

**THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE**

**REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL
STATEMENTS OF TANZANIA COTTON BOARD (TCB) FOR THE FINANCIAL
YEAR ENDED 30 JUNE 2016**

The Controller and Auditor General,
National Audit Office,
Samora Avenue/Ohio Street,
P.O. Box 9080,
Tel: 255 (022) 2115157/8
Fax: 255 (022) 2117527
E-mail ocag@nao.go.tz
Website: www.nao.go.tz
DAR ES SALAAM, TANZANIA

December 2016

WIS/TCB/2015/16



TANZANIA COTTON BOARD

Annual Report & Accounts

For the Year Ended 30th June

2016



Office of the Controller and Auditor General,

The National Audit Office,

United Republic of Tanzania

Established under Article 143 of the Constitution of the URT.

The statutory duties and responsibilities of the Controller and Auditor General are given under Article 143 of the constitution of the URT of 1977 (revised 2005) and further elaborated in Sec 10 (1) of the Public Audit Act No. 11 of 2008.

Vision

To be a Centre of excellence in public sector auditing.

Mission

To provide efficient audit services in order to enhance accountability and value for money in the collection and use of public resources.

In providing quality services, NAO is guided by the following core values:

- ✓ **Objectivity:** We are an impartial organization, offering services to our clients in an objective and unbiased manner;
- ✓ **Excellence:** We are professional providing high quality audit services based on best practices;
- ✓ **Integrity:** We observe and maintain high standards of ethical behavior and the rule of law;
- ✓ **People focus:** We focus on stakeholders' needs by building a culture of good customer care and having competent and motivated work force;
- ✓ **Innovation:** We are creative organization that constantly promotes a culture of developing and accepting new ideas from inside and outside the organization; and
- ✓ **Best resource utilization:** We are an organization that value and uses public resources entrusted to its in efficient, economic and effective manner.

We do this by: -

- Contributing to better stewardship of public funds by ensuring that our clients are accountable for the resources entrusted to them;
- Helping to improve the quality of public services by supporting innovation on the use of public resources;
- Providing technical advice to our clients on operational gaps in their operating systems;
- Systematically involve our clients in the audit process and audit cycles; and
- Providing audit staff with adequate working tools and facilities that promote independence.

© This audit report is intended to be used by Government Authorities. However, upon receipt of the report by the Speaker and once it is tabled in Parliament, the report becomes a matter of public record and its distribution may not be limited.

Definitions of Terms and Abbreviations

AIDS	Acquired Immune Deficiency Syndrome
CDTF	Cotton Development Trust Fund
DG	Director General
EU	European Union
FANRM	Food Agriculture and Natural Resources Management
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICT	Information Communication Technology
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
ISA	International Auditing Standards
MAFC	Ministry of Agriculture Food and Cooperatives
NSSF	National Social Security
PPF	Parastatal Pension Fund
PSPF	Public Service Pension Fund
TGT	Tanzania Gatsby Trust Fund
TCB	Tanzania Cotton Board
TCLSB	Tanzania Cotton Lint and Seed Board
TFRS	Tanzania Financial Reporting Standards
TZS	Tanzanian Shillings
ULV	Ultra-Low Volume
VAT	Value Added Tax
The Act	The Cotton Industry Act No. 2 of 2001 (as amended in 2009)

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30th JUNE 2016****CONTENTS**

	PAGE
Board's information	1
Board of Directors' Report	2 - 11
Statement of Declaration of the Head of Finance	12
Independent Report of the Controller and Auditor General	13-14
Financial statements:	
Statement of Financial Position	15 -16
Statement of Financial Performance	17 -18
Statement of Changes in Net assets	19
Statement of Cash Flows	20 - 21
Statement of Comparison of Budget and Actual Amount	22
Notes to the financial statements	22 -54

NOTES TO THE FINANCIAL STATEMENTS (Continued)20
10**1. PROPERTY, PLANT AND EQUIPMENT**

	LAND AND BUILDINGS	MOTOR VEHICLES	OFFICE FURNITURE & EQUIPMENT	FIELD EQUIPMENT	TOTAL
	TZS	TZS	TZS	TZS	TZS
COST/REVALUATION:					
Balance as at 1 January 2010	1,084,045,797	15,000,000	72,659,120	195,015,534 22,540,000	1,366,720,451
Additions	-	-	11,392,554	-	33,932,554
Adjustments	(93,200,620)	-	-	3,632,679	89,567,941
Balance as at 31-dec-2010	990,845,177	15,000,000	84,051,674	221,188,213	1,311,085,064
DEPRECIATION:					
Balance as at 01 -jan-2010	96,167,079	3,750,000	9,082,390	97,507,767	206,507,236
Charge for the Year	39,633,807	3,750,000	10,506,459	110,594,107	164,484,373
Sub total	135,800,886	7,500,000	19,588,849	208,101,874	370,991,609
Less:Adjustment	(3,728,025)	-	-	-	(3,728,025)
Balance as at 31-dec-2010	132,072,861	7,500,000	64,462,825	13,086,339	943,821,480
NET BOOK VALUE:					
At 31 December 2010	858,772,316	7,500,000	64,462,825	13,086,339	943,821,480
At 31 December 2009	987,878,718	112,500,000	63,576,730	17,507,767	1,160,213,215

BACKGROUND INFORMATION**REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS****TANZANIA COTTON BOARD**

Pamba House
Pamba Rd/ Garden Ave
P.O. Box 9161
Dar es Salaam
Tel: +255 22 212 3565, 212 8347

BANKERS

CRDB Bank Plc

TANZANIA COTTON BOARD	2016
------------------------------	-------------

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2010

1. PROPERTY, PLANT AND EQUIPMENT

	LAND AND BUILDINGS TZS	MOTOR VEHICLES TZS	OFFICE FURNITURE & EQUIPMENT TZS	FIELD EQUIPMENT TZS	TOTAL TZS
COST/REVALUATION:					
Balance as at 1 January 2010	1,084,045,797	15,000,000	72,659,120	195,015,534 22,540,000	1,366,720,451
Additions	-	-	11,392,554	-	33,932,554
Adjustments	(93,200,620)	-	-	3,632,679	89,567,941
Balance as at 31-dec-2010	990,845,177	15,000,000	84,051,674	221,188,213	1,311,085,064
DEPRECIATION:					
Balance as at 01 -jan-2010	96,167,079	3,750,000	9,082,390	97,507,767	206,507,236
Charge for the Year	39,633,807	3,750,000	10,506,459	110,594,107	164,484,373
Sub total	135,800,886	7,500,000	19,588,849	208,101,874	370,991,609
Less:Adjustment	(3,728,025)	-	-	-	(3,728,025)
Balance as at 31-dec-2010	132,072,861	7,500,000	64,462,825	13,086,339	943,821,480
NET BOOK VALUE:					
At 31 December 2010	858,772,316	7,500,000	64,462,825	13,086,339	943,821,480
At 31 December 2009	987,878,718	112,500,000	63,576,730	17,507,767	1,160,213,215

Azikiwe Street
P.O Box 268
Dar es Salaam

NBC Ltd
P.O Box 1863
Dar Es Salaam

Tanzania Investment Bank Ltd
P.O Box 9373
Dar es Salaam

AUDITORS

Controller and Auditor General

NOTES TO THE FINANCIAL STATEMENTS (Continued)20
10**1. PROPERTY, PLANT AND EQUIPMENT**

	LAND AND BUILDINGS TZS	MOTOR VEHICLES TZS	OFFICE FURNITURE & EQUIPMENT TZS	FIELD EQUIPMENT TZS	TOTAL TZS
COST/REVALUATION:					
Balance as at 1 January 2010	1,084,045,797	15,000,000	72,659,120	195,015,534 22,540,000	1,366,720,451
Additions	-	-	11,392,554	-	33,932,554
Adjustments	(93,200,620)	-	-	3,632,679	89,567,941
Balance as at 31-dec-2010	990,845,177	15,000,000	84,051,674	221,188,213	1,311,085,064
DEPRECIATION:					
Balance as at 01 -jan-2010	96,167,079	3,750,000	9,082,390	97,507,767	206,507,236
Charge for the Year	39,633,807	3,750,000	10,506,459	110,594,107	164,484,373
Sub total	135,800,886	7,500,000	19,588,849	208,101,874	370,991,609
Less:Adjustment	(3,728,025)	-	-	-	(3,728,025)
Balance as at 31-dec-2010	132,072,861	7,500,000	64,462,825	13,086,339	943,821,480
NET BOOK VALUE:					
At 31 December 2010	858,772,316	7,500,000	64,462,825	13,086,339	943,821,480
At 31 December 2009	987,878,718	112,500,000	63,576,730	17,507,767	1,160,213,215

National Audit Office
Samora Avenue/Ohio Street
P.O Box 9080
Dar es Salaam

Wiscon Associates
2nd Floor, Apex Tower Building
Plot No. 2397/202
Lugoda Street, Area II Gerezani
P.O Box 78999
Dar es Salaam

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30th JUNE 2016 (CONTD)****1.1 Introduction**

In compliance with the Cotton Industry Act No. 2 of 2001 under which TCB is incorporated and in conformity to Tanzania Financial Reporting Standards (TFRS 1) on Directors Report, the Management is pleased to present its Annual Report and Financial Statements on behalf of Members of the Board of Directors of Tanzania Cotton Board for the year ended 30th June 2016 which discloses state of affairs of the organization.

Vision

To promote cotton production, Improve quality and enhance competitiveness of Tanzania Cotton.

Mission

To improve the production, productivity and profitability of cotton by maximizing compliance to rules and regulations that safeguard the quality of cotton sold both locally and abroad, by providing effective and efficient services to cotton stakeholders; by enhancing strong stakeholder relationships in order to boost self-regulation and promote production, processing and consumption of cotton.

1.2 Establishment

The Tanzania Cotton Board (TCB) was established under the Cotton Industry Act No.2 of 2001 (cap 201, RE 2002), as amended by the Crop Laws (Miscellaneous Amendments) Act No 20 of 2009 and came into existence on 1st July 2004. TCB operates in two major zones; the Western Zone based at Mwanza, the Eastern Zone and the Head Office at Dar es Salaam. Nevertheless, TCB head office had been shifted from Dar es salaam to Mwanza by Government order on 10th November 2016. This has necessitated the Board to establish a new Zonal office in Shinyanga and maintain small extension office in Kurasini for cotton development and promotion activities in East Zone. The Government order came together with decisions to return back the Director General in the office who was suspended from his duties since January 2013.

1.3 The Composition of the Directors

The Cotton Industry Act No. 2 of 2001 provides for the composition of the Board of Directors as under:-

- a) The Chairman appointed by the President;
- b) A member from Tanzania Cotton Association;
- c) A member from Cotton Growers Association;
- d) A member from the Ministry of Regional Administration and Local Government; and
- e) A member from the Ministry of Agriculture, Food security and Co-operatives

Upon appointment, Members of the Board of Directors hold office for the period of three years and are eligible for re-appointment. In August 2014 the Minister decided to end the tenure of

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30th JUNE 2016 (CONTD)**

the existing Board and the new Board was not yet appointed by the time the financial statements were prepared for issue to external auditors. In the period under review, the decisions on day to day activities of TCB were entrusted to the Director of Finance and Administration who was appointed to act in the Capacity of the Director General since January 2013. Other decisions that needed an approval from the Board of Directors were handled under the directive from the Permanent Secretary of the Ministry of Agriculture, Livestock and Fisheries.

1.4 Functions of the Board

The main functions of the Tanzania Cotton Board are to carry out regulatory functions and such other activities necessary, advantageous or proper for the benefit of the cotton industry.

Without prejudice to the generality of the above functions, the Board has power: -

- a) To advise the Government on the policies and strategies for the development of the Cotton industry;
- b) To regulate and control the quality of cotton and cotton by-products;
- c) To collect, refine, maintain, use or disseminate information or data relating to the cotton industry, monitor the production and exportation of cotton;
- d) To make regulations for processing, exportation and storage of cotton and cotton by products;
- e) To promote and protect the interests of farmers against syndicates of buyers which may be formed through associations.
- f) To monitor consumption of cotton Lint in local textile industries;
- g) To promote the development of the cotton industry ; and
- h) To represent the Government in Local and International for a in matters relating to the cotton industry;

1.5 Strategies of the Cotton Board

In order to achieve its objectives, the Tanzania Cotton Board has prepared a 5-year Corporate strategic plan that covers the period from 2015/16 to 2019/20. The strategic plan was developed within the context of the Cotton Sub-Sector as a whole and will be used as a guiding document for cotton stakeholders in implementing their activities.

1.6 Corporate Governance

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30th JUNE 2016 (CONTD)**

The Management of TCB in collaboration with the Ministry of Agriculture, Livestock and Fisheries had taken over the responsibilities of ensuring that there is adequate control of the assets of the Tanzania Cotton Board, including identifying the key risk areas that have significant impact in both the internal and external environment in which the Board operates, and ensuring that the internal control policies and procedures are followed adequately. Procurement of goods and consultancy services as reflected in the financial statements has been done in accordance with the Public Procurement Act No.7 of 2011. The Ministry delegated daily operations to the management.

The financial statements in the period under review were prepared in compliance with IPSAs requirements for purpose of ensuring that TCB is accountable for use of the public resources.

1.7 Challenges of the cotton industry

During the year, the Board encountered the following challenges which affected the performance of the cotton Industry as a whole and thus hindered economic development of the country:

a) Cotton price instability

During the year, the cotton market indicative producer price was set at TZS 1,000 per kg which is slightly higher compared to TZS 750 per kg for the previous cotton buying season. Fluctuations of global cotton prices led to difficulties in predicting cotton producers' earnings from their undertakings. Statistics show that price plays a vital role in determining the total output of cotton as farmers tend to move to other more paying alternative commercial crops when cotton prices fall.

b) Over-dependence on rain for cotton production

Unpredictable weather pattern and over reliance on rainfall for years has affected cotton production in most of the cotton growing areas.

c) Deliberate adulteration of cotton

Adulteration of cotton using various contaminants including sand and water had undermined the quality of the cotton crop as a result of which Tanzanian cotton is sold in the world market at a discounted price of between 4 and 6 US\$ cents per pound.

d) Low productivity

During the year under review, cotton yield stood at an average of 750 kg per hectare because of low application of inputs due to low capital bases of smallholder cotton producers and absence of solid credit arrangements for them. This is below the existing potential of over 2,500 kg per hectare.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30th JUNE 2016 (CONTD)****e) Change in real estate's market**

Rent is the major source of TCB revenue for financing operational activities. During the year, the market for rating investment properties; warehouses in particular, has gone down from an average rate of US\$ 5.5 to US\$ 2.8. This has compelled the Board to review the warehouse rent to an average rate of USD 4 per square meter exclusive of taxes.

f) Inadequate Government Funding for Regulatory Activities.

Since its inception in July 2004, the TCB continued to receive funds from the Government below its projections and at a decreasing rate. In the year under review, the Board received operational, non-salary revenue of only Tsh. 12.67 million against approved budget of TZS. 48 million. The approved budget is normally not sufficient to fund the core functions of TCB which resulted into difficulty in implementing some of the TCB principal mandatory objectives like strong cotton quality controls through regular inspection of Cotton Ginneries and Cotton buying centers, providing education to farmers on good husbandry and construction of modern laboratory for cotton quality testing.

1.8 Trends and future prospects**(a) Rehabilitation of warehouses at kurasini**

The board had undertaken major rehabilitation of 35 warehouses located at Kurasini so as to improve revenue and stop further deterioration of the respective warehouses. Finance for renovating these warehouses was obtained from Tanzania Investment Bank (TIB) whereby TCB entered into five years loan agreement with the bank. During the year, the bank disbursed TZS. 774.77 million to the Board and the Board had paid TZS 1.93 billion to the bank as part of the loan repayment schedule.

The warehouses are the main source of TCB's internal revenue of which the average leasing rate is USD 4 per square meter exclusive of taxes charged on monthly basis. The Management of the Board is confident that TCB will continue to collect rental revenues from these warehouses for servicing the loan repayment installments as they become due.

1.9 Support from donors

In the period under review TCB received a number of well-wishers who provided assistance to finance some of its operations as follows:

1) The European union

The European Union and the Government of Tanzania entered into an agreement under which the former is funding the cotton smallholding farmer quality and market access improvement project for a total sum of Euro 2,500,000. TCB was appointed to be the implementing partner of the project under decentralized implementation modality. The project is being implemented in Meatu, Bariadi and Maswa Districts in the western zone cotton growing areas.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30th JUNE 2016 (CONTD)**

In July 2016 the EU delegation appointed Ernest and Young (EY) to audit and verify expenditures for the Second Program Estimates (PEII) whereby the Board received TZS 2.169 billion out of which TZS 1.29 billion was received during the period under review and TZS 1.13 billion was spent in running the cotton project activities in 2015/16 and the remaining balance of TZS 609 million was retained in TCB account as unspent amount to be refunded to the European Commission.

During the project period, TCB had implemented the following project activities:

- i) Identification and enrolment of cotton growers
- ii) Training of Trainers (TOT) on cotton quality issues
- iii) Training Lead farmers on formation and running of pre cooperatives groups
- iv) Strengthening Farmers Business Groups (FBGs) into pre cooperatives groups
- v) Promoting proper use of cotton picking and collection bags
- vi) Rehabilitation of 15 warehouses for cotton storage
- vii) Construction of western classification laboratory in Shinyanga
- viii) Monitoring of cotton quality samples
- ix) Payment of salaries and benefits to employees who are directly involved in organizing and monitoring the project activities
- x) Training on EDF procurement procedures
- xi) Procurement coordination and management of project activities
- xii) Other operating expenditures for the project activities

2) The Gatsby charitable foundation of United Kingdom

The Gatsby Charitable Foundation of London through the Tanzania Gatsby Trust (TGT) is running the Textile Development program in the cotton subsector. The program aims to increase cotton productivity, production and value addition. The program started in October 2007, it is anticipated that at its completion, the demand for cotton fiber from the domestic textile industry will rise from 10% of national output to at least 20%.

Cotton contract farming is also one of the projects funded by TGT under the Cotton and Textile Development program whereby Cotton Buyers (Ginners) are to support the farmers in growing cotton who also need to sell their produce (seed cotton) to respective cotton buyers.

The management of TCB is very grateful for the generosity of the foreign donors who came forward to help the cotton sector in Tanzania. The funds received from the two donors were utilized by TCB during the year as follows:-

EU

TGT

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30th JUNE 2016 (CONTD)**

	TZS'000	TZS'000
Balance at the beginning of the year (1 July 2015)	445,747	(2,959)
Add: Funds received	1,299,129	78,196
Less :Recurrent expenditures	(389,542)	(50,378)
:Capital expenditures (Note 11)	(745,828)	
Balance at the end of the year (30 June 2016)	609,507	24,859

3) Cotton Development Trust Fund (CDTF)

Under the shared functions agreement of 2006 between the Tanzania Cotton Board and Cotton Stakeholders, the Cotton Development Trust fund (CDTF) is supporting the cotton industry in cotton research related activities, cotton input distributions, provision of extension services and data collection. CDTF is therefore one of the donors to TCB who in this financial year donated TZS 100 million for cotton quality control and monitoring.

1.10 Financial Performance

During the year under review, the Board's total revenue was TZS 5.7 billion compared to TZS4.29 billion that was received during the previous year. However the operating expenses were TZS 5.5 billion compared to TZS.4.06 billion in 2014/15, before considering depreciation, provision for bad and doubtful debts and provision for impairment and amortization of intangible assets. The increase in expenditures was mainly caused by TIB loan interest for TCB rehabilitated warehouses in Kurasini.

The Board's operating results for the period ended 30th June 2016 were as shown below:-

	2015/2016 TZS'000	2014/2015 TZS'000
Total Revenue	5,715,242	4,289,296
Less: Total Expenditure	(5,841,757)	(4,549,845)
Operating Surplus/(Deficit)	(126,515)	(260,549)

1.11 Human resource issues

1) Establishment

Last year, the government through the President office for public services management recognized 35 employees only out of 37 new recruited staff of the Board. The unrecognized employees did not meet some of the requirements as per government policies and circulars. The Board advised the unrecognized employees to look for the missing requirements so that they can be considered for employment and therefore be recognized in the government payroll.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30th JUNE 2016 (CONTD)**

During the year, three employees were recognized in the Government payroll after meeting all the requirements. However; one employee retired from the Board's services, and one terminated contract with the Board at his own will.

The staff position of the board as at 30th June, 2016 was as shown below:-

Department	Position as at 2015/2016	Position as at 2014/2015
Director General's Office	6	7
Finance & Administration	24	25
Cotton development and Promotion	5	2
Regulatory	<u>43</u>	<u>43</u>
Total	<u>78</u>	<u>77</u>

2) Medical Services

The Board is obliged to comply with the National Health Insurance Fund (NHIF) Act No 8 of 1999 (Cap 395 RE 2002) to register its employees with the Fund and contribute 6% of their gross pay monthly, 3% being deducted from employees themselves. The Board spent TZS 69.3 Million for medical expenses for the year 2015/2016, as compared to TZS 47.9 million incurred in previous period.

3) HIV/AIDS Policy

Management of HIV/AIDS is an important challenge to the Tanzania Cotton Board (TCB). TCB appreciates the fact that HIV/AIDS if left unattended have a direct impact on its operation efficiency, and hence it is a health risk. Whilst all risks are closely monitored, TCB has adopted the following core principals as a basis for its HIV/AIDS policy:-

- Limit the number of new infections among employees by increasing awareness on HIV/AIDS;
- Ensure employees living with HIV/AIDS are aware of their rights and that their rights are respected and protected;
- Provide care and support to employees living with HIV/AIDS.

4) Management and Employees Relationship

TCB employees are represented by the Tanzania Plant and Agricultural Workers Union (TPAWU). The relationship between employees and management is good. There were no unresolved complaints received by management from the employees during the year under review. The management recognizes the importance of working cordially particularly with the trade union for the purpose of collective bargaining. During the year under review, the

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30th JUNE 2016 (CONTD)**

Board held one meeting with employees to discuss issues pertaining to operations of the Board and staff welfare.

5) Financial assistance to staff

TCB is not very strong financially but strives to assist confirmed employees facing financial difficulties as special cases in accordance with the provisions of the TCB Human Resource Manual and Financial Regulations.

6) Training

The Board continued to provide training for its employees in accordance to the TCB training policy and on the basis of the training program. During the year the Board sponsored one employee for the Master degree program. Opportunities to attend seminars were also provided to employees within TCB's financial ability.

7) People with disabilities

The Board gives equal opportunities to people with disabilities for vacancies they are able to fill. Similarly under the Workmen Compensation Act, the Board compensates employees who become disabled while in the service of the Board through the insurer.

8) Gender

The Board gives equal access to employment opportunities to both genders and ensures that the best available person is appointed to any given position free from any kind of discrimination and without regard to any factors like gender, tribe, disability, religion and marital status which does not impair ability to discharge duties and responsibilities. As at 30th June 2016, the Board had the following distribution of employees by gender:

Gender	As at 2015/2016	As at 2014/2015
Female	21	21
Male	<u>57</u>	<u>56</u>
Total	<u>78</u>	<u>77</u>

1.12 Compliance Issues

1) Directors' Remuneration

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30th JUNE 2016 (CONTD)**

Tanzania Cotton Board (TCB) had no Board of Directors. Below are those benefits related to directors appointed for special assignment during the period under review:-

Benefit	Amount TZS'000
Travelling	532
Accommodation	<u>400</u>
TOTAL	<u>932</u>

2) Related Party Transactions

The amounts transacted with other related parties were as follows:-

	Related Party	Relationship	Amount TZS 000
1	Ministry of Agriculture	Parent Ministry	2,496,881
2	Top Management	Decision Maker of TCB	460,343

1.13 Auditors

The Controller and Auditor General is the independent statutory auditor of the financial statements of the Board. The Controller and Auditor General appointed M/s Wiscon Associates to carry out audit of the financial statements of the Board for the year ended 30th June 2016 on his behalf in accordance with Section 33 of Public Audit No. 11 of 2008.

1.14 Directors' Responsibilities for Financial Statements

The Directors are required under section 49 of the Cotton Industry Act No 2 of 2001 to keep truthful and complete financial records. They are also required to prepare from financial records so kept by them financial statements which give a true and fair view of the state of affairs of the Board as at the end of the financial year and of its activities for the year under review.

The Directors are also required to ensure that the Board keeps proper accounting records, which disclose, at any time, the financial position of the Board with reasonable accuracy and completeness. The Directors are also responsible for maintenance of sound and adequate systems of internal controls for safeguarding the assets of the Board and preventing and detecting errors, frauds and other irregularities. This responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30th JUNE 2016 (CONTD)**

from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

However; most of the Directors responsibilities in the year under review were handled by management in collaboration with the permanent secretary of the Ministry of Agriculture, Livestock and Fisheries because the new Board was not yet appointed as at 30th June 2016.

The Permanent Secretary accept responsibility for the Board's annual financial statements and confirm that they have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates and are in conformity with the International Public Sector Accounting Standards (IPSAs) in force at the reporting date and in the manner required by the local law and GAAP. The management together with the Permanent Secretary are of the opinion that the financial statements give a true and fair view of the state of affairs of Tanzania Cotton Board and of its operating results, cash flows and changes in equity for the year then ended.

Nothing came to the attention of the Permanent Secretary to suggest that TCB had any solvency problem or that it could fail to continue in existence for the foreseeable future or fail to meet its obligations as they fall due. Accordingly, the financial statements have been prepared on going concern basis.

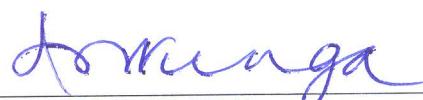
Signed on behalf of the Board of Directors by:



CHAIRMAN

09/02/2018

DATE



DIRECTOR GENERAL

9/02/2018

DATE

DECLARATION OF THE DIRECTOR OF FINANCE OF THE TANZANIA COTTON BOARD

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act.No.33 of 1972, as amended by Act No.2 of 1995, requires financial statements to be accompanied with a declaration issued by the Head of Finance/Accounting responsible for the preparation of financial statements of the entity concerned.

It is the duty of a Professional Accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing true and fair view of the entity position and performance in accordance with applicable International Accounting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors as under Directors' Responsibility Statement on an earlier page.

I, Gabiel PT Mwalo, being the Director of Finance of Tanzania Cotton Board hereby acknowledge my responsibility of ensuring that financial statements for the year ended on 30th June 2016 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements give a true and fair view position of Tanzania Cotton Board as on that date and that they have been prepared based on properly maintained financial records.

Signed by: 

Position: DIRECTOR OF FIN- AND ADMIN

NBAA Membership No: ACPA 1964

Date: 09/02/2018

AUDIT REPORT ON THE FINANCIAL STATEMENTS

To: Chairman of the Board
Tanzania Cotton Board
Pamba House, 3rd Floor
Pamba Road/Garden Ave
P.O Box 9161
Dar es Salaam

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF TANZANIA COTTON BOARD (TCB) FOR THE YEAR ENDED 30 JUNE 2016

I have audited the accompanying financial statements of the Tanzania Cotton Board which comprise the Statement of Financial position as at 30 June 2016, Statement of financial performance, Statement of Changes in Equity and Cash Flow for the year then ended, and a summary of significant accounting policies and other explanatory notes from page 23 to 54 of this report.

Directors' Responsibilities for the financial statements

The Board of Directors of TCB is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Responsibilities of the Controller and Auditor General

My responsibility as an auditor is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with International Standards on Auditing (ISA), International Standards of Supreme Audit Institutions (ISSAIs) and such other audit procedures I considered necessary in the circumstances. These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to TCB 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 TCB internal control. An audit also includes evaluating the

In addition, section 10(2) of the Public Audit Act (PAA) No.11 of 2008 requires me to satisfy myself that the accounts have been prepared in accordance with appropriate accounting standards and that; reasonable precautions have been taken to safeguard the collection of revenue, the receipt, custody, disposal, issue and proper use of public property, and that the law, directions and instructions applicable thereto have been duly observed, expenditures of public monies have been properly authorized.

Further, Sect. 48(3) of the Public Procurement Act No. 7 of 2011 and Reg. No. 269(1) of the Public Procurement Regulation 2013 requires me to state in my annual audit report whether or not the audited has complied with the provisions of the Law and its Regulations. I believe that the audit evidence I have obtained is sufficient and appropriate to provide the basis for my audit opinion.

Unqualified opinion

In my opinion, the financial statements present fairly, in all material respect, the financial position of TCB as at 30th June 2016, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Report on Other Legal and Regulatory Requirements

Compliance with Public Procurement Act

In view of my responsibility on the procurement legislation, and taking into consideration the procurement transactions and processes I reviewed as part of this audit, I state that TCB has generally complied with the Public Requirement Act, 2011 and its related Regulations of 2013.


Prof. Mussa Juma Assad
CONTROLLER AND AUDITOR GENERAL

National Audit Office,
Dar es Salaam, Tanzania

21st February, 2018



TANZANIA COTTON BOARD	2016
------------------------------	-------------


STATEMENT OF FINANCIAL POSITION AS AT 30th JUNE 2016

	NOTE	2015/2016 TZS'000	2014/2015 TZS'000
ASSETS			
Current assets:			
Cash and cash equivalents	8	1,129,188	1,173,685
Receivables	7	1,276,933	1,770,046
Inventories		14,494	15,466
		2,420,615	2,959,197
Non-Current Assets:			
Property plant and equipment	3	3,348,814	3,580,004
Investment property	5	28,168,566	28,168,566
Work in progress	6	745,828	0
Intangible assets	4	37,003	48,265
		32,300,211	31,796,835
TOTAL ASSETS		34,720,826	34,756,032
Liabilities			
Current liabilities:			
Bank loan	12	2,206,642	1,605,617
Cotton cess	14	21,413	227,250
Payables	15	915,370	714,703
Cotton subsidy due to farmers		252,043	253,147
Provisions	16	36,399	36,249
Deferred revenue-donor funds	17	609,507	445,747
Deferred revenue-rent	18	1,234,975	1,029,482
		5,276,349	4,312,195
Noncurrent Liabilities:			
Capital grant	11	756,608	14,210
Bank loan	12	2,827,421	3,287,779
		3,584,029	3,301,989
Total Liabilities		8,860,378	7,614,184

TANZANIA COTTON BOARD	2016
-----------------------	------

Net Assets		25,860,448	27,141,848
EQUITIES:			
Capital fund	10	5,113,689	5,113,689
Revaluation reserve	13	3,452,711	3,465,806
General reserve		17,294,048	18,562,353
Total Equities		25,860,448	27,141,848
TOTAL LIABILITIES AND EQUITIES		34,720,826	34,756,032


THE FINANCIAL STATEMENTS OF TCB AS SET OUT ON PAGES 15 TO 53, WERE APPROVED BY THE BOARD OF DIRECTORS ON.....2018 AND WERE SIGNED ON ITS BEHALF BY :



CHAIRMAN

09/02/2018

DATE



DIRECTOR

09/02/2018

DATE

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30th JUNE 2016**

	NOTE	2015/2016		2014/2015
		TZS'000		TZS'000
REVENUE				
Revenue from non-exchange transactions:				
Government subvention	29.1	1,307,171		1,044,833
Income from donors	19	439,920		749,672
Revenue from exchange transactions:		0		
Rental income	18	2,859,763		2,274,975
Regulatory income		12,324		8,860
Other income	20	350,235		210,956
Total revenue		4,969,413		4,289,296
Operating expenses				
Employees and related costs	21	2,308,340		2,183,895
Administrative expenses	22	851,363		880,995
Cotton promotion expenses	23	289,690		538,881
Repairs and maintenance	24	197,656		317,032
Financial expenses		8,471		16,433
Loan interest expense		808,502		
Taxes and levies	25	290,631		124,818
Provision for impairment on receivables	7	90,373		290,688
Provision for impairment on intangible assets	4	11,262		-
Depreciation	3	239,640		197,103
Total expenditure		5,095,928		4,549,845

STATEMENT OF FINANCIAL PERFORMANCE (CONTD)

Net surplus/(deficit) for the Year		(126,515)	(260,549)
Fair value gain of investment property	5	-	12,448,180
Net surplus/deficit for the Year		(126,515)	12,221,631
Other gain/loss for the year:			
Revaluation surplus		-	1,366,865
Total comprehensive revenue		(126,515)	13,588,496

THE FINANCIAL STATEMENTS OF TCB AS SET OUT ON PAGES 15 TO 53, WERE APPROVED BY THE BOARD OF DIRECTORS ON 9/21 2018 AND WERE SIGNED ON ITS BEHALF BY :



CHAIRMAN

09/02/2018

DATE



DIRECTOR

09/02/2018

DATE

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30th JUNE 2016

Particulars	Capital Fund TZS'000	Revaluation Reserve TZS'000	General Reserve TZS'000	Total TZS'000
Balance as at 30 June, 2014	3,126,455	2,098,940	6,196,172	11,421,568
Surplus/(deficit) for the year	-	-	(260,549)	(260,549)
Addition capital-(Note 7)	1,987,234	-	-	1,987,234
Transfer to reserve-(Note7)	-	-	144,341	144,341
Assets adjustments	-	-	208	208
Revaluation surplus	-	1,366,865	12,482,181	13,849,046
Balance as at 30 June, 2015	5,113,689	3,465,806	18,562,353	27,141,848
Surplus/(deficit) for the Year	-	-	(126,515)	(126,515)
Assets adjustments	-	(13,095)	(95,747)	(108,842)
Revaluation surplus	-	-	(1,046,043)	(1,046,043)
Balance as at 30 June, 2016	5,113,689	3,452,711	17,294,048	25,860,448

THE FINANCIAL STATEMENTS OF TCB AS SET OUT ON PAGES 15 TO 53, WERE APPROVED BY THE BOARD OF DIRECTORS ON 9.12.2018 AND WERE SIGNED ON ITS BEHALF BY :



CHAIRMAN

09/02/2018

DATE



DIRECTOR

09/02/2018

DATE

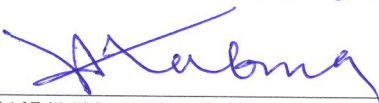
**CASH FLOWS STATEMENT
FOR THE YEAR ENDED 30th JUNE 2016**

		2015/2016 TZS'000	2014/2015 TZS'000
CASH FLOWS FROM OPERATING ACTIVITIES	NOTE		
Receipts:			
Government subventions		1,139,678	1,044,833
Cotton classification fee		59,365	77,953
Rental revenue received		3,663,666	804,763
Regulatory services		12,324	8,860
Donors contribution received		1,299,129	1,235,006
Finance income		28,965	34,523
Total receipts		6,203,127	3,205,938
Payments:			
Payments for goods and services		3,493,976	673,761
Employees costs		2,236,756	2,183,895
Finance costs		8,471	16,433
Taxation paid		290,631	124,818
Total payments		6,029,834	2,998,907
Net Cash Flows from operating activities [A]-	9	173,293	207,031
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(26,001)	(41,945)
Improved investment properties		-	(17,431,476)
Fair value gain		-	10,628,221
Fixed assets renovations		-	1,650,392
Asset disposal		17,550	0
Net cash flows used in investing activities [B]		(8,451)	(5,194,808)
CASH FLOW FROM/USED IN FINANCING ACTIVITIES [C]			
Additional capital		-	1,987,234

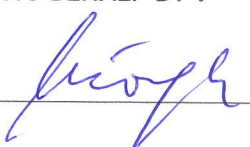
TANZANIA COTTON BOARD	2016
-----------------------	------

Bank loan received	774,577	3,478,613
Liabilities transferred to reserves	-	144,341
Bank loan repayment	(1,932,493)	-392,448
Loan interest payables	944,537	
Net Cash Flows Used in financing Activities [C]	(213,379)	5,217,740
Net Increase/(Decrease) in Cash and Cash Equivalents [A+B+C]	(48,537)	229,963
Cash and Cash Equivalents as at the beginning of the year	1,173,685	937,640
Effects of exchange rate changes on the balance of cash held in foreign currencies	4,040	6,082
Cash and Cash Equivalents as at the end of the year	1,129,188	1,173,685

THE FINANCIAL STATEMENTS OF TCB AS SET OUT ON PAGES 15 TO 53, WERE APPROVED BY THE BOARD OF DIRECTORS ON.....9/2/.....2018 AND WERE SIGNED ON ITS BEHALF BY :


CHAIRMAN

09/02/2018
DATE


DIRECTOR

09/02/2018
DATE

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT FOR THE YEAR ENDED 30th JUNE 2016

Particulars	Original Budget TZS'000	Final Budget TZS'000	Actual on Comparable basis TZS'000	Variances TZS'000
Revenue				
Government subvention	2,057,724	2,057,724	1,139,678	(918,045)
Classification fee	130,030	130,030	59,365	(70,665)
Rental Revenue received	4,001,070	4,001,070	3,661,423	(339,647)
Regulatory services	56,600	56,600	12,324	(44,276)
Donors contributions received	850,500	850,500	1,299,129	448,629
Finance income	31,500	31,500	28,965	(2,535)
Total Revenue	7,127,424	7,127,424	6,200,884	(926,538)
Expenses				
Payment for goods and services	3,375,925	3,375,925	3,491,733	(115,808)
Employee costs	2,754,578	2,754,578	2,236,756	(517,822)
Finance cost	12,341	12,341	8,471	(3,870)
Taxation paid	312,907	312,907	290,631	(22,276)
Total expenses	6,455,751	6,455,751	6,027,591	(428,160)
Deficit/surplus for the year	671,673	671,673	173,293	(498,378)

Refer note 29 for the reasons of variances noted in comparing budget against actual expenditures.

THE FINANCIAL STATEMENTS OF TCB AS SET OUT ON PAGES 15 TO 53, WERE APPROVED BY THE BOARD OF DIRECTORS ON.....9.12.18.....2018 AND WERE SIGNED ON ITS BEHALF BY :


 CHAIRMAN

 09/02/2018
 DATE


 DIRECTOR

 09/02/2018
 DATE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30th JUNE 2016****NOTE 1: ESTABLISHMENT AND MANDATE OF TCB**

Tanzania Cotton Board is a public corporate body established under the Cotton Industry Act No 2 of 2001 primarily to regulate the cotton industry. The Board started operations in July 2004 and works under the Ministry of Agriculture, Food and Cooperatives. TCB operates through two zones, being the western zone based at Mwanza and the eastern zone based at Morogoro but currently the eastern zone has no staff and its affairs are managed from the head office in Dar es Salaam. According to Act No 2 of 2001, TCB has two main roles:-

- 1) Regulating the cotton actors including:
 - Registration and Licensing
 - Enforcing Cotton Husbandry
 - Monitoring and Quality Control
 - Inspection and Certification
- 2) Facilitating and promoting the cotton industry including:
 - Extension Services
 - Contract Farming
 - Stakeholder Consultation

NOTE 2: BASIS OF PREPARATION**2.1 Compliance with Standards**

TCB is a public entity receiving government subventions to finance its operations. The Accountant General (AG) via Government circular no.12 has directed all public entities to prepare their financial statements in compliance with International Public Accounting Standards (IPSAS) as from 30th June 2015. The TCB accompanying Financial Statements have been prepared in accordance, and comply with the International Public Sector Accounting Standards (IPSAS).

The financial statements have been prepared on historical cost convention except for certain assets which are measured at fair value at the end of each reporting period. The cash flows statement was prepared using the direct method. It is the first time TCB adapted to IPSAS and the accounting policies listed here are IPSAS compliant and so they will consistently be applied year after year until there is good reason to change them. Any change in policy will be disclosed in this section in the first year applied as per IPSAS no.3; Accounting Policy, Change in Accounting Estimates and Errors.

The functional and presentation currency is Tanzanian shillings (TZS). The financial statements are expressed in TZS and are rounded off to the nearest thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

2.2 CHANGES IN ACCOUNTING POLICIES**(a) Improvements to International Public Sector Accounting Standards (IPSAS) issued in 2015**

On 22 January 2015, the IPSASB had issued improvements to four standards namely IPSAS 1, IPAS 17, IPSAS 28 and IPSAS 31. These new and revised IPSAS have been applied by the Board in the current reporting period and it has no material impacts on the amounts reported in these financial statements.

IPSAS 1 Presentation of Finance Statement, clarifies that additional comparative information is not necessary for periods beyond the minimum comparative financial statement requirements of IPSAS 1. IPSAS 17 Property, plant and equipment, clarifies on how to deal with revaluation of assets, accumulated depreciation and impairment losses, and prohibits the use of depreciation method based on the revenue generating capacity of assets for PPE items. IPSAS 28 Financial instrument presentation clarifies that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 income taxes. IPSAS 31; Intangible assets provides guidance on how to deal with intangible assets according to IPSAS framework.

(b) New and revised Standards IPSASs issued but not yet effective for the period ended 30th June 2016

The Board has not applied the following revised and new IPSASs that has been issued but are not yet effective, namely IPSAS 39 Employee Benefits which will replace IPSAS 25 and it will become effective on 1 January 2018; Amendment on impairment of Revaluation Assets as per IPSAS 21-Impairment of Non cash Generating Assets and IPSAS 26- Impairment of cash Generating Assets

2.3 ACCOUNTING POLICIES**(i) Revenue from non- exchange transactions**

Revenue from non-exchange transaction includes government grants, capital grants and contribution from donors and other development partners who are willing to invest in Cotton Industry.

Government grants

The government grants is recognized only where there is reasonable assurance that the Board will comply with the conditions attached to them; and the fund will be received by the Board. Normally a government grant is recognized when cash is received in TCB bank accounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTD)**Capital Grants**

Grants received for capital expenditure are classified as capital grants in the statement of financial position, while grants received for operating expenses are treated as recurrent revenue and credited in the Statement of financial performance in the period in which it was received.

The method used for accounting for grants in respect of capital expenditure is the capital method. Grants related to depreciable assets are treated as deferred revenue which is recognized in the statement of financial performance on a systematic and rational basis over the useful life of the asset. Such allocation is usually made over the periods and in the proportions in which depreciation on related assets is charged

Contribution from donors and other development partners

Revenue from donors is recognized when it is received and the conditions of its release have been fulfilled by TCB. Donor revenue is not being recognized based merely on signed contracts rather until the actual fund has been received by the Board. Donor funds upon receipt is treated as a liability and released to the statement of financial performance as TCB fulfills the agreed scope of activities of the respective donations. Donations received but not recognized as revenue in the financial period are recognized as deferred revenue in statement of financial position and disclosed in notes to financial statements.

(ii) Revenue from exchange transactions

Revenue from exchange transactions is recognized only when it is probable that the economic benefits associated with the transaction will flow to the Board and that the amount of revenue due can be measured reliably. It is determined at the fair value of the consideration received or receivable. Revenue from exchange transactions is comprised of the following sources:

Revenue from Leased properties

Revenue received in form of rental income is a major source of revenue for TCB and is recognized on accrual basis on the bases of signed lease agreements and actual occupancy whether or not an invoice has been dispatched to the tenant. Rent is booked and reported net of the value added tax.

Revenue from rendering of services

Revenue arising from rendering of services which includes cotton classification and regulatory services is recognized provided that all of the following criteria are met:

- The amount of revenue can be measured reliably;

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

- It is probable that the economic benefits will flow to the Board;
- The costs incurred or the costs that will be incurred to complete the transaction of those services can be measured reliably

Revenue from classification services

TCB provides cotton lint classification service to cotton exporters by testing the cotton lint in its classification laboratory. TCB is charging cotton quality testing fee of two US Dollar per cotton sample. The fees are recognized in the period in which actual classification work is undertaken, whether or not the fees are paid. It is standard practice that classification fees are paid just before samples are delivered and tested.

Revenue for regulatory functions

TCB is authorized to impose fines to cotton industry stakeholders who purposely or negligently violate the cotton industry regulations. These fines are recognized only when actually is paid to TCB by the offending entities

(iii) Borrowings

Borrowings are initially recognized at fair value and subsequently carried at amortized cost. The borrowings with repayment period of over 12 months are presented as non- current liabilities in the statement of financial position. The interests accrued in the borrowing costs that are directly attributed to acquisition of TCB qualifying assets are capitalized in the statement of financial position.

Borrowings are derecognized when the obligation is discharged, cancelled or expired.

(iv) Cash and cash equivalents

Cash and cash equivalents are short term, highly liquid investments that are readily convertible to known amount of cash and which are subject to insignificant risk of changes in value. Cash and cash equivalents are carried in the Statement of Financial Position at fair value.

For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand; deposits held on call and time deposits which mature within three months or less from the date of acquisition. Cash flows arising from transactions of foreign currency are recorded in the functional currency (Tanzanian shillings) translated at the exchange rate prevailed at transaction date. The unrealized gains and losses arising from changes in foreign exchange rates do not form part of the cash flows of the Board. However, the effect of exchange rate changes on cash and cash equivalents held in foreign currency are presented in the cash

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

flow statement in order to reconcile the cash and cash equivalents at the beginning and the end of the year.

TCB has elected to present its cash flow by using direct method.

(v) Property, plant and equipment***(a) Materiality***

Assets with a useful life in excess of one year are capitalized and included in property, plant and equipment only when their initial cost or fair value meets the following minimum capitalization thresholds as specified in TCB Accounting Manual:

Asset Type	Capitalization thresholds(TZS'000)
Buildings	2,000
Plant and Machinery	1,500
Office furniture and equipment	250
Motor vehicles	5,000
Computers hardware	300
Intangible assets	300

An item of PPE that does not meet the minimum capitalization thresholds regarded as consumable assets to be charged in the statement of financial performance and derecognized in TCB fixed assets register. However, the memorandum record of consumable assets is maintained by TCB for management future reference and decision making.

(b) Initial recognition

All property, plant and equipment of the Board are initially recorded at historical cost. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including architects and engineering design fees where applicable, and all other recognizable costs. For assets acquired at no cost, or for nominal consideration, cost is determined as fair value at the date of acquisition. The initial cost of non-current assets constructed by TCB itself, without contractors, includes the cost of all materials used, direct labor deployed and an appropriate percentage of variable and fixed overhead.

(c) Subsequent recognition

Property, plant and equipment are initially recorded at historical cost. Subsequently, the assets are stated at fair value; excluding day to day servicing, less accumulated depreciation and accumulated impairment losses. Historical costs include expenditure that is directly attributable to the acquisition of the items such as invoice price excluding discount, installation costs, site preparation, testing costs, dismantling costs and import duties. Subsequent costs are included in the assets carrying amount or recognized as a

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

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. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the profit and loss account during the financial year in which they occurred.

(d) Asset impairment

Assets that have an indefinite useful life, like land, are not depreciated and are only subject to regular, tri-annual impairment review. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount. If the estimated recoverable amount of an asset is less than its carrying amount, then the carrying amount of an asset is reduced to its recoverable amount. Impairment losses are recognized as an expense in the Income Statement in the period in which the impairment has occurred or been established.

For assets whose future economic benefits are not dependent on their ability to generate future cash flows and where the future economic benefits would be replaced if TCB was deprived thereof, the value in use is taken to be the depreciated replacement cost.

(e) Revaluation of assets

Once every 3 years, TCB hires an independent valuation expert to determine the market value, estimated economic useful life and residual value of assets. Any increases in fair value as a result of valuation are recognized in the statement of financial performance and credited to revaluation surplus in the statement of Net Assets. Decrease in valuation that offset previous increases of the same asset are charged against the revaluation surplus, all other decreases are charged to the statement of financial performance.

(f) Depreciation

Depreciation on assets is calculated using the straight-line method to write off the cost or valuation of each asset, down to its estimated residue value if any, over its estimated remaining useful life at a given rate per annum. Land is not depreciated but its fair value is periodically estimated and restated. The depreciation rates are based on the estimated economic useful lives of assets. The depreciation rates and economic useful lives are set out follows:-

Asset Type	Rate per Annum	Economic useful life years
Buildings	5%	20

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

Plant and Machinery	20%	5
Furniture and Fittings	20%	5
Computer Equipment and Accessories	33 1/3%	3
Other Office Equipment	20%	5
Motor Vehicles	25%	4

Depreciation is charged on assets from the date when they are ready for their intended use and stop on the date when the asset is derecognized by the Board. An asset is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or losses on disposal are determined by comparing the disposal proceeds with the carrying amount and are recognized in the statement of financial performance.

(g) Residual values

Residual Values are estimated separately for each category of assets. According to IPSAS 17, the residual value of an asset is the estimated amount of money that TCB would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Residual values used by TCB are 30% of cost or valuation in all asset categories.

(vi) Investment property

Investment Properties are properties held for earning rentals and/or for capital appreciation. Investment properties are measured initially at cost. Subsequent to initial recognition, investment properties are measured at fair value. Gain arising from Changes in fair value of investment properties is recognized as unrealized gain in the statement of financial performance in the period in which they arise. The cost of major renovation or improvements of investment properties is capitalized.

An item of investment property is derecognized upon disposal or when there is permanently withdrawal from use and no future economic benefits are expected from the use of the property. Any gain or loss arising as a result of de-recognition of the property is included in the statement of financial performance in the period in which the property is derecognized.

(vii) Intangible Assets

Intangible assets comprise of computer application software and computer packages. Intangibles assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight line basis over the estimated useful lives of the intangible assets. The amortization method and the estimated useful lives are reviewed at the end of each reporting period. Changes in intangible assets estimates are recognized in the Statement of financial performance through profit or loss account prospectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

The Board's intangible assets have finite useful life of three years and amortization commences when the asset is available for its intended use. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. Intangible assets are derecognized when no future economic benefits are expected from their use.

(viii) Inventories

Inventories are valued at the lower of cost and net realizable value. Costs of inventories are determined on First in First out (FIFO) basis. Net realizable value refer to the estimated selling price for inventories less estimated cost of completion and cost necessary to make the sale. Full provision for obsolete/damaged inventories is made in the accounts on inventories whose actual loss/damage has been established. Due to its nature of activities, TCB carries low levels of inventory at any one time mostly in the form of office stationery.

(ix) Employee benefits***(a) Salaries, Allowances and Compensated Absences***

Liabilities for employees and management salaries, allowances, statutory benefits and compensated absences falling within the reporting period are recognized on accrual basis and expensed in profit and loss statement at nominal rates whether they have been paid or not.

(b) Annual leave benefit

In accordance with the Collective Bargaining Agreement between TCB and the workers union of August 2010, each employee is entitled to a one month's gross salary as Leave Allowance when the employee goes on annual leave. Unpaid leave allowances are recognized on accrual basis as they fall due and are charged to the statement of financial performance as employment costs.

(c) Retirement benefit

TCB employees belong to a number of statutory pension funds and the Board makes monthly contributions stipulated by each fund. Statutory pension funds are defined contribution type pension funds whereby the Board's obligation to the employee ends with a remittance of the stipulated percentage of the employee's salary to the pension fund. Each employee is required by law to belong to one of the following statutory pension funds:-

- a) Parastatal Pension Fund (PPF)
- b) National Social Security Fund (NSSF)
- c) Government Employees Pension Fund (GEPF)
- d) Public Service Pension Fund (PSPF)
- e) Local Authority Pension Fund (LAPF)

The Board's obligation in respect of contribution to NSSF is 10% of the employee's basic emoluments. The Board's obligation in other pension fund is 15% of the employee's basic

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

emoluments. The Board's contributions are recognized as employee's benefits expense in the year to which they relate.

The Board's contributions to these pension funds during the year were as shown below: -

Scheme	2015/2016 TZS'000	2014/2015 TZS'000
PPF	90,843	82,037
PSPF	51,811	25,254
LAPF	7,509	4,031
NSSF	13,579	13,326
GEPP	300	5,257
Total	164,042	129,905

(d) Termination benefits

Terminal benefits are provided by the Collective Bargaining Agreement and are recognized as an expense in the period when they become payable. Termination benefits are determined in accordance with the Tanzania labour laws and the Collective Bargaining Agreement between the Board and the Tanzania Plantations and Agricultural Workers Union (TPAWU).

(e) Other benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus if the Board has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. The Board recognizes a provision for ex-gratis when there is a contractual obligation or a past practice that has created a constructive obligation.

(x) Provisions

Provisions are recognized when the Board has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Typically provisions are made for impairment of current assets including doubtful or overdue debtors and prepayments as well as for possible crystallization of liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTD)***(xi) Leases***

The investment properties of the Board are leased out to tenants under Operating Lease whereby the risks and rewards of ownership are retained by the Board. Obligations incurred under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease, except when an alternative method is more representative of the time pattern from which benefits are derived. Such deviation, when it occurs, is expressly disclosed.

(xii) Trade transactions***(a) Trade receivables***

Trade receivables are recognized initially at fair value and subsequently measured at amortized costs using the effective interest method, less provision for impairment. A provision for impairment of the trade receivables is established when there is objective evidence that the Board will not be able to collect all amounts due according to the original terms of the agreement governing those receivables.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of a provision account, and the amount of the loss is recognized in the statement of financial performance. When a trade receivable is uncollectible, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the statement of financial performance as other Revenue.

(b) Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(xii) Foreign currency***(a) Functional and presentation currency***

Items included in the financial statements are measured using the currency of primary economic environment in which the Board operates (the functional currency). The financial statements are presented in Tanzania Shillings, rounded to the nearest thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTD)***(b) Transactions and balances***

Transactions denominated in currencies other than Tanzania Shillings are translated into Tanzanian shillings at the exchange rates prevailing at the transaction date. Monetary assets and liabilities in foreign currencies at the year-end are translated into Tanzanian shillings at the rates of exchange ruling at the end of the financial year. The resultant gains/losses on exchange rate translations are recognized in the Statement of financial performance.

(xiii) Financial Risk Management***(a) Financial risk factors***

The Board's activities are exposed to a variety of financial risks: foreign currency risk, credit risk, and liquidity risk. The Board's overall risk management plan seeks to minimize potential adverse effects on the Board's financial performance. Risk management is carried out by the management under the policies approved by the Board of Directors.

(b) Foreign currency risk

The Board's exposure to foreign exchange risks arises from rental revenue, purchases, assets and liabilities denominated in currency other than the functional currency mainly with respect to the US dollar. At the year end, the Board has financial assets and liabilities denominated in United States Dollars (USD). As a result, the Board is subject to transaction and translation exposure from fluctuations in foreign currency exchange rates. Exposure to foreign currency risk is mitigated by the fact that the Board maintains certain part of its rental revenue in US Dollars bank accounts.

The effect of foreign currency risk is not significant and therefore management does not hedge against foreign currency risk.

(c) Credit risk

Credit risk arises from trade receivables, cash and cash equivalents as well as deposits with banks. Significant concentration of credit risk is with rental receivables. A significant part of the trade and other receivable is made up of customers occupying the Board's investment properties. Based on Board's policy, management has made adequate provision where the recoverability is doubtful. Only reputable banks are used by the Board for banking services. The amount that best represents the Board's maximum exposure to credit risk at 30th June 2016 is made up as follow:-

(1) Financial Risk Factors

2015/2016
TZS'000'

2014/2015
TZS'000'

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

Cash at bank	1,129,068	1,168,809
Trade receivables	1,922,456	2,141,415
Staff debtors	139,758	145,965
Other receivables	72,033	63,884
	<u>3,263,315</u>	<u>3,520,073</u>

No collateral is held for any of the above assets. TCB does not grade the credit quality of receivables. All receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

Receivables past due by more than 360 days are considered to be impaired, and are carried at their estimated recoverable value.

(2) Liquidity Risk

Prudent liquidity risk management for the Board implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate Government Subvention.

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

	Less than 1 year TZS'000'	Between 1 and 2 years TZS'000'	Between 2 and 5 years TZS'000'
At 30 June 2015			
Trade and other payables	556,386	133,957	144,341
Deferred Govt. subsidies	-	-	253,147
	<u>556,386</u>	<u>133,957</u>	<u>397,488</u>
At 30 June 2016			
Trade and other payables	528,763	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

Deferred Govt. subsidies	-	252,043	-
Payable to related party	162,182	-	-
Other Payables	82,676	-	51,917
	773,621	252,043	51,917

(xiv) Significant accounting judgements and estimates

The preparation of TCB financial statement requires management to make significant judgments, estimates and assumptions that affect the reporting amount of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period.

TCB management continues to evaluate estimates, assumptions and judgments based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

The key estimates and assumptions concerning the future uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities of the Board in the next financial year are described below.

(a) Revaluation of assets

The Board engaged an independent valuation specialist to estimate fair value of the Investment Properties and Non-Current Assets as at 30th June 2015. The revalued figures were treated as fair value of the properties and assets involved.

The investment properties are stated at fair value with changes in fair value being recognized in the statement of financial performance. In additions, the property, plant and equipment are carried at revalued amounts with changes in fair value being recognized as gain or loss in revolution in the statement of financial performance. In determining fair value of the assets, the valuation experts used the Depreciated Replacement Cost method. The method was chosen due to absence of suitable similar comparable properties within the respective localities that reflect reliable market data. Replacement cost refer to the cost of replacing or reinstating (as a new) the property under consideration at the date of valuation or that of a similar substitute performing or capable of performing the same functions or offering the same utility.

(b) Receivables

Significant estimates are made by management in determining the recoverable amount of impaired receivables based on the debtors' history and repayment characteristics.

(c) Operating lease commitments

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

Management has entered into contractual agreement with tenants (lessees) on its investment properties in Kurasini Warehouses under the supervision of the property manager. As a lessor, the Board has accepted responsibility of good maintenance of the properties, including Insurance and repairing of the properties, and that it retains all the significant risks and reward of ownership of the properties under operating lease.

(d) Assets future economic benefits

Management has made significant judgments in determining whether the asset or groups of assets continue to have the future economic benefits to the Board and whether they are impaired or not. An asset is impaired when the carrying value of the asset exceeds its recoverable amount. Recoverable amount refer to the higher of its fair value less cost to sell and its value in use. The calculation for value in use is based on a discounted future cash flow of an asset or group of assets whereas the fair value less cost to sell calculation is based on available data for the value of an asset from the existing market in an arm's length transaction of similar asset or group of assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

	Property TZS'000	Plant & Machinery TZS'000	Motor Vehicles TZS'000	Office Fixtures and Equipment TZS'000	Computers and Accessories TZS'000	Total TZS'000
Cost / Valuation:						
At 30th June 2014	2,180,623	220,905	347,689	167,474	110,619	3,027,310
Additions	-	-	-	21,894	20,050	41,944
Revaluations	372,948	120,495	69,811	(19,372)	(33,132)	510,750
At 30th June 2015	2,553,571	341,400	417,500	169,996	97,537	3,580,004
Additions	10,000	-	-	11,546	-	21,546
Transfers/Adjustments	-	-	(16,500)	4,455	(1,050)	(13,095)
At 30th June 2016	2,563,571	341,400	401,000	185,997	96,487	3,588,455
Accumulated Depreciation:						
At 30th June 2014	207,805	92,780	178,656	63,688	67,819	610,748
Charge for the year	72,081	30,927	59,552	25,870	8,672	197,102
Transfers/Adjustments	-	-	-	-	-	-
Revaluations	(279,886)	(123,707)	(238,208)	(89,558)	(76,491)	(807,850)
At 30th June 2015	-	-	-	-	-	-
Charge for the year	86,259	37,220	65,113	25,862	25,186	239,640
At 30th June 2016	86,259	37,220	65,113	25,862	25,186	239,640
Net Book Value						
As at 30th June 2016	2,477,312	304,180	335,887	160,135	71,300	3,348,814
As at 30th June 2015	2,553,571	341,400	417,500	169,996	97,537	3,580,004

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

REVALUATION

Property, Plant and Equipment, Intangible Assets and Investment property were revalued on 30th June 2015 by Independence property valuer Proper consult (T) Ltd. The adjustment to reflect the revalued amounts were reflected in the financial statements; however the value of land of TZS 32,979,617,000 we did not incorporated in the financial statements because it is a leasehold land.

NOTE 4: INTANGIBLE ASSETS

The Intangible Assets were re-valued on 30th June 2015 to TZS 48.26 million by a valuation consultant, M/s Proper Consult Ltd. The increase in value of the intangible assets was credited to revolution surplus in the statement of changes in net assets and reported in the statement of financial performance as other gain in revaluation. During the year, intangible assets were amortized at a rate of 33.33% per annual. The movement of fair value of intangibles assets is shown below:-

	2015/2016 TZS'000	2014/2015 TZS'000
Cost / Valuation:		
At 1 July 2015	48,265	44,281
Increase in value		3,984
At 30th June 2016	48,265	48,265
Amortization:		
At 30th June 2015		44,281
Charge for the year	11,262	-
Revaluation adjustments		(44,281)
At 30th June 2016	11,262	-
Net book value :		
As at 30th June 2016	37,003	48,265
	37,003	48,265

NOTE 5: INVESTMENT PROPERTY

Investment Properties are held by the Board for earning rentals.

Balance as at 1 July 2015	28,168,566	8,883,131
Additions		1,987,235
Transfer(Work in Progress transferred to Investment properties)		4,816,020
Fair value gain(Recognized in P&L)	-	12,482,180
Balance as at 30th June 2016	28,168,566	28,168,566

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

NOTE 6: Working in progress

The Board received assets from European Union (EU) for facilitating implementations of project activities in Western Cotton Growing Area. The assets were used by the Board according to terms and conditions stipulated in the EU practical guide and the Board recognized the assets as working in progress subjected to capital grant at end of the project. There were no unfulfilled conditions or contingencies attached to these assets.

NOTE 7: RECEIVABLES

The interest earned for short term investment of TZS 1.7 million was accrued and included in other receivables. Receivables which could be settled within the next 12 months were recognized in the list of current assets; otherwise the Board recognized them in the category of non-current assets.

	2015/2016 TZS'000	2014/2015 TZS'000
Trade receivables	1,728,217	1,735,751
Receivables from TGT	-	2,958
Receivables from CDTF- Note 30(f)	-	91,569
Staff receivables	134,684	151,765
Prepayment	69,034	63,884
VAT receivables	-	278,781
Other Receivables	2,528	12,495
Sub -Total	1,934,463	2,337,203
Less: Provision for Bad and Doubtful Debts	(657,530)	(567,157)
TOTAL	1,276,933	1,770,046

During the year, trade receivables of TZS 90 Million was impaired and fully provided for in the statement of financial performance. Less provision was made in the year under review because tenant's willingness to pay rent has increased and TCB had taken measures to evict the bad debtors (tenants) in previous year. The Movement for debtor's provision allowances is shown below:-

Balance at the beginning of the year	567,157	276,499
Charge for the year	90,373	290,658
TOTAL	657,530	567,157

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

NOTE 8: CASH AND CASH EQUIVALENTS

The Board received Government Cotton Price Subsidy to the tune of TZS 20 billion in 2009/10 to assist farmers for the low cotton producer prices as a result of the impact caused by the global economic financial crisis.

The Board invested part of the remaining cotton price subsidy funds with Tanzania investment Bank (TIB) in a short term call deposit account at an accrued interest rate of 10%. The principal amount together with accrued interest income can be withdrawn by the Board at any time after issuing 24 hours notification of withdraw to the Bank. During the year the Board earned interest revenue of TZS 28.1 million this has been recognized in the statement of financial performance.

During the year, the Board opened a special saving account with the Bank of Tanzania (BOT) for the purposes of reserving excess cash collected by the Board from different sources following the Treasury Registrar directives to all Government Entities. The Board had also opened a US Dollar Account with TIB for complying with terms and condition of the loan. The rent collected from the warehouse is used for servicing the 5 years TIB Bank loan and services fee for property management.

Furthermore, the Board received TZS 214.55 million from the European Union for the second Program Estimate (PE III) of the project which aims to improve cotton quality in Bariadi, Meatu and Maswa districts. The overall objective of the project is to increase income of small holder cotton producers through better quality of cotton produced which will eventually improve access to both local and international markets. The fund for the project was received in November 2015 through TIB bank account and implementation of the project activities started in December 2015 . Bank and cash balances at 30th June 2016 were as follows:-

Bank Account		2015/2016	2014/2015
		TZS '000	TZS '000
1	NBC-Local Account	7,228	52,300
2	NBC-Forex Account	52,671	39,195
3	TIB Bank Notice Account	141,689	392,787
4	TIB EU Project Account	609,507	445,747
5	TIB Bank Current Local	-	(135,098)
6	CRDB Bank Ltd. Mbeya Account	5,917	5,876
7	CRDB Bank Ltd.-Azikiwe Account	5,458	240,377
8	CRDB Bank Ltd - Forex Account	18,455	82,660
9	CRDB- Cotton Price Subsidization	5,570	15,790
10	CRDB Bank Ltd. Mwanza Account	14,065	33,704
11	BOT Bank Account	50,000	-
12	TIB Forex A/C	218,623	
13	Cash in Hand	5	347
TOTAL		<u>1,129,188</u>	<u>1,173,685</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

NOTE 9: CASH GENERATED FROM OPERATIONS

Net Surplus/Deficit for the Year	227,531	(260,549)
Adjustments for :		
Depreciation	239,640	197,103
Amortization of Intangible Assets	11,261	-
Assets valuation gain	(1,154,883)	-
Capital grant realization		
	(3,430)	(3,430)
Assets adjustment	-	208
	(679,881)	(66,668)
Working Capital Adjustments:		-
(Increase)/Decrease in Inventories	972	-5,445
(Increase)/Decrease in receivables	489,072	(1,079,928)
Increase/(Decrease) in payables	200,667	20,016
Increase/(Decrease) in Deferred Revenue	369,253	1,119,197
Increase/(Decrease) in Cotton Cess	(205,837)	227,250
Increase/(Decrease) in Government grants/Subsidies	(1,103)	(8,095)
Increase/(Decrease) in provisions	150	704
Net Working Capital adjusted Items	853,174	273,699
Net cash from operating actives	173,293	207,031

NOTE 10: CAPITAL FUND

The figure for the TCB Capital Fund represents excess of assets over liabilities taken over from the defunct Tanzania Cotton Lint and Seed Board as at 1st July, 2004 as per Instrument of Transfer published on Government Notice No.5 of 20.01.2006, together with subsequently acquisition of other non-monetary assets of the Board. The Capital fund balance as at 30.06.2016 is analyzed hereunder:-

	2015/2016 TZS'000	2014/2015 TZS'000
Assets Taken Over:		

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

Land and Buildings (Net)	2,883,703	2,883,703
Motor Vehicles	54,635	54,635
Office Furniture and Fittings and Equipment	13,122	13,122
Computer Equipment and Accessories	2,886	2,886
Staff Receivables	48,515	48,515
HVI Machinery	138,960	138,960
Cash and Bank Balances	143,008	143,008
Land and Buildings (Ex TCLSB NBV)	2,721,184	2,721,184
Transferred to Tanzania Building Agency	(733,950)	(733,950)
TOTAL ASSETS	5,272,063	5,272,063
Less: Liabilities Taken Over		
Deferred Income (Received in 2003/2004)	133,752	133,752
PAYE Payable	546	546
Audit Fees` Payable (For 2003/2004 Accounts)	8,800	8,800
Accrued Expenses	7,637	7,637
TPAWU Payable	521	521
VAT Payable	7,108	7,108
Staff Benevolent Fund	10	10
	158,374	158,374
TOTAL (Net)	5,113,689	5,113,689

NOTE 11: CAPITAL GRANTS

In financial year 2011/12 the Board received one unit of power generator from one of the Tenants as a free donation. There were no unfulfilled conditions or contingencies attached to this asset.

The asset was recognized as part of the property, plant and equipment (PPE) at a fair value of TZS 24.5 million as per IPSAS 17. On the other hand, the asset was treated as capital grant and recognized in the statement of financial performance on a systematic and rational basis over the useful life of the asset .Therefore; its depreciation charge is amortized to reduce the carrying amount of the grant. The carrying amount of the capital grant as at 30 June 2016 was as follows:

	2015/2016 TZS'000	2014/2015 TZS'000
Balance as at 1 July 2015	14,210	17,640
Received during the year(Note6)	745,828	-
Released to income statement	(3,430)	(3,430)
Balance as at 30 June 2016	756,608	14,210

NOTE 12: BANK LOAN

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

The Board has an agreement with TIB for a loan facility of TZS 5.67 billion to renovate its investment properties located at Kurasini. The terms of the loan facility are as follows:

- The repayment period is 5 years payable Semi-annually,
- Grace period is one year and the first instalment fell due in May 2015
- Assets pledged as security are plot no.20 and 21 Block C in Kurasini area with a market value of TZS 10.45 billion ascertained by an accredited independent property value,
- The interest rate is 18% per annum charged on the outstanding amount.

During the year the Board received an additional loan of TZS774.58 million and paid TZS 1.93 billion to the Bank. The loan advance together with the accrued interest is reported in the statement of cash flows as cash flows from financing activities. The loan balances at 30 June 2016 is as follows:

	2015/2016 TZS'000	2014/2015 TZS'000
Balance as at 1 July 2015	4,893,396	1,807,232
Received during the year	774,577	3,086,164
Interest accrued	1,298,583	392,448
Loan Repayment	(1,932,493)	(392,448)
Balance as at 30 June 2016	<u>5,034,063</u>	<u>4,893,396</u>

Out of TZS 5.03 billion of outstanding bank loan, TZS 2.2 billion is current obligation (payable within next twelve months) and TZS 2.83 billion is noncurrent liability.

NOTE 13: REVALUATION RESERVE

The revaluation reserve decreased from TZS3.46 billion to TZS 3.45 billion as at 30th June, 2015. The increase in revaluation was caused by an aggregate surplus of the Board's property, plant and equipment. The latest revaluation of the Board's assets was done on 30th June 2015 by independence accredited valuer. The valuation method adopted by the consultant was Replacement Cost Method.

NOTE 14: Cotton Cess

The cotton producer indicative price agreed by cotton stakeholders in 2014/15 cotton buying season was TZS 700 per Kg. The Government through TCB being responsible to promote and marketing of cotton in the Country directed Cotton buyers to buy cotton at price of TZS 750 per Kg in promise that the Government will pay Cotton Cess to the Local Governments to boost the producer price for them to continue growing cotton.

During the year under review, the board had paid TZS 205.8 million and the remaining balance was reported under current liabilities in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

Balance as at 1 July 2015	227,250	-
Received during the year	-	4,225,921
Cess paid to LG	(205,837)	(3,998,671)
Balance as at 30 th June 2016	<u>21,413</u>	<u>227,250</u>

NOTE 15: PAYABLES

For proper coordination of cotton contract farming activities, the Board in collaboration with Tanzania Gatsby Trust Funds (TGT) had decided to engage Junior Cotton Inspectors. The agreed arrangement was that TGT had to support monthly salary for junior cotton inspectors and at the end of contracts the Board will be required to pay 25% of basic salary as gratuity accrued for the whole period. During the year, the Board paid TZS 28.32 million as gratuity expense which was accrued in previous year.

	2015/2016 TZS'000	2014/2015 TZS'000
Business Payables	530,121	556,386
Gratuity Accrued A/C	51,917	80,236
Payables to TGT	24,859	-
Payables to CDTF (Note 27 (f))	137,064	-
Accrued Expenses	71,584	18,855
VAT Payable	15,720	
Other Creditors	84,105	59,226
TOTAL	<u>915,370</u>	<u>714,703</u>

NOTE 16: PROVISIONS

Provision for Audit Fees	36,399	36,249
Total	<u>36,399</u>	<u>36,249</u>

NOTE 17: DEFERRED REVENUE

Deferred revenue arises as a result of recognition of the amount received from donors and tenants for the next financial reporting periods. Revenue received from donors was offset against expenses incurred in the period and the remaining balances were recognized in the consolidated statement of financial position as deferred revenue for the next accounting period.

Donors Fund:-

Balance as at the beginning of the year	445,750	356,032
Unretired imprest expense	(2,961)	(32,324)

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

Refund to European Union	-	(268,477)
Revenue received from Donors	1,377,325	1,235,006
Released to P & L (Note 19)	(439,920)	(749,672)
Released to B/S (Note 6)	(745,828)	
Released to B/S (Note 15)	(24,859)	2,958
Released Withholding tax on Rent		(97,773)
Donors deferred Revenue as at 30 June 2016	609,507	445,750
Rent :-		
Revenue received from Tenants	1,234,975	1,029,482

NOTE 18: RENTAL INCOME

In May 2014, the Board started renovating its investment properties for the purpose of improving rental charges for Warehouses. After renovating the warehouses, the rates have increased from an average rate of US\$.2.5 to a US\$.4 per square meter. These rates became effective from 2014/15.

During the year TCB recognized rental income of TZS 2.9 billion compared to TZS 2.3 billion in previous year.

NOTE 19: INCOME FROM DONORS

During the year, a total sum of TZS 1.18 billion was recognized as Revenue from donors and other development partners who have shown interest to support the cotton sub sector as indicated in the table below:-

Name of the Donor	2015/2016 TZS'000	2014/2015 TZS'000
Tanzania Gatsby Trust(TGT)	50,378	144,308
European Union	389,542	605,364
Total	439,920	749,672

NOTE 20: OTHER INCOME

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

Classification fees	59,365	77,953
Interest Income	28,093	37,140
Capital grant realization	3,430	3,430
CDTF	100,000	60,000
Gain on foreign exchange	109,873	
Miscellaneous Income	49,474	32,433
TOTAL	350,235	210,956

NOTE 21: EMPLOYEES COSTS

	2015/16 TZS'000	2014/15 TZS'000
Salaries on government payroll	1,160,730	925,966
Salaries on Contract employment	19,889	46,760
Salaries and Wages paid by TGT	9,442	98,646
Salaries and Wages paid by EU	45,507	71,828
Allowance for Senior Officers	38,100	42,495
Acting Allowances	37,072	36,898
Gratuity	11,951	16,031
Housing Allowance	172,962	169,300
Transport Allowance	143,806	93,977
Terminal Benefits	64,725	82,039
Pension Contributions	164,042	129,905
Transfer /Severance Allowances	0	20,728
Training Expenses	152,578	156,782
Staff Uniforms	0	2,429
Staff Benevolent Expenses	13,908	6,600
Workers Meeting	1,220	7,711
Staff Amenities	96,297	79,153
Medical Expenses	69,357	47,929
Traveling Expenses - Local Leave	86,011	55,164
Traveling Expenses - Workers Council	15,300	20,257
Staff Recruitment Expenses	0	45,663
Workers Day Expenses	480	27,634
Workers Compensation exp	4,963	-
TOTAL	2,308,340	2,183,895

NOTE 22: ADMINISTRATIVE EXPENSES

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

Legal and Professional Charges	24,084	13,434
Printing and Stationeries	68,052	46,320
Newspapers and Periodicals	2,001	5,347
Subscriptions	800	-
Postage, Telephone, and Telegrams	31,889	35,568
Internet Services	33,141	36,176
Donations	270	2,250
Office Hospitality	5,091	8,888
Water and Sewage	15,783	9,232
Director expenses	932	22,357
Audit Fees	36,399	36,249
Audit other Expenses	975	8,611
Electricity Charges	66,847	78,479
Assets valuation and Stock taking expenses	1,610	19,249
Insurance	92,358	80,099
Sanitation Expenses	42,717	33,488
Tender Meeting Expenses	6,120	14,323
Management Meeting Expenses	4,091	4,233
Fuels	41,096	45,747
Motor Vehicle - repairs & maintenance	21,543	19,302
Extra Duty	21,995	18,625
Loss on foreign exchange	-	23,867
Property Management Service Fees	45,613	-
Debt collection Fees	4,822	-
Budget Preparation Expenses	-	820
Traveling Expenses - On duty	198,454	237,076
Security Services	84,680	81,255
TOTAL	851,363	880,995

NOTE 23: COTTON PROMOTION EXPENSES

	2015/16 TZS'000	2014/15 TZS'000
Subscriptions		
Conference Expenses	1,223	74,385
Farmers Education Expenses	651	6,213
Advertising Expenses	3,851	4,968
Buying Posts Inspection Costs	61,798	60,528
Ginnery Inspection Costs	19,071	47,504
Cotton Classing Costs	37,139	47,788
Inspectors Meeting Costs	0	3,748
Monitoring Services	65,357	96,647
Law Enforcement Costs	5,120	2,799
Cotton Quality Seminar Costs	1,670	29,581
Fuels	54,406	64,256
Motor Vehicle - repairs & maintenance	30,171	49,235

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

Stakeholders Meeting Expenses	2,116	2,583
Season Launching Expenses	7,117	1,285
TOTAL	289,690	538,881

NOTE 24: REPAIRS AND MAINTENANCE

	2015/16 TZS'000	2014/15 TZS'000
Repairs of Office Buildings	39,475	140,763
Repairs of Godown	87,800	77,320
Repairs of Staff Houses	5,218	7,255
Repairs & maintenance Generator	450	-
Repairs of Furniture and Equipment	5,821	34,194
Repairs & maintenance - Computers	13,376	8,597
Repairs of Other Vehicles	37,940	48,903
Repairs & maintenance -HVI Machine	7,576	-
TOTAL	197,656	317,032

NOTE 25: TAXES AND LEVIES

Withholding Tax on Rent	225,654	97,774
Land Rent	32,180	6,448
Property Tax	32,797	20,596
Total Taxes and Levies	290,631	124,818

NOTE 26: CAPITAL COMMITMENTS

TCB had undertaken major rehabilitation of its warehouses located in Kurasini so as to protect them from further deterioration and enable it to charge a higher rent per square meter. The finance for this work was obtained from TIB bank in form of a loan. The five year loan contract with the value of TZS 5.6 billion charged at an interest rate of 18% per annum already signed by both parties and the Bank had disbursed TZS 5.6 billion to the Board as at 30th June 2016. According to terms of the contract, the Board is required to pay the loan installments in Semi-annual.

NOTE 27: CONTINGENT LIABILITIES

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

As at the year end, the Board had the following contingent liabilities which were caused by Government decisions in the effort of supporting the Cotton Industry:-

1. A contingent liability of TZS 1.36 billion being subsidy on excess cotton output for the financial year 2009/10. The payment will be subject to Government decision to give more money to cover this excess cotton output as explained in note 1.8 (The Directors Report) of these financial statements.
2. A contingent liability of TZS.4.29 billion for delinted seeds multiplication agreements between Quton Tanzania Ltd, CDTF and the Cotton Board as representative of the Government. The Government has promised to subsidize for the price of these seeds to make them affordable by the farmers but at the year-end there was an outstanding amount of TZS.4.29 billion payable to Quton because the Government did not release funds to TCB in time. However Quton had delivered some batches of delinted cotton seeds to the farmers with poor germination rate and the farmers are demanding compensations of non-germinating seeds. The reconciliation and decisions on non-germinating seeds was still pending as at 30th June 2016.

NOTE 28: QUTON TANZANIA LTD

Quton Tanzania Ltd is a private seed multiplication company. In 2009, cotton stakeholders including TCB, CDTF and Tanzania Cotton Association entered into a seven year agreement with the company to produce and market cotton seeds in Tanzania on monopoly basis so as to recover the cost of the investments done for the project. The seed company was to multiply the seeds developed by the government owned Ukiriguru Agricultural Research Centre and de-fibre, treat the seeds, package and supply farmers for planting.

NOTE 29: RELATED PARTY TRANSACTIONS

(a) A related party is a person or entity that is related to the entity that is preparing its financial statements. A person is related to a reporting entity if that person:

- (i) Has control or joint control over the reporting entity;
- (ii) Has significant influence over the reporting entity; or
- (iii) Is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

- (v) The entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity)

Related party relationships exist between the TCB and the Ministry of Agriculture, Cotton Development Trust Fund (CDTF), Directors and top management. The nature of their relationships with the Board is as follows;

(1) Ministry of Agriculture Food Security and Cooperatives

Tanzania Cotton Board is a parastatal organization whose operations are governed by the Cotton Industry Act, 2001 (“the Act”). The Board’s regulatory activities as well as salary for its employees are 100% funded by the Government of Tanzania, through the Ministry of Agriculture, Food Security and Cooperatives. In 2015/16 the Board received total sum of TZS 1.32 billion for personal emoluments (PE) and other charges as detailed below:

Government Subventions	2015/2016 TZS'000	2014/2015 TZS'000
TCB regulatory activities:		
Expenditure for Personal emoluments	1,294,500	965,333
Expenditure for Other Charges	12,671	79,500
Subtotal (Recognized to Income Statement)	<u>1,307,171</u>	<u>1,044,833</u>
CDTF Activities:		
Cotton inputs to Farmers (Transferred to CDTF)	1,189,710	522,000
Subtotal	<u>1,189,710</u>	<u>522,000</u>
Total Government subventions	<u>2,496,881</u>	<u>1,516,833</u>

(2) Cotton Development Trust Fund**a) The Relationship**

The Cotton Development Trust Fund (CDTF) is a body corporate created by cotton stakeholders including both TCB and The Ministry of Agriculture and registered as a trust. Its main purpose is the promotion of the cotton industry and, for this role; it works very closely with TCB in all its functions.

b) Cotton Research Activities

Cotton related research activities are funded by the Cotton Development Trust Funds. The overall objective of cotton research is to increase productivity and profitability through development of varieties and other production technologies. Nevertheless the funds for research activities are disbursed directly to the Cotton Research Stations at Ilonga and Ukiriguru.

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

c) **Provision of Extension Services to Cotton Farmers**

The Board provides extension services to Farmers by using funds from CDTF. The extension services related activities includes Cotton promotion through Nane Nane Shows, Cinema shows and /or Radio programs and conducting trainings to farmers on good cotton production.

d) **Cotton Input Distributions**

It is the responsibility of the Board to ensure that Farmers get the right quality of cotton inputs at the right time. The cotton inputs distribution activities are funded by CDTF.

e) **Data Collection**

The primary objective for data collection is to establish the quantity and quality of seed cotton delivered to Ginneries. This also assists CDTF to come up with the correct basis for charging cotton levy to be paid by Cotton Ginners.

(3) **Top Management**

Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the activities of the Board directly or indirectly including any director of the Board.

Key management short term and long term benefits which were paid included salaries, allowances and social security contributions as detailed below:

	2015/2016 TZS'000	2014/2015 TZS'000
Short term benefits:		
Basic Salaries	329,142	299,220
Allowances	83,083	78,842
	<u>412,225</u>	<u>378,062</u>
Long term benefits:		
Pension	48,118	43,744
	<u>48,118</u>	<u>43,744</u>
TOTAL	<u><u>460,343</u></u>	<u><u>421,806</u></u>

(4) **Directors**

Benefits given to Members of the Board in 2015/2016 were as follows:

Short term benefits:		
Directors allowances	532	3,702
Directors Travelling	400	18,655
TOTAL	<u><u>932</u></u>	<u><u>22,357</u></u>

NOTE 30: BUDGET AGAINST ACTUAL EXPENDITURES

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

IPSAS 24 requires entities that make their approved budget publicly available to prepare a statement of comparison of budget amounts and actual amounts. TCB prepared its budget on cash basis and the financial statements were prepared on IPSAS accrual basis. As such the budget and the financial statements were not in the same basis and therefore further adjustments were required to align the financial statements to the budget. The Statement of comparison of budget and actual amounts for that matter was prepared on budget basis (IPSAS24.39).

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT FOR THE YEAR ENDED 30th JUNE 2016

Particulars	Original Budget TZS'000	Final Budget TZS'000	Actual on Comparable basis TZS'000	Variances TZS'000	Reasons for major variations
Revenue					
Government Subvention	2,057,724	2,057,724	1,139,678	(918,045)	The Govt did not release employment permit for new staff
Classification Fee	130,030	130,030	59,365	(70,665)	Low production of cotton
Rental Revenue received	4,001,070	4,001,070	3,661,423	(339,647)	Low demand for warehouses and change in rates from US6 to 4 per square ment
Regulatory Services	56,600	56,600	12,324	(44,276)	Stakeholder More compliance to TCB regulations
Donors contributions received	850,500	850,500	1,299,129	448,629	More funds received from Donors
Payment for goods and services	3,375,925	3,375,925	3,491,733	(115,808)	Construction of Cotton classification

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

					laboratory under EU support
Employee Costs	2,754,578	2,754,578	2,236,756	(517,822)	The Govt did not release employment permit for new staff
Taxation paid	312,907	312,907	290,631	(22,276)	Low demand for warehouses and change in rates from US6 to 4 per square ment

NOTE 31: EVENTS AFTER THE REPORTING DATE

Events after Reporting Period are those that occur between the end of the reporting period and when the financial statements are authorized for issue. In order to determine which events satisfy the definition of events after the reporting date, it is necessary to identify both the reporting date and the date on which the financial statements are authorized for issue.

The date of authorization for issue will usually be taken as the date when the board of directors authorizes the issue of financial statements. Where management is required to issue its financial statements to a supervisory board or shareholders for approval, the authorization is considered to be complete upon the management's authorization for issue of financial statements rather than when the supervisory board or shareholders give their approval.

The events after the reporting period will comprise adjusting and non-adjusting events. Adjusting events are those events or transactions that provide evidence of conditions that existed at the end of the reporting period, update in disclosure to the financial statements are referred to as adjusting events. Some examples of the adjusting events are: a) the resolution of a court case after the reporting date due to a present obligation at the reporting date; b) information about an impairment of an asset at the reporting date; c) the cost of an asset or proceeds from the sale of an asset become determinable after the reporting date; and d) fraud or material errors have been discovered.

Whereas non-adjusting events are indicative of conditions arising after the reporting period. Where material; the non-adjusting events are disclosed.

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

After the end of the reporting period, the Government through the Ministry of Agriculture, Fisheries and Livestock has announced in local media that TCB Head Office should be transferred to Mwanza region where by about 90% of Tanzanian cotton come from areas surrounding this region. This is a non-adjusting event whereby all the transactions for this event will be undertaken in next financial reporting period. According to IPSA 14 the Board is required to disclose this information because it will involve cash outflows for transfer of luggage and employees of the Board.

NOTE 32: REARRANGING FIGURES

Previous year's figures have been re-arranged whenever considered necessary in order to make them comparable with current year's figures.