

**TEA RESEARCH FOUNDATION
OF KENYA**

PARTIAL
OF KENYA
LIBRARY



**FINAL ACCOUNTS
FOR THE YEAR ENDED**

30TH JUNE 2008

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

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

ON

**THE FINANCIAL STATEMENTS OF TEA
RESEARCH FOUNDATION FOR THE YEAR
ENDED 30 JUNE 2008**

TEA RESEARCH FOUNDATION OF KENYA
(A COMPANY LIMITED BY GUARANTEE)

**DIRECTOR'S REPORT AND ACCOUNTS FOR THE YEAR ENDED 30TH JUNE
2008**

TABLE OF CONTENTS	PAGE
Director's Report	1 - 3
Auditor's Report	4 - 6
Balance Sheet Statement	7
Revenue Account	8
Statement of Changes in Equity	9
Cash Flow Statement	10
Notes to the Accounts	11-14

THE TEA RESEARCH FOUNDATION OF KENYA

(A COMPANY LIMITED BY GUARANTEE)

REPORT OF THE DIRECTORS

The Board of Directors is responsible for the preparation and presentation of financial statements for the Foundation and have presented their report together with the Accounts for the twelve months ended 30th June 2008.

PRINCIPAL ACTIVITIES

The Foundation's mandate is "to promote research and investigate problems related to tea and such other crops and systems of husbandry as are associated with tea throughout Kenya including the productivity (yield), quality and suitability of land in relation to tea planting, and matters ancillary thereto".

GENERAL

The Tea Research Foundation of Kenya (TRFK), was established in 1980 to replace the former Tea Research Institute of East Africa (TRIEA). Research focuses therefore on development of improved clones, appropriate technologies for improvement of yield (quantity of green tea leaf/made tea per hectare) and quality. This is done through development of appropriate practices for tea production including breeding, clonal selection, correct plant nutrition, optimal crop husbandry methods, crop physiological studies, control of major pests and diseases, manufacture, marketing and utilization of finished product.

TRFK is incorporated as a Company limited by guarantee under the Companies Act (Cap 486) of the laws of Kenya. The Foundation is a state corporation (parastatal) as per the State Corporations Act (Cap 446 section 2b(v)). The Foundation's activities are funded mainly (61.5%) by the Tea Board of Kenya through cess levied on the basis of tea growing area and amount of made tea produced annually. The difference (38.5%) of the expenditure is internally generated by the Foundation from its own tea estate, sale of planting material, advisory analytical services, sale of Publications and other services.

The Research Director is the Chief Executive as provided for by the Foundation's Memorandum and Articles of Association (1980) and the State Corporations Act (Cap 446). The Foundation has five technical departments (Botany/Breeding, Chemistry, Crop Environment, Plant Protection and Advisory) and operates from its headquarters at Timbilil Estate, Kericho and also has an 8ha sub-station at Kangaita in Kerugoya, Kirinyaga District.

TRFK VISION

The vision statement of the Foundation is "improved and sustainable livelihoods and incomes for farmers in the tea industry through innovative research".

MISSION STATEMENT

The mission of the Foundation is to "generate and disseminate, technologies and knowledge through innovative research for improved production, value adding and marketing of Kenyan tea while conserving the environment".

SUMMARY OF FINANCIAL RESULTS

Deficit for the period: KShs.26,657,104.

The Directors have transferred the deficit for the year to the Accumulated Fund in accordance with the powers conferred on them by the Memorandum and Articles of Association.

DIRECTORATE

In accordance with Article 30, the Board of Directors consist of:-

- (a) **Chairman, Tea Board of Kenya**
Mr. Dunstan M. Ngumo Alternate Mrs. Sicily K. Kariuki

Chairman of the Kenya Tea Development Agency (KTDA)
Mr. Stephen M. M'Imanyara

Managing Director, Kenya Tea Development Agency (KTDA)
Mr. Lerionka Tiampati Alternate Mr. Arthur K. Rimberia

Permanent Secretary, Ministry of Agriculture
Dr. Romano M. Kiome Alternate Mr. Humphrey Mwangi

Director of Agriculture, Ministry of Agriculture

Director, Kenya Agricultural Research Institute
Dr. Ephraim Mukhisira Alternate Mr. James B. Matata

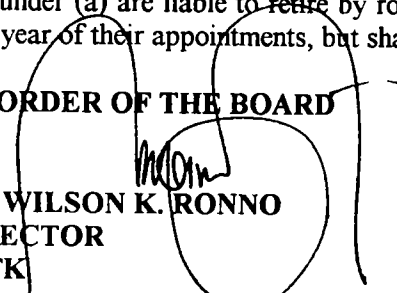
The Director of Research, Tea Research Foundation of Kenya (TRFK)
Dr. Wilson K. Ronno

Secretary to the Board
Dr. Wilson K. Ronno

- (b) **Three persons nominated by the Ministry of Agriculture**
Mr. Sammy Chepkwony (Chairman of the Board)
Mr. Alfred Tarus
Mrs. Abigail Wanyama Upto 22nd February 2008
One Person nominated by the Kenya Tea Growers' Association (KTGA)
Mr. Solomon C. Koech Alternate Mr. Titus K. Korir – Upto 30th April 2008

The Directors listed under (a) are liable to retire by rotation but those listed under (b) shall retire at the end of 3-year term after the year of their appointments, but shall be eligible for re-nomination.

BY ORDER OF THE BOARD


DR. WILSON K. RONNO
DIRECTOR
TRFK

4th Nov 2008
DATE:

STATEMENT OF DIRECTORS' RESPONSIBILITIES AND REPORT FOR THE YEAR ENDED 30TH JUNE 2008

The state Corporations Act and the Companies Act requires the Directors to prepare financial statements each financial year, which give a true and fair view of the affairs of the Foundation and its surplus or deficit for the year. They also require the directors to ensure the Foundation maintains proper accounting records, which disclose, with reasonable accuracy the financial position of the Foundation.

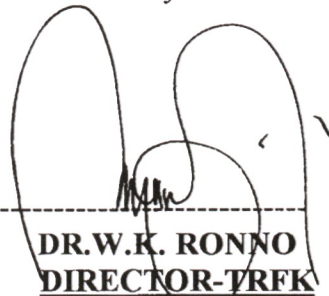
The Directors accept the responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, consistent with previous years and in conformity with international reporting standards. The Directors are of the opinion that the financial statements give a true and fair view of the state of affairs of the Foundation as at 30th June 2008 and of its deficit for the year then ended. The Directors further confirms the accuracy and completeness of the accounting records maintained by the Foundation, which have been relied upon in the preparation of the financial statements, as well as on the adequacy of systems of internal financial controls.

This statement is approved by the Board and is signed on its behalf by:



MR.S. CHEPKWONY
CHAIRMAN - TRFK

DATE... 4th NOV 2008



DR.W.K. RONNO
DIRECTOR-TRFK

DATE... 4TH NOV 2008



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF TEA RESEARCH FOUNDATION OF KENYA FOR THE YEAR ENDED 30 JUNE 2008

I have audited the financial statements of Tea Research Foundation of Kenya for the year ended 30 June 2008 set out on pages 6 to 13 which comprise the balance sheet as at 30 June 2008 and the revenue account, statement of changes in equity and the cash flow statement for the year then ended, together with a summary of significant accounting policies and other explanatory notes in accordance with the provisions of Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements which give a true and fair view of the Foundation's state of affairs and its operating results in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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 directors, as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

1. Financial Performance

As in the previous years, the Foundation's financial performance has remained poor. During the year ended 30 June 2008, the Foundation incurred a deficit of Kshs.26,657,104 which brought the cumulative deficit to Kshs.29,871,669. In addition the Foundation's balance sheet reflects a negative working capital of Kshs.28,137,177 (2007 11,110,233). The poor financial performance during the year was mainly attributed to reduction in tea farm income. Unless the trend is reversed, the Foundation will be unable to fulfill its mandate and meet its financial obligations as and when they fall due.

2. Property Plant and Equipment

As previously reported, the balance sheet, property, plant and equipment balance of Kshs.475,839,021 excludes 20 acres of unvalued land at Kangaita Research Station for which the Foundation has not obtained title documents. Although the land is developed with investments in tea and buildings with a net value of Kshs.11,503,004, it is in a gazetted forest and cannot be owned or title issued in the name of the Foundation. In the absence of valuation report and ownership documents for Kangaita Research Station, it is not possible to confirm the carrying value of the properties as reflected in the financial statements as at 30 June 2008 or the ownership status of the Foundation's land at the Station.

3. Receivables and prepayments

As disclosed in note 4 to the financial statements, the Foundation's receivables and prepayments balance of Kshs.7,396,948 (2007 Kshs.9,482,899) includes staff and trade receivables balance of Kshs.4,722,940. The staff and trade receivables balance also includes staff debtors amounting to Kshs.1,990,388 due from the Foundation staff which have remained outstanding for over one year. The balance further includes Kshs.780,000 owed by a board member for supply of plants, which has remained unpaid since November 2004. Although, the Foundation has indicated that steps have been instituted to recover these debts, it is not clear and management has not justified why it has taken about five years to recover the debt from the board member.

4. Payable and accruals

As disclosed in note 6 to the financial statements, the payables and accruals balance of kshs. 29,763,952 (2007 kshs.25,128,599) includes outstanding audit fees totalling Kshs.750,000 in respect of 2004/2005, 2005/2006 and 2006/2007

financial years. The Foundation was unable to honour its financial obligations and is in breach of the law.

Opinion

Except for the foregoing reservations, in my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the state of financial affairs of the Foundation as at 30 June 2008 and of its deficit and cash flows for the year then ended in accordance with the International Financial Reporting Standards and the Kenya Companies Act, (Cap 486 of the Laws of Kenya).



**P. N. KOMORA, CBS.
CONTROLLER AND AUDTOR GENERAL**

Nairobi

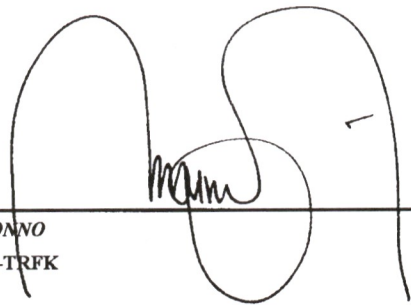
28 November 2008

THE TEA RESEARCH FOUNDATION OF KENYA
(A COMPANY LIMITED BY GUARANTEE)

BALANCE SHEET AS AT 30TH JUNE 2008

	Notes	2007/2008 Ksh.	2006/2007 Ksh.
NON-CURRENT ASSETS			
Property, Plant and Equipment	2	475,839,021	485,469,181
		<u>475,839,021</u>	<u>485,469,181</u>
CURRENT ASSETS			
Inventories	3	1,050,489	1,656,077
Receivables & Prepayments	4	7,396,948	9,482,899
Bank & Cash balance	5	404,812	2,879,390
		<u>8,852,249</u>	<u>14,018,366</u>
CURRENT LIABILITIES			
Payables & Accruals	6	29,763,952	25,128,599
Bank overdraft		7,225,474	
		<u>36,989,426</u>	<u>25,128,599</u>
NET CURRENT ASSETS		(28,137,177)	(11,110,233)
TOTAL NET ASSETS		<u>447,701,844</u>	<u>474,358,948</u>
EQUITY:			
Accumulated Fund	7	(29,871,669)	(3,214,565)
Revaluation Reserve	8	477,573,513	477,573,513
		<u>447,701,844</u>	<u>474,358,948</u>

 4/11/2008.
MR. S. CHEPKWONY
CHAIRMAN-TRFK

 4/11/08
DR. W. K. RONNO
DIRECTOR-TRFK

THE TEA RESEARCH FOUNDATION OF KENYA
(A COMPANY LIMITED BY GUARANTEE)

REVENUE ACCOUNT FOR THE YEAR ENDED 30TH JUNE 2008

INCOME	Notes	2007/2008 Ksh.	2006/2007 Ksh.
Contribution from TBK		71,840,084	74,979,063
Tea Farm Income	9	29,138,930	71,934,894
Other Operating Income	10	2,798,162	3,839,008
	TOTAL	<u>103,777,176</u>	<u>150,752,965</u>
EXPENDITURE			
Administrative expenses	11	54,616,447	56,066,400
Research and Development expenses	12	28,551,804	31,445,722
Tea Farm expenses	13	29,251,134	43,511,958
Other Operating expenses	14	8,340,039	13,685,435
	TOTAL	<u>120,759,424</u>	<u>144,709,515</u>
Depreciation of Fixed Assets	15	9,674,855	8,113,239
Grand Total		130,434,279	152,822,754
SURPLUS (DEFICIT)	16	<u>(26,657,104)</u>	<u>(2,069,789)</u>
TRANSFERRED TO ACCUMULATED FUND		<u>(26,657,104)</u>	<u>(2,069,789)</u>

THE TEA RESEARCH FOUNDATION OF KENYA
(A COMPANY LIMITED BY GUARANTEE)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2008

	Share Capital	Revaluation Reserves	Revenue Reserves	Total
	Ksh	Ksh	Ksh	Ksh
Balance as at 1st July 2006	-	474,065,599	(1,144,776)	473,206,178
Prior year adjustments	-	-	-	-
Revaluation of assets		285,360	-	-
Revaluation on Disposed assets		-	-	
Transfers to Reserves	-	-	(2,069,789)	(2,069,789)
Balance as at 30th June 2007	-	474,350,959	(3,214,565)	471,136,389
Balance as at 1st July 2007	-	474,350,959	(3,214,565)	471,136,389
Prior year adjustments	-	-	-	-
Revaluation on Disposed assets	-	-	-	-
Transfers to Reserves	-	-	(26,657,104)	(26,657,104)
Balance as at 30th June 2008	-	474,350,959	(29,871,669)	444,479,285

The Foundation being a company Limited by gurantee by the Government of Kenya (GoK) does not have equity shares.

THE TEA RESEARCH FOUNDATION OF KENYA
(A COMPANY LIMITED BY GUARANTEE)

CASHFLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE 2008

CASH FLOW FROM OPERATING ACTIVITIES:	2007/2008		2006/2007	
	KSHS	KSHS	KSHS	KSHS
SURPLUS (DEFICT)		(26,657,104)		(2,069,789)
Adjustments for;				
Depreciation	9,674,855		8,113,239	
Gain on sale of fixed assets	-			
Prior year adjustment	-		(27,980)	
Investment income	(28,165)		(55,057)	
interest expense	-	9,646,690	-	8,030,202
Operating surplus before working capital changes.		(17,010,414)		5,960,413
(Increase)decrease in stocks	605,588		(363,057)	
(Increase)decrease in recievables	2,085,954		(3,409,572)	
Increase(decrease) in payables	4,635,350	7,326,892	3,400,739	(371,891)
Cash generated from operations.		(9,683,522)		5,588,522
CASHFLOW FROM INVESTING ACTIVITIES				
Interest received	28,165		55,057	
Interest on bank overdraft	-		-	
Purchase of fixed assets	(44,695)		(6,725,823)	
Proceeds from sale of F/assets	-	(16,530)	-	(6,670,766)
Net cash used in investing activities		(9,700,052)		(1,082,244)
CASHFLOW FROM FINANCING ACTIVITIES				
Net increase(Decrease) in cash and cash equivalents		(9,700,052)		(1,082,244)
Cash and cash equivalents at the beginning of the period		2,879,390		3,961,634
Cash and cash equivalents at the end of the period		(6,820,662)		2,879,390
		(9,700,052)	-	(1,082,244)

THE TEA RESEARCH FOUNDATION OF KENYA
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE ACCOUNTS

1. 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 under the historical cost convention as modified to include revaluation of assets

b) Revenue Recognition

Income is recognised on the accrual basis of accounting

c) Retirement benefits

The Foundation maintains a non-contributory pension scheme at 37.5% by the employer for the non-unionisable staff and a contributory scheme at 10% for the unionisable staff.

The Foundation contributes to a defined benefit scheme for the non-unionisable staff and a Provident fund for the unionisable staff.

d) Inventories valuation

Inventories are valued at actual cost or net realisable value whichever is lower.

e) Cash flow statement

The cash flow statement is prepared to report cash flow during the period in accordance with the requirements of IAS 7.

f) Investments

The Foundation takes cognizance of the fact that currently it does not legally own the land that the investments in Kangaita are in. It therefore did not recognise the value of the land as part of its assets.

g) Comparatives

Comparative figures have been provided to conform to the changes in presentation as required by the IAS.

2. PROPERTY, PLANT & EQUIPMENT.

Property, plant & equipment are stated at cost/valuation less accumulated depreciation.

Depreciation is calculated on straight-line basis to write-off the cost in equal instalments over the anticipated useful life of the assets. The depreciation rates currently in use are as follows;

Buildings	2.5%
Furniture & Equipment	10%
Motor Vehicles	25%

	Freehold Land and Buildings	Machinery and Equipment	Motor Vehicles	Total
	<u>Kshs.</u>	<u>Kshs.</u>	<u>Kshs.</u>	<u>Kshs.</u>
COST/VALUATION				
1st July 2007	451,212,490	25,298,866	17,539,384	494,050,740
Additions	-	44,695	-	44,695
Revaluation	-	-	-	-
Disposal	-	-	-	-
As at 30th June 2008	451,212,490	25,343,561	17,539,384	494,095,435
DEPRECIATION				
1st July 2007	2,796,755	2,474,415	3,310,388	8,581,558
Disposal/Revaluation	-	-	-	-
Charge for the year	2,796,756	2,554,308	4,323,792	9,674,856
As at 30 June 2008	5,593,511	5,028,723	7,634,180	18,256,414
NET BOOK VALUE				
30th June 2008	445,618,979	20,314,838	9,905,204	475,839,021
30th June 2007	447,807,936	22,427,377	15,233,868	485,469,181

3 INVENTORIES

The composition of Stock is as follows:

	2007/2008	2006/2007
-Printing & Stationery	60,422.94	51,590.68
-Estate Fuel Stock	571,761.00	441,543.30
-Estate Adm Stock	67,919.65	856,081.00
-Timbilil Estate Stock	350,385.45	306,861.00
	1,050,489.04	1,656,075.98

4 Receivables and prepayments in the year is made up as follows:

	2007/2008	2006/2007
- Staff and Trade receivables	4,722,939.91	7,654,408.00
- Other Receivables	3,001,755.99	2,136,670.00
Provision for doubtful debts	(327,747.83)	(308,176.00)
Total	7,396,948.07	9,482,902.00

H

A provision for bad and doubtful debts of 4% has been provided.

5 BANK & CASH BALANCES

The Foundation maintains Bank accounts both in Kericho (HQs) and Kerugoya (Kangaita Sub-station).

BANK & CASH BALANCE-KERICHO

BANK	A/C NO.	2007/2008	2006/2007
CO-OP. -Current Account (Main)	0113677810000	(3,829,648.71)	252,554.00
CO-OP. -Timbilil Co-op A/C	0113677810001	(3,395,825.40)	1,877,549.00
SUB-TOTAL (Bank overdraft)		(7,225,474.11)	
CO-OP. -Co-op Bank Project A/C	0113677810003	7,615.00	
KCB -Wotro Project	237-793-098	-	159,440.00
-Consolidated Bank	0130060013600	309,222.90	305,935.00
-Estate Petty cash		12,320.00	6,277.00
-Petty cash - (Research)		73.05	10,508.00
-M.C.B Cash control		17,605.65	14,959.00
SUB -TOTAL		346,836.60	2,627,222

BANK & CASH BALANCE-KANGAITA

BANK	A/C NO.	2007/2008	2006/2007
CO-OP -Current Account	0113677810002	34,280.15	223,019.90
-Petty Cash		23,695.05	26,323.00
-Cash Control		-	2,825.00
SUB -TOTAL		57,975.20	252,167.90
GRAND TOTAL		404,811.80	2,879,389.90

6 PAYABLES & ACCRUALS

Payables & Accruals for the year is made up as follows:

	2007/2008	2006/2007
- Trade creditors	24,504,102.78	20,275,893.95
- Other payables	5,259,849.45	4,852,704.95
Total	29,763,952.23	25,128,598.90

7 ACCUMULATED FUND

	2007/2008	2006/2007
1st July 2007	(3,214,565)	(1,144,776)
Transfer from revaluation reserve	-	-
Surplus/Deficit from revenue account	(26,657,104)	(2,069,789)
	<u>(29,871,669)</u>	<u>(3,214,565)</u>

8 REVALUATION RESERVES

The assets of the Foundation were revalued in the year yielding a revaluation reserve of Kah.477573513

	2007/2008	2006/2007
9 Tea Farm Income		
Sale of Green leaf	27,079,250	57,258,294
Sale of Planting Materials	931,849	13,799,780
Kangaita revenue	1,127,831	876,820
	<u>29,138,930</u>	<u>71,934,894</u>
10 Other operating Income		
Sale of Publications	58,592	155,918
Laboratory Tests	1,573,870	2,316,758
Interest receivable	28,165	55,057
Miscellaneous Income	1,137,534	1,311,275
Disposal of assets	-	-
	<u>2,798,162</u>	<u>3,839,008</u>
11 Administrative expenses		
Administration	8,351,369	8,567,665
Emoluments- Senior Staff	20,322,674	19,029,361
Emoluments- Junior Staff	14,139,533	13,788,429
Retirement Benefits (SS)	5,263,744	6,197,976
Retirement Benefits (JS)	1,364,608	1,099,854
House Allowance	237,600	158,400
Passagespaid-Local Leave	431,264	583,693
Bad debt exp.	19,571	308,176
Medical	2,081,808	2,968,136
Board Expenses	2,404,276	3,364,710
	<u>54,616,447</u>	<u>56,066,400</u>

12 <u>Research & Development expenses</u>		
Travelling (Duty)	6,413,354	7,047,735
Travelling - Acc/Subsistence	3,092,437	4,225,872
Training and Conference	2,026,018	2,336,332
Experiments	17,019,995	17,835,783
	28,551,804	31,445,722
13 <u>Estate expenses</u>		
Estate Expenditure	29,251,134	43,511,958
	29,251,134	43,511,958
14 <u>Other Operating expenses</u>		
Property upkeep	2,012,471	2,531,910
Elect Water & Conservancy	4,889,941	8,798,465
Library	59,162	372,236
Publication	95,000	326,920
primary School	287,179	368,082
Insurance	996,285	1,287,822
	8,340,039	13,685,435
GRAND TOTAL	120,759,424	144,709,515
15 OPERATING SURPLUS BEFORE TAXATION		
The operating Surplus/deficit is arrived at after charging;	2007/2008	2006/2007
Audit Fees	250,000	250,000
Director's Fees	480,000	480,000
Depreciation of Property, Plant and Equipment	9,674,855	8,113,239
And after crediting;		
Interest receivable	28,165	55,057

16 TAXATION

The Foundation is only liable to income Tax on dividends and interest receivable. These items are usually taxed at source.

