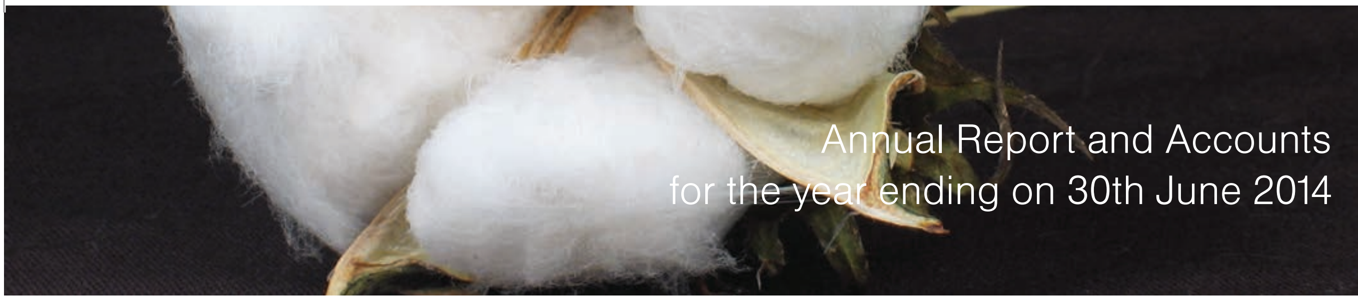
Tanzania Cotton Board

Annual Report and Accounts

for the year ending on 30th June 2014



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ABBREVIATIONS AND DEFINITIONS

AIDS	Acquire 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
ISA	International Auditing Standards
MAFC	Ministry of Agriculture Food and Cooperatives
NSSF	National Social Security Fund
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)

PROFILE

Tanzania Cotton Board (TCB) is a parastatal organization which was formed in 2001 and came into operations in July 2004.The operations of the Board are governed by the Cotton Industry Act No.2 of 2001 ("the Act"). The Cotton Board is empowered by the Act to carry out regulatory functions and such other activities necessary, advantageous or proper for the benefit of the cotton industry. It can also advice the Government on the policies and strategies for the development of the cotton industry and regulates and controls the quality of cotton and cotton by-products. The activities of the Board are funded by three major sources of income; which are the Government Subventions, Internal Revenue from rental on investment property, and contributions from cotton stakeholders through the Cotton Development Trust funds (CDTF) and the Tanzania Gatsby Trust fund (TGT). The regulatory activities of the Board are 100% funded by the Government. The Cotton Board is managed by the Board of Directors whose functions, among others are, control ownership of the assets and the ability to borrow. The tenure of the Board of Directors is three years.

VISION

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

MISSION

To improve the production, productivity and profitability of cotton by maximizing the 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 promoting the production, processing and consumption

Core Values

- Wealth creation
- Creation of industrial linkages
- Sustainability
- Professionalism
- Innovation and creativity

TCB'S INFORMATION

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

TANZANIA COTTON BOARD
Pamba House, 3rd Floor
Pamba Rd/ Garden Ave
P.O. Box 9161
Dar es Salaam
Tel: +255 22 212 3565, 212 8347

BANKERS

CRDB Bank Plc
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
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

Letter of Transmittal

Hon. Stephen M. Wassira (MP)

Minister of Agriculture,

Food Security and Cooperatives

P.O. Box 9192

DAR ES SALAAM

Honourable Minister,

In accordance with Section 49(4) of the Cotton Industry Act, No. 2 of 2001 that established the Tanzania Cotton Board (TCB), I have the pleasure to submit to you the Annual Report and Accounts of the TCB for the year ended 30th June, 2014.

I kindly transmit,

Hon. Dr. Festus B. Limbu (MP)
Chairman

Message from the Chairman

On behalf of the Board of Directors of the Tanzania Cotton Board, it is my pleasure to present the Annual Performance Report for the financial year that ended 30thJune, 2014. In brief, the report provides an assessment on the operational performance for the year, challenges facing the Board and suggestions on how to make our operations more effective in achieving the intended mission.

The international prices for cotton in 2013/2014 were again on the downward trend. Since our cotton prices are at parity to the world cotton prices, the low world market prices influenced the farm gate prices which were only 700/= during the year under review, compared to an average of 1000/= per kilogram during 2011 marketing season,the period which witnessed the world's lint cotton price spike.Coupled with poor financial disbursement from the Government, the sub-sector managed to produce just 245,831 tons of seedcotton, which was 31% decline below the previous marketing season. In the year under review, the Board received operational, non-salary revenue of only Tsh.31.3 million against the approved Government budget of TZS.80 million. This has resulted into difficulty in implementing some of its principal mandatory objectives like Extension services for good agriculture practices by farmers and strong cotton quality controls through regular inspection of Cotton Ginneries and buying centres. In addition the sector was also faced by:

- ❖ low level of expenditure in research development activities;
- ❖ poor infrastructure, in terms of feeder roads and cotton storage facilities at the village level;
- ❖ inadequate resources for the TCB to spearhead issues of cotton promotion and development;
- ❖ low inputs usage in the farming system as well as the adoption of new simple agricultural technologies and
- ❖ low local processing of cotton lint into textiles and apparel

With assistance from our development Partners, Gatsby Trust Foundation the some mitigation steps were undertaken to improve the situation including the efforts on:

- Re-introducing and scaling up Contract Farming system, to improve extension services as well as adequate and timely inputs provision to farmers
- Continuation of the conservation agriculture programme, with the eventual intent of increasing cotton productivity and environment preservation
- Creation of an enabling environment for the farmers to adoptContract Farming by strengthening their Cotton Farmers Business Groups (FBGs) through the Cotton Sector Development Programme and the Cotton Development Trust Fund

I would like to again reiterate for a necessity on the need for a strong political-will and informed support from all players at all levels, for effectively tackling the challenges in the sub sector. We need also to sharpen our focus and strategies so as to make the cotton industry in Tanzania vibrant and competitive both locally and internationally.

Finally, I would like to thank allmembers of the Board of Directors for their invaluable contribution and advice towards realization of the Boards assigned objectives during the past year. Many thanks are to the TCB Management and Staffs who have worked diligently and tirelessly to make it possible for the Board to accomplish its planned commitments during this period, though with limited resources. The Board is grateful to the Ministry of Agriculture Food Security and Cooperatives for the steady guidance, support and directives to the operations and activities of the Tanzania Cotton Board. We also, highly value the commitment and cooperation offered to us, by Cotton Ginners, Farmers, Financial Institutions and other stakeholders in the Cotton Industry. It is our wish that next season will witness greater improvements and achievements in the way we are executing our activities for the betterment of the cotton sub sector and the nation at large.

Hon. Dr Festus B. Limbu (MP)
CHAIRMAN - BOARD OF DIRECTORS

Message from the Director General

The financial year ending on 30th June 2014 which started on 1st July 2013 witnessed a series of major developments and events. There were a conflicting views from farmers and ginners on the farm gate price of 700/= per kilo. While the farmers considered it as too low, on other hand the ginners complained to the government's use of force to reach at that price, compared to the prevailing world's market, at that time. Some other major events and activities during the period under review were as follows:-

- The cotton marketing season was officially opened on the 6th July 2013 at Mbogwe village in Nzega District. The official indicative price was 700/= per kilo, despite of the stiff competition for the crop between buyers, the price ended at the same level, throughout the season.
- The 2013/2014 marketing season witnessed a decline in cotton output by 31% from 352,000 tons in 2012/2013 to 245,831 tons due to farmers' reaction to low cotton prices in the previous season and lower inputs usage by farmers due to postponement of the Contract Farming, in some cotton growing areas.
- Ilonga and Ukiriguru Agriculture Research Institutes continued with their efforts of undertaking research activities with a support from the sub sector. The support particularly came from the Cotton Development Trust Fund, Agrochemical companies, the Tanzania Government and Tanzania Gatsby Trust to a total of 473,329,560/= for both, during the financial year under review.
- In this financial year the Tanzania Cotton Board (TCB) in collaboration with the Tanzania Gatsby Trust continued to undertake the Cotton and Textile Development programme which seeks, among other things, to raise cotton productivity and output to 271,000 tons of lint and domestic consumption of cotton up to 60% by 2015.
- The achievements from the pilot of Contract Farming carried out under the auspicesof Cotton and Textile Development programme indicated an increase in yield of between 485 and 620 kg per acre and an improved cotton quality. Notwithstanding its successful-roll out in the 2011/2012, it was rejected by a section of stakeholders, in some cotton growing Districts.

While the details on the activities undertaken by TCB are discussed in brief in this Annual Report a point worth mentioning is, TCB continues to struggle against the challenges of a growing mismatch between its core obligations to the Industry and the manpower and financial resources available.

I would like to express my gratitude to all Tanzania Cotton Board's staffs for their flexibility and commitment throughout the year in delivering services to improve the lives of poor cotton farmers. I am also grateful to our development partners, the Tanzania Gatsby Trust and all other cotton stakeholders for their continued efforts and the important role they played in fostering the development of the sub sector. I look forward to continued cooperation from all stakeholders in 2014/2015 to ensure the best possible outcomes and to build fair, cohesive and a vibrant Cotton Industry.

Marco C. Mtunga
DIRECTOR GENERAL

TANZANIA COTTON BOARD

BOAD OF DIRECTORS

Hon. Dr. Festus Limbu (MP)
Chairman

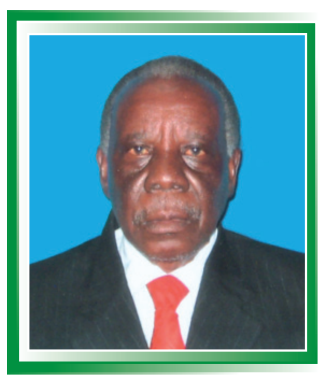
Mr. Christopher M. Gachuma
Member

Mr. Raphael N. Mlolwa
Member

Dkt. Mbette Mshindo
Member

Mr. Clement G. Mabina
Member

Mr. Robert Jongela
Member



Mr. George B.M. Wasira
Member

PRESENT MANAGEMENT STAFF

Mr. Marco C. Mtunga
Director General

Mr. Gabriel P.T. Mwalo
Director of Finance and Administration

Mr. James N. Shimbe
Director of Regulatory Services

Director of development and Promotion

Mr. Jones K. Bwahama
Zona Manager

Mr. Ndema S. Mapunda
Senior ICT Officer

Ms. Elizabeth Msuya
Principal Legal Officer

Mr. Emmanuel Bulolelo
Principal Internal Auditor

PERFORMANCE OVERVIEWFORTHE YEAR 2013/2014

COTTON PRODUCTION

During the 2013/2014 marketing season, cotton production decreased to 245,831tons of seed cotton from 352,161 tons of seed cotton produced during the 2012/2013 season, that is,31 percent decrease. The decline in productionwas largely attributable to various reasons including the disappointing low farm gate prices which resulted from low prices at the international markets for lint. The farm gate price rose by a small margin of only 40/=, from the average price of 660/= during the previous marketing season to 700/= per kilo. This discouraged the farmers to undertake cotton farming, leading to a less acreages under cotton crop.Farmers do not have any way of assessing likely future prices, so they base decisions on what area to plant to which crop on the previous season's price.The Tanzanian farmers have not yet forgotten the 2011/2012 cotton-lint price spike in international markets which closed to about 2 US dollars, translating into about 1000/= per kilo, as the farm gate price.

The nose-dive in cotton production could also be due to the unprecedented rejection of the just rolled-out Contract Farming system, after its successful extensive piloting. The rejection of the Contract Farming by a section of stakeholders resulted in low usage of inputs by the farmers, leading to unchecked insect-pests population in cotton farms. The insecticides that could have been provided on loan to farmers were bought on cash.A bigger section of farmers could not afford, causing low application of the insecticides.Poor use of pesticides, was comprehensively reflected in a dramatic cotton quality drop for the basic selling grade of GANY and above, from 57 to a sheer 39%.

Table 1: Production from 2011/12 to 2013/14 season

Zone	Region	2011/12	2012/13	2013/14
	Simiyu	97,743	149,492	117,762
	Shinyanga	28,822	65,195	40,994
	Mwanza	35,730	46,053	23,786
	Geita	29,571	36,083	23,951
	Tabora	14,842	33,044	22,784
	Mara	15,939	22,376	13,612
	Singida	882	2,476	1,689
Western	Kagera/Kigoma	534	1,055	313
Total Western		**224,451**	**356,201**	**244,891**
	Manyara	768	1,496	688
	Morogoro	544	205	105
Eastern	Kilimanjaro	25	28	40
	Pwani	120	41	7
	Tanga	77	35	50
	Iringa	10	80	50
Total Eastern		**1,544**	**1,885**	**940**
Grand Total		**225,995**	**352,161**	**245,831**

Cotton Buying and Marketing

The 2013/14 buying season was officially inaugurated at Mbogwe village in NzegaDistrict. A total of 36 companies were licensed to procure seed cotton as compared to 37 companies during the 2012/13 marketing season.A total of about 7,226 buying posts were certified and licensed.

Cotton Ginning

A total of 45 ginneries were inspected and permitted to operate during the season compared to 42 ginneries licensed in preceding season. Table No.2 provides a summary of the performance of the companies during the season under review.

Table 2: Performance of ginners during 2013/14 marketing season

	Company Name	Deliveries (Kg)	Varied weight Bales
1.	Afrisian Ginning Company Ltd	24,914,869	42,883
2.	BirchandOil Mill	12,965,172	23,038
3.	Chesano	1,368,290	2,736
4.	ICK Cotton Oil	3,877,550	5,658
5.	Mathayoson	5,278,684	11,078
6.	Nyanza Cotton Oil	1,997,120	3,150
7.	Manawa Ginneries	1,734,280	2,953
8.	LugeyeInvestment – ICK	1,086,460	2,000
9.	KCCL	22,173,200	36,051
10.	MwanzaTextile (2001) Ltd	2,208,996	4,298
11.	S.M Holdings	5,449,200	9,580
12.	AhamInvestment	6,690,474	10,452
13.	Alliance Ginneries	509,840	810
14.	Fresho Investment	19,933,340	31,939
15.	Gaki Investment/Roko Cotton	18,163,416	26,982
16.	HassanalWalji	3,983,895	6,503
17.	JamboOil Mill	10,230,369	15,813
18.	KahamaCorp.Union	541,285	906
19.	KahamaOil Mill	35,697,877	40,957
20.	NIDA	8,521,709	15,825
21.	Majahida– NGS	8,379,220	13,266
22.	BIORE (T) Ltd	7,213,340	12,010
23.	BibitiGinnery	596,048	1,021
24.	Nyakabindi–Nsagali	579,272	525
25.	SHIRECU	4,081,290	7,253
26.	VitrecsOil Mill	1,996,690	3,331
27.	MeTL Ginning Co.Ltd	3,478,246	6,034
28.	OLAM (T) Ltd	15,441,440	24,170
29.	S&C Ginning Company	8,641,670	15,685
30.	NewTabora Textile Ltd	814,786	1,576
31.	Biosustain	6,343,020	12,599
32.	Eastern Cotton Growing Area (ECGAs)	940,000	1,740
TOTAL		**245,831,048**	**392,822**

COTTON INPUTS SUPPLY

(i) Seeds

A total of 17,085 tons of fuzzy seeds were distributed to farmers for planting during the 2012/2013 farming season. The area under cotton production rose from 995,000 acres cultivated during 2011/2012 farming season to 1,000,000 acres during 2012/2013.

(ii) Insecticides

The Cotton Development Trust Fund imported 1,255,000acre packs of water based insecticides which were distributed to farmers by the ginners. However, due to refusal to undertake Contract Farming System by some of the stakeholders just a fraction of the imported insecticides were applied in cotton farms.

Table 3: Quantity of insecticides supplied during 2013/14 farming season

No	Insecticide	Quantity (acrepacks)
1.	Barmethrin 2.5 EC	325,000
2.	Karate 5EC	75,000
3.	Zetabestox 10 EC	255,000
4.	Agromethrin 10 EC	150,000
5.	Insectido	250,000
6.	Agrothrin	200,000
	Total	**1,255,000**

COTTON RESEARCH

Cotton Research at Ilonga and Ukiriguru Research stations continued with the overall objectives of increasing the productivity and profitability of cotton farming through the development of new seed varieties and the release of appropriate production technologies.

During the 2013/2014 farming season, the cotton research programme carried out some activities covering different aspects of research namely; variety development; evaluation of different soil fertility management practices; weed, insect and disease control measures as well as multiplication of breeder seed.

A total of Tshs, 473,329,560/= was made available for cotton research activities from different sources as shown in Table 5 below.

Table 5: Source Cotton Research Funds

No.	Source	Research Station		Total Amount (Tshs)
		Ilonga	Ukiriguru	
1.	Cotton Development Trust Fund	95,154,000	260,735,435	355,889,435
2.	Agro-chemical and fertilizer Companies	6,200,000	3,500,000	9,700,000
3.	Seed Company	0	22,000,000	22,000,000
4.	Government	0	24,333,000	24,333,000
5.	Tanzania Gatsby Trust	0	61,407,125	61,407,125
	Total	**101,354,000**	**371,975,560**	**473,329,560**

Research Outputs at Ilonga Agricultural Research Institute

- One cotton variety (NTA 93-21) for use in the ECGA was released by the Official Seed Release Committee under the Ministry of Agriculture, Food and Cooperatives
- 123 germ-plasm materials were maintained. These materials are future source of good traits
- 105 Kg of breeder seed Mkombozi, 92 kg of NTA 93-21 and 21 kg of NTA 93-2 were produced
- The ongoing trial on soil nutrient depletion is at the fourth year and current results has shown drastic drop of soil nutrient when a field is under cotton production continuously.
- Preliminary results on the Cotton spacing trial which is currently being conducted in Ulanga district has shown that a spacing of 10 cm x 100 cm is more yielder than the recommended spacing (30 cm x 90 cm) by 20%
- Mealy bug management trial in Babati has shown that organophosphates are more effective than pyrethroids and heavy molecule of Petroleum spray oils
- Three new insecticides were tested for the final year and had shown to have good efficacy in the control of cotton insect pests.

Table 6: Research Activities and the Output at Ukiriguru

	Activity /Title	Outputs
1.	Crossing blocks establishment to improve cotton disease resistance, yield increase, fibre quality and adaptability to environment into the UK varieties. Crosses were made between UK varieties and exotic varieties from CIRAD, USA, Mali	A total of 28 cotton F1 were developed where 5658 single plants were selected from 586 multiplication plots with better characteristics
2.	Evaluation of cotton progenies for high yields and tolerance to bacterial blight, fusarium wilt and alternaria diseases and good fibre quality for cotton improvement	-Evaluated 14 progenies for advancement in different environments where 4 progenies have been identified for on-farm trials - Have identified two (2) progenies preferred by farmers for release. F-135/91(01)4 and NTA93-4/82(01)2
3.	Evaluation of cotton advanced lines at farmers' fieldsonfarm for high yields and tolerance to bacterial blight, fusarium wilt and alternaria diseases and good fibre quality for farmers preference in the Western Cotton Growing Areas.	- Have identified two (2) progenies preferred by farmers for release F-135/91(01)4 and NTA93-4/82(01)2
4.	Evaluation in farmers' fields of the five cotton advanced lines identified through Molecular Markers as pre NPT and DUS assessment for variety release	-Cotton production and Fibre quality increased at least 5% by 2017 -Resistance and adaptability improved at least by 20% by 2013 because of improved varieties
5.	Multiplication of cotton progenies (strains and lines) at early stages to get seeds for the following season	A total of 508kg of seed and 392kg of lint were obtained after ginning. The seeds are enough to plant 20.3 hectares

6.	Multiplication of breeder seeds as source of cotton seeds for Pre basic seed	A total of 1978 Kgs of UKM 08 were obtained as breeder seed enough to plant 79 hectares were obtained of Pre basic seed
7.	Multiplication of cotton Pre Basic seeds as source of cotton seeds to be supplied to the cotton seed company	A total of 7600 Kgs seeds of UKM 08 seeds were obtained and supplied to Quton Seed Company enough to plant 3,040 hectares of Basic seed
8.	Evaluation of Canopy oil for the control of *Helicoverpaarmigera* on cotton in the Western cotton growing Area of Tanzania	Petroleum Spray oils particularly Canopy recommended for use on cotton to control *H. armigera* in the Western cotton growing Area of Tanzania by 2016
9.	Comparative effect of Integrated Pest Management (IPM) and Conventional pest control practice against *Helicoverpaarmigara* on cotton	Appropriate control measure against *H. armigera* will be recommended by 2018
10.	New Insecticide Testing	Galil (250 g/l) passed for recommendation in the field trials
11.	Evaluation of different time of commencing pesticide application for the control of *Helicoverpaarmigera* on cotton	Ideal time for starting pesticide application on cotton for effective control of *H. armigera* identified by 2018.
12.	Evaluation of different pesticides for the control of sucking pests on cotton	Appropriate pesticide for controlling sucking pests on cotton recommended by 2017
13.	Testing of Breeding Materials for Fibre and Yarn Quality for cotton variety improvement	132 samples from breeding material were tested for length, strength, maturity and micronaire parameters
14.	Collection of lint samples from ginneries in the Western Cotton Growng Areas (WCGAs) and Eastern Cotton Growing Areas (ECGAs) testing for fibre quality	-46 lint samples from ginneries were tested for length, strength, maturity and micronaire parameters -All sample values observed to attain the international standards
15.	Screening of cotton breeding materials for resistance to *Fusarium* wilt disease.	-Cotton strain NTA 93 - 5/IL74 (04)1-5) had high resistance level -Cotton lines NTA 90-5/82(01)4 and F135/91(01)4 have shown high resistance to *Fusarium* wilt disease.
16.	Screening of cotton breeding materials for resistance to Root Knot nematodes.	-Cotton strain NTA93-2/1L74(03)1 had high resistance to nematodes followed by treatments NTA93-5/IL74 (04)1-5 and NTA93-21/Auburn56 (05)1. -Cotton line NTA93-21/MZL561 (04)2-3 was less susceptible to nematodes

17.	Evaluation of different fungicides application to control *Alternaria* leaf spot disease of cotton in Mara region.	-Most of the farmers' fields had low Total nitrogen and available phosphorous. -Identification of pathogens *Alternariamacrospora*and *Alternariaalternata.* -Carbendazium fungicide shows high significance of control *Alternaria* leaf spot. -Economically; Net Benefit and Net Gain for Carbendazium fungicide was higher.

COTTON CLASSIFICATION

Cotton classification is aimed at determining the quality parameters of the fibre prior to its sale. Classification results for the year 2013/2014 indicates that only 39% of the cotton classed was of good grade (i.e GANY and above).

Table 6: Analysis of classing results

Marketing Season		2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Ginning Performance	Seed Cotton Delivered (Kg)	368,697	267,004	163,517	225,938	352,161	245,831
	Bales Produced	633,500	458,770	280,957	350,554	578,915	455,556
Cotton Grades	Received	518,762	403,506	221,407	324,326	147,200	338,470
	Classed	518,762	403,506	221,407	23,911	18,779	338740
	Gany and above	68%	46%	47%	61%	57%	39%
	Below Gany	25%	51%	52%	35%	42%	60%
	Yika and Undergrade	7%	3%	1%	4%	1%	1%

COTTON LINT EXPORTS

During 2013/2014 season, Tanzania exported a total of 24,536tons of lint valued at USD 45,665,412million, compared to 57,361 tons worth USD 93,745,595.00 million which were exported in 2012/2013. The major destinations of Tanzanian cotton lint were China, Bangladesh, Indonesia, Vietnam, and India.

Table 7: Cotton Exports by Destination during 2013/2014

Country	Exported (Tons)	Average Price (USc/lb)	Value in US$
Bangladesh	4,391	0.85	8,233,402
China	6,235	0.84	11,668,106
Eritrea	20	0.81	35,317
India	2,855	0.86	5,595,358
Indonesia	4,524	0.83	7,706,656
Netherland	39	0.89	178,975
Portugal	48	0.85	88,462
Singapore	1,017	0.81	1,761,280
Thailand	614	0.81	1,009,855
Turkey	195	0.89	410,964
Vietnam	4,142	0.84	8,028,647
Kenya	456	0.80	948,390
TOTAL	**24,536**	**0.84**	**45,665,412**

COTTON EXTENSION SERVICES

During 2013/2014 farming season the Board implemented a number of activities which were aimed at disseminating the best cotton farming practices to farmers as outlined here below:-

- Weekly 'PambaYetu' radio programs were aired on Tanzania Broadcasting Corporation
- Agro-chemical companies which supplied insecticides conducted training to farmers on proper usage of their products
- The Board participated in NaneNane Agricultural Shows in Morogoro and Mwanzawhere it emerged a winner in the category of Crop Boards
- Trainings on Good Agricultural Practices were undertaken in all areas where Contract Farming system is conducted in Shinyanga, Mwanza and Geita regions

1. REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2014

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 Board of Directors of Tanzania Cotton Board is pleased to present its Annual Report and Financial Statements for the year ended 30th June 2014 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 the 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 promoting the 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 (cap201, 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 through two zones; the Western Zone based at Mwanza, the Eastern Zone and the Head Office at Dar es Salaam.

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 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. The tenure of the existing Board of Directors ended in April 2013 but the Minister for Agriculture extended their tenure for an unspecified period, however in August 2014 the Minister decided to end the extension and the new Board was not yet appointed by the time the financial statements were authorized for issue.

In the year under review one member of the Board of Directors passed away. The names of the members of the Board of Directors who served during the financial year until August 2014 were: -

	Name	Age	Position	Qualification	Nationality
1	Mr. Festus B. Limbu	58	Chairman	PhD in Economics	Tanzanian
2	Mr. Mbette M. Msolla	61	Member	BSc/MSc/PhD in Agriculture	Tanzanian
3	Mr. George B.M. Wa-sira	72	Member	BA-Management & Admin/ MBA marketing/L.L.B	Tanzanian
4	Mr. Raphael M. Mlolwa	68	Member	BA –Economics & Statistics/ MA-economic Development	Tanzanian
5	Mr. Christopher M. Gachuma	68	Member	Diploma in sales Management &Marketing	Tanzanian
6	Mr. Robert Jongela	45	Member	Secondary Education	Tanzanian
7	The Late Mr. Clement Mabina	57	Member	Secondary Education	Tanzanian
8	Mr. Gabriel P. T. Mwalo	54	DG & Sec-retary	CPA(T)/MBA-Business admin	Tanzanian

1.4 Functions of the Board

The main functions of the 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 advice 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 fora 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 strategic plan that cover the period from 2010/11 to 2014/15.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. The strategy aims to achieve the following objectives:

a) To raise cotton yields from 750Kg per acre to 1,000 Kg per acre by 2015;

b) To increase national cotton output from 700,000 bales to 1,500,000 bales by 2015;

c) To improve cotton quality through contract farming and providing education on cotton quality;
d) To improve the cotton marketing system;
e) To enforce the cotton law and its regulations;
f) To introduce cotton irrigation systems along the Lake Victoria basin;
g) To encourage local and foreign investors to invest in Textile Industry in Tanzania;
h) To establish strong contract farming groups/associations in the cotton growing areas.

1.6 Corporate Governance

The Board of Directors take overall responsibility 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 environments 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 have been done in accordance with the Public Procurement Act No.7 of 2011 The board of directors delegates daily operations to the management and, management performance is reviewed through different Board of Directors meetings.

During the year, the Board of directors held four (4) ordinary and seven (7) extraordinary meetings which deliberated on various issues pertaining to regulatory, promotion and administrative matters including deliberation and approval of the following matters:

a) The 2014/15 Budget
b) The 2012/13 Financial Statements and Management Letter
c) Four quarterly Performance Reports
d) Staff Matters

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

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 crops when cotton prices fall.

During the year, the cotton market indicative price was TZS 700 per kg which is slightly higher compared to TZS 660 per kg for the previous cotton buying season.

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 discount 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 utilization of inputs due to low capital bases of smallholder cotton farmers and absence of credit arrangements. This is below the existing potential of over 2,500 kg per hectare.

e) Inadequate Government Funding for Regulatory Activities.

Since its inception in July 2004, the Board 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.31.3 million against the approved Government budget of TZS.80 million. This has resulted into difficulty for implementing some of its principal mandatory objectives like strong cotton quality controls through regular inspection of Cotton Ginneries and Cotton buying centres, providing education to farmers on good husbandry and construction of modern laboratory for cotton quality testing.

1.8 Trends and Future Prospects

(a) Cotton Price Subsidization

The Board received Government Cotton Price Subsidy to the tune of TZS 20 billion in 2009/10 to assist farmers for the low cotton prices as a result of the impact caused by the global financial crisis. The fund was issued by the Government as compensations to farmers at an additional price of TZS 80 per Kilogram for the estimated cotton production of 250,000 metric tons. However, the actual cotton production at the end of the season was 267,004 metric tons which was more than estimated cotton production by 17,004 metric tons. This is equivalent to a short fall of TZS 1.36 billion which the Government was supposed to release as additional funds to farmers.

Through cotton ginners, the Board had disbursed a total sum of TZS 19.48 billion as at 30th June 2014 which includes bank charges of TZS 250,000.This is equivalent to 97% of the total funds received in 2009/10. During the year, the Controller and Auditor General (CAG) was assigned by the Government to conduct special audit of the funds already disbursed by the Board to Ginners at a fee of TZS 115,540,900 and reimbursable audit expenses of TZS139,428,000. At the end of June 2014, TZS 404 million of subsidy money were still in the hands of cotton ginners, while TZS 245 million is retained by the Board in the TIB investment account and the remaining balance of TZS 16 million was held by the Board in the CRDB Cotton Price subsidization account awaiting Government decisions.

(b) Rehabilitation of Warehouses at Kurasini

The board has started undertaking major rehabilitation of 35 warehouses located at Kurasini so as to improve revenue and stop further deterioration of the respective warehouses. These warehouses built over 50 years ago are now in a very poor state so badly needed a phase lift. These warehouses are the main source of TCB's internal revenue but their poor state has forced their rent rates down to a mere US$ 2.50 per square meter per month. The Board of Directors is confident that after their rehabilitation, TCB's rental revenue will rise by 100% from the current levels. Finance for this project was obtained through borrowing from Tanzania Investment Bank (TIB).

1.9 Supports from Donors

1) The European Union

The European Union and the Government of Tanzania entered into an agreement under which the former is funding the Cotton Smallholder Farmer Quality and Market Access Improvement Project for a total sum of Euro 2,500,000. TCB was appointed to be the project implementer and in December 2012 the board received TZS 1,120,000,000 from the European Union as part of project funds. The project is being implemented in Meatu, Bariadi and Maswa Districts in the Western Zone cotton growing Areas.

During the project period, TCB has incurred TZS852.7 million for the following project activities:

i) Survey of proposed project areas
ii) Sensitization of cotton stakeholder for adoption of the project
iii) Identification and enrolment of cotton growers
iv) Training of Trainers(TOT)
v) Capacity building for cotton classers
vi) Recruitment of 3 staff for proper coordination of the project
vii) Procurement of project promotion materials and cotton picking bags
viii) Rehabilitation of 15 warehouses for cotton storage
ix) Staff training on cotton quality assurance and control
x) Purchase of standby generator for Mwanza laboratory

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.

During the year, the programme implemented the following activities:

i) Support for 19 junior cotton inspectors who were recruited under the programme to enhance the Borads capacity to manage contract farming activities;

ii) Provision of 4 motor vehicles for contract farming and cotton inspection activities.

The directors are 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 utilised by TCB during the year as follows:-

	Donor	
	EU	TGT
	TZS'000	
Balance at the beginning of the year (1July 2013)	**1,047,872**	**7,722**
Add: Funds received	-	369,529
: Unretired imprest expense for last year	24,653	-
Less: Expenditures	(805,202)	(386,319)
Balance at the end of the year (30 June 2014)	**267,323**	**(9,068)**

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.

1.10 Financial Performance

During the year under review, the Board's total revenue was TZS 4.2 billion compared to TZS3.31 billion that was received during the previous year. However our operating expenses were TZS 4.28 billion compared to TZS 3.50 billion in 2012/13, before considering depreciation, provision for bad and doubtful debts and provision for impairment of intangible assets.

The Board's operating results for the period ended 30th June 2014 were as shown below:-

	2014	2013
	TZS'000	TZS'000
Total Revenue	4,243,042	3,314,660
Less: Total Expenditure	(4,675,847)	(3,717,410)
Operating Surplus/(Deficit)	**(432,805)**	**(402,750)**

1.11 Human Resource Issues

1) Establishment

During the year, one employee retired from the Board's services, five were staff was recruited while one terminated contract with the Board at his own will. The staff position as at 30th June, 2014 was as shown below:-

Department	Position as at 30.06.2014	Position as at 30.06.2013
Director General's Office	4	3
Finance & Administration	21	19
Regulatory	33	33
Total	**58**	**55**

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 50 Million for medical expenses for the year 2013/2014, as compared to TZS 63.2million incurred in previous period. The fall was a result of maintaining a lower number of staff for the year.

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:-

a) Limit the number of new infections among employees by increasing awareness on HIV AIDs;
b) Ensure employees living with HIV/AIDS are aware of their rights and that their rights are respected and protected;
c) 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 Board held 2 meetings 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 untypical 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 four employees for Master degree program in different disciplines. 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 2013, the Board had the following distribution of employees by gender:

Gender	As at 30.06.2014	As at 30.6.2013
Female	17	14
Male	41	41
Total	**58**	**55**

1.12 Compliance Issues

1) **Directors' Remuneration**

The board of directors had seven directors and a secretary who is the Director General and Chief Executive Officer of TCB. During the year the directors collectively received the following benefits from TCB:-

	Benefit	Amount TZS'000
1	Directors Fees	5,020
2	Sitting Allowances	83,918
3	Travelling and Accommodation	29,016
	TOTAL	**117,954**

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	1,402,563
2	Cotton Development Fund	Shared functions	893,286
3	Top Management	Decision Maker of TCB	402,785

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 30 June 2014 on his behalf, 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.

The Directors 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 Financial Reporting Standards (IFRSs) in force at the reporting date and in the manner required by the local law and GAAP. The Directors 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 directors 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	DIRECTOR

09/02/2015
....
DATE

2. AUDIT REPORT ON THE FINANCIAL STATEMENTS

To: Mr. Festo B Limbu
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 2014

I have audited the accompanying financial statements of the Tanzania Cotton Board which comprise the Statement of Financial position as at 30 June 2014, Statement of Comprehensive Income, 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 19 to 51 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 Financial Reporting 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 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 appropriateness of accounting policies used and reasonableness of the accounting estimates made by management, as well as evaluating overall presentation of the financial statements.

In addition, section 10(2) of the Public Procurement 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. 44(2) of the Public Procurement Act No. 21 of 2004 and Reg. No. 31 of the Public Procurement (Goods, Works, Non-consultant services and Disposal of Public Assets by Tender) Regulations of 2005 requires me to state in my annual audit report whether or not the auditee 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 30 June 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting 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
2 FEBUARY , 2015

3. FINANCIAL STATEMENTS FOR YEAR 2013/2014

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	NOTE	2013/2014 TZS'000	2012/2013 RESTATED TZS'000
ASSETS			
Non-Current Assets:			
Property, Plant and Equipment	3	2,416,562	2,574,379
Intangible Assets	4	-	30,997
Work in progress	6	1,650,392	-
Investment Property	5	8,883,131	8,838,847
Assets Held in Trust –Treasury Registrar	7	1,842,893	1,842,893
		14,792,978	**13,287,116**
Current Assets:			
Inventories		10,022	9,208
Trade and other receivables	8	696,199	430,184
Cash and Cash Equivalents	9	937,640	2,080,551
		1,643,861	**2,519,943**
TOTAL ASSETS		**16,436,839**	**15,807,059**
EQUITY AND LIABILITES			
Equity:			
Capital Fund	10	3,126,455	3,126,455
Revaluation Reserve	13	2,098,940	2,098,940
General Reserve		6,196,173	6,665,293
		11,421,568	**11,890,688**
Liabilities:			
Noncurrent Liabilities			
Capital Grant	11	17,640	21,070
Bank Loan	12	1,807,232	-
Treasury Registrar	7	1,842,893	1,842,893
		3,667,765	**1,863,963**
Current Liabilities:			
Trade and Other Payables	14	694,687	445,559
Provisions	15	35,545	35,045
Deferred Income	16	356,032	1,055,593
Cotton subsidy due to farmers	24	261,242	516,211
Total Liabilities		**1,347,506**	**2,052,408**
TOTAL EQUITY AND LIABILITIES		**16,436,839**	**15,807,059**

THE FINANCIAL STATEMENTS OF TCB AS SET OUT ON PAGES 24 TO 56, WERE APPROVED BY THE BOARD OF DIRECTORS ON... 9/02/015 AND WERE SIGNED ON ITS BEHALF BY :

.... CHAIRMAN

.... DIRECTOR

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

	NOTE	30.06.2014	30.06.2013
		TZS'000	RESTATED TZS'000
INCOME			
Government Subvention		893,376	861,939
Classification Fees		79,148	131,888
Rental Income	17	1,845,727	1,688,948
Regulatory income		20,220	20,150
Income from Donors	18	1,191,520	444,589
Other Income	19	213,051	167,146
TOTAL INCOME		**4,243,042**	**3,314,660**
OPERATING EXPENSES			
Employees costs	20	2,091,968	1,876,377
Administrative Expenses	21	869,642	740,953
Cotton Promotion Expenses	22	842,572	619,251
Repairs and Maintenance	23	367,893	145,429
Financial Expenses		13,706	15,789
Taxes and Levies	25	145,196	103,395
Provision for Bad and Doubtful Debts		128,321	7,655
Provision for amortization of Intangible assets	4	6,642	6,642
Depreciation	3	209,907	201,919
TOTAL EXPENDITURE		**4,675,847**	**3,717,410**
NET OPERATING SURPLUS/(DEFICIT) FOR THE YEAR		(432,805)	(402,750)
Fair value gain of investment property	5	–	–
NET SURPLUS/DEFICIT FOR THE YEAR		(432,805)	(402,750)
Other comprehensive income		–	–
TOTAL COMREHENSIVE INCOME		**(432,805)**	**(402,750)**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2014

Particulars	Capital Fund TZS'000	Revaluation Reserve TZS'000	General Reserve TZS'000	Total TZS'000
Balance as at 30 June, 2012	3,126,455	2,098,940	7,068,043	12,293,438
Surplus/(Deficit) for the Year	-	-	(402,750)	(402,750)
Other Comprehensive income	-	-	-	-
Balance as at 30 June, 2013	**3,126,455**	**2,098,940**	**6,665,293**	**11,890,688**
Surplus/(Deficit) for the Year	-	-	(432,805)	(432,805)
Assets adjustments	-	-	(36,315)	(36,315)
Other Comprehensive income	-	-	-	-
Balance as at 30 June, 2014	**3,126,455**	**2,098,940**	**6,196,173**	**11,421,568**

THE FINANCIAL STATEMENTS OF TCB AS SET OUT ON PAGES 24 TO 56, WERE APPROVED BY THE BOARD OF DIRECTORS ON 9/02/2015 AND WERE SIGNED ON ITS BEHALF BY :

CHAIRMAN

DIRECTOR

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2014

	2013/2014	2012/2013
	TZS'000	TZS'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Surplus/Deficit for the Year	(432,805)	(402,750)
Add: Adjustments for :		
Depreciation	209,907	201,919
Amortization of Intangible Assets	6,642	6,642
Profit or loss on disposal of assets	(1,704)	-
Capital grant realization	(3,430)	-
Intangible Assets adjustment	24,355	-
Operating Surplus/(Deficit) Before Working Capital Changes	**(197,035)**	**(194,189)**
(Increase)/Decrease in Inventories	(814)	(4,226)
(Increase)/Decrease in Trade and other receivables	(291,130)	408,111
Increase/(Decrease) in Trade and other payables	232,655	142,874
Increase/(Decrease) in Deferred Income	(699,563)	986,009
Increase/(Decrease) in Government grants/Subsides	(254,969)	(150)
Increase/(Decrease) in provisions	500	1,653
Net Changes in Working Capital Items	**(1,013,321)**	**1,534,271**
Cash Flows Generated From/(Used in) Operating Activities [A]	**(1,210,356)**	**1,340,081**
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		
Acquisition of Property, Plant and Equipment	(52,615)	(14,687)
Fixed Assets renovations	(1,694,676)	-
Proceeds on Asset disposal	2,229	-
Net Cash Flows Used in Investing Activities [B]	(1,745,062)	(14,687)
CASH FLOW FROM/USED IN FINANCING ACTIVITIES [C]	-	-
Bank loan	1,807,232	-
Net Increase/(Decrease) in Cash and Cash Equivalents [A+B+C]	**(1,148,186)**	**1,325,395**
Cash and Cash Equivalents as at the beginning of the year	2,080,551	734,978
Effects of exchange rate changes on the balance of cash held in foreign currencies	5,275	20,178
Cash and Cash Equivalents as at the end of the year	**937,640**	**2,080,551**

THE FINANCIAL STATEMENTS OF TCB AS SET OUT ON PAGES 24 TO 56, WERE APPROVED BY THE BOARD OF DIRECTORS ON 09/02/2015 AND WERE SIGNED ON ITS BEHALF BY :

....
CHAIRMAN

....
DIRECTOR

4. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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, Cooperatives and Food Security. 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 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:

2.1 Basis of Preparation

1) Compliance with IFRS

The accompanying Financial Statements have been prepared in accordance, and comply with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the National Board of Accountants and Auditors (NBAA) as well as the Cotton Industry Act No 2 of 2001. The Tanzania Financial Reporting Standards TFRS 1, Directors Report and TFAS 23, Accounting for Value Added Tax, having no equivalent IFRS continue to be effective in Tanzania and are observed.

2) Historical Cost Convention

The Financial Statements has been prepared on historical cost convention except for certain assets, including Inventories, which are measured at fair value at the end of each reporting period.

3) Consistency

Accounting policies listed here are consistently applied year after year until there is good reason to change them. Any change in policy is disclosed in this section in the first year it is applied. The principal accounting policies adopted in the preparation of these financial statements are consistent with those used in the previous year.

4) Functional Currency

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

2.2 Changes in Accounting Policies

(a) Improvements to International Financial Reporting Standards (IFRS) issued in 2014

The following new and revised IFRSs 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:

(i) IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment clarifies that an entity that has stopped applying IFRS may choose to either:

(i) Re-apply IFRS 1, even if the entity applied IFRS 1 in a previous reporting period, or

(ii) Apply IFRS retrospectively in accordance with IAS B (i.e., as if it had never stopped applying IFRS) in order to resume reporting under IFRS.

Regardless of whether the entity re-applies IFRS 1 or applies IAS B, It must disclose the reasons why it previously stopped applying IFRS and subsequently resumed reporting in accordance with IFRS.

The amendment clarifies that, upon adoption of IFRS, an entity that capitalised borrowing cost in accordance with its previous GAAP, may carry forward, without adjustment, the amount previously capitalised in its opening statement of financial position at the date of transition.

Once an entity adopts IFRS, borrowing costs are recognised in a accordance with IAS 23 Borrowing Costs, including those incurred on qualifying assets under construction.

IAS 1 Presentation of Finance Statement

The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.

An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statement.

The opening statement of financial position (known as 'the third balance sheet') must be presented when an entity changes its accounting polices (making retrospective restatements or reclassifications) and those changes have a material effect on the statement of financial position. The opening statement would be at the beginning of the preceding period. For example, the beginning of the preceding period for a 30 June 2014 year-end would be 1 July 2013. However, unlike the voluntary comparative information, the related notes are not required comparatives as of the date of the third balance sheet.

(ii) IAS 16 Property, Plant and Equipment (PPE).

The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory and therefore it should be capitalized as part of the PPE.

(iii) IAS 32 Financial Instruments: Presentation

The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distribution to equity holders.

(iv) IAS 34 Interim Financial Reporting

The amendment clarifies the requirement in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments.

Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statement for the reportable segment.

(b) **New and revised Standards IFRSs issued but not yet effective for the period ended 30 June 2014**

The Board has not applied the following revised and new IFRSs/IASs that has been issues but are not yet effective:

(i) IFRS 2 Share-based Payment

Performance condition and service conditions under IFRS2 are defined in order to clarify various issues, including the following:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, caeses to provide during the vesting period, the service condition is not satisfied.
- The amendment is applied prospectively.

(ii) IFRS 3 Business Combination

The amendment clarifies that all contingent consideration arrangements classifies as liabilities (or assets)arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable)

The amendment is applied prospectively.

(iii) IFRS 8 Operating Segment

The amendment clarifies that entity must disclose the judgement made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'

The amendment clarifies that reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The amendments applied retrospectively.

FRS 13 Fair Value Measurement

The amendment clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

The amendment is effective immediately.

(iv) IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment to IAS 16 and IAS 38 clarifies that the asset may be revalued by reference to observable data on either the gross or that net carrying amount.

The amendment also clarifies that accumulated depreciation/amortisation is the difference between the gross and carrying amounts of the asset.

The amendment is applied retrospectively.

(v) IAS 24 Related Party Disclosures

The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.
The amendment is applied retrospectively.

(vi) IFRS 1 First-time Adoption of International Financial Report Standards

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements.
The amendment is effectively immediately.

(vii) IFRS 3 Business Combinations

The amendment clarifies that:

- Join arrangements, not just joint ventures, are outside the scope of IFRS 3
- The scope exception applies only to the accounting in the financial statement of the joint arrangement itself.

The amendment is applied prospectively.

(viii) IFRS 13 Fair Value Measurement

The amendment clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable)
The amendment is applied prospectively.

(ix) IAS 40 Investment Property

The description ancillary services in IAS 40 differentiate between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment clarifies that IFRS 3, not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an business combination.
The amendment is applied prospectively.

1.3 ACCOUNTING POLICIES

(i) Revenue

Revenue is recognised 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. Revenue is determined as the fair value of the consideration received or receivable. Revenue is entered into books of accounts when TCB obtains control over the assets comprising the income or when the amount due constitutes an enforceable debt according to law or written agreements.

(ii) Rental Income

Rental income is a major source of revenue for TCB and is recognized on accrual basis on the basis 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 value added tax.

(iii) Government Subventions

The Board receive recurrent Government subventions for salaries and wages to employees and for its regulatory activities. TCB submits an annual budget for its needs which are incorporated into the government budget under the Ministry of Agriculture, Cooperatives and Food Security but, government subventions are only recognized when actually received.

The government regularly pays to TCB amounts of money which do not belong to TCB but are to be paid out to cotton farmers or other cotton stakeholders. Such amounts are not recognised as income but as liabilities and are disclosed in notes to financial statements.

(iv) Donations

Over the past few years, donations by institutions other than the government of Tanzania have been significant. Donated revenue is recognised when it is both received and the conditions of its release have been fulfilled by TCB. Donor revenue is not recognised based merely on signed contracts until actual money is received. Upon receipt it is treated as a liability and released to income as TCB fulfills the agreed scope of activities of the respective donation. Donations received but not recognised in income for the year are disclosed in notes to financial statements.

(v) Classification Fee

TCB is operating a cotton lint testing laboratory that provides a cotton lint classification service to cotton exporters. It 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.

(vi) Regulatory Fines

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

(vii) 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 income and credited in the Income Statement 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 income which is recognised in the income statement on a systematic and rational basis over the useful life of the asset. Such allocation to income is usually made over the periods and in the proportions in which depreciation on related assets is charged.

(viii) **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 period are recognized as interest expense in the statement of comprehensive income.

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

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

(x) **Property, Plant and Equipment**

(a) ***Materiality***
Assets with a useful life in excess of one year are capitalised and included in property, plant and equipment only when their initial cost or fair value meet materiality thresholds specified by the TCB Accounting Manual.

(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 recognisable 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 labour deployed and an appropriate percentage of variable and fixed overhead.

(c) ***Subsequent Recognition***
Subsequently, assets are stated in the Statement of Financial position at historical costs less accumulated depreciation and accumulated Impairment loss. Historical costs include

expenditure that is directly attributable to the acquisition of the items. Additional costs are included in the assets carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Board and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance cost of an asset, including day to day servicing, are charged to the profit and loss account in the period in which they relate.

(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 recognised 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 live and residue value of assets. Any increases in fair value as a result of valuation is recognized in the statement of Other Comprehensive Income and credited to revaluation surplus in equity. Decrease in valuation that offset previous increases of the same asset are charged against the revaluation surplus, all other decreases are charged to the profit and loss account.

(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
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 profit or loss.

(g) ***Residual Values***

Residual Values are estimated separately for each category of assets. According to IAS 16, 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.

(xi) **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 or losses arising from Changes in fair value of investment properties are recognized in profit or loss account 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 profit or loss account in the period in which the property is derecognized.

(xii) **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 Income Statement through profit or loss account prospectively. 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.

(xiii) **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.

(xiv) **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 recognised 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 month's gross salary as Leave Allowance when the employee goes on annual leave. Unpaid leave allowances are recognised on accrual basis as they fall due and are charged to income 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

b) National Social Security Fund

c) Government Employees Pension Fund

d) Public Service Pension Fund

e) Local Government Pension Fund

The Board's obligations in respect of contributions to such funds are 15% of the employee's basic 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	2013/2014 TZS'000	2012/2013 TZS'000
PPF	81,176	87,552
PSPF	5,118	5,073
LAPF	2,016	1,709
NSSF	13,083	18,181
Total	**101,393**	**112,515**

(d) ***Termination Benefits***

Termination 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.

(f) ***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 crystallisation of liabilities.

(g) ***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.

(xv) **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 income statement. 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 income statement 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.

(xvi) **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.

(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 Income Statement.

(xvii) **Financial Risk Management**

(a) ***Financial Risk Factors***

The Board's activities expose it 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 income, 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 income 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 30 June 2013 is made up as follow:-

(1) **Financial Risk Factors**

	2013/2014	2012/2013
	TZS'000'	TZS'000'
Cash at bank	937,640	2,080,551
Trade receivables	801,715	452,563
Staff debtors	163,394	137,080
Other receivables	*7,589*	*13,834*
	1,910,338	**2,684,028**

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.

None of the above assets are past due or impaired except for the following amount in trade receivables:-

	2013/2014 TZS'000	2012/2013 TZS'000.
by up to 3 months	143,833	185,233
by 3 to 6 months	99,477	205,110
by 6 to 12 months	299,377	189,207
Total past due but not impaired	301,690	339,426
Impaired	**128,321**	**4,620**

All 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 2013			
Trade and other payables	168,204	134,615	152,480
Deferred Govt. subsidies	-	-	516,211
Payable to related party	-	-	-
	168,204	**134,615**	**668,691**
At 30 June 2014			
Trade and other payables	363,400	107,775	223,511
Deferred Govt. subsidies	-	-	261,242
Payable to related party	-	-	-
	363,400	**107,775**	**484,753**

(xviii) **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) ***Re-Valuation of Assets***
The Board engaged an independent valuation specialist to estimates fair value of the Investment Properties and Non –Current Assets as at 30th June 2011. The valuation was 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 income statement. In additions, the property, plant and equipment are carried at revalued amounts with changes in fair value being recognized in the statement of other comprehensive income. 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***
Management has entered into contractual agreement with tenants (lessees) on its investment properties under operating lease. 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.

(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.

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

	Property TZS'000	Plant & Machinery TZS'000	Motor Vehicles TZS'000	Office Fixtures and Equipment TZS'000	Computer Equipment and Accessories TZS'000	Total TZS'000
Cost / Valuation:						
At 1 July 2012	2,156,736	220,905	347,689	145,531	90,897	2,961,758
Additions	-	-	-	2,738	11,949	14,687
At 30th June 2013	**2,156,736**	**220,905**	**347,689**	**148,269**	**102,846**	**2,976,445**
Additions	23,887	-	-	19,205	9,523	52,615
Transfers/Adjustments	-	-	-	-	(1,750)	(1,750)
At 30th June 2014`	**2,180,623**	**220,905**	**347,689**	**167,474**	**110,619**	**3,027,310**
Accumulated Depreciation:						
At 1 July 2012	68,338	30,927	59,552	20,331	21,000	200,148
Charge for the year	68,338	30,927	59,552	20,646	22,455	201,918
Revaluation Adjustment	-	-	-	-	-	-
At 30th June 2013	**136,676**	**61,854**	**119,104**	**40,977**	**43,455**	**402,066**
Charge for the year	71,129	30,926	59,552	22,711	25,589	209,907
Transfers/Adjustments	-				(1,225)	(1,225)
At 30th June 2014	**207,805**	**92,780**	**178,656**	**63,688**	**67,819**	**610,748**
Net Book Value						
As at 30th June 2014	**1,972,818**	**128,125**	**169,033**	**103,786**	**42,800**	**2,416,562**
As at 30th June 2013	**2,020,060**	**159,051**	**228,585**	**107,292**	**59,391**	**2,574,379**

NOTE 4: INTANGIBLE ASSETS

The Intangible Assets were re-valued on 30th June 2011 to TZs 41.1 million by a valuation consultant, M/s Proper Consult Ltd. The decrease in value of the intangible assets was charged to profit and loss account. The movement of fair value of intangibles assets is shown below:-

	2013/14 TZS'000	2012/13 TZS'000
Cost / Valuation:		
At 1 July 2013	44,281	44,281
Additions	-	-
At 30th June 2014	44,281	44,281
Amortization:		
At 1 July 2013	13,284	6,642
Charge for the year	6,642	6,642
Revaluation adjustments	24,355	
At 30th June 2014	**44,281**	**13,284**
Net book value :		
As at 30th June 2014	-	30,997

NOTE 5: INVESTMENT PROPERTY

The Investment Properties are held by the Board for earning rentals. During the year, the Board incurred TZS.44 million for renovating the Investment properties leased by tenants.

	30.06.2014 TZS'000	30.06.2013 TZS'000
Balance as at 1 July 2013	8,838,847	8,838,847
Additions	44,284	-
Fair value gain(Recognized in P&L)	-	-
Balance as at 30th June 2014	**8,883,131**	**8,838,847**

NOTE 6 WORKING IN PROGRESS

The Board has entered into a loan agreement with TIB bank for renovating its investment properties located at Kurasini. The Renovation exercises started in May 2014 and at the year end the ongoing activities were not yet completed. The amount spent for renovation activities were reported as working in progress as at 30th June 2014.

NOTE 7: ASSETS OWNED BY THE TREASURY REGISTRAR

Assets held in trust with amount of TZS.1.8 billion represent net assets of the defunct Tanzania Cotton Lint and Seed Board (**TCLSB**) which were not vested to Tanzania Cotton Board as at 1July, 2004 and they were still under custody of the Board as at 30 June 2014.

The Government through the Ministry of Agriculture, Food and Cooperatives has given the Board an authority to own and retain the assets held in trust for economic development of the Cotton Industry. The analysis of the assets held in trust is as follows:-

	30.06.2014 TZS'000	30.06.2013 TZS'000
Assets Not Taken Over		
Land and Buildings (Ex TCLSB NBV)	2,721,184	2,721,184
Transferred to Tanzania Building Agency	(733,950)	(733,950)
	1,987,234	**1,987,234**
Less: Liabilities Not Taken Over		
Sundry Creditors – Local	52,618	52,618
Sundry Creditors – Foreign	13,762	13,762
Insurance Payable (Premiums Unpaid)	77,961	77,961
	144,341	**144,341**
TOTAL NET ASSETS HELD IN TRUST	**1,842,893**	**1,842,893**

NOTE 8: TRADE AND OTHER RECEIVABLES

The VAT receivables of TZS.207 million arose from amount paid to the contractor for renovating TCB investment properties at Kurasini The other Trade receivables included debts due to TCB were as follows:-

	30.06.2014 TZS'000	30.06.2013 TZS'000
Trade receivables (Note 31)	584,887	427,448
Receivables from TGT	9,068	-
Staff receivables	163,394	137,080
Insurance Prepaid	7,589	13,834
VAT receivables	207,704	-
Receivables from LAF	56	-
Sub –Total	**972,698**	**578,362**
Less: Provision for Bad and Doubtful Debts	(276,499)	(148,178)
TOTAL	**696,199**	**430,184**

During the year, trade receivables of TZS 128.3 million was impaired and fully provided for in the statement of profit or loss. The increase in provision was caused by tenant's unwillingness to pay rent as TCB has taken legal measures for evicting bad and doubtful debts The Movement for debtor's provision allowances is shown below:-

	30.06.2014 TZS'000	30.06.2013 TZS'000
Balance at the beginning of the year	148,178	140,523
Charge for the year	128,321	7,655
TOTAL	**276,499**	**148,178**

NOTE 9: 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 prices as a result of the impact caused by the global financial crisis.

In 2012/13 the Board invested part of the remaining cotton price subsidy funds with Tanzania investment Bank (TIB) in a short term call deposit account. The amount invested to TIB was TZS 500 million 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 a 24 hours notification of withdraw to Bank. During the year, TZS 255 million was withdrawn from the TIB investment account for the special audit conducted by Controller and Auditor general.

Furthermore, the Board received 1.12 billion from the European Union for improving cotton quality in Bariadi, Meatu and Maswa districts. The purpose of the project is to increase income of small holder cotton producers through better quality of cotton produce which will eventually improve access to both local and international markets. The funds for the project were received through TIB bank account in December 2012 and implementation of the project activities started in February 2013. Bank and cash balances at 30 June 2014 were as follows:-

	Bank Account	30/06/14 TZS 000	30/06/13 TZS 000
1	NBC-Local Account	127,534	7,752
2	NBC-Forex Account	4,233	21,078
3	TIB Bank Notice Account	279,507	530,941
4	TIB EU Project Account	267,323	1,047,872
5	TIB Bank Current Local	3,563	500
6	CRDB Bank Ltd. Mbeya Account	1,730	2,263
7	CRDB Bank Ltd.-Azikiwe Account	36,170	98,834
8	CRDB Bank Ltd - Forex Account	13,607	170,870
9	CRDB- Cotton Price Subsidization	16,072	16,211
10	CRDB Bank Ltd. Mwanza Account	179,177	183,775
11	Cash In Transit	8,429	-
12	Cash in Hand	295	455
	TOTAL	**937,640**	**2,080,551**

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 30.06.2014 is analyzed hereunder:-

	30.06.2014 TZS'000	30.06.2013 TZS'000
Assets Taken Over:		
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
Sub- Total	**3,284,829**	**3,284,829**
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)	**3,126,455**	**3,126,455**

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 IAS 16. On the other hand, the asset was treated as capital grant and recognized in the statement of profit or loss 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 2014 was as follows:

	30.06.2014 TZS'000	30.06.2013 TZS'000
Balance as at 1 July 2012	21,070	24,500
Received during the year	-	-
Released to income statement	(3,430)	(3,430)
Balance as at 30 June 2014	**17,640**	**21,070**

NOTE 12: BANK LOAN

The Board has an agreement with TIB for the Loan facility of TZS 5.67 billion for renovating its investment properties located at Kurasini .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 will fall 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 H&R Consults as an accredited independent property value,
- The interest rate is 18% per annum charged on the outstanding amount.

During the year the Board received TZS 1.8 billion as advance payments for renovating investment properties.

NOTE 13: REVALUATION RESERVE

The revaluation reserve amounting to TZS2.1 billion as at 30 June, 2014 is an aggregate surplus which arose from the revaluation of the Board's property, plant and equipment. The revaluation of the Board's assets was done on 30th June 2011 by the independent accredited value. The valuation method adopted by the consultant was Replacement Cost Method. The reserve is not available for distribution.

NOTE 14: TRADE AND OTHER 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 journal cotton inspectors and at the end of contracts the Board will be required pay 25% of basic salary as gratuity accrued for the whole period. During the year, the Board recognized Tsh.32.89 million as gratuity accrued expense for 19 journal cotton inspectors.

NOTE 14: TRADE AND OTHER PAYABLES (CONTD)

	30.06.2014 TZS'000	30.06.2013 TZS'000
Business Payables	363,400	182,290
Treasury Registrar Current Account	144,341	121,109
Rural Development Corporation	-	4,376
VAT payables	-	32,567
Gratuity Accrued A/C	79,170	56,154
Payables to CDTF (Note 27 (f))	55,940	4,091
Accrued Expenses	27,176	3,948
Other Creditors	24,660	41,024
TOTAL	**694,687**	**445,559**

NOTE 15: PROVISIONS

	2013/2014 TZS'000	2012/2013 TZS'000
Provision for Audit Fees	35,545	27,000
Water bill	-	376
Telephone bill	-	571
Electricity	-	613
Unpaid annual leave	-	6,202
Medical charges	-	283
Total	**35,545**	**35,045**

NOTE 16: DEFERRED INCOME

The deferred income arises as a result of recognition of the amount received from donors and tenants for the next financial reporting periods. The income 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 income for the next accounting period.

	2013/2014 TZS'000	2012/2013 TZS'000
Balance as at the beginning of the year	1,055,593	66,154
Unretired imprest expense for last year	24,653	-
Income received from Donors	369,529	1,434,028
Income received from Tenants	88,709	-
Released to P&l(Note18)	(1,191,520)	(444,589)
Released to B/s(Note 8)	9,068	-
Deferred Income as at 30 June 2014	**356,032**	**1,055,593**

NOTE 17: RENTAL INCOME

In May 2014, the Board started renovating its investment properties for the purpose of improving rental charges for Warehouses. The Board is currently charging US$ 12 per square meter for offices and us$ 2.5 per square meter for Warehouses. After renovating the warehouses, therates will be revised to us$ 5 per square meter. These rates will become effective in the next financial year.

During the year TCB recognized rental income of TZS 1.84 billion compared to TZS.1.69 billion in previous year.

NOTE 18: INCOME FROM DONORS

During the year, a total sum of TZS 1.2 billion was recognized as income 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	2013/14 TZS'000	2012/13 TZS'000
Tanzania Gatsby Trust(TGT)	386,319	372,461
European Union	805,202	72,128
Total	**1,191,521**	**444,589**

NOTE 19: OTHER INCOME

	2013/14 TZS'000	2012/13 TZS'000
Interest Income	36,831	34,378
Gain on foreign exchange fluctuations	20,398	36,297
Gain on Fixed Assets Disposal	1,704	825
Capital grant realization	3,430	3,430
CDTF	100,000	50,000
Miscellaneous Income	50,688	42,216
TOTAL	**213,051**	**167,146**

NOTE 20: EMPLOYEES COSTS

	2013/14 TZS'000	2012/13 TZS'000
Salaries on government payroll	810,241	761,993
Salaries on Contract employment	670	
Salaries and Wages paid by TGT	232,188	272,695
Salaries and Wages paid by EU	22,815	
Allowance for Senior Officers	36,210	33,480
Acting Allowances	26,719	11,050
Gratuity	44,835	72,867
Housing Allowance	87,092	78,267
Transport Allowance	32,406	
Terminal Benefits	60,424	78,186
Pension Contributions	101,896	110,605
Transfer /Severance Allowances	12,160	910
Training Expenses	333,110	170,618
Staff Uniforms	1,020	2,072
Staff Benevolent Expenses	3,242	1,390
Workers Meeting	16,813	5,465
Staff Amenities	86,399	65,902
Medical Expenses	50,076	63,235
Traveling Expenses - Local Leave	77,622	74,622
Traveling Expenses - Workers Council	20,323	24,376
Integrity Committee Meeting	-	168
Staff Recruitment Expenses	23,388	22,848
Workers Day Expenses	12,319	25,628
TOTAL	**2,091,968**	**1,876,377**

Training expenses included TZS 241.04 million capacity building for TCB staff implementing the EU project.

NOTE 21: ADMINISTRATIVE EXPENSES

	2013/14 TZS'000	2012/13 TZS'000
Legal and Professional Charges	22,734	11,187
Printing and Stationeries	55,731	36,031
Newspapers and Periodicals	4,775	6,035
Subscriptions	1,397	2,325
Postage, Telephone, and Telegrams	50,409	42,655
Internet Services	6,061	5,719
Donations	400	900
Office Hospitality	17,231	11,934
Water and Sewage	10,559	15,779
	2013/14	**2012/13**
	TZS '000	**TZS'000**
Directors Remuneration	5,020	5,800
Director expenses	112,934	108,187
Audit Fees	33,090	27,000
Audit other Expenses	14,048	3,684
Electricity Charges	71,208	73,033
Assets valuation and Stock taking expenses	605	3,845
Insurance	63,533	62,716
Sanitation Expenses	49,949	31,148
Tender Meeting Expenses	31,111	8,042
Management Meeting Expenses	3,200	14,571
Fuels	57,128	64,848
Motor Vehicle - repairs & maintenance	21,867	24,427
Extra Duty	18,091	22,943
Assets Valuation Loss	3,688	-
Fumigation	3,483	16,309
Debt collection Fees	-	1,692
Budget Preparation Expenses	1,000	4,975
Traveling Expenses - On duty	117,065	67,963
Security Services	93,325	67,205
TOTAL	**869,642**	**740,953**

NOTE 22: COTTON PROMOTION EXPENSES

	2013/14 TZS '000	2012/13 TZS'000
Subscriptions	43,075	39,129
Conference Expenses	104,726	60,848
Farmers Education Expenses	88,128	1,385
Advertising Expenses	6,458	12,927
Buying Posts Inspection Costs	50,789	63,684
Ginnery Inspection Costs	71,022	50,195
Cotton Classing Costs	82,483	53,277
Inspectors Meeting Costs	3,142	1,425
Monitoring Services	98,550	197,990
Law Enforcement Costs	2,309	733
Cotton Quality Seminar Costs	13,077	30,049
Fuels	53,785	12,875
Motor Vehicle - repairs & maintenance	54,922	42,903
Stakeholders Meeting Expenses	109,469	24,903
Sensitization Expenses for EU Project	58,474	3,835
Farmer Business Groups Registration	-	360
Season Launching Expenses	2,163	110
International Publications	-	13,261
Parliamentary Meeting on Cotton	-	9,362
TOTAL	**842,572**	**619,251**

Fuel expenses included TZS 27.9 million and 12.3 million for monitoring field works activities funded by TGT and EU projects respectively.

NOTE 23: REPAIRS AND MAINTENANCE

	2013/14 TZS'000	2012/13 TZS'000
Repairs of Office Buildings	19,681	19,430
Repairs of Godown	169,010	13,355
Repairs of Staff Houses	20,755	15,315
Repairs & maintenance Generator	74,658	750
Repairs of Furniture and Equipment	22,199	18,636
Repairs & maintenance - Computers	22,827	46,532
Repairs of Other Vehicles	33,213	16,194
Repairs & maintenance -HVI Machine	5,550	15,217
TOTAL	**367,893**	**145,429**

NOTE 24: SUBSIDY PAYMENT DUE TO COTTON FARMERS

	30.06.2014 TZS'000	30.06.2013 TZS'000
TZS 80 per kg for 250m estimated kg	20,000,000	20,000,000
Payment made to date	(19,483,539)	(19,483,539)
Bank charges	(250)	(250)
CAG Special Audit(Note 1.8)	(254,969)	-
Amount due to farmers	**261,242**	**516,211**

NOTE 25: TAXES AND LEVIES

	30.06.2014 TZS'000	30.06.2013 TZS'000
Withholding Tax on Rent	120,646	**91,000**
Land Rent	22,812	
Property Tax	1,738	**12,395**
Total Taxes and Levies	**145,196**	**103,395**

NOTE 26: CAPITAL COMMITMENTS

TCB is undertaking a major rehabilitation of its Kurasini warehouses principally so as to protect them from further deterioration and enable it to charge a higher rent per square meter. The contract for these works has already been signed and it is estimated to cost more than TZS 5 billion.

NOTE 27: CONTINGENT LIABILITIES

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 cotton Board guaranteed CDTF for the purchase of delinted seeds from Quton but at the year-end CDTF has an outstanding amount of TZS.4.29 billion payable to Quton because the Government did not release funds to TCB in time.

NOTE 28: QUOTON TANZANIA LTD

Quton Tanzania Ltd is a private seed developing 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 encourage it to invest in facilities. The seeds the company was to produce are developed by the government owned Ukiriguru Agricultural Research Centre and the job of this company is to de-fibre, treat the seeds and then mass produce it to satisfy all farmers. The company sells cotton seeds to CDTF at the price of US$ 1 per kilogram. CDTF then sells the mass produced seeds to peasants' farmers at subside price of TZs

600 per kilogram. In additional of that the government via TCB was required to top up TZs.1,000 per Kilogram of cotton seeds sold by CDTF to farmers as government subventions. Therefore the market price of cotton seeds sold to farmers is TZS.1, 600 per Kg inclusive of the government top up price.

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.

(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 Board 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 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 and Cooperatives. In 2013/2014 the Board received total sum of TZS 893.4million for personal emoluments (PE) and other charges as detailed below.

Government Subventions	2013/14 TZS'000	2012/13 TZS'000
TCB regulatory activities:		
Expenditure for Personal emoluments	862,042	741,939
Expenditure for Other Charges	31,334	120,000
Subtotal (Recognized to Income Statement)	**893,376**	**861,939**
CDTF Activities:		
Cotton inputs to Farmers (Transferred to CDTF)	509,187	977,713
Subtotal	**509,187**	**977,713**
Total Government subventions	**1,402,563**	**1,839,652**

(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 MoA and registered as a trust. Its main purpose is the promotion of the cotton crop and 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.

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 programmes 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 basis for charging cotton levy to be paid by Cotton Ginners.

f) Transactions with CDTF

During the year, the following transactions were carried out with CDTF:-

		2013/2014 TZS'000	2012/2013 TZS'000
	Balance at the beginning of the year (1July 2013)	4,091	(200,642)
	Payments Incurred on Behalf of CDTF	(841,437)	(1,459,743)
	Receipts from CDTF	893,286	1,664,476
	Outstanding Balances Arising from Receipts		
	and Payments Receivable from CDTF: (Note 14)	**55,940**	**4,091**

(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:

	2013/2014 TZS'000	2012/2013 TZS'000
Short term benefits:		
Basic Salaries	285,780	204,654
Allowances	74,138	53,847
	359,918	**258,501**
Long term benefits:		
Pension	42,867	30,698
	42,867	**30,698**
TOTAL	**402,785**	**289,199**

(4) **Directors**

Benefits given to Members of the Board in 2012/2013 were as follows:

	2013/2014 TZS'000	2012/2013 TZS'000
Short term benefits:		
Directors fees	5,020	5,800
Directors allowances	83,918	71,015
Directors Travelling	29,016	37,172
TOTAL	**117,954**	**113,987**

NOTE 30: 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.

The date of authorization for issue is usually taken to be 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 comprise adjusting and non-adjusting events. Adjusting events are those events or transactions that provide evidence of conditions existed at the end of the reporting period, whereas non-adjusting events are indicative of conditions arising after the reporting period. Where material; the non-adjusting events are disclosed.

After the end of the reporting period, there was termination of tenure for members of the Board of Directors by the Ministry for Agriculture. This event happened during the cotton stakeholders meeting held in August 2014 in Mwanza and it was regarded as non-adjusting events which requires the Board to disclose the situations existed after the reporting period. The new board of directors was not yet appointed by the time the financial statements were authorized for issue.

NOTE 31: PRIOR YEAR ADJUSTMENTS

The table below show prior year adjustments for 2012/13 restated in these financial statements.

	Note	Previous Reported 30.06.2013 TZS'000'	Adjust-ment	Restated 30.06.2013 TZS'000	Causes of the prior year Adjust-ments
Trade receivables	8	452,563	(25,115)	427,448	Expenditure incurred for implementing EU project activities
Cotton Quality Seminar Costs	22	4,934	25,115	30,049	

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.

TANZANIA COTTON BOARD

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