

KENYA DAIRY BOARD

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By leader of
majority, Hon
Alan Kwa
On Tuesday
25/11/2014

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

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VISION AND MISSION STATEMENT

Kenya Dairy Board was established through an Act of Parliament, the Dairy Industry Act, Cap 336 of 1958.

Mandate

To regulate, promote and develop dairy industry in Kenya.

Vision

"To be a world class dairy development and regulatory authority."

Mission

"To facilitate the stakeholders activities towards a sustainable Dairy Industry that provides quality and competitive Dairy products."

Core Values

Kenya Dairy Board believes in an organization whose people strongly uphold the following values:

Integrity	High standards of integrity and professionalism will be demanded from every member of staff.
Knowledge Based Organization	Strive to become a one stop shop for information dissemination for the mutual benefit of the dairy industry.
Quality Service	Strive to become a Service delivery and client focused organization that offers high value services which meet and exceed the expectation of its clientele.
Fairness	Uphold the principles of fairness and due process in its dealing with internal and external public.
Honesty	Promote a culture of openness and exalt the virtues of truthfulness and honesty within and without the Board.
Democratic Leadership	Promote a participatory management style that recognises the contribution of all team members.
Equal opportunity	Give equal chances to all interested parties in all its transactions irrespective of status, gender, age, race, and ethnicity.

BOARD MEMBERS AND BOARD INFORMATION

Martha K. Mulwa
Machira Gichohi MBS
Hon. Matu Wamae EBS
Alice J. Chesire
Idris M Yusuf
Hussein Tene
James Karanja
Muthoni Muturi
Mwenda Thiribi
Omolo Kayila HSC
Maison T. Sasai
Everet S Wafula
Michael Njuguna Numi
Margaret Nyadong'
Teresia Nyakweba

Chairperson
Managing Director
Director - Processors Representative
Director - Farmer Representative North rift Region
Director - Farmer Representative North Eastern Region
Director - Farmer Representative Upper Eastern Region
Director - Farmer Representative Central rift Region
Director - Farmer Representative Central Region
Director - Farmer Representative Upper Eastern Region
Director - Farmer Representative Nyanza Region
Director - Farmer Representative South rift Region
Director - Farmer Representative Western Region
Director - Farmer Representative central Region
Alternate to PS in the Ministry of Agriculture, fishers & livestock.
Alternate to PS in the Ministry of Finance.

MANAGEMENT

Humphrey Maina
Peter Mutua
Dr. Philip Cheronon

Finance Manager
Administrative Manager
Technical Services Manager

REGISTERED OFFICE AND PRINCIPAL

PLACE OF BUSINESS

NSSF Building, Block A,
Eastern wing, 10th Floor,
P.o Box 30406-00100,
Nairobi.

AUDITORS

Auditor General
P.o Box 30084,
Nairobi.

BANKERS

Kenya Commercial Bank,
P.o Box 69695,
Nairobi.

Co-operative Bank of Kenya,
P.o Box 48231, 00200,
Nairobi.

National Bank of Kenya,
P.o Box 72866,
Nairobi.

LAWYERS

Wambugu Motende & Co. Advocates,
P.o Box 41765-00100,
Nairobi.

Cheptumo & Co. Advocates,
P.o Box 35556-00200,
Nairobi.

CHAIRPERSON'S STATEMENT

The Kenyan Dairy industry has rapidly grown over the last decade and continues to be the leader in the region and Africa as a whole. This is despite key challenges touching at the heart of the industry such as inconsistent milk production tied to the rain patterns, low productivity, low consumption of milk and milk products and inadequate market access in the export markets, among others.

The Kenyan economy is predominately agricultural, with an estimated 80% of the population living in rural areas and deriving their livelihoods largely from agriculture. The dairy industry plays a significant role in contributing to the growth of the economy by contributing about 10% of the agricultural GDP and 4% of the national GDP. The dairy industry also plays a key role in contributing towards increasing food security, income generation and employment creation. The industry supports over 1 million smallholder dairy farmers and provides directly and indirectly to over 1 million jobs.

The Kenyan Dairy Board is a central player in the development of the Kenyan Dairy industry through its three fold roles of regulation, development and promotion. As defined in our strategic plan 2012/2017, the Board will endeavor to support the dairy industry by addressing production, quality and consumption of milk and milk products among others. In addition, the Board will strive to enhance its capacity to deliver services to stakeholders and this will include strengthening the financial, human and infrastructural capacities.

The Board continues to recognize the input into the dairy industry by other stakeholders such as Government, processors, dairy farmers, development partners and dairy traders among others. In the period under review, the Board engaged in partnerships and collaboration with five major organizations in the dairy industry. This enhanced our service delivery to stakeholders.

The Board is also working towards meeting the requirements of the new constitutional dispensation. This will involve restructuring our operations and branch network to fit in with the new expectations.

The Board continues to identify the regional market as key to the Kenyan Dairy Industry. In this regard, the Board has continued to engage with the regional authorities in charge of the dairy industry in the respective countries to promote harmonization of dairy policies and facilitate intra-regional trade in dairy products

The Board is very grateful to the Government for continued support which has made it possible for the Board and the dairy industry to move forward. The contribution of the other stakeholders has also been overwhelming and is greatly acknowledged.

These financial statements for the 2011/2012 period underlie our commitment to drive the dairy industry forward.



Martha Mulwa
Chairperson

Nairobi, Kenya

MANAGING DIRECTOR'S STATEMENT

The Kenya Dairy Board is a statutory body established in 1958 through an Act of Parliament, the Dairy Industry Act, Cap 336 of the Laws of Kenya. The Board has three distinct mandates in the Dairy industry namely; Regulation, Development and Promotion.

The Dairy industry has continued to perform well as manifested by increased output of milk at the farm level and finished dairy products destined for the local and export markets. Milk production is currently estimated at around 5 billion litres, with most of the production done by smallholder dairy farming units. The volumes of milk received for processing in 2011 increased to almost 550 million litres, a growth of 7 % over the previous period. The export markets continued to expand with the value of the exports over the period under review amounting to over 1 billion shillings.

The Dairy industry was hit by the drought experienced in the first half of 2012 but the situation had improved at the close of the financial year.

In pursuit of its mandate, the Board engaged in various activities. This included carrying out licensing and inspectorate activities, quality inspections of milk and milk products and capacity building of industry stakeholders. The Board engaged and supported stakeholder groups such as Dairy Traders Association (DTA), Kenya Dairy Producers Association (KENDAPO) and Kenya Dairy Processors Association (KDPA). At the close of the period, the Board had licensed 541 producers, 24 cooling plants, 24 processors, 53 mini dairies, 49 cottage industries and 628 milk bars.

The Board is working closely with DTA and KDPA to promote processing and sale of pasteurized milk in view of public health concerns. The Board collaborated with KDPA to undertake a major generic milk consumption campaign that will run for the next three years. The campaign endeavours to promote consumption of milk especially among the young generation. This will complement the on going efforts by the Board to establish a strong school milk programme in the country. This effort has seen the number of schools active in the program raise to 260 schools and a student population of over 100,000.

Over the period, the Board also invested in improving its capacity to deliver services to stakeholders. This investment covered procurement of vehicles and other working tools and capacity building of its staff.

The Board is committed to serving the dairy industry in line with our strategic vision which lays emphasis on improving the quality of Kenyan dairy produce, expanding milk production to non-traditional areas, stabilizing milk production and improving per capita milk consumption among others.

The achievements in the Dairy industry have been made possible by the contributions of various stakeholders including the Government, Development partners, dairy farmers, processors and service providers among others. Their efforts are highly acknowledged by the Board.



Machira Gichohi, MBS
Managing Director.

Nairobi, Kenya

BOARD MEMBER'S REPORT

The Board Members have pleasure in submitting their annual reports and Audited Financial Statements for the year ended 30th June 2012 which disclose the state of affairs of the Board.

PRINCIPAL ACTIVITIES

The principal activity of the Board is to organise, regulate and develop the efficient production, marketing, distribution and supply of dairy produce.

RESULTS

Surplus for the financial year ended 30th June 2012 was (Kshs4,881,145)
as compared to financial year ended 30th June 2011 Kshs4,806,122

BOARD MEMBERS

The present Board Members are set out on page 3.

AUDITORS

The Auditor General will continue in office in accordance with Section 30(1) of the Dairy Industry Act (Chapter 336) and the Public Audit Act, 2003.

BY ORDER OF THE BOARD

Machira Gichohi, MBS
Managing Director/Secretary

Nairobi, Kenya

STATEMENT OF BOARD MEMBERS RESPONSIBILITIES

The Dairy Industry Act requires the Board Members to prepare financial statements for each financial year that gives a true and fair view of the state of affairs of the Board, as at the end of the financial year and of its operating results for the year.

It also requires the Board Members to ensure that the Board keeps proper accounting records, which disclose, with reasonable accuracy, at any time, the financial position of the Board. They are also responsible for safeguarding the assets of the Board.

The Board Members accept the responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Dairy Industry Act. The Board Members are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Board and its operating results.

The Board Members further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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



Martha Mulwa
Chairperson



Machira Gichohi, MBS
Managing Director/Secretary

Nairobi, Kenya

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KENYA DAIRY BOARD FOR YEAR ENDED 30 JUNE 2012

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Dairy Board set out on pages 10 to 24, which comprise the statement of financial position as 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year the ended, and a summary of significant accounting policies and other explanatory information in accordance with the provision 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 International Financial Reporting Standards and for such internal control as management determines is necessary to enable presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor-General 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 materials misstatements.

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 assessment, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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



Basis for Qualified opinion

1. Development Grants of Kshs.90,000,000

As indicated under notes 10 and 17 to the financial statements, the Board received Government of Kenya grants of Kshs.90million for development expenditure. However, only 11,302,565 was utilized for the intended development expenditure while the balance of Kshs.78, 697,435 was utilized for recurrent expenditure contrary to the Government financial regulations and procedures which do not allow for inter vote transfer. Further, it is not clear and the management has not explained how the Government of Kenya grants of Kshs. 90million intended for development expenditure has been accounted for to comply with International Financial Reporting Standards IAS 20- Accounting for Government Grants and Disclosure of Government Assistance.

In the circumstances, the Board is in breach of the government financial regulations and procedures and IAS 20

2. Property, Plant and Equipment

The property, plant and equipment balance of Kshs.38, 656,544 as at 30 June 2012 includes a plot in Narok valued at Kshs.300, 000, allocated for office development. Despite the valuation, the Board has not obtained a title deed for the plot from the Ministry of Lands. In the circumstances, it has not been possible to confirm the ownership status of the plot and that the property, plant and equipment balance of Kshs.38, 656,544 is fairly stated as at 30 June, 2012.

3. Financial Performance

The statement of comprehensive income for the year ended 30 June 2012 reflects a deficit of Kshs.4, 881,145 compared to a surplus of Kshs.4, 806,122 for the year ended 30 June 2011, thereby reducing revenue reserves to Kshs.49, 499,849(2011-Kshs.54, 380,994). The Board has not explained the measures it intends to take to reverse this state of affairs.

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 Board as at 30 June 2012, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Dairy Industry Act, Cap.336 of the Law of Kenya.



Edward R.O Ouko, CBS
AUDITOR-GENERAL
Nairobi.

20 February 2013

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30th JUNE 2012

	NOTES	2012 KSHS.	2011 KSHS.
INCOME			
Revenue	4(a)	224,857,253	196,607,956
Other Income	5	102,125,631	23,180,886
TOTAL INCOME		326,982,884	219,788,843
EXPENSES			
Administration expenses	6	30,460,724	26,251,534
Board Members Expenses	7	7,665,597	8,401,731
Depreciation and Amortization expense	8	12,962,939	11,542,745
Employee benefits expenses	9	89,585,468	81,201,247
Operating Expenses	10	185,488,389	82,710,599
Other expenses	11	5,700,912	4,874,864
TOTAL EXPENSES		331,864,029	214,982,720
SURPLUS/ (DEFICIT) FOR THE YEAR		(4,881,145)	4,806,122

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

STATEMENT OF FINANCIAL POSITION AS AT 30th JUNE 2012

ASSETS	NOTES	2012 KSHS.	2011 KSHS.
Non current assets			
Property, Plant & Equipments	13	38,656,544	40,184,303
Intangible Assets	14	1,369,045	1,501,660
		40,025,589	41,685,962
Current assets			
Trade and other Receivables	15	20,678,416	23,333,331
Cash and Cash Equivalents	16	15,633,490	16,115,013
		36,311,906	39,448,344
TOTAL ASSETS		76,337,495	81,134,306
EQUITY AND LIABILITIES			
Capital Reserves	17	17,958,456	17,958,456
Revenue Reserve	18	49,499,849	54,380,994
		67,458,305	72,339,450
Current Liabilities			
Trade and other payables	19	5,215,990	6,186,056
Short Term Provisions	20	3,663,200	2,608,800
		8,879,190	8,794,856
TOTAL EQUITY AND LIABILITIES		76,337,495	81,134,306

The financial statements were approved by the Board Member's on 27/09/2012
 and signed on behalf by:

Martha K. Mulwa
 Chairperson



Signature

Machira Gichohi, MBS
 Managing Director/Secretary



Signature

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2012

	Notes	Capital Reserves Kshs.	Revenue Reserve Kshs.	Total Kshs.
At 1st July 2010		16,238,892	49,574,872	65,813,764
Surplus for the year		-	4,806,122	4,806,122
Increased in the year	16	20,000,000		20,000,000
Utilised in the year	17	(18,280,436)	-	(18,280,436)
At 30th June 2011		17,958,456	54,380,994	72,339,450
At 1st July 2011		17,958,456	54,380,994	72,339,450
Surplus/(Deficit) for the year		-	(4,881,145)	(4,881,145)
Increased in the year	17	90,000,000		90,000,000
Utilised in the year	17	(90,000,000)	-	(90,000,000)
At 30th June 2012		17,958,456	49,499,849	67,458,305

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2012

	NOTES	2012 KSHS.	2011 KSHS.
SURPLUS FOR THE YEAR		(4,881,145)	4,806,122
ADJUSTMENTS:			
Depreciation for the year	13	11,866,574	10,735,506
Amortization of intangible assets	14	1,096,365	807,240
Profit on disposal of assets		(2,609,400)	(2,092,180)
Operating surplus before working capital changes		5,472,394	14,256,687
(Increase)/Decrease in debtors		2,654,915	(8,906,337)
Increase/(Decrease) in creditors		84,334	(73,024,154)
Net cash flow from operating activities		8,211,643	(67,673,804)
Cash flow from Investing Activities			
Purchase of property, plant and equipment	13	(10,338,815)	(16,862,637)
Purchase of intangible assets		(963,750)	(1,417,800)
Proceeds on sale of asset		2,609,400	2,092,180
Net Cash flow from Investing Activities		(8,693,165)	(16,188,257)
Cash flow from Financing Activities			
Capital reserve	17	-	1,719,565
Net Cash flow from Financing Activities		-	1,719,565
Net increase/(decrease) in cash and cash equivalents		(481,522)	(82,142,496)
Cash and cash equivalents at beginning of period	16	16,115,013	98,257,508
Cash and cash equivalents at end of period	16	15,633,490	16,115,013

NOTES TO THE FINANCIAL STATEMENTS AS AT 30TH JUNE 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The Financial statements are prepared in compliance with International Financial Reporting Standards (IFRSs) The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Kshs) rounded into the nearest shilling.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Board's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(i) Amendments to existing standards adopted by the Board

IAS 24 (Revised) 'Related party disclosures' – effective 1 January 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

Classification of rights issues' (amendment to IAS 32) – effective 1 February 2010. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The amendment does not have an impact on the Board's financial statement.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments' - effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. It is not expected to have any impact on the Board's financial statements.

(ii) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant

Amendments to IFRS 2: Group cash-settled share-based payment transactions – effective 1 January 2010. The amendment clarifies the accounting for group cash-settled share-based payment transactions. The entity receiving the goods or services shall measure the share-based payment transaction as equity-settled only when the awards granted are its own equity instruments, or the entity has no obligation to settle the share-based payment transaction. The entity settling a share-based payment transaction when another entity in the group receives the goods or services recognises the transaction as equity-settled only if it is settled in its own equity instruments. In all other cases, the transaction is accounted for as cash-settled.

NOTES TO THE FINANCIAL STATEMENTS AS AT 30TH JUNE 2012 (Continued)

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Board.

IFRS 9, 'Financial instruments' – effective 1 January 2013. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. It introduces new requirements for classifying and measuring financial assets and is likely to affect the Board's accounting for its financial assets. The Directors have assessed the relevance of the new standards, interpretations, and amendments to existing standards with respect to the Board's operations and concluded that they will not have a significant impact on the Board's financial statements.

b) Income recognition

The Board recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Board and when specific criteria have been met for each of the Board's activities as described below. The Board bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

- i) Cess receipts are from licencees charged at the rate of twenty cents per litre of milk traded and is recognised when it is due.
- ii) Processors levy from licencees who process milk is charged at the rate of twenty cents per litre of processed milk is recognised when it is due.
- ii) GOK Grants are Appropriations in Aid from the Government and approved utilisation of capital reserves and are recognised when there is reasonable assurance that they will be received.
- iv) Interest received is interest earned on bank deposit and call up accounts and is recognised when earned.
- v) Import levy is levy charged on milk import or any other dairy produce charged at seven percent of gross cost, insurance and freight and is recognised when received.
- vi) Assurance fee is from any person who want to start a milk processing plant and is recognised when received.
- vii) Application fees are charged to any person who applies for a licence and is recognised when received.
- viii) Licence fees are charged on various types of licences and are recognised when received.

c) Bad and doubtful debts

Specific provision is made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success.

d) Expenditure

Expenditure incurred comprise of expenses paid in the year and charges in the provision for outstanding expenses. All expenditure has been accounted for on accrual basis.

e) Property, Plant, Equipment and Depreciation.

All categories of property, plant and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at market value, based on periodic, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Board and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their

	Rate(%)
Motor vehicles	25.00%
Office and Laboratory equipments	12.50%
Furniture and fittings	12.50%
Computers	30.00%

NOTES TO THE FINANCIAL STATEMENTS AS AT 30TH JUNE 2012 (Continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in the profit and loss account. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

f) Intangible Assets

Intangible assets acquired are capitalized at cost.

The cost incurred to acquire and bring to use specific computer software licences are capitalized. The cost are amortized on a straight-line basis over the expected useful life at rate of 30% per annum. Computer development costs that are directly associated with production of identifiable and unique software products that will probably generate economic benefits beyond one year are capitalized. The costs are amortized on a straight-line basis at the rate of 30%. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

g) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowing in current liabilities on the balance sheet.

h) Employees' benefits

i) Retirement benefit obligations

The Board operates a defined benefit pension scheme for its employees. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the Board and employees. Benefits are paid to retiring staff in accordance with the scheme's rules. The Board and all its employees also contribute to the National Social Security Fund, a statutory defined contribution pension scheme. The Board's obligation under the scheme is limited to the specific contributions legislated from time to time and are currently limited to a maximum of Ksh. 200 per month per employee. The Board's contribution in respect of retirement benefit costs are charged to the income statement in the year in which they relate.

ii) Other entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the balance sheet date.

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

i) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Board will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS AS AT 30TH JUNE 2012 (Continued)

k) Comparatives

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

l) Accounting for Leases

Leases of assets are classified as operating leases since a significant proportion of the risk and reward of ownership are retained by the lessor. Payment under operating leases are charged to income on a straight line basis over the period of the lease.

m) Financial support

The Government of Kenya as a major financier of the Board has confirmed to continue supporting the Board in its operations. In view of the above the Board members consider it appropriate to prepare these Financial Statement on a going concern basis.

n) Provisions

Provisions are recognised when the Board has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Board's activities expose it to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency and interest rates. The board's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effects of such risks on its performance by setting acceptable level of risks.

(a) Market risk

(i) Currency risk

The Board undertakes very limited transactions denominated in foreign currencies. The exposure to exchange rate fluctuations is therefore minimal.

(ii) Price risk

The Board does not hold investments that would be subject to price risk.

(iii) Interest rate risk

As the Board has no interest bearing borrowing, the Board's income and operating cash flows are substantially independent of changes in market interest rates.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to meet the Board's financial obligations. Management monitors monthly forecast of the board's cash requirements against expected cash inflow.

NOTES TO THE FINANCIAL STATEMENTS AS AT 30TH JUNE 2012 (Continued)

The table below analyses the Board's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual un discounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2012

	Less than 1 year Kshs
Trade and other payables	<u>5,215,990</u>

At 30 June 2011

Trade and other payables	<u>6,186,056</u>
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(c) Credit risk

Credit risk refers to the risk that a counter party will default on their obligations resulting in financial loss to the board. Credit risk arises principally from cash and cash equivalents, deposits with banks as well as trade and other receivables. The credit risk on liquid funds is, however, minimal as they held in reputable financial institutions.

The amount that best represents the board's maximum exposure to credit risk is made up as follows:

At 30 June 2012

	Fully Performing Kshs	Past Due Kshs	Impaired Kshs
Trade and other receivables	16,842,363	3,836,054	-
Cash and bank balances	15,633,490	-	-

At 30 June 2011

	Fully Performing Kshs	Past Due Kshs	Impaired Kshs
Trade and other receivables	19,898,059	3,435,272	-
Cash and bank balances	16,115,013	-	-

(d) Environmental risk

The Board Activities are dependant on rain fed Agriculture which fluctuate from time to time affecting income generation.

NOTES TO THE FINANCIAL STATEMENTS AS AT 30TH JUNE 2012 (Continued)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances:

(i) Critical accounting estimates and assumptions

The Board makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below. The present value of the pension obligations depends on a number of factors that are determined on an defined contribution using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Board determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Board considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 9

In the process of applying the Board's accounting policies, management has made judgements in determining:

- Whether assets are impaired
- The Classification of financial assets
- Provision and contingencies

4(a) REVENUE

Income shown in the financial statement is arrived at after recognizing the following income:

	2012 KSHS.	2011 KSHS.
Cess Receipts	102,104,042	100,394,463
Processors Levy	82,520,462	65,107,709
Import levy	26,518,510	20,014,329
Licence fees (note 4 b)	10,130,505	8,748,865
Application fees	2,098,460	1,607,934
Assurance fees	-	-
Interest received	1,485,274	734,656
	224,857,253	196,607,956
4(b) Licence fees:		
Cooling Plant	88,000	92,000
Cottage Industries	364,125	355,200
Dairy Manager Licenses	157,600	142,500
Milk Bar Licenses	4,282,011	2,782,359
Mini Dairies	387,400	455,482
Movement Permit	2,875,405	2,836,480
Processors Licenses	750,000	750,000
Producer Licenses	1,225,964	1,334,843
	10,130,505	8,748,864
5 OTHER INCOME		
G.o.K Recurrent Grants	20,320,000	20,320,000
G.o.K Development Grants	78,697,435	
Profit on disposal of Assets	2,609,400	2,092,180
Confiscated Milk sale	99,145	74,639
Cess penalties and others	107,164	181,606
Tender Sale and Business forms	262,100	424,400
Sale of publications	30,386	88,061
	102,125,631	23,180,886

NOTES TO THE FINANCIAL STATEMENTS AS AT 30TH JUNE 2012 (Continued)

	2012	2011
	KSHS.	KSHS.
6 ADMINISTRATION EXPENSES		
Electricity Expenses	96,080	65,563
Bank Charges	964,619	863,585
Fees, Commission and Honoraria	2,167,355	1,846,680
Audit fees	650,000	650,000
Insurance	3,230,607	2,286,922
Medical Expenses	5,004,211	4,848,414
Postal and Telegram Expenses	698,999	616,262
Printing & Stationery Expenses	3,717,260	3,160,152
Rent & Rates	10,040,482	8,241,000
Staff Welfare	3,891,112	3,672,956
	30,460,724	26,251,534
7 BOARD MEMBERS EXPENSES		
Mileage Allowances	2,587,546	2,237,088
Travel & Accommodation allowances	2,495,551	4,015,143
Sitting allowances	2,582,500	2,149,500
	7,665,597	8,401,731
8 DEPRECIATION AND AMORTIZATION EXPENSES		
Depreciation	11,866,574	10,735,506
Amortization of intangible assets	1,096,365	807,240
	12,962,939	11,542,745
9 EMPLOYEE BENEFITS EXPENSES		
Gratuity & Pension Contribution	10,311,623	10,697,549
Passage & Leave Expenses	6,421,571	4,887,683
Salaries and wages	72,852,274	65,616,015
	89,585,468	81,201,247
The Board makes contribution to a defined provident fund scheme administered by CFC Life Limited and the National Social Security Fund. The Board will continue paying contributions to the provident fund at a rate of 10% of basic salary by employees and employer 20% and NSSF Kshs. 200 p/m. The contributions made during the year were as follows:		
NSSF Employer Contributions	229,000	230,800
Employer Pension Contributions	10,082,623	10,466,749
	10,311,623	10,697,549
Staff Salaries and Wages	68,652,274	61,416,015
Mds emoluments: - Basic Salary	3,240,000	3,240,000
- House Allowance	960,000	960,000
	72,852,274	65,616,015

NOTES TO THE FINANCIAL STATEMENTS AS AT 30TH JUNE 2012 (Continued)

10 OPERATING EXPENSES

	2012 KSHS.	2011 KSHS.
Advertising & Publicity	11,492,213	6,634,994
External Travelling and Accommodation	2,770,457	2,600,023
Information Technology Services	1,839,980	1,800,000
Laboratory Expenses	1,698,980	2,443,492
Marketing and Benchmarking	8,203,130	7,934,993
Product Value Addition	3,779,677	1,503,747
Research and Dairy Development	5,078,373	2,645,250
Show Expenses	6,744,523	5,211,200
Standardization and Traceability	3,912,501	1,833,468
Telephone Expenses	2,520,948	2,167,866
Training Expenses	16,197,003	13,300,098
Transport & Operating Expenses	18,892,398	18,076,066
Travelling and Accommodation Exp	18,636,071	16,559,402
Generic milk consumption Campaign	6,512,645	-
Export Promotion Activities	9,253,050	-
Support to Stakeholder Organisations	17,116,300	-
World School milk Programme	7,569,000	-
Joint Antihawking programmes	12,192,663	-
Milk Consumption promotions	6,576,230	-
School Milk Programme	6,612,355	-
CSR - supply of milk to disadvantaged	4,523,645	-
Conference & Exhibitions	13,366,246	-
	185,488,389	82,710,599

During the year the Board received Kshs 90 million for development expenditure as per the revised printed estimates. The Board utilised Kshs. 11,302,565.00 to purchase tangible and intangible assets and the balance was used to finance some of the above listed activities as budgeted.

11 OTHER EXPENSES

	2012 KSHS.	2011 KSHS.
Donations	1,190,346	1,195,000
Maintenance of Plant & Equip.	1,708,180	1,545,717
Maintenance of Stations	2,794,385	1,693,422
Uniform & Clothing Expenses	8,000	440,725
	5,700,912	4,874,864

NOTES TO THE FINANCIAL STATEMENTS AS AT 30TH JUNE 2012 (Continued)

13 FIXED ASSETS PROPERTY, PLANT AND EQUIPMENT

	Land	Motor Vehicles	Furniture & Fitting	Computers & Accessories	Office & Lab Equipment	TOTAL ASSETS
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Cost						
Balance as at 30th June 2010	18,100,000	32,998,752	6,676,963	11,636,228	4,907,160	74,319,103
Additions	-	13,020,468	1,268,766	2,125,603	447,800	16,862,637
Disposal		(7,339,407)	-	-	-	(7,339,407)
Balance as at 30th June 2011	18,100,000	38,679,813	7,945,729	13,761,831	5,354,960	83,842,333
Accumulated Depreciation						
Balance as at 30th June 2010	-	23,496,876	4,664,528	8,330,141	3,770,387	40,261,932
Disposal	-	(7,339,407)	-	-	-	(7,339,407)
Charge for the year	-	7,644,566	534,523	2,200,463	355,954	10,735,506
Balance as at 30th June 2010	-	23,802,035	5,199,051	10,530,604	4,126,341	43,658,031
Net book value						
Balance as at 30th June 2011	18,100,000	14,877,778	2,746,678	3,231,227	1,228,619	40,184,302
Balance as at 30th June 2010	18,100,000	9,501,876	2,012,435	3,306,087	1,136,773	34,057,171

PROPERTY, PLANT AND EQUIPMENT

Cost						
Balance as at 30 th June 2011	18,100,000	38,679,813	7,945,729	13,761,831	5,354,960	83,842,333
Additions	-	4,663,415	733,250	4,244,250	697,900	10,338,815
Disposal		(7,042,760)	-	-	-	(7,042,760)
Balance as at 30th June 2012	18,100,000	36,300,468	8,678,979	18,006,081	6,052,860	87,138,388
Accumulated Depreciation						
Balance as at 30 th June 2011	-	23,802,035	5,199,050	10,530,604	4,126,341	43,658,030
Disposal	-	(7,042,760)	-	-	-	(7,042,760)
Charge for the year	-	7,735,420	557,934	3,238,307	334,913	11,866,574
Balance as at 30th June 2012	-	24,494,695	5,756,984	13,768,911	4,461,254	48,481,844
Net book value						
Balance as at 30th June 2012	18,100,000	11,805,773	2,921,995	4,237,170	1,591,606	38,656,544
Balance as at 30 th June 2011	18,100,000	14,877,778	2,746,679	3,231,227	1,228,619	40,184,303

NOTES TO THE FINANCIAL STATEMENTS AS AT 30TH JUNE 2012 (Continued)

14 INTANGIBLE ASSETS (SOFTWARE)

COST

At 1st July 2010
 Additions
 At 30th June 2011

KSHS.	KSHS.
1,273,000	-
1,417,800	1,273,000
2,690,800	1,273,000

AMORTISATION

At 1st July 2010
 Charge for the year
 At 30th June 2011

381,900	-
807,240	381,900
1,189,140	381,900

NET BOOK VALUE

At 30th June 2011

1,501,660	891,100
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COST

At 1st July 2011
 Additions
 At 30th June 2012

2,690,800	1,273,000
963,750	1,417,800
3,654,550	2,690,800

AMORTISATION

At 1st July 2011
 Charge for the year
 At 30th June 2012

1,189,140	381,900
1,096,365	807,240
2,285,505	1,189,140

NET BOOK VALUE

At 30th June 2012

1,369,045	1,501,660
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Intangible Assets consist of computer software licences costs and website development costs. They are amortised on the straight-line method to write them off over their expected useful life at the rate of 30% per annum.

15 TRADE AND OTHER RECEIVABLES

Trade and other receivables comprises of the following:-

Trade debtors
 Other receivables (IFAD)
 Staff car loan
 Deposits
 Staff Imprest
 Prepayments
 Staff salary advances
 Ex- Staff debtors
 Provision for Doubtful debts

6,617,990	7,834,016
175,001	1,741,700
9,385,143	11,227,316
2,639,835	908,466
1,184,715	1,889,477
824,847	440,495
3,286,157	2,727,133
400,782	400,782
(3,836,054)	(3,836,054)
20,678,416	23,333,331

Provision for doubtful debts has been made for long outstanding trade debtors and ex-staff who owes the Board but have since left the service.

16 CASH AND BANK BALANCES

Co-operative Bank call up account
 Co-operative Current account
 KCB saving account
 KCB Current account
 NBK Current account
 Undeposited funds.

5,868,704	5,637,997
6,748,743	4,925,566
262,282	1,047,682
1,998,547	1,390,360
542,037	2,849,811
213,177	263,597
15,633,490	16,115,013

NOTES TO THE FINANCIAL STATEMENTS AS AT 30TH JUNE 2012 (Continued)

17 CAPITAL RESERVE

Capital reserves are as a result of capital G.o.K grants, utilisation of accumulated reserves and valuation of non- current assets.

At Start of year

G.o.K grants received in the Year

Utilised Capital reserves

2012 KSHS.	2011 KSHS.
17,958,456	16,238,892
90,000,000	20,000,000
(90,000,000)	(18,280,436)
17,958,456	17,958,456

18 REVENUE RESERVE

This comprises of accumulated surplus/deficit and prior year adjustments over the years.

At start of year

Surplus for the year

54,380,994	49,574,872
(4,881,145)	4,806,122
49,499,849	54,380,994

19 TRADE AND OTHER PAYABLES

Trade Payables

Accrued Expenses

KMR Staff Pension

KNAC Staff Pension

Alico Insurance claims

Payroll Liabilities

Chairlady Honoraria

8,240	-
31,489	31,489
109,299	109,299
354,095	354,095
145,932	145,932
4,479,935	5,479,991
87,000	65,250
5,215,990	6,186,056

20 SHORT TERM PROVISIONS

Audit Fees Provision

MD Gratuity

650,000	600,000
3,013,200	2,008,800
3,663,200	2,608,800

21 TAXATION

The Board is a Non-profit making organisation hence exempt from Income Tax

22 CONTINGENCIES

The Board members are not aware of any litigation arising from normal operations of the Board which may have material effect on the financial position.

23 CAPITAL COMMITMENTS

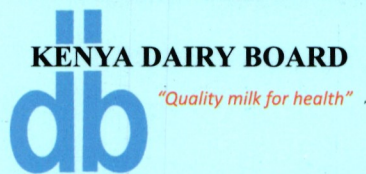
The Board has no capital commitments as at 30th June 2012.

24 IMPAIRMENT OF ASSETS

Loss on impaired assets is recognized if the recoverable amount has declined below the carrying amount.

25 INCORPORATION

The Board is established under Section 4 of the Dairy Industry Act CAP 336.



Kenya Dairy Board Branch Network

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Tel 0717 997 416

Nakuru

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Tel: 0717 799 417

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Tel: 0717 799 465

Kakamega

Pc's Office,
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Kisii

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