy is anchored on the following:

Communication

At JKF we are committed to communicating the strategic direction and achievements to our stakeholders in order to share and move together towards our vision for the future.

Customers

At JKF we are committed to providing our customers with quality Publications and Scholarships to increase education opportunities among the bright, needy secondary school students.

Quality improvement

At JKF we are committed to improvement as a basis for strengthening our competitive position and for improving product quality and service standards.

People support

At JKF we are committed to developing our staff through encouragement of talent and creation of a conducive environment for continuous learning to enable them deliver quality service and be responsible citizens.

Good Corporate Governance

At JKF we are committed to ensuring that business is conducted in a transparent and ethical manner. We will maintain a culture of respect to all irrespective of gender or cultural differences.

This policy forms the basis of our core values and quality objectives. It is communicated throughout the Organization and it will be reviewed at regular intervals in line with the business trends and requirements of the Quality Management Standards.

THE JOMO KENYATTA FOUNDATION

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We are ISO 9001-2008 Certified