

KENYA COMMUNITY DEVELOPMENT FOUNDATION

REPORT AND ACCOUNTS

AT

31 DECEMBER 2003

KENYA COMMUNITY DEVELOPMENT FOUNDATION

REPORT OF THE DIRECTORS **FOR THE YEAR ENDED 31 DECEMBER 2003**

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2003 which disclose the state of affairs of the company.

1. Legal form and reporting period

Kenya Community Development Foundation (KCDF) was formed on 17 January 1997 as a Project of the Aga Khan Foundation (Kenya) and continued to operate as a 'Project' until 14 August 2001 when it was incorporated under the Companies Act as a 'Private Company Limited by Guarantee and not having a Share Capital'.

The assets and liabilities of the 'Project' were transferred to the newly registered company at book value on 1 November 2001, the date the Company commenced operations.

2. Activities

KCDF is a Kenyan organisation building permanent resources for development work from a diverse range of Kenyan and international sources. KCDF has mobilised a substantial proportion of its funds locally and has invested resources in an endowment fund to create a locally controlled, accountable and sustainable source of support for community development work.

3. Results

The results for the period are set out on Page

4. Dividend

The Memorandum and Articles of Association of the Company prohibit the payment of dividends.

5. Directors

The directors who served since 1 January 2002 are set out on Page

6. Auditors

The auditors, KPMG Kenya, have indicated their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap.486).

7. Approval of financial statements

The financial statements were approved at a meeting of the directors held on

BY ORDER OF THE BOARD

Secretary
Equatorial Secretaries and Registrars

Date:
15th June, 2004

KENYA COMMUNITY DEVELOPMENT FOUNDATION

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors accept 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 in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results.

The directors further accept responsibility for the maintenance of accounting records which 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 directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

Director: **Mr. Aleke Dondo**

Director: **Ms. Atia Yahya**

Date **15th June, 2004**

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF KENYA COMMUNITY DEVELOPMENT FOUNDATION

We have audited the financial statements set out on pages 5 to 16 for the year ended 31 December 2003. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit. The financial statements are in agreement with the books of account.

Respective responsibilities of directors and independent auditors

As stated on page 3, the directors are responsible for the preparation of financial statements that give a true and fair view of the state of affairs of the company and its operating results. Our responsibility is to express an opinion on the financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the company's financial position at 31 December 2003 and of its operating results and cash flows for the year then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act.

KPMG Kenya

Date: 24th June, 2004

KENYA COMMUNITY DEVELOPMENT FOUNDATION

INCOME AND EXPENDITURE ACCOUNT **FOR THE YEAR ENDED 31 DECEMBER 2003**

		12 months to 31 December 2003			14 months to 31 December 2002
	Note	Endowment Fund KShs	General Fund KShs	Total KShs	Total KShs
Income					
Grant income		-	55,851,294	55,851,294	27,236,995
Other income	3	<u>-</u>	<u>536,323</u>	<u>536,323</u>	<u>-</u>
		<u>-</u>	<u>56,387,617</u>	<u>56,387,617</u>	<u>27,236,995</u>
Expenditure					
Capacity building		-	9,944,456	9,944,456	4,311,202
Research		-	2,510,663	2,510,663	2,586,512
Fund-raising and communication		-	3,562,110	3,562,110	4,868,137
Grants to partner organisations	4	-	12,896,890	12,896,890	12,305,358
Administrative expenses	5	<u>-</u>	<u>13,513,395</u>	<u>13,513,395</u>	<u>11,989,901</u>
		<u>-</u>	<u>42,427,514</u>	<u>42,427,514</u>	<u>36,061,110</u>
Surplus/(deficit) from operations		-	13,960,103	13,960,103	(8,824,115)
Interest income		519,246	984,663	1,503,909	1,404,345
Exchange loss		<u>-</u>	<u>(403,746)</u>	<u>(403,746)</u>	<u>-</u>
		<u>519,246</u>	<u>580,917</u>	<u>1,100,163</u>	<u>(7,419,770)</u>
Surplus/(deficit) for the period		<u>519,246</u>	<u>14,541,020</u>	<u>15,060,266</u>	<u>(7,419,770)</u>

The notes set out on pages ... to form an integral part of these financial statements.

KENYA COMMUNITY DEVELOPMENT FOUNDATION

BALANCE SHEET AS AT 31 DECEMBER 2003

		31 December 2003 KShs	31 December 2002 KShs
Non-current assets			
Property and equipment	7	612,045	540,823
Current assets			
Prepayments and deposits		821,242	877,650
Sundry debtors		593,253	155,132
Grants receivable	8	277,050	277,050
Cash and bank		28,555,869	22,658,282
Treasury bills, bonds and deposits	9	<u>29,131,342</u>	<u>10,152,971</u>
		<u>59,378,756</u>	<u>34,121,085</u>
TOTAL ASSETS		<u>59,990,801</u>	<u>34,661,908</u>
Fund balances (Page 8)			
Endowment fund		9,835,026	5,446,921
General fund		<u>18,448,110</u>	<u>3,907,090</u>
		<u>28,283,136</u>	<u>9,354,011</u>
Current liabilities			
Bank overdraft	10	320,948	-
Creditors and accruals		2,087,609	2,439,590
Deferred grant income	11	10,500,000	7,478,618
Grants payable	12	<u>18,799,108</u>	<u>15,389,689</u>
		<u>31,707,665</u>	<u>25,307,897</u>
FUND BALANCES AND LIABILITIES		<u>59,990,801</u>	<u>34,661,908</u>

The financial statements set out on pages to were approved by the Board of Directors on 19th May, 2004 and were signed on its behalf by:

Director: **Aleke Dondo**

Director: **Atia Yahya**

The notes set out on pages to form an integral part of these financial statements.

KENYA COMMUNITY DEVELOPMENT FOUNDATION

CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	31 December 2003 KShs
Cash flows from operating activities	13(a)	<u>20,010,865</u>
Investing activities		
Proceeds on disposal of treasury bills and bonds		43,920,334
Receipts on maturity of term deposits		10,152,971
Interest on deposits, treasury bills and bonds		559,213
Purchase of treasury bills and bonds		(73,051,676)
Purchase of fixed assets		(403,173)
		(18,822,331)
Financing activities		
Endowment funds received		3,868,859
Interest on endowment funds		<u>519,246</u>
		<u>4,388,105</u>
Increase in cash and cash equivalents	13(b)	<u>5,576,639</u>

There are no corresponding figures for 2002 on the cash flow because 2002 was the first period of operation of the company.

The notes set out on pages to form an integral part of these financial statements.

KENYA COMMUNITY DEVELOPMENT FOUNDATION

STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED 31 DECEMBER 2003

	Endowment Funds KShs	General Fund KShs	Total KShs
Balance at 1 November 2002	5,018,599	11,755,182	16,773,781
Surplus/(deficit) for the period	<u>428,322</u>	<u>(7,848,092)</u>	<u>(7,419,770)</u>
Balance at 31 December 2002	5,446,921	3,907,090	9,354,011
Funds received	3,868,859	-	3,868,859
Surplus for the year	<u>519,246</u>	<u>14,541,020</u>	<u>15,060,266</u>
Balance at 31 December 2003	<u>9,835,026</u>	<u>18,448,110</u>	<u>28,283,136</u>

Endowment Funds comprise amounts set aside for permanent restricted capacity-building activities and are separately invested in interest-earning instruments (Note 9).

The General Fund is an unrestricted fund which is available for use at the discretion of the Directors in furtherance of the general objectives of the Company and which has not been designated for other purposes.

The notes set out on pages to form an integral part of these financial statements.

KENYA COMMUNITY DEVELOPMENT FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2003**

1 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting. The financial statements are prepared under the historical cost convention.

(b) Revenue recognition

Grant income is recognised when the monetary value of the grant can be measured with sufficient reliability, there is reasonable assurance of receipt and conditions for receipt, if any, have been met.

Grant income is deferred where it has been received to fund specific future expenditure.

Interest income is recognized on a time proportion basis, taking into account the effective yield of the asset.

(c) Expenses

Grants to partner organizations are all for a period of three years and are charged to the income and expenditure account based on the annual allocation determined in the three-year budget.

Other expenditures are accounted for on an accruals basis.

(d) Measurement of financial instruments

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. The financial instruments in the company's investment portfolio can be classified as 'held to maturity assets'.

These are financial assets with fixed and determinable payments and fixed maturity that the scheme has the intent and ability to hold to maturity. These include treasury bills, treasury bonds, and fixed deposits. These are stated at amortised cost, less impairment losses. Amortised cost is calculated on the effective interest rate method.

(e) **Translation of foreign currencies**

Transactions denominated in foreign currencies are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences are dealt with in the income and expenditure account in the year in which they arise.

(f) **Property and equipment**

Items of property and equipment are stated at cost less accumulated depreciation.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the equipment. The estimated useful lives are as follows:

Computer equipment	-	3 years
Motor vehicles	-	4 years
Office equipment, furniture and fittings	-	8 years

(g) **Taxation**

No taxation is provided since grant income is non-taxable and the Company has a Tax Exemption certificate with respect to investment income.

	12 months to 31 December 2003 KShs	14 months to 31 December 2002 KShs
2 NET GRANT INCOME		
Deferred income	7,478,618	-
Ford Foundation (through the Aga Khan Foundation)	23,718,200	17,285,355
NOVIB	12,130,000	-
Bernard Van Leer Conference	4,331,725	-
Bernard Van Leer	3,753,000	6,579,384
Rockfeller Foundation	-	1,641,506
World Bank	3,015,000	1,730,750
Plan Kenya	3,077,571	-
Allavida	<u>393,335</u>	<u>-</u>
	57,897,449	27,236,995
Less funds returned to donor:		
Rockfeller Foundation	(<u>2,046,155</u>)	<u>-</u>
	<u>55,851,294</u>	<u>27,236,995</u>

	12 months to 31 December 2003 KShs	14 months to 31 December 2002 KShs
3 OTHER INCOME		
Fee on conference organised	509,593	-
Sundry income	<u>26,730</u>	<u>-</u>
	<u>536,323</u>	<u>-</u>
4 GRANTS TO PARTNER ORGANISATIONS		
World Bank Grants	2,681,635	1,505,000
Local Initiative Development Agency (LIDA)	1,000,000	-
Lake Region Development Project	1,000,000	137,852
Vadd Elimination Campaign Team (VECT)	1,000,000	-
Rang'ala Family Helper	1,000,000	-
Green Development Group	995,300	-
KESPA	991,176	-
APDK Kisumu	575,030	-
East African Association of Grant Makers (EAAG)	421,112	-
MELI	755,207	-
SAIPE	666,100	-
HOPE Trust	150,000	-
ACTINA	781,390	-
Rabour Sinaga Community Trust	879,940	-
Elbartia Child and Family Programme	-	3,296,957
Slums Information Development and Resource Centres (SIDAREC)	-	2,126,960
Ilishe Trust	-	1,805,700
Arid Lands Resource Exploitation and Development (ALRED)	-	1,528,459
South Imenti Development Association (SIDA)	-	1,170,767
Maasai Aids Awareness Programme	-	9,000
ACK Eldoret	-	15,061
Jengana	-	95,197
Nyuat	<u>-</u>	<u>614,405</u>
	<u>12,896,890</u>	<u>12,305,358</u>

	12 months to 31 December 2003 KShs	14 months to 31 December 2002 KShs
5 ADMINISTRATIVE EXPENSES		
Staff costs	9,128,177	8,299,207
Staff development	2,100	32,000
Office utilities and telephone	1,508,408	1,456,915
Office supplies and miscellaneous	614,366	645,914
Vehicle running and maintenance	469,731	443,370
Board Expenses	668,436	332,423
Depreciation	331,953	312,973
Audit fees	270,279	250,000
Repairs and renovations	48,282	30,187
Generator expenses	43,760	39,580
Bank charges	115,790	99,427
Insurance	48,094	30,460
Travel	10,769	17,445
Legal expenses	215,840	-
System upgrading	<u>37,410</u>	<u>-</u>
	<u>13,513,395</u>	<u>11,989,901</u>

6 SURPLUS FOR THE PERIOD

The surplus in the General Fund has been arrived at after charging:

Director's emoluments	-	-
Staff costs	15,195,643	14,917,176
Depreciation	331,953	312,973
Auditors' remuneration – current year	260,000	250,000
Auditors' remuneration – prior year underprovision	<u>10,279</u>	<u>-</u>

The number of employees at 31 December 2003 was 9 (2002 – 7).

Staff costs have been included in the financial statements under various expense lines namely:

Administrative expenses	9,128,177	8,299,207
Capacity building	3,917,067	3,214,404
Research costs	730,577	1,223,435
Fund-raising and communication costs	<u>1,419,822</u>	<u>2,180,130</u>
	<u>15,195,643</u>	<u>14,917,176</u>

7 PROPERTY AND EQUIPMENT

	Computer equipment KShs	Equipment, furniture and fittings KShs	Motor vehicles KShs	Total KShs
Cost:				
At 1 January 2003	1,426,032	1,702,274	1,340,535	4,468,841
Additions	<u>330,097</u>	<u>73,076</u>	<u>-</u>	<u>403,173</u>
At 31 December 2003	<u>1,756,129</u>	<u>1,775,350</u>	<u>1,340,535</u>	<u>4,872,014</u>
Depreciation:				
At 1 January 2003	1,426,032	1,161,451	1,340,535	3,928,018
Charge for the year/period	<u>110,032</u>	<u>221,919</u>	<u>-</u>	<u>331,951</u>
At 31 December 2003	<u>1,536,064</u>	<u>1,383,370</u>	<u>1,340,535</u>	<u>4,259,969</u>
Net book value:				
At 31 December 2003	<u>220,065</u>	<u>391,980</u>	<u>-</u>	<u>612,045</u>
At 31 December 2002	<u>-</u>	<u>540,823</u>	<u>-</u>	<u>540,823</u>

Fully depreciated assets include computer hardware and accessories, and one motor vehicle, all of which are still in use.

	31 December 2003 KShs	31 December 2002 KShs
8 GRANTS RECEIVABLE		
United Nations Development Programme (UNDP)	<u>277,050</u>	<u>277,050</u>
9 TREASURY BILLS, BONDS AND DEPOSITS		
Treasury bills	20,608,416	-
Treasury bonds	8,522,926	-
Fixed deposits	<u>-</u>	<u>10,152,971</u>
	<u>29,131,342</u>	<u>10,152,971</u>

The amount invested in the above instruments includes endowment funds as shown below.

General endowment fund	5,727,979	5,446,921
Hope Trust endowment fund	3,606,307	-
ACK Eldoret endowment fund	<u>500,740</u>	<u>-</u>
	<u>9,835,026</u>	<u>5,446,921</u>

10 BANK OVERDRAFT

The Company does not have an overdraft facility. The bank balance shows an overdrawn position as a result of cheques issued but not presented for payment at 31 December 2003.

	31 December 2003 KShs	31 December 2002 KShs
11 DEFERRED GRANT INCOME		
Bernard Van Leer	-	2,318,516
Rockfeller Foundation	-	5,160,102
Ford Foundation	<u>10,500,000</u>	<u>-</u>
	<u>10,500,000</u>	<u>7,478,618</u>

Deferred grant income comprises grant receipts that are intended to fund future expenditures.

During the year KShs 34,218,200 was received from Ford Foundation and KShs 23,718,200 has been expended. The grant covered a period of two years. It is expected that the balance of KShs 10,500,000 will be utilized by December 2004.

12 GRANTS PAYABLE

Elbarta Child and Family Programme	2,908,759	4,195,905
Ilishe Trust	3,516,455	3,907,068
Welfare Advisory Committee	2,121,308	2,121,308
Arid Lands Resource Exploitation and Development	1,094,153	1,824,153
Slums Information Development and Resource Centres	1,437,510	1,437,510
Nyuat	960,510	960,510
South Imenti Development Association	373,825	913,235
Jengana	30,000	30,000
KESPA	537,732	-
Actina	344,200	-
Lake region	753,400	-
LIDA	550,311	-
APDK Kisumu	241,420	-
VADD	575,950	-
MELI	76,235	-
Greed Development Group	995,300	-
SAIPE	402,100	-
Rang'ala Family Helper	1,000,000	-
Rabour Sinanga Community Trust	<u>879,940</u>	<u>-</u>
	<u>18,799,108</u>	<u>15,389,689</u>

Grants are approved by the Directors and are all for a period of three years. The amounts listed above relate to funds chargeable to expenditure as at 31 December 2003 but have not been disbursed principally due to delays in the implementation of project activities by grantees.

13	NOTES TO THE CASHFLOW STATEMENT	31 December
		KShs
		2003
(a)	Cash flow from operating activities	
	Operating surplus from the income and expenditure account	14,541,020
	Add back:	
	Depreciation	331,951
	Gain on disposal of treasury bills, bonds and deposits	(984,663)
	Operating surplus/(deficit) before working capital changes	13,888,308
	Increase in sundry debtors	43,737
	Decrease in creditors	(351,981)
	Increase in grants payable	3,409,419
	Increase in deferred income	<u>3,021,382</u>
	Net cash flow from operating activities	<u>20,010,865</u>
(b)	Movement in cash and cash equivalents	Change in
	2003	the year
	KShs	KShs
	Cash and bank balances	5,897,587
	Overdraft	(320,948)
	<u>28,234,921</u>	<u>5,576,639</u>
	2002	
	KShs	
	Cash and bank balances	22,658,282
	Overdraft	<u>-</u>
	<u>22,658,282</u>	

14 FINANCIAL INSTRUMENTS

Exposure to credit and interest rate risk arises in the normal course of the company's activities.

Exposure to credit risk arises primarily from grants receivable and investments in term deposits whereas interest rate risk arises from term deposits. There is minimal foreign currency risk since virtually all transactions are in Kenya shillings though grants are received in US dollars.

Credit risk:

Grants receivable are recognized when it reasonably certain that they will be received, in accordance with the accounting policy on Note 1(b). Cash deposits are placed with reputable financial institutions and bank facilities are approved by the Board of Directors.

At the balance sheet date there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Fair values:

The fair value of the company's financial assets and liabilities is estimated at the respective carrying amounts.

15 RELATED PARTY TRANSACTIONS

Staff costs includes remuneration of KShs 4,502,448 to senior management.

16 LEGAL FORM

The Kenya Community Development Foundation is incorporated in Kenya under the Companies Act as a 'Private Company Limited by Guarantee and not having Share Capital'

17 CURRENCY

The financial statements have been presented in Kenya Shillings (KShs).