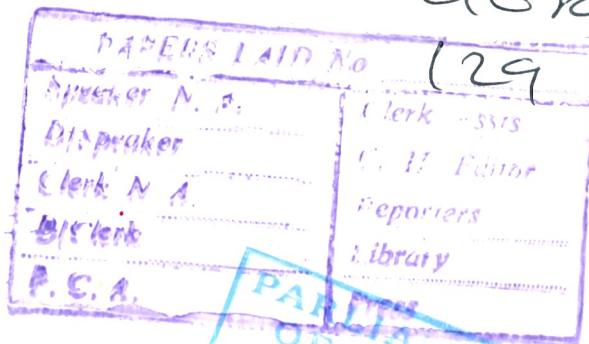
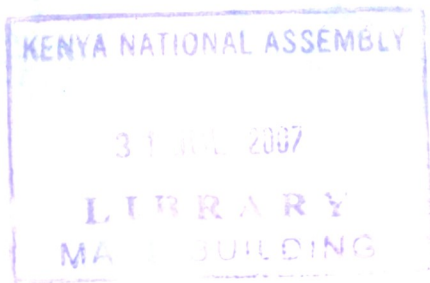


COFFEE RESEARCH FOUNDATION

Library



Annual Report and Accounts 2000/2001

TABLE OF CONTENTS

	PAGE
STATEMENT BY THE CHAIRMAN OF THE BOARD	1
BOARD OF DIRECTORS - 2001	3
COFFEE RESEARCH ADVISORY COMMITTEE	3
STAFF	4
RESEARCH ACTIVITIES	5
REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF COFFEE RESEARCH FOUNDATION FOR THE YEAR ENDED 30 SEPTEMBER 2001.....	10
BALANCE SHEET AS AT 30TH SEPTEMBER 2001	12
INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDING 30 SEPTEMBER 2001	13
CASH FLOW STATEMENT OF THE YEAR ENDED 30TH SEPTEMBER 2001	14
NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH SEPTEMBER 2001 ..	15

COFFEE RESEARCH FOUNDATION

ANNUAL REPORT AND ACCOUNTS OF THE COFFEE RESEARCH FOUNDATION (CRF) FOR THE YEAR ENDED 30 SEPTEMBER 2001

Registered Office: Coffee Research Foundation
P O Box 4, Ruiru – Kenya.

STATEMENT BY THE CHAIRMAN OF THE BOARD

1.1 Introduction

The current Board of the Coffee Research Foundation (CRF) was appointed on January 2000 for a period of one year. However in January 2001, its tenure was extended up to December 2002. Four Board meetings were held during the year. In addition, Board members attended regular quarterly meetings as well as subcommittees and special meetings of the following standing committees: (1) Finance/Tender Committee (2) Coffee Research Advisory Committee (1) Staff Committee and (2) Technical Evaluation Committee (1) and Kenya Coffee College Management committee (2).

The Annual General Meeting of Subscribers was held on 29 May 2001.

1.2 Capital Development

Construction of the Tissue Culture Facility was started during the year and is expected to be completed and handed over to the Foundation in three years time

1.3 Research Activities

The main Research Activities for the year under review have been outlined in this report. Major emphasis continued to be laid on protection of the coffee crop against diseases, insect pests and reduction of production cost. In the year under review.

The CRF continued to put emphasis on Integrated Pest Management (IPM) strategy. Natural Enemies of the coffee insect pests were collected from coffee in the fields, reared in the CRS Laboratory and released into the farmers' fields. This project was given priority and the aim was to promote biological control of insect pests on Kenya coffee and minimize use of insecticides thereby reducing the cost of coffee growing and promoting a clean environment.

Breeding and selection work aimed at improving commercial coffee varieties for disease resistance, yield and quality continued. The idea was to obtain better yield targets and lower coffee production costs. Field performance assessment of Ruiru 11 in terms of yields and quality in all the coffee growing regions of the country continued to be undertaken through adaptation trials. Nursery experiments were conducted to compare different rooting media for the vegetative propagation.

Blind liquoring of cup quality of Ruiru 11 continued during the year and the results continued to confirm that the cup quality of Ruiru 11 is as good as that of the traditional varieties such as SL 28 and SL 34.

The Agricultural Economics Section undertook research geared towards the evaluation of the effects of coffee prices and liberal marketing policies on coffee production profitability and farm income; economics of coffee production; adoption of performance of Ruiru 11 and a review of input marketing and distribution. The unfavourable world prices resulted into lower producer prices. The average cost of production in the smallholder sector was Ksh.65,200/= per metric tonne while the average cost in the Estate sector was Ksh.117,200/=, per tonne of clean' coffee.

Provision of routine services to coffee growers in the areas of soil and leaf analysis, production of planting materials in form of seeds and seedlings as well as advisory work and training continued. Education of farmers through Agricultural Society of Kenya (ASK) shows and Field Days continued.

1.4 Staff Matters

Staff training continued in form of formal training, tours conferences and scientific workshops participation. Those who benefited from local and overseas training are indicated in this report.

1.5 Finances

Total income generated during 2000/1 financial year totaled Ksh.270,961,097 of which Ksh.233,000,000 was the Coffee Board of Kenya contribution. The rest - Ksh.37,961,097 was generated internally through coffee proceeds.

Total expenditure for 2000/1 reduced from the previous year's expenditure of Ksh.334,431,418 to Ksh.315,987,651 a decline of 5.5 %. After the previous year adjustments a deficit of Ksh.45,026,554 was realized which increased the accumulated deficit (Research Reserve Fund) to Ksh.86,580,490.

1.6 Future Plans

The CRF is still continuing to search for ways and means of producing coffee at minimum cost. Vegetative propagation of Ruiru 11 variety and other important varieties will be intensified in addition to seed production. The CRF had approached external donors through the government for funding for the construction of a Tissue Culture facility at the Coffee Research Station (CRS). Work on the construction commenced during the year.

It is hoped that more funds will be availed for the planned activities mentioned in this report and for purchasing laboratory equipment for successful execution of the research programmes.

**J RIUNGU
CHAIRMAN,
COFFEE RESEARCH FOUNDATION BOARD**

BOARD OF DIRECTORS – 2001

1.	Mr Julius Riungu	-	Chairman
2.	Mr G K Mwai	-	Chairman, CBK
3.	Dr D M Masaba	-	Ag. Director of Research, CRF
4.	Mr J Mugho	-	Member
5.	Mr S K Nduati	-	Member
6.	Mr J T Karuri	-	Member
7.	Mr J Kahata	-	Member
8.	Mr P Magut	-	Member
9.	Mr L Kamenchu	-	Member
10.	Mr P Mortensen	-	Member
11.	Mr H K Maingi	-	Member
12.	Mr J P Nduati	-	Alternate Director, Director of Agriculture MA & RD
13.	Mrs A Kyalo	-	Alternate Director, Director of Research MA & RD
14.	Dr A M Mailu	-	Alternate Director, Director KARI
15.	Prof J K Imungi	-	University of Nairobi
16.	Mr A M Miriti	-	Ag. General Manager, CBK
17.	Mr C B Nyakeri	-	Chief Accountant/Co. Secretary

Five meetings were held during the year as follows:

145th Meeting on 21 November 2000

Special Meeting on 30 January 2001

Special Meeting on 2 March 2001

146th Meeting on 29 May 2001

Special Meeting on 23 August 2001

COFFEE RESEARCH ADVISORY COMMITTEE

1.	Dr A M Mailu	-	Chairman – KARI
2.	Mr J Riungu	-	Chairman – CRF
3.	Dr D M Masaba	-	Ag. Director of Research
4.	Mr J Kahata	-	Upper Kiambu – Large Scale
5.	Mr L Kamenchu	-	Meru North – Small Scale
6.	Mr S K Nduati	-	Murang'a – Small Scale
7.	Mr J T Karuri	-	Embu – Small Scale
8.	Mrs M Tonje	-	Chairperson, Kitale SubCRAC
9.	Mr H K Maingi	-	Nyeri – Small Scale
10.	Mr J W Gitau	-	Kiambu – Small Scale
11.	Mr P Mortensen	-	Thika – Large Scale
12.	Mr J Kabiru	-	Nakuru – Large Scale
13.	Mr P K arap Magut	-	Uasin Gishu – Small Scale
14.	Mr Titus Nyaga	-	Meru South – Small Scale
15.	Mr E O Mingeyi	-	South Nyanza – Small Scale
16.	S N Mokua	-	Kisii – Small Scale
17.	J Gatumuta	-	Embu – Small Scale
18.	Mr K N Kitonga	-	Wundanyi – Small Scale
19.	Mr S Ogamba	-	Kisii – Small Scale
20.	Snr Chief S Keter	-	Kericho – Small Scale
21.	Mrs W W Kimani	-	Rep. Commissioner of Co-operatives
22.	Prof. J K Imungi	-	University of Nairobi
23.	Mr S K Karumba	-	Coffee Board of Kenya
24.	Mr C B Nyakeri	-	Chief Accountant/Co. Secretary
25.	Dr M P H Gathaara	-	Ag. Deputy Director of Research, CRF

Only one meeting, the 215th Meeting was held on 2nd November 2000.

2.0 STAFF

2.1 HEADS OF SECTION

1.	Dr M P H Gathaara	-	Deputy Director of Research
2.	Dr C O Agwanda	-	Plant Breeding
3.	Dr J M Njoroge	-	Experimental Agronomy
4.	Dr J W Kahia	-	Crop Physiology
5.	Mr J N Mburu	-	Chemistry
6.	Mr H M Mugo	-	Entomology
7.	Mr A M Karanja	-	Economics
8.	Mrs L W Njeru	-	Research Liaison & Advisory
9.	Dr G M Kairu	-	Plant Pathology
10.	Mr M K Nyaga	-	Principal, Kenya Coffee College
11.	Mr C B Nyakeri	-	Chief Accountant/Co. Secretary
12.	Mr J M Maina	-	Estates
13.	Mr E K Maina	-	Administrative Manager

2.2 Appointments

Dr (Mrs) D M Masaba - Principal Research Officer and Deputy Director of Research was appointed Ag. Director of Research w.e.f. 21 November 2000.

Dr M P H Gathaara – Principal Research Officer and Head, Crop Physiology was appointed Ag. Deputy Director of Research w.e.f. 21 November 2000.

2.3 Departures

Dr P K Michori, Director of Research, left the services of CRF w.e.f. 21 November 2000.

Dr. D M Masaba, Ag. Director of Research, resigned from the service of the CRF. Mrs L.K. Ndirangu, Research Officer, resigned from the service of the CRF.

2.4 Retirements

Mr. P N Muchogu, Chief Lab. Technician, retired from the CRF services, Mr. J K Njoroge, Field Officer also retired from the service.

2.5 Training/Courses

Mr. A. M. Karanja, Senior Research Officer/Head of Section enrolled for PhD studies at the Mansholt Institute, Wagenigen University in the Netherlands.

2.6 Conferences/Workshop

Dr (Mrs) D M Masaba – Director of Research attended ASARECA's Annual NPP Consultative meeting in Dar-es-salaam Tanzania 3-7 Sept. 2001. Asareca met the costs of her participation.

Dr C O Omondi – Senior Research Officer, Coffee Breeding attended a three month study/research visit to German April – 27 July 2001. The study was sponsored by the German Academic Exchange Service (DAAD).

Dr J M Njoroge, Principal Research Officer and Head, Experimental Agronomy visited Vietnam to familiarize himself with the Vietnamese coffee industry Sept. 2001.

Mr H M Mugo, Head, Entomology attended the following workshops:

The 8th ICIPE Neem Workshop on "The Way Forward: Contributing to Wealth Creation in Africa" Duduville, Nairobi: 1st – 5th May 2000.

A Workshop on *Heterospilus coffeicola*, a potential biological control agent for Coffee Berry Borer. Mukono, Uganda: 7th – 8th November 2000.

A Workshop on Maximum Residue Limit. Nairobi – Kenya: 26th – 27th July 2000.

A Workshop on EAFRINET Kenya Chapter (East African Loop for Bionet International.) National Museums of Kenya, Nairobi: 28th – 29th August 2000.

2.7 Leave of Absence

Mrs. M.K. Onsongo, Research Officer, continued on her leave absence.

3.0 RESEARCH ACTIVITIES:

3.1 Plant Pathology

During the period April 2000 to March 2001, the section maintained continuity in various areas of research on the management of coffee diseases. Fungicide/bactericide evaluation in the laboratory and field against Coffee Berry Disease (CBD), Leaf Rust and Bacterial Blight of Coffee (BBC) continued to receive a significant attention while other disease management approaches like biological control of CBD were explored. Inputs were made in the ongoing laboratory studies on the histochemical basis of resistance to CBD in coffee varieties as well as the understanding of: variation in *Colletotrichum kahawae*; physiologic races of *Hemileia vastatrix* and the *Fusarium* Bark Disease. Routine services were provided in the inoculation of Breeders' material with C, *Kahawae* and in identifying suspect fungicide samples from growers to facilitate analysis of active ingredients in collaboration with Chemistry Section.

3.2 Plant Breeding

Summary of Research Activities

During the period 2000/2001 the Section was involved in research activities and delivery of services to growers which included the maintenance of coffee germplasm, evaluation of existing selection fields, execution of planned crosses and selfings, production of seeds and seedlings as well as nursery experiments. The coffee germplasm collections were maintained on a routine basis and seeds of important varieties were harvested for further research. Adaptation trials with Ruiru 11 were conducted at several sites to identify lines with improved overall performance. Ethiopia collections were evaluated to identify and accumulate additional genes of resistance to CBD. A selfing programme aimed at attaining homozygosity at the loci responsible for CBD resistance within the breeding lines was also carried out. Hybrid seed production activities were conducted during August to December 2000 period. Seedlings continued to be produced for farmers through seeds, rooted cuttings and grafting. Nursery experiments were conducted to compare different rooting media for rooting cuttings.

3.3 Experimental Agronomy Section

During the year research work was conducted on tree densities, fertilizers, intercropping, organic farming, effect of shade and weed control.

Fertilizer trials continued in Ruiru, Kisii, Koru and Meru to compare the yield response of coffee to different rates of nitrogen, phosphorus and potassium fertilizers at various trees densities. Intercropping trials were ongoing in Ruiru and Kitale to screen various economic fruit trees as suitable intercrops with coffee. The effect of green and other organic manure application on coffee growth and productivity was also assessed. A study on the effect of shade trees on coffee yield was ongoing at Kitale. Several herbicides were also undergoing evaluation for their efficacy in weed management in coffee.

The Processing unit of the section continued to process coffee seed for traditional varieties and experimental samples from the various scientific sections. A total of 4376 samples and 3143 kgs of seed were processed. A total of 1063 kg of seed (equivalent to 2.6m seedlings) was distributed to farmers.

The section continued to record meteorological data for Coffee Research Station (Ruiru) and its sub-stations in Mariene (Meru), Kisii and Koru. However, due to high costs and supply problems of meteorological equipment the section experienced difficulties in acquiring necessary facilities and hence some data were not recorded.

3.4 Chemistry (Soil Fertility, Plant Nutrition, Coffee Quality, Processing and Residue Analysis)

During the year the section was involved in the implementation of three areas of research:

a) Soil Fertility Management

Zonation and stratification of soil fertility status of Kisii district was done. This aimed at generating soil and geographical information that can be used in coffee fertilizer management and soil conservation of specific soil scape units.

- A survey to determine the small-scale coffee farms' soil fertility status and manure and fertilizer management practices was carried out for Machakos, Thika and Kiambu Districts.
- Evaluation of NPK 18:4:12 containing secondary nutrients C_aO , M_1O and Boron was finalized during the year.

b) Coffee Quality

- Carbohydrates proteins, oils and the ash contents of commercial arabica coffee varieties in relation to quality classes was determined.
- Development of cherry classification at the factory level was initiated to determine the relationship between cherry density and conversion of cherry to parchment and clean coffee.
- Work on prevention of coffee contamination by moulds was continued under the global OTA prevention project.

c) Coffee Processing

- Determination of optimum condition for composting coffee pulp was continued to identify more parameters for faster decomposition.
- Design and evaluation of a hand pulper based factory was set out.
- Testing of penagos vertical conical drum pulper with a mechanical demulilager was undertaken. The objective was to compare the conventional wet processing that includes parchment fermentation and direct mechanical mucilage extraction on coffee quality.

d) Advisory Service

The section continued to provide advisory service to farmers through soil, leaf, fertilizer and pesticide analysis and recommendations of each made and forwarded to farmers.

3.5 Crop Physiology

Studies on Irrigation Methods of Small Holder Coffee in Kenya

In Kenya, higher coffee yield in large scale compared to small scale sectors is largely attributed to irrigation applied in the former sector. Currently, irrigation of coffee is using such methods as

overhead sprinkler and under tree drip irrigation is exclusive in the domain of large-scale growers due to enormous capital outlays for the systems. The smallholder sector which commands about 60% of Kenya's coffee production is entirely managed under rainfed regimes. The study therefore aims at developing an appropriate irrigation technology amenable to the smallholder sector in Kenya. Materials used for placement of water (polythene bags, plastic containers and bottles) are readily available and digging of basins can be cheaply done.

Field performance of *in vitro* propagated Ruiru 11

The field performance of Ruiru 11 propagated using three methods i.e. Direct embryogenesis, indirect embryogenesis, (callus) and nodal culture were compared with those propagated by cuttings, seeds and grafted materials. The following parameters were compared, height, total length of primary branches, bearing length of primary branch, base diameter, total primary branches, bearing primary branches, nodes per primary branch, stem internodes and clean coffee yield.

***In vitro* Propagation of Ruiru 11**

The objective of this project is to develop a protocol for regenerating plantlets from somatic embryogenesis. A protocol for regenerating plantlets through nodal culture has been worked out. Protocol for regeneration from somatic embryogenesis have also been developed. The protocols for regeneration continued to be studied and perfected for mass production of planting materials.

3.6 Entomology Section

The Entomology Section continued to work on Biocontrol and evaluation of various insecticides and ecological studies on both major and minor coffee insect pests.

Biological control of major insect pests of coffee with emphasis on developing techniques for the mass rearing of bioagents and their release in the field was undertaken. Other research activities focused on the following areas:

- Field evaluation of safe insecticide formulations against coffee insect pests.
- Studies on use of entomopathogenic nematodes against insect pests of coffee.
- Field survey on insect pests incidences.

3.7 Economics

The section undertook 3 research activities as follows:

A review of the economics of coffee production

Average coffee prices at the Nairobi Coffee Exchange dropped by nearly 30% from US \$ 117 (Ksh.156,000 per tonne) in the previous year to US \$ 84 per bag (Ksh.126,000 per tonne).

The average cost of coffee production in the smallholder subsector was estimated at Ksh 65,200 per tonne. The average margin was therefore Ksh 13,000 per tonne after deduction of statutory levies, marketing and processing expenses, all totally (Ksh 48,000 per tonne (38% of auction price).

In the estates sub sector, total deductions were Ksh.13,800 per tonne (11% of the auction prices). However due to the higher production cost at Ksh.117,200 per tonne the estates recorded an average loss of Ksh.5,000.

It was evident that the coffee sector was on the onset of a slump and profitability could only be sustained through enhanced farm productivity and a reduction in marketing and processing costs.

An assessment of the coffee industry extension services

This project aimed at assessing the existing extension options in order to inform future coffee industry extension strategy. The project involved identification, evaluating and ranking of the extension service providers in the coffee sector on the basis a preset criteria: The criteria included: focus and goals, organization, staffing and expertise, funding and sustainability, linkages, monitoring and evaluation. Quasi-public sector providers were ranked highest with a score of 58, followed by private sectors providers at 52. Public sector providers had a score of 46.

A study on the role of emerging rural financial markets in the smallholder coffee sector

This study evaluated the capacity of the coffee-based savings and co-operative societies (Saccos) in providing a sustainable window for financing the smallholder production and covered four Saccos - Meru North, Meru South, Embu and Kirinyaga.

Average savings in the four Saccos were about Ksh.7,500 per member, above the mandatory Ksh 500 to Ksh 1,000 minimum account balance required of members. Direct business from coffee was estimated at between 50% and 80%.

Credit was mainly for seasonal production and welfare expenses (e.g. school fees, medical bills etc). Welfare expenses loans accounted for about 60% of the total advances.

The Saccos had in place several risk management measures including use of guarantor system, crop hypothecation and diversification of the savings base and investment portfolio. However they faced numerous constraints, which included instability in the primary co-operatives, low returns from coffee, and the establishment of parallel Saccos or in other cases revival of the Union Banking Sections (UBSs).

3.8 Research Liaison Training and Advisory Section

The role of the RLTA is to provide, encourage and maintain a continuous contact between coffee farmers, researchers, coffee agencies and other people interested either individually or in groups in the research production and processing aspects within the coffee industry.

To effectively reach the farmers, the Section liaises with coffee extension staff in the Ministry of Agriculture, Livestock Development, the Co-operative Movement Managing Agencies and Coffee Board of Kenya (CBK) field services personnel in disseminating research information and receiving feedback from the field. Farmers, particularly estate owners do have a direct contact with the Section.

Information flow is effected through training provision of publications, participation in Agricultural shows and coffee farmers' field days, making advisory visits to farms, visit by farmers to the station and demonstration sites located in all major coffee growing areas and through audio visual media.

Within the year, the section was internally able to conduct ten courses with more emphasis on factory management and field practices to rehabilitate neglected coffee farms.

CRF participated in six seminars organised by the Project Coordination and Management Unit (PCMU) for Coffee Extension Officers and Credit Coordinators in all coffee districts.

There were five local and three foreign students on attachment to the CRF.

There was a sharp increase in the number of the various publications sold from 906 to 3,000 during the year under review. There was also an increase in the number of leaflets and circulars distributed to growers particularly those on Ruiru Eleven (11), technical circulars, handouts and Coffee Research Activities.

The number of advisory visits increased from 281 to 546 in 2000/2001. These were either requested to plan need visits by the farmers, coffee managing agencies and the extension staff. Like in the previous year, there was a noticeable demand for farm visits. This could be attributed to recent changes in liberalization of the economy where farmers are getting better payment for their produce.

Thirty seven coffee farmers' field days were conducted in thirty two coffee districts across the country where about 26,530 farmers participated. CRF held field days at Kisii and Marine Substations where a total of 6,750 people attended. Common observations and notes during the field days visits are improved coffee husbandry practices as compared to previous years.

The RLTAS staff of CRF attended eleven (11) Agricultural Society of Kenya Shows and seven (7) District Harambee Shows. The CRF and CBK staff were able to interact with farmers and other interested participants in all aspects of coffee husbandry, processing, marketing and the future of coffee farming as a business,

CRF was able to receive 2,201 visitors at CRS, its Substations and demonstration sites who paid visits individually and as groups. These visitors were farmers, students/pupils and foreigners with various interests on coffee.

The sale of traditional coffee seeds namely K7, SL28, and SL34 was 303 kg.

CRF continued its co-operation with other local institutions in inter-library loaning of books particularly with the Kenya Agricultural Research Institute (KARI). The Universities, Kenya National Library Services (KLS) and Kilimo Library.

The current CRF Library requires expansion to accommodate the many publications we have and modern equipment for collecting, organizing, storage and dissemination of information.

3.9 Kenya Coffee College

Training Activities

The Kenya Coffee College is to communicate CRF research findings through training, development of training materials and offering hospitality services to all stakeholders and interested persons using the college facilities.

In the year 2000/2001, the college conducted 18 scheduled courses on factory, farm, nursery management and 12 non-scheduled seminars for farmers, farm management agents, society management committees, Boards of Directors, where 202 and 276 were trained respectively on various coffee production and processing practices.

The catering unit that provides meals, accommodation and recreational services was able to serve 1651 customers over the period and raised Ksh. 2,264,327.00.

It is noted that farmers, farmer organizations, government departments and trade organizations dealing with coffee sent few trainees than in the previous year.

This could be attributed to the general decline in the performance of the Kenyan economy, low coffee prices and delayed payment to farmers.

**REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
COFFEE RESEARCH FOUNDATION FOR THE YEAR ENDED 30 SEPTEMBER 2001**

I have audited the financial statements of Coffee Research Foundation for the year ended 30 September 2001 in accordance with Section 29 of the Exchequer and Audit Act, (Cap 412). I have obtained all the information and explanations, which to the best of my knowledge and belief were necessary for the purpose of the audit. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the Controller and Auditor General

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

Basis of Opinion

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

1. Going Concern

The foundation incurred a net loss of Ksh.45,026,554 (2000-Ksh.39,347,182) bringing its accumulated deficit to Ksh.86,580,490. Current liabilities exceeded current assets by Ksh.55,088,334 and current year's liabilities includes unpaid statutory deductions of Ksh.31,647,013, retirement benefits of Ksh.33,963,418 and Ksh.5,092,506 due to Kenya Revenue Authority. The financial statements have therefore been prepared on a going concern basis, which assumes continued financial support from the Government and suppliers of goods and services.

2. Fixed Assets

As noted in my audit report for the financial year ended 30 September 2000, the value for the foundation's land and buildings had been excluded from the year's financial statements. During the year under review, the value of the buildings and four out of eight parcels of land totaling Ksh.120,099,388 has been included in the financial statements. However, the other four parcels of land in Kisii, Meru, Mariene, Koru Substations and Namwela demonstration farm have not been registered in the foundation's name and their value has not been determined and included in these financial statements. This situation is indicative of significant impairment on properties. Consequently, it is not possible to confirm ownership and whether the carrying values as stated in the financial statements reflect the fair values of the properties as at the Balance Sheet date.

Emphasis of Matters

Without qualifying my opinion further, I draw attention to the following matters:-

3. Overpayment

In September 2000 the foundation awarded a firm of insurance brokers a 5 years contract for insurance cover of the foundation's properties at a premium of Ksh.3,650,714. Subsequently, the foundation made four payments to the Insurance Brokers totaling Ksh.6,798,632 between October 2000 and My 2001 resulting to an overpayment of Ksh.3,147,918. Although the overpayment of Ksh.3,147,918 was confirmed by the foundation and the contract terminated, the overpayment to the insurance brokers has not been recovered and the circumstances leading to the overpayment have not been explained.

4. Bank Charges

During the year under review the foundation incurred bank charges totaling Ksh.490,800 which were charged to bank account no.1274579 with one of the major banks. The circumstances under which these charges were incurred are not clear having regard to the fact that the bank account had a steady credit balance throughout the year without falling into an overdraft even on a single occasion.

5. Compliance with the State Corporations Act (Cap 446)

The foundation's year end of 30 September is in contravention of State Corporation's Act Cap 446, which makes it mandatory for all State Corporations financial year to be from 1 July to 30 June, in any year. No explanation has been provided for this anomaly.

Opinion

Except for the reservations set out in the foregoing paragraphs, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the foundation as at 30 September 2001 and of its loss and cash flow for the year then ended and comply with the Kenyan Companies Act.

**E. N. MWAI
CONTROLLER AND AUDITOR GENERAL**

Nairobi

30 September 2005

COFFEE RESEARCH FOUNDATION
A COMPANY LIMITED BY GUARANTEE

BALANCE SHEET AS AT 30TH SEPTEMBER 2001

	NOTE	2000/2001 ksh	1999/2000 ksh
FIXED ASSETS			
Plant, property & equipment	2	186,324,925	70,365,661
INVESTMENTS			
Quoted Investments at cost	7	12,540	12,540
Other Investments			
Schedule 11		1,966,990	1 966,990
CURRENT ASSETS			
Stocks	1	16,397,512	13,892,667
Receivables and prepayments	5	39,864,061	23,016,653
Cash & Cash Equivalents	3	(7,706,056)	7,241,779
		<u>236,859,972</u>	<u>116,496,290</u>
CURRENT LIABILITIES			
Creditors & Accruals	6	103,643,851	57,501,729
Suspense account		-	55,987
		103,643,851	57,557,716
TOTAL NET CURRENT ASSETS		<u><u>133,216,122</u></u>	<u><u>58,938,574</u></u>
FINANCED BY:			
Revaluation Reserve		24,045,000	24,045,000
Coffee Research Reserve Fund		1,400,000	1,400,000
Capital Reserve Fund	4	194,351,611	75,047,509
Revenue Reserve Fund	10	(86,580,490)	(41,553,936)
		<u><u>133,216,122</u></u>	<u><u>58,938,574</u></u>

MR L. KIONGO NJUGUNA

Chairman, Board of Directors

Dr J K KIMEMIA

Director of Research

COFFEE RESEARCH FOUNDATION
(A COMPANY LIMITED GUARANTEE)

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDING 30 SEPTEMBER 2001

INCOME		2000/2001	1999/2000
		KSh	Ksh
CBK Subvention	8	233,000,000	254,200,000
Other Income		<u>37,961,097</u>	<u>40,884,236</u>
Total income		270,961,097	295,084,236
 EXPENDITURE			
Recurrent Expenditure	11	304,733,414	325,832,486
Depreciation	2	10,954,237	8,298,932
Audit fees		<u>300,000</u>	<u>300,000</u>
Total Expenditure		315,987,651	334,431,418
Surplus/(Deficit) for the year		(45,026,554)	(39,347,182)

COFFEE RESEARCH FOUNDATION
(A COMPANY LIMITED GUARANTEE)

Cash flow Statement of the Year Ended 30th September 2001

	2000/2001 KSh	1999/2000 KSh
<u>Cash Flow From Operating Activities</u>		
Net Surplus from Operations	(45,026,554)	(39,347,182)
ADJUSTMENTS		
Depreciation	10,954,237	8,298,932
Suspense		55,987
Profit on sale of m/vehicles	(801,742)	0
Dividends & interest on investments	(12,151)	(18,465)
Increase(decrease) in Creditors	46,086,135	33,582,908
(increase)Decrease in Debtors	(16,847,408)	(6,162,272)
(increase)Decrease in Stock	(2,504,845)	1,409,194
Tax Paid	<u>0</u>	<u>0</u>
Net Cash Flow from Operating Activities	<u>(8,152,329)</u>	<u>(2,180,898)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Value of land issued to CRF	0	24,045,000
Purchase of fixed assets	(6,847,371)	(25,245,343)
Sale of fixed assets	835,000	0
Dividends and Interest on investments	12,151	18,465
Development/Capital Expenditure	<u>(795,286)</u>	<u>(1,129,146)</u>
Net cash flow from investing activities	<u>(6,795,506)</u>	<u>(2,311,024)</u>
Net increase/(decrease) in cash & cash equivalents	(14,947,835)	(4,491,922)
Cash & cash equivalent at the beginning of the year	7,241,779	11,733,699
Cash and Cash equivalent at end of the Year	(7,706,056)	7,241,779

**COFFEE RESEARCH FOUNDATION
A COMPANY LIMITED BY GUARANTEE**

**NOTES TO THE FINANCIAL STATEMENT FOR
THE YEAR ENDED 30TH SEPTEMBER 2001**

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basic of Accounting

The financial statements are prepared on the historical cost basis of accounting.

(b) Property, equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis, at annual rates estimated to write off the carrying values of the assets over their expected useful lives.

The value of land and buildings had been omitted from all prior year accounts. This value is now included as an addition.

The annual depreciation rates in use are:

1	Land developments and buildings	2.5%
2	Farm machinery	20%
3	Vehicles & tractors	20%
4	Farm equipment	15%
5	Office, laboratory equipment and furniture	12.5%
6	Miscellaneous equipment	7.5%

(c) Grants and Donations

(i) Capital

Grants and donations related to property, equipment and other assets are presented in the reserves as deferred income and utilized in the reduction of the carrying amount of the related asset during its useful life (Capital Approach).

(ii) Income

Any grant or donations received to compensate expenses, losses or for the purpose of giving immediate operational support is dealt within the income and expenditure statement in the year it is received

(d) Stocks

Stocks consists of consumable materials in store as at the close of the financial year. They are valued at the lower of cost and net realizable value.

(e) Retirement Benefit Costs

The company contributes to a statutory defined contribution pension Scheme (NSSF). Contributions are defined by local statute and are currently limited to Kshs 200 per employee per month.

The company also contributes 15.5% to a defined benefit pension scheme.

The company's contributions to the above schemes are charged to the income and expenditure account in the year to which they relate

(f) Investments

Investments are stated at cost. Dividends received are credited to income for the year to which it relates

(g) The company is exempt from taxation for all income incidental to research, levy and coffee sales. Rent income is taxable at the corporate rate of 30%

**COFFEE RESEARCH FOUNDATION
(A COMPANY LIMITED GUARANTEE)**

2(a) SCHEDULE OF PLANT MACHINERY AND EQUIPMENT

	Land & Buildings	Furniture Office Equip	Laboratory Equipment	Farm Equipment	Vehicles & Tractors	Farm Machinery	Miscellaneous Equipment	Totals
		12.50%	12.50%	15%	0	20%	7.5%	
Cost as at 1 10.2000	24,045,000	22,439,132	32,453,154	8,530,866	60,523,888	5,087,280	6,596,693	159,676,013
Additions	120,099,388	1,929,016	0	51,565		4,386,134	480,656	126,946,759
Disposals	0	0	0	0	771,644	0		771,644
Cost as at 30 9.2001	144,144,388	24,368,148	32,453,154	8,582,431	59,752,244	9,473,414	7,077,349	285,851,128
Depreciation as at 1 10.2000		12,745,265	20,534,994	6,112,496	43,339,285	3,814,817	2,763,495	89,310,352
Disposal for the year					738,386			
Charge for the Year	2,903,266	1,452,860	1,489,770	370,490	3,282,592	1,131,719	323,539	10,954,237
Depreciation as at 30/9/2001	2,903,266	14,198,125	22,024,764	6,482,986	45,883,491	4,946,536	3,087,034	99,526,203
Value as at 30.9.2001	141,241,122	10,170,023	10,428,390	2,099,445	13,868,753	4,526,878	3,990,315	186,324,925
Value As at 1 10 2000	24,045,000	9,693,867	11,918,160	2,418,370	17,184,603	1,272,463	3,833,198	70,365,661

2(b) SCHEDULE OF BUILDINGS

	WDV 1.10.2000	Additions	Disposals 0	Total	Depreciation 2.50%	WDV 30.9.2001
Farmhouse Workshop Coffee Factory and	1,927,282	0	0	1,927,282	48,182	1,879,100
Developments	1,123,110	0	0	1,123,110	28,078	1,095,032
Water Installation, Pump House & Electricity	12,922,773	618,187	0	13,540,960	338,524	13,202,436
Dairy Cattle sheds & Dips	29,362	0	0	29,362	734	28,628
Staff houses & Amenities Main Office, Library & Lecture Hall	43,998,269	0	0	43,998,269	1,099,957	42,898,312
Laboratories	17,255,200	0	0	17,255,200	431,380	16,823,820
Molecular labs	12,523,791	0	0	12,523,791	313,095	12,210,696
Coffee Developments	0	0	0	-	0	-
	5,701,479	177,099	0	5,878,578	146,964	5,731,614
Road Repairs	19,854,092	0	0	19,854,092	496,352	19,357,740
	115,335,358	795,286	0	116,130,644	2,903,266	113,227,378

LAND AND DEVELOPMENTS

	COFFEE	LAND DEV'	TOTAL
Jacaranda estate 312 acres LR 116/1 & 116/3	80,680	314,300	394,980
Rukera estate 251 acres LR 116/2	77,100	258,500	335,600
Meru substation 57 acres	14,420	61,540	75,960
Koru farm LR 11253	34,480	94,380	128,860
Azania estate LR 10084	77,380	2,888,984	2,966,364
Kisii substation 45.6	13,780	53,200	66,980
	297,840	3,670,904	3,968,744

**COFFEE RESEARCH FOUNDATION
(A COMPANY LIMITED GUARANTEE)**

Notes to the Accounts for the Year ended 30th September 2001

	2000/2001	1999/2000
	Ksh	Ksh
3. CASH AND BANK BALANCES		
Cash in hand and at bank	(7,706,056)	7,241,779
	<u>(7,706,056)</u>	7,241,779
4. CAPITAL RESERVE FUND		
Bal b/f 1st oct 2001	75,047,509	75,047,509
ADD: Land and building omitted	119,304,102	
	194,351,611	75,047,509
5. SUNDRY DEBTORS		
	2000/2001	1999/2000
	Ksh	Ksh
Coffee Board of Kenya:Deposits	1,400,000	1,400,000
Main subvention	16,447,416	
Coffee proceeds receivable	12,014,436	7,030,842
Prepayments		3,279,983
Coffee seedlings	31,974	29,974
Deposits	850,320	850,320
ICIPE	43,901	43,901
Bungoma Union bank	218,390	218,390
Ministry of labour	142,060	142,060
Coffee seedlings	1,870,927	1,870,927
Station imprest	2,108,989	107,834
Staff Loans & Advances	2,770,149	4,201,846
Safari Imprests	1,965,499	3,840,575
	<u>39,864,061</u>	<u>23,016,652</u>
6. CREDITORS AND ACCRUALS		
	KSH	
Accrued Expenditure	23,825,520	25,240,484
Medical Bills	2,048,509	1,896,986
Statutory deductions	33,963,418	5,457,048
Salary Arrears	5,137,864	24,007,211
Audit Fees	1,200,000	900,000
Casual/wages	729,021	
Kenya Revenue Authority	5,092,506	0
RBS arrears	31,647,013	0
	<u>103,643,851</u>	<u>57,501,729</u>

COFFEE RESEARCH FOUNDATION
(A COMPANY LIMITED GUARANTEE)

7. Schedule of Investments

Quoted Investments:		At Cost
No. of shares	Nominal Value of Shares	
9254 shares B A T (Kenya Limited)	10/-	12,540
Other Investments:		
KPCU Unsecured Loan Stock	10/-	39,830
KPCU Redeemable Ordinary Shares	10/-	1,895,070
Redeemable Loan Stock		<u>32,090</u>
		<u>1,966,990</u>
		<u>1,979,530</u>

8. SUBVENTION INCOME

	2001/2002	1999/2000
Main subvention payments by CBK	173,538,986	181,573,563
Reimbursement of plant breeding expenses	28,357,008	22,691,727
Reimbursement of SCIP expenses	13,561,268	15,365,273
Reimbursement of FCBDRU expenses	17,542,738	34,569,437
	<u>233,000,000</u>	<u>254,200,000</u>

9. OTHER INCOME

Coffee proceeds	27,905,658	30,810,338
Dividends received	12,151	18,465
Sundry income	8,239,909	6,848,507
Kenya coffee college income	1,803,379	3,206,926
	37,961,097	40,884,236

10. REVENUE RESERVE

	-	45,026,554	-	39,347,182
Deficit for the year before tax	-	-	-	1,129,146
Capital expenditure	-	45,026,554	-	40,476,328
	-	41,553,936	-	1,077,608
Revenue research b/f	-	86,580,490	-	41,553,936
Revenue research c/f				

11 SCHEDULE OF RECURRENT EXPENDITURE (2001)

	FINANCED BY SPECIAL FUNDING										FINANCED BY CRF			
	CBD		SOIL ANALYSIS		PLANT BREEDING		BBCRU		SCIP		CRF		TOTAL	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
Maintenance & general upkeep	532 890	1 332 335	177 842	72 140	8 867 220	7 246 972	608 017	97 398	1 231 111	568 386	38 690 196	28 438 763	50 107 276	37 755 994
Travelling & tours expenses	896 499	1 033 168	-	-	625 609	823 565	622 733	973 320	1 093 498	687 719	24 490 021	34 354 460	27 728 360	37 872 232
Staff remuneration	10 413 143	8 200 681	-	-	22 168 086	20 286 472	6 544 070	5 902 835	14 045 333	12 305 164	157 455 614	171 056 905	210 626 246	217 752 057
Special services	-	-	-	-	-	-	-	-	-	-	37 370 514	11 350 131	37 370 514	11 350 131
	11 842 532	10 566 184	177 842	72 140	31 660 915	28 357 009	7 774 820	6 973 553	16 369 942	13 561 269	258 006 345	245 200 259	325 832 396	304 730 414

12. The average number of full time staff for the company during the year was 794 (2000:808)

13. COMPARATIVES

Where practical, comparative figures have been adjusted to conform with changes in presentation in the current year.

14. INCORPORATION

The Foundation is incorporated under the companies Act. However the state Corporation's Act takes precedence in case of conflict.

15. CURRENCY

The accounts are expressed in Kenya shillings (Ksh.). Transactions in other currencies during the year are converted into Ksh. At the exchange rate at the time of conversion.

Resulting exchange differences are recognised in the income and expenditure statement for the year.

16. ADOPTION OF IAS 41

The adoption of IAS 41, Agriculture was deferred to January 2005.