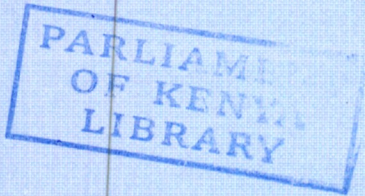


REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
NATIONAL HOUSING CORPORATION

FOR THE YEAR ENDED
30 JUNE 2014

Paper Laid
By Hon. A. Duale (om)
at 11:00 AM. 20.08.20
(pm) [Signature]



REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
NATIONAL HOUSING CORPORATION**

**FOR THE YEAR ENDED
30 JUNE 2011**



NATIONAL HOUSING CORPORATION

**ANNUAL REPORTS AND FINANCIAL STATEMENTS FOR
THE YEAR ENDED 30TH JUNE 2014**







BACKGROUND INFORMATION

National Housing Corporation (NHC) is a statutory body established by an Act of Parliament Cap. 117. The primary mandate of NHC is to play a principal role in the implementation of the Government's Housing Policies and Programmes. At Cabinet level, the entity is represented by the Cabinet Secretary Ministry of Lands, Housing and Urban Development who is responsible for the general policy and strategic direction of the entity.

OUR VISION

Sustainable and decent housing for Kenyans

OUR MISSION

To efficiently provide and facilitate access to innovative housing solutions

OUR CORPORATE VALUES

- Professionalism and excellence
- Integrity, transparency and accountability
- Customer focus
- Commitment/loyalty
- Teamwork/unity
- Innovation and creativity
- Equity
- Environmental sustainability



PRINCIPAL ACTIVITIES

National Housing Corporation (NHC) is established under the Housing Act, Cap. 117 of the Laws of Kenya

The principal roles of NHC are:

- Development of decent and affordable housing.
- Facilitation of Rural Housing development.
- Mobilization of Local and International capital for Housing development.
- Forging partnerships with the County governments, Cooperative Societies, Private Sector and other stakeholders in housing development.

DIRECTORS

The directors who served the Corporation during the period 2013/2014 were as follows

- | | | |
|--------------------------|---|---|
| 1. Isaac B. Mogaka | - | Chairman (Retired on 10 th Jan 2014) |
| 2. Sammy Chepkwony | - | Chairman (Appointed on 10 th Jan 2014) |
| 3. Peter Wachira Njuguna | - | Managing Director (Left on 2 nd October 2014) |
| 4. Henry Rotich | - | Cabinet Secretary, National Treasury |
| 5. Humprey Muhu | - | Alternate to Cabinet Secretary, National Treasury |
| 6. Wilson K. Maina | - | Retired on 18 th May 2014 |
| 7. Elias K. Murithi | - | Retired on 18 th May 2014 |
| 8. Arch. Victor Ogutu | - | Ministry of Lands, Housing & Urban Development (Retired on 18 th May 2014) |
| 9. Amb. Magdalene Wambua | - | Ministry of Lands, Housing & Urban Development (Retired on 18 th May 2014) |
| 10. Mr. Charles Sikuku | - | Ministry of Lands, Housing & Urban Development (Retired on 18 th May 2014) |
| 11. Grace Wanyonyi | - | Retired on 15 th December 2014 |
| 12. Mohamud Noor Ali | - | |

The current directors are as follows

- | | | |
|------------------------|---|---|
| 1. Sammy Chepkwony | - | Chairman (Appointed on 10 th Jan 2014) |
| 2. Eng. Henry K. Maina | - | Ag. Managing Director (Appointed on 28 th July 2014) |
| 3. Henry Rotich | - | Cabinet Secretary, National Treasury |



- | | | |
|-------------------------|---|---|
| 4. Humprey Muhu | - | Alternate to Cabinet Secretary, National Treasury |
| 5. Ms. Mariamu El Maawy | - | Principal Secretary, Ministry of Lands, Housing & Urban Development |
| 6. Purity Mwangeli | - | Appointed on 8 th Aug 2014 |
| 7. David Mboni | - | Appointed on 8 th Aug 2014 |
| 8. Mohamud Noor Ali | - | Appointed on 1 st Oct 2012 |
| 9. Purity Sein Karariet | - | Appointed on 15 th Dec 2014 |

Corporation Secretary

Ms. Lydia Ng'ang'a
NHC House, Aga Khan Walk
P.O Box 30257 - 00100
Nairobi, Kenya

CORPORATE INFORMATION

Corporation Headquarters:

NHC House
Aga Khan Walk
P.O. Box 30257 - 00100
Nairobi, Kenya

Corporation Contacts:

Telephone: +254 3312149/7
E-mail: info@nhckkenya.co.ke
Website: www.nhckkenya.co.ke

Corporation Bankers:

Kenya Commercial Bank Ltd.
Moi Avenue Branch
P.O. Box 30081 - 00100
Nairobi, Kenya

National Bank of Kenya
Harambee Avenue Branch
P.O. Box 41862 - 00100
Nairobi, Kenya



Co-operative Bank of Kenya
Co-op House Branch
P.O. Box 67881 - 00100
Nairobi, Kenya

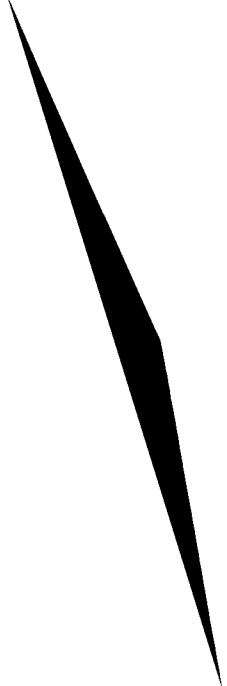
Independent Auditors:

The Auditor General
Kenya National Audit Office
P.O. Box 30084 - 00100
Nairobi, Kenya

Principal Legal Advisers:

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112 - 00200
Nairobi, Kenya





THE BOARD OF DIRECTORS

Sammy Chepkwony -Chairman



Mr. Sammy K. Chepkwony, born in 1962, holds a Bachelors Degree in Business Education (majors in Accounts & Economics) from Kenyatta University.

He further holds a Master of Business Administration (MBA) in strategic

management from Moi University. He has held senior management positions in various organizations including the Kenya Meat Commission, Brooke Bond Kenya Ltd (now Unilever Tea), Sulmac Company Ltd and Limuru Tea Company.

Prior to being appointed as the Chairman of the National Housing Corporation, Mr. Chepkwony has been the Chairman of Kericho Water and Sanitation Company, a member of the Board of Directors of Tea Research Foundation of Kenya as well as Chairman of the Board of Directors of Tea Research Foundation of Kenya. He is a social golfer and a former Chairman of Kericho Golf.

Eng. Henry K. Maina - Ag. Managing Director



He is a registered engineer and corporate member of the Institution of Engineers of Kenya. He has also worked in the former Ministry of Housing as an advisor to housing infrastructure and builder's works.

Eng. Maina, born in 1958, is the Acting Managing Director of the National Housing Corporation. He was previously the Chief Engineer (Water & Utilities) at the Ministry of Nairobi Metropolitan Development.

He holds a Bachelor of Science degree in Engineering, a Post Graduate Diploma in Civil Engineering, Water and related resources conservation and management, waste water and environmental sanitation specialist.

He has over 30 years experience in infrastructure development and management.

Mr. Henry Rotich



Mr. Henry Rotich

Mr. Henry K. Rotich is the Cabinet Secretary for National Treasury, born in 1969. Prior to this appointment, Rotich was the Head of Macroeconomics at the Treasury, Ministry of Finance, since March 2006. In this capacity he was involved in formulation of macroeconomic policies that ensured an affordable and sustainable path of public spending aimed at achieving the Government's development priorities. In addition, he was also involved in preparation of key budget documents including the Budget Statements, as well as

providing strategic coordination of structural reforms in the area of fiscal and financial sector.

Prior to joining the Ministry of Finance, Mr. Rotich worked at the Research Department of the Central Bank of Kenya since 1994. Between, 2001-2004, he was attached to the International Monetary Fund (IMF) local office in Nairobi to work as an economist.

Mr. Rotich was also a Director on several Boards of State Corporations, including: Insurance Regulatory Board; Industrial Development Bank; Communication Commission of Kenya; and Kenya National Bureau of Statistics.

Mr. Rotich holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University. He also holds Master's Degree in Economics and a Bachelor's Degree in Economics (First Class Honours), both from University of Nairobi.

Mohamud Noor Ali



Bank Project, SUAM Orchards and ADC in a career spanning over 20 years and is currently a business man.

Mr. Mohamud Noor Ali born in 1958 holds Master of Science Degree in Engineering from Moscow Institute of Hydrotechnical Engineering.

He has held Senior Management positions in BURA Irrigation and Settlement a World

Purity Sein Karariet



Ms. Purity Sein Karariet born in 1985 holds a Bachelor of Science Degree from the University of Agra - India.

She has worked in the Ministry of Justice, National Cohesion and Constitutional Affairs, as an Anti-Corruption Officer for over five years with experience in Public

Service in Investigation, Monitoring, Evaluation of Government projects and programmes.

She has strong management skills, expertise in social auditing for projects funded by devolved funds, developing strategies to curb corruption both at the County and at the National level, complaints management, processing and feed-back mechanism.

She is Lead officer for both Nairobi and Kajiado County offices in development of Institution Strategy plan and general co-ordination of field activities. She is result oriented with ability to work under no supervision.

Purity M. Mwangeli



Ms. Purity Mwangeli born in 1974 is a holder of a Bachelors degree in Home Economics from Kenyatta University.

She is currently undertaking a postgraduate Masters degree (e-learning) in Economics & Home Design.

Ms. Mwangeli has established businesses in advertising & interior design industry and worked in several institutions locally in various capacities. She has expertise in company operations, marketing, real estate management, credit administration and analysis among others

Mariam El Maawy



Mariam El Maawy is the Principal Secretary Ministry of Land, Housing and Urban Development. Prior to this, she was the Principal Architect at Mariam Maawy Architects and Interior Designs.

Mariam has previously worked in various public service institutions including:- Africa Public Procurement Network, Privatization

Commission of Kenya, The Faza Fire Disaster Fund, Mombasa Polytechnic University Council, Public Procurement Oversight Authority, Steering Team on the upgrading of National Polytechnics and Mombasa Old Town Conservation-Local Planning Commission.

She holds a B. Arch from the University of Nairobi, M. Arch Urban redevelopment, University of Kwa Zulu Natal Durban, Accounts ACCA Part 1 & 2. She is a registered Architect and a member of the Board of Registered Architects and Quantity Surveyors (BORAQS) as well as the Architectural Association of Kenya (AAK).

David Mwalika Mboni Director

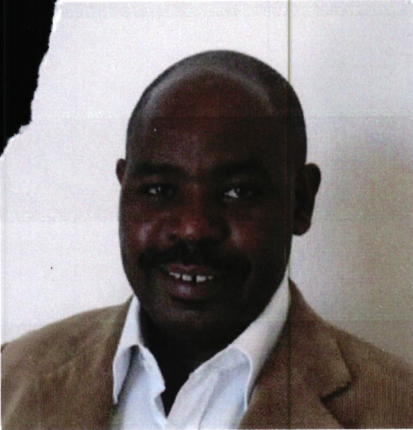


Mr. David Mwalika Mboni born in 1965 holds a Bachelors degree in Economics from Nairobi University. He further holds an MA degree in Economic Policy Management (EPM) from the University of Ghana, Legon.

Mr. Mboni has knowledge in organizational development and has vast experience as an economist/statistician in the Government specifically the former Central Bureau of Statistics and later the Kenya National Bureau of Statistics where he was charged with the responsibility of compiling and analyzing macro economic statistics.

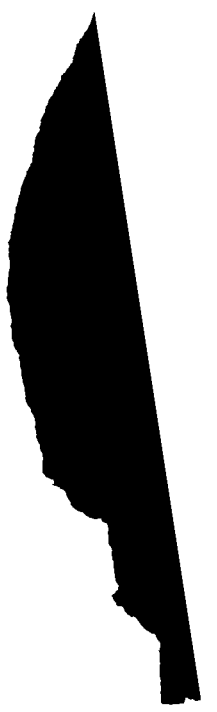
Mr. Mboni also has wide experience in consultancy in the area of social-economics.

phrey Muhu



Mr. Muhu, born in 1964, holds a BSc (Mathematics & Statistics) from Kenyatta University, B Phil (Economics) degree from the University of Nairobi and MA in Economics from the University of Nairobi.

He also holds a Diploma in Financial Management from KCA University. He is the alternate director to the Cabinet Secretary, National Treasury. Mr. Muhu is an Economist with over 20 years experience in various government ministries and departments.





MANAGEMENT TEAM

Mr. Peter. W Njuguna	-	Managing Director (Left on 2 nd Oct 2014)
Eng. Henry K. Maina	-	Ag. Managing Director (Appointed on 28 th July 2014)
Mr. George G. Kinyanjui	-	General Manager - Finance
Mr. Andrew Saisi	-	General Manager - Manufacturing
Mr. Gideon M. Muange	-	General Manager - Estates
Ms. Rosebella J. Langat	-	General Manager - Business Development (Resigned December 2013)
Mr. Willis O. Ouma	-	General Manager - Technical Services
Ms. Lydia T. Ng'ang'a	-	Corporation Secretary

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of National Housing Corporation I have the pleasure of presenting to you the Annual Report and financial statements for the year ended 30th June 2014

Economic Environment

The Country's Gross Domestic Product (GDP) expanded by 4.7% in 2013 compared to 4.6 per cent in 2012. This performance was supported by:-

- The stable macroeconomic environment for the better part of the year.
- Low and stable inflation supported by improved supply of basic foods, lower international oil prices and lower costs of electricity.
- Infrastructural development
- Construction sector

The average inflation rate reduced sharply to 5.7% as at June 2014 from 9.4% in June 2013. The decline in inflation was largely attributed to improved supply of basic foodstuffs and stable domestic prices of petroleum products.

In 2013, building and construction sector expanded by 5.5 per cent up from a growth of 4.8 per cent registered in 2012.

Strategy

In the Kenya Vision 2030, the government gave a commitment to facilitate provision of 250,000 units annually. NHC being the principal government agency in housing development in this country is expected to play a leading role in this endeavor.

The Corporation's strategy is to closely work with both the national and county governments to ensure that Kenyans are facilitated to access housing. We are also earnestly engaging the private sector in partnerships in our effort of housing the nation.

Overview of Financial Results

National Housing Corporation recorded a pre-tax profit of Kshs. 145,282,312 as at 30th June 2014, compared to Kshs. 818,564,872 as at 30th June 2013. Our revenues for the year ended 30th June 2014 were Kshs. 862,566,467 compared to Kshs. 1,409,684,732 recorded for the year ended 30th June 2013.



The Corporation expects a leap in its profits in the coming year as a result of roll out of major housing projects in Nairobi, Machakos, Kisumu and Mombasa County.

Dividends

The board recommends a dividend of Kshs. 10,169,762.

Conclusion

The Board remains fully focused to maximizing the shareholder's value and playing a leading role in housing development in Kenya.


Sammy Chepkwony
CHAIRMAN

REPORT OF THE CHIEF EXECUTIVE OFFICER

It is indeed a privilege to present to you the 2014 annual report and financial report of the National Housing Corporation (N.H.C.). It is a time when the Corporation is making great strides in its quest to provide decent and affordable housing solutions to all Kenyans as well as contributing towards fulfilling the Government's pledge to facilitate the provision of 25,000 units annually as well as the Vision 2030.

N.H.C. being the principle Government agency in housing development in this country plays big role in this endeavor.

The Corporation has developed its 2013/2017 strategic plan taking into account the changing operating environment, previous reviews and evaluation as well as feedback from board of directors and management. Some of our key strategic objectives are;

1. To deliver 30,000 units through direct /indirect working relation with players in the industry by FY 2017/18 as follows;
 - 15,000 corporation funded units
 - 10,000 institutional housing units
 - 5,000 social housing units
2. To grow EPS sales to ksh 1.3 billion.
3. Attain a gross profit margin of 18% in the EPS factory by the end of 2017.
4. To develop three new products (set up a vibrant research and development function within the Corporation)
5. To deliver projects (soft and hard) within plans, market expectation and the contract specification.
6. To mobilize adequate funds for construction of projects in the planned period.
7. To ensure optimal capacity in human capital.

During the year ended 31st June 2014, N.H.C. undertook to build more units and successfully completed various housing projects as follows:

- Langata phase IV and V -245 units
- Madaraka infill sector B,C,D and E -540 units
- Nairobi West -182 units

Projects that begun in the FY 2013/2014 are;

- Kisumu Kanyakwar I & II -700 units



With the rising cost of construction, expensive cost of finance which has made housing unaffordable to the majority of low income and middle income earners, our EPS panels will go a long way in solving these issues. Importantly, we have made substantial progress in the sale of the EPS panels which is part of the Government's vision in ensuring affordable housing.

Having achieved our targets for the FY2013/2014, we are now focusing on future goals including more housing units, increasing amounts generated through our consultancy services as well as to mobilize adequate funds for construction projects. At the same time we continue to focus on new innovation as a way of devising better and efficient ways of providing decent and affordable housing to all Kenyans.

Our performance demonstrates our ability in achieving the government's manifesto of providing housing to all Kenyans.

A handwritten signature in black ink, appearing to read 'H. Maina', enclosed within a circular scribble.

Eng. Henry K. Maina
Ag. Managing Director

CORPORATE GOVERNANCE STATEMENT

Separation of Duties

The independence of the Board from the Corporation's corporate management is ensured by the separation of the functions of the Chairman and Managing Director and a clear definition of their responsibilities. This helps the Corporation achieve an appropriate balance of power, increased accountability and improved decision making.

Responsibilities of Directors

Ultimately, the Board determines the Corporation's strategic objectives, values, key policies and procedures in accordance with best practice. It is responsible for establishing and maintaining the overall internal controls of financial, operations and compliance functions as well as monitoring performance of the executive management.

The Board has delegated the authority for day to day management of the Corporation to the Managing Director. However, it retains overall responsibility for the Corporation's financial performance, compliance with laws and regulations, and monitoring of its operations as well as ensuring competent management of the business.

The Board sets the strategic intent of the Corporation, its objectives and values. It ensures that procedures and practices are in place to protect the Company's assets and reputation. The Board reviews the strategic direction and adopts business plans proposed by Management

Board Composition

The Board of Directors consists of the Chairman, who has non-executive responsibilities, six non-executive directors and one executive director. Four of the non-executive directors are independent while the other two represent the National Treasury and the Ministry of Lands, Housing and Urban Development.

The directors have a wide range of skills and experience and each contributes independent judgment and knowledge to Board discussions.

Board Meetings – Information for Directors

The directors are given appropriate and timely information on key activities of the business regularly and on request in order to carry out their roles. Specifically the Directors are provided with all available information in respect of items to be discussed at a meeting of the Board or committee prior to the meeting. The Board members have open access to management through the Chairman, Managing Director and the Corporation Secretary. Regular presentations are made by



management to the Board and Board Committee meetings and directors may seek briefing from management on specific matters as well as seek independent professional advice.

Oversight Role of the Board

The Board provides strategic direction with a focus on consistent business performance in an atmosphere of transparency and accountability whilst also reviewing and monitoring proper corporate governance.

The Board retains full and effective control over the Corporation and monitors Management's implementation of the plans and strategies it sets; it ensures ethical behavior and compliance with relevant laws and regulations, audit and accounting principles, corporate policies and procedures and the Code of Ethics. It strives to act above and beyond the minimum requirements and benchmark performance against best practices.

In accordance with the principles of good corporate governance, each Director undertakes to always act in the best interest of the Corporation and exercise his/her power in the execution of duties in good faith and acts with care and prudence.

Each director is fully aware that the Board is responsible for determining the Corporation's vision, mission and values, deciding its strategic objectives, ensuring establishment of the organizational structure and procedures to achieve the objectives, ensuring effective control over the Company and accounting to its shareholders.

Conflict of Interest

The directors of the Corporation are under a fiduciary duty to act honestly and in the best interests of the Corporation. Any business transacted with National Housing Corporation must be at arm's length and, fully disclosed to the Board, which must consider and approve it. A director must refrain from discussing or voting on matters with a potential for conflict of interest.

Committees of the Board

The board has four committees: Audit and Risk Committee, Finance and Business Development Committee, Technical Committee & Human Resources and Administration Committee, which have specific and detailed terms of reference as summarized below:

Audit and Risk Committee

The Audit Committee meets at least four times a year, with authority to convene additional meetings, as circumstances require. Its primary responsibilities are to assist the Board in ensuring

integrity of the Corporation financial statements, review the Corporation's internal control systems, monitor and review the effectiveness of the internal audit function, and ensuring the Corporation's compliance with legal and regulatory requirements.

The Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility.

The audit committee develops and implements risk management framework, policies, procedures and standards. It also monitors the Corporation's compliance with the relevant laws and regulations and reviews management's implementation and maintenance of appropriate systems, procedures and Codes of Conduct in accordance with the Corporation's policy guidelines regarding identification, analysis, mitigation and control of risks.

The Audit Committee regularly reports to the Board about committee activities and issues that arise with respect to the quality or integrity of the Corporation's financial statements, compliance with legal requirements, performance and independence of the Corporation's independent auditors, and the performance of the internal audit function. The Corporation's Internal Audit Manager acts as the secretary of the committee and senior management regularly attend the committee meetings.

The members of the Audit Committee are:

- Purity Karariet - Chairperson
- Humphrey Muhu
- David Mboni
- Internal Audit Manager

Finance and Business Development Committee

The Finance Committee meets at least four times a year or at such other times as the Chairman of the Committee shall require. Its primary purpose is to determine the Corporation investment strategy and policy and to consider the proposed strategic investments and make recommendation to the Board. It also maintains an interactive strategic planning, implementation and monitoring process with management.

The members of the Finance and Business Development Committee are:

- David Mbooni - Chairman
- Humphrey Muhu
- Purity Karariet
- Eng. Henry Kamau Maina

Human Resource and Administration Committee

The Committee meets at least four times a year or at such other times as the Chairman of the Committee shall require. Its primary role is to support the Company's strategic plan of ensuring that there is an empowered, motivated and productive workforce. Further, it will recommend the remuneration for non-executive directors, appraise the performance of senior management and determine their remuneration as well as establish the overall staff remuneration budget. The committee will also ensure implementation and compliance with the Human Resources Policies and Procedures and recommend to the Board relevant reviews.

The committee further addresses all the ICT, public relations, house allocations and legal matters at the corporate level.

The members of the Human Resources and Administration Committee are:

- Purity Mwangeli - Chairperson
- Mariamu El Maawy
- Mohamud Noor Ali
- Eng. Henry Kamau Maina

Technical Committee

The Committee meets at least four times a year or at such other times as the Chairman of the Committee shall require. The Committee is responsible for reviewing proposed projects and its implementation procedures to ensure adequacy and efficiency. It further reviews cost appraisals during construction and project quarterly reports. The committee ensures that an environment to promote research and development in building technologies is created it further assesses the impact of technology on projects.

The members of the Technical Committee are:

- Mohamud Noor Ali - Chairperson
- Mariamu El Maawy
- Purity Mwangeli
- Eng. Henry Kamau Maina

Attendance of Board Meetings

The following is an analysis of attendance of the full board meetings in the year

NAME	BOARD MEETINGS						
	184 TH	185 TH	185 TH cont'	186 TH	186 TH cont'	187 TH	188 TH
Isaac B. Mogaka	√	√	√	√	√	N/A	N/A
Sammy Chepkwony	N/A	N/A	N/A	N/A	N/A	√	√
Humphrey Muhu	×	√	√	√	√	√	×
Wilson K. Maina	√	√	√	√	√	√	√
Elias K. Muriithi	√	√	√	×	√	√	√
Arch. Victor Ogutu	√	×	×	√	√	√	×
Amb. Magdalene Wambua	√	√	√	√	√	√	×
Charles Sikuku	×	×	×	√	√	√	√
Grace Wanyonyi	√	√	√	√	√	√	√
Mohamud Noor Ali	√	√	×	×	√	√	√

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Introduction

National Housing Corporation recognizes the importance of its role in managing social, economic and environmental issues. Corporate Social Responsibility (CSR) is the principle way that N.H.C. seeks to co-ordinate and manage practices that will ensure maximization of positive social and economic contribution and minimize the environmental impacts of its business. Engagement with key clients, employees, community, environmental stakeholders, regulators, business partners, suppliers and the government is central to N.H.C's approach to CSR.

The Corporation was able to participate in the following CSR activities:

- The Mater Heart Run is held annually to support the Mater Hospital in their quest for helping children who have a heart problem to undergo an operation. We had participants from the company joining in for the race. N.H.C. sponsored a team with Kshs. 30,000.
- Kenya Freedom from Hunger Walk - Kenya Freedom from Hunger Council is a national non-governmental organization involved in community based food security projects. The walks are held annually to help combat hunger in Kenya. For the Kenya Freedom from Hunger Council walk, we had one team category with a sponsorship of Kshs. 30,000.
- Cerebral Palsy Society of Kenya annual Charity Walk - The Cerebral Palsy Society of Kenya is a charitable organization working towards the improvement of the welfare of children/persons afflicted by Cerebral Palsy (C.P) in the Country. N.H.C. sponsored a team for the walk with Kshs. 30,000.
- Beyond Zero Campaign - The Beyond Zero Foundation was formed to partner with the government in reducing maternal and child mortality. Spearheaded by The First Lady of the Republic of Kenya, Her Excellency Margaret Kenyatta, the Beyond Zero Campaign is part of the initiatives outlined in her strategic framework towards HIV control, promotion of maternal, new born and child health in Kenya. N.H.C contributed Kshs. 100,000 towards this noble initiative.



REPORT OF THE DIRECTORS

Principal Activities

National Housing Corporation (NHC) is established under the Housing Act, Cap. 117 of the Laws of Kenya and the principal activities are detailed in page 3.

Results and Dividend

The results for the year are set out on page 24.

The directors approved payment of a dividend of Kshs 10,169,762 (2012: Kshs. 57,831,309).


Directors

The directors who held office during the year and to the date of this report were as shown on page 3.

Auditor

The Auditor General carried out the audit of the entity for the year ended 30th June 2014.

By Order of the Board


Lydia Nganga
Corporation Secretary
Date:



STATEMENT OF DIRECTORS' RESPONSIBILITIES

The State Corporations Act, Cap 446, requires the Directors to prepare financial statements for each financial year, which include Statement of financial Position showing in detail the assets and liabilities of the Corporation, a statement of Comprehensive Income, and such other statements that the Directors may deem necessary. It also requires the Directors to ensure the Corporation keeps proper books of account and other books and records in relation to the Corporation and to all the undertakings, funds, investments activities and property of the Corporation. They are also responsible for safeguarding the assets of the Corporation.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with generally accepted accounting practice, International Financial Reporting Standards (IFRS) and in the manner required by the State Corporations Act, Cap 446. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

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

Approved by the Board of Directors on **19th September 2014** and signed on its behalf by:


Sammy Chepkwony

- **Chairman:**


.....

Eng. Henry Kamau Maina

- **Managing Director**


.....

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL HOUSING CORPORATION FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of National Housing Corporation set out on pages 24 to 53, which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Adverse Opinion

1.0 Financial Statements Disclosure

The Corporation's financial statements for the year ended 30 June 2014 has not fully complied with International Accounting Standards No.11 on disclosure requirements in that the following requirements have not been disclosed: the amount of contract revenue recognized as revenue in the period, the method used to determine the contract revenue recognized in the period, method used to determine the stage of completion of contract in progress, aggregate amount of costs incurred and recognized profit (less recognized losses) to date, amount of advances received, amount of retentions, gross amount due from customers for contract work as an asset and gross amount due to customers for contract work as a liability. No reason has been provided for failure to fully comply with the above standard. The Corporation is therefore in breach of the Accounting Standard.

2.0 Property, Plant and Equipment

2.1 Land and Buildings

As disclosed in note 12 to the financial statements, the Corporation owns land and buildings with a total cost of Kshs.1,116,649,852 as at 30 June 2014. Excluded in this balance are fifty two (52) parcels of land which had not been valued and has no ownership documents. Consequently, the ownership status and value of these properties could not be confirmed as at 30 June 2014.

2.2. Avoidable Expenditure - Purchase of Prime Land

As reported in the previous year, the Corporation advertised for Expression of Interest (EOI) on 13 December 2012 for purchase of prime land in Nairobi. Nineteen (19) bidders responded and after evaluation, the management settled for a parcel of Land L.R No. 209/19715 measuring 10 acres located in Imara Daima area at an offer price of Kshs.800,000,000.

However, M/s Diamond Trust Bank informed the Corporation that the land identified for purchase was under charge with the bank for a loan of Kshs.340,000,000.00 advanced to an Investment company which, at that time, had outstanding balance of Kshs.42,499,772.18. The Corporation was also informed that a live high voltage power line passes through the land and that the actual size of the land is 9.87 acres, not 10 acres as indicated by the seller. In addition, a company of Advocates had issued a caveat emptor on the land on the grounds that whereas seller had purchased the land from another company, it's title was imperfect because initial seller's purported grant was fraudulently acquired.

The Corporation on 25 April 2013 instructed the Ministry of Lands to carry out a valuation of the land. The Ministry gave the land a value of Kshs.730,000,000.00 and was paid a fee of Kshs.920,000 vide bankers cheque No.027831 dated 7 June 2013. This particular expenditure was excluded in the consolidated statement of

comprehensive income figure of Kshs.10,245,250 in respect to Consultancy General under Other Operating Expenses.

Although the Management stated that the valuation process was a critical matter that formed the basis for negotiation, the corporation ended up spending Kshs.920,000 that could have been avoided had the Corporation exercised due diligence.

2.3.0 Procurement of Enterprise Resource Planning (ERP) System

On 10 December 2012, the Corporation advertised for supply, implementation and commissioning of an integrated Enterprise Resource Planning (ERP) System tender number NHC/ERP/345/2012. Out of the 8 firms that returned the bids, only two firms: M/S Twenty Third Century and M/S Attain Enterprise Solutions qualified at the technical level and the finance bids were Kshs.90,937,929.81 and Kshs.127,728,432.98 respectively. The evaluation committee recommended the award to M/S Twenty Third Century but the Tender Committee subsequently cancelled and ordered for a re-tender.

The tender was re-advertised on 16 May 2013 and evaluated between 28 June 2013 and 30 June 2013. Out of the 9 firms that responded, only two: M/S Seven Seas Technologies Group and M/S Deloitte Consulting qualified at the technical evaluation stage and their financial bids were Kshs.129,748,417.50 (USD 1,509,921.84) and Kshs.220,675,971.38 (USD 2,568,073.47) respectively. The tender committee awarded the tender to M/S Seven Seas Technologies Group at their bid price of USD 1,509,921.84 (Kshs.129,748,417.50). Consequently, the Corporation and M/S Seven Seas Technologies Group entered into a formal contract signed on 13 August 2013 and the contract period was for 12 months.

2.3.1 The following issues were observed

2.3.1.1 User Requirements

There was no gap analysis which was done on the existing ICT Total solution to determine the weakness of the system and thus it was not possible to justify procurement of the ERP system to justify the existing ICT Total Solution. In addition, user requirements were not gathered for the intended ERP.

2.3.1.2 Procurement Process

In contravention of Section 16 (4) of the Public Procurement and Disposal Regulation, 2005, the Chairman of the Evaluation Committee was a member of the Tender Committee. In addition, there is no evidence that he disqualified himself from the deliberations to award the tender to M/S Seven Seas Technologies Group.

During the evaluation, we noted that there were two consultants who were actively involved in the tender evaluation and also signed the evaluation report dated 2 July 2013. There was no evidence to indicate how the consultants were procured and how they were appointed to the evaluation committee. Further, the Consultants were paid Kshs.596,298 which was an avoidable expenditure given that the Corporation has qualified ICT personnel. The budgeted amount of an ERP for the year 2012/2013 was

Kshs.100 Million. The tender committee however awarded the tender for Kshs.129 Million in contravention of Section 26 (3) (a) of the public Procurement and Disposal Act, 2005 which states that all procurement shall be within the approved budget of the procuring entity.

2.3.1.3 Awarding the Contract

From the signed contract, the following were noted:

- i. The Contract period was for 12 months, which was the warranty period after the systems go live. At the time of our audit, September 2014, the system had not gone live and no commissioning certificate was availed.
- ii. The vendor had not provided a valid performance bond and prior implementation checklist which were tender requirements.
- iii. The vendor did not provide a valid manufacturer's authorization form and end-user license agreement. Instead, the documents availed were for another contractor. The contract document had however not provided for sub-contracting. It was further noted that the General Manager and Operations Manager for Twenty Third Century Solutions, the firm that had won in the first tender at a price of Kshs.90,937,929.81, were the same officials who had signed for M/S Seven Seas Technologies Group which had won the re-advertised tender at a price of Kshs.129,748,417.50.
- iv. The tender had not provided for the procurement of the hardware but the contract mentioned that vendor will provide a loan server for a period of 3 months at no cost. Available information indicates that the Corporation had not budgeted for the hardware in the financial year 2013/2014. It was not explained why the management had sought to purchase software without the necessary hardware which is critical in the implementation of any system.

2.3.1.4 Payment

During the year under review, the Corporation paid two instalments of USD 926,019.50 (Kshs.80,678,519.10) which was contrary to the payment terms as per the contract. The contract provided for 30% upon execution of the contract and 15% upon completion of the project preparation phase which is USD 452,976.55 (Kshs.38,924,525.25) and USD 226,488.28 (Kshs.19,462,262.63) respectively. The corporation therefore overpaid by USD 246,554.67 (Kshs.21,186,579.11) at Kshs.85.93 exchange rates as per the contract value. According to the contract, all payments to the vendor were to be made in US Dollars to Bank of Africa (K) Limited, Westland's branch Account Number 03007430015 and Swift Code AFRIKENX. Examination of the payment vouchers however revealed that the two payments made to the vendor were paid to Kenya Commercial Bank Kshs.52,497,999.75 and Co-operative Bank of Kenya Kshs.28,180,509.35.

2.3.1.5 Disclosure

The total amount paid for the ERP Software amounting to Kshs.81,274,818 is shown under Current Assets as a scheme in progress contrary to IAS 39 (118 and 122) which

requires that for each class of intangible asset, be disclosed the useful life, amortization rate and gross carrying amount.

2.4. Motor Vehicles

The property, plant and equipment balance of Kshs.1,729,914,598 and as previously reported includes Motor Vehicles balance of Kshs.22,030,189 as at 30 June 2014. The figure includes two motor vehicles Registration Numbers KBR 909K and KBN 909A valued at Kshs.7,560,000 and Kshs.2,560,000 respectively, whose log books were not made available for audit review. In addition, the two motor vehicles are still in private number registration and it was not clear why the registration had not been changed to blue number plates as at the date of this audit making the vehicles prone to misuse. As a result, it has not been possible to confirm the motor vehicle balance and ascertain the ownership status of the vehicles as at 30 June 2014.

3.0. Schemes in Progress

3.1. Changamwe Infill Phase II

As similarly reported in 2012/2013, a contract for the Changamwe Infill Phase II was awarded to M/s Dickways at a contract price of Kshs.189,698,208.00, for a contract period of 52 weeks commencing on 14 August 2012 to be completed on 11 September 2013. However, in September 2012, the National Environment Management Authority (NEMA) stopped the project citing failure by the Corporation to carry out and submit an Environmental Impact Assessment report.

The Corporation paid NEMA Kshs.96,362.30 to obtain a license for the assessment and engaged M/s Mazingira and Engineering Consultants to carry out the assessment at a fee of Kshs.174,000.00. The Consultants advised that the assessment required a wider public consultation and an in-depth analysis, both of which would take a long time.

Since then, the project has remained suspended. As at the time of suspension, the contractor had been paid a total of Kshs.38,387,434.00 which, together with the payments to NEMA and the consultants, brings the total expenditure on the stalled project to Kshs.38,657,796.30. The total expenditure has been charged to Housing Schemes in Progress. Consequently, the prudence in the use of these resources and the continuity of this project is questionable.

3.2. Nyeri Mortgage Housing Scheme Phase II

As similarly reported (2012/2013), the Corporation awarded a contract to M/s Westcon Contractors in May, 2010 for construction of 45 housing units under the Nyeri Mortgage Housing Scheme Phase II, at a contract sum of Kshs.112,590,500.00, commencing on 14 May 2010 to be completed on 13 June 2011. However, after several extensions, the firm was unable to complete the project and the Corporation subsequently terminated the contract on 30 March 2012. As at the time of termination, the contractor had been paid a total of Kshs.57,932,759.90.

The contract was awarded to another contractor, M/s Island Home Developers at a contract sum of Kshs.61,346,731.70 commencing on 22 October 2012 to be completed

on 5 June 2013. Consequently, the total contract cost rose to Kshs.119,279,491.60, Kshs.6,688,991.60 higher than the original cost of Kshs.112,590,500.00. As previously reported, the contractor was paid a total of Kshs.17,125,357.45. However, as at 30 June 2014 the contract had not been completed, although the completion period had elapsed.

3.3. Makande Estate – Mombasa (Estate purchased through a debt swap)

The Corporation took over the Makande estate (in Mombasa) from the defunct Mombasa municipal council through a debt swap to offset the loan debt of Kshs.260 million owed to the Corporation by the council. The estate was then valued at Kshs.310 million. The Corporation paid the excess value of Kshs.50 million to the council in cash and took over the estate. When the Corporation started some developments on the acquired estate, some individuals claimed ownership of parcels of land within the estate and filed cases in Mombasa high court. The Corporation could not continue with its planned development due to the pending court cases. No explanation has been provided why the Corporation decided to enter into the agreement for the debt swap without establishing the true ownership of the land and whether the land had any encumbrances.

3.4. Ruai Police Service Housing

Note 18 indicates the Housing Scheme in Progress balance of Kshs.628,720,661 out of which Kshs.198,184,752 is the cost of Ruai police service housing as at 30 June 2014. The Corporation embarked on construction of Ruai police service housing in August 2013 without any proper contract document and amount the contract was to cost. The construction works was done by the National Housing Corporation on behalf of Treasury though there was no formal agreement between the two institutions. The Corporation later contracted Nasca Company Ltd to do the construction work while the National Housing Corporation provided the construction materials. The construction company did the houses and a bio digester during the year under review. The houses were completed and occupied but before a span of two months the bio digester started leaking and the place was inhabitable due to smell and affluent overflow. In absence, of the signed contract document and supporting contract sum so far incurred, it has not been possible to know how much the project will cost to bring the houses to habitable conditions. The Corporation may not have got value for money on construction of bio digester as it will cost the Corporation more funding.

3.5. Stalled Projects

The Housing Scheme in Progress balance of Kshs.628,720,661 as indicated under note 18 of the financial statement includes ten (10) projects which stalled between the year 1979 and 1997 for which the Corporation had incurred expenditure totaling Kshs.195,892,635 as detailed below:

<u>Name</u>	<u>Amount (Kshs)</u>	<u>Date stalled</u>
Kiboko IV	206,250.00	File very old Unavailable
Langata commercial center	536,835.00	Delayed but ongoing
Canalization of Ngong river	28,378,026.40	16.09.1992
Kibera III	133,174,368.25	20.06.1997

South B Tenant Purchase	170,520.00	File Not Available
Kisii Tenant Purchase	14,232,734.55	Delayed but ongoing
Nairobi south B	11,263,684.70	15.12.1997
Changamwe infill 11	122,750.00	4.4.2013
Changamwe boundary wall	7,301,594.10	5.4.2013
Voi rental	<u>505,872.00</u>	23.8.2011
Total	<u>195,892,635.00</u>	

The stalled projects have tied up capital amounting to Kshs.195,892,635 and the management has not explained what they have planned to do on these projects. Consequently, we could not confirm whether the Corporation got any value for money on the stalled project.

4.0. Cash and Cash Equivalents

The financial statement under note 22 includes cash and bank balance of Kshs.355,694,594 out of which a balance of Kshs.3,713,191 for the Co-operative call account had not been supported with a bank reconciliation statement. In addition, petty cash count done at the close of the financial year for the headquarter and EPS factory of Kshs.300,000 and Kshs.200,000 respectively was not included in the cash and bank balances but treated as a standing imprest under debtors.

Consequently it was not possible to confirm the accuracy of cash and cash equivalent balance as at 30 June 2014.

5.0. Unexplained Balances

Note 25 to the financial statements and the statement of changes in equity reflect balances of Kshs.97,523,195.00 and Kshs.71,606,363.00 under prior year adjustments and equalization reserve, respectively. The prior year adjustments were not restated to the item they relate to contrary to International Accounting Standard No. 8 that states that changes in accounting policies and corrections of errors are generally retrospectively accounted for. Although the balances have been analyzed, the nature of the transactions was not explained. Consequently it has not been possible to confirm the accuracy of the prior year adjustments and equalization reserve balances as at 30 June 2014.

6.0. Trade and Other Receivables

The statement of financial position reflects a balance of Kshs.118,004,810 under Trade and other Receivables. Included in this figure, are rent arrears of Kshs.126,992,294 which increased substantially and have been outstanding for a long period. In addition, the rent debt arrears are net off a provision for bad debts on rent for Kshs.48,853,675 which the management did not explain the basis or the rate used as it is not part of the accounting policy for the Corporation. The figure for trade and other receivables also includes an amount of Kshs.39,866,191 in respect of sundry debtors. The sundry debtors balance is net off unexplained credit balances in relation to Miscellaneous debts, NCC L/A rent debtors and insurance receivable of Kshs.6,280,490.10; Kshs.571,188.23 and Kshs.139,914.85 respectively. Further, the sundry debtors also

includes an amount of Kshs.29,292,065.05 and Kshs.4,011,563.40 for debt suspense and suspense NHC various which were not supported. The balance of trade and other receivables does not include outstanding staff Imprest of Kshs.23,119,392.54 some of which were issued in the year 2008.

As similarly reported in 2012/2013, no explanation has been given for the huge increase in rent debtor from Kshs.118,921,396 to Kshs.126,992,294(7%) and also no indication has been seen as to any measures the Corporation has put in place to address the unsatisfactory state of affairs. Further, no reason or reconciliation has been provided for the credit balances reflected against an item which under normal circumstances should show debit balances. The balance as currently presented is understated due to omission of the imprest balance.

Consequently, it was not possible to confirm accuracy and validity of the trade and other receivable balance as at 30 June 2014.

7.0. Investment in Research Development Company Limited

As similarly reported in 2012/2013, the investment of the Corporation in Research Development Company LTD (RDU) (a wholly owned subsidiary) under note 16 totalled Kshs.99,457,797 as at 30 June 2014. However, no share certificate in support of this investment was availed for audit review, and as a result it was not possible to confirm the propriety of this investment.

Further, the corporation has not prepared consolidated financial statements for the year under review contrary to the requirement of International Financial Reporting Standards number 10, which requires an entity to consolidate the entity it controls. Although Note 16 indicates that it was resolved that the RDU should be liquidated, no evidence was provided for audit review

8.0. Closing Stock of Finished Goods

The Corporation embarked on a construction of Ruai police service housing in August 2013 using Expanded Polystyrene (EPS) materials. The EPS materials used had been brought forward from the previous year 2012/2013 as closing stock for that period and opening stock for the year 2013/2014. During the year 2013/2014, the Corporation decided to write down the value of the EPS materials brought forward balance from Kshs.55,213,899 to Kshs.10,734,113. The written down value of Kshs.44,479,786 understates the value of material and affects the financial statements of 2012/2013 and 2013/2014 and thus, the value of finished Panel and stock of raw materials at the EPS were incorrectly stated. In addition, raw materials valued at Kshs.430,120 which can be recycled were not included under inventories. Further, spare parts worth Kshs.3,044,177 and industrial oil worth Kshs.2,470,800 were not supported and not included in the closing stock as at 30 June 2014.

Consequently, it was not possible to confirm the accuracy of the closing inventory of Kshs.11,605,064 as at 30 June 2014.

9.0. Loan Amount Receivable

The loan amount receivable balance of Kshs.1,980,868,743 as indicated in note 19, includes 192 Tenant Purchase accounts and 19 Rural loans accounts of Kshs.28,899,725.83 and Kshs.2,832,602.42 respectively whose accounts had arrears but had been posted as refunds. In addition, some loan accounts under Staff loans were cleared but there was no evidence of how they were cleared. Further, an amount of Kshs.7,628,815.85 for staff loans was outstanding for more than one month and yet the officers were still on the payroll.

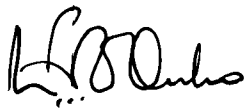
No explanation has been provided for the anomalies, as a result of which, the accuracy and validity of the balance of Kshs.1,980,868,743 as at 30 June 2014 could not be confirmed.

10.0. Intangibles Assets

Note 13 to the financial statement includes intangible assets with an opening balance of Kshs.10,152,625. The origin of this opening balance (Kshs.10,152,625) was not clear since there were no intangible assets reflected in the 2012/2013 audited financial statements. In addition, during the year under review the corporation paid Kshs.81,274,817 for the purchase of a new Enterprise Resource Planning which was not included under the note for intangible assets, but was included in other Projects under the schemes in progress. No explanation was given as to why the intangibles were not classified together.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraphs, the financial statements do not present fairly, in all material respects, the financial position of the Corporation as at 30 June 2014 and of its financial performance and its cashflows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and does not comply with the Housing Act, Cap 117 of the Laws of Kenya.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

09 June 2015

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2014

	Notes	2013/2014 Kshs	2012/2013 Kshs
INCOME			
TURNOVER	3	768,927,802	1,364,145,092
OTHER INCOME	4	40,638,696	42,286,606
EPS SALES	5	52,999,969	1,273,759
EPS OTHER INCOME	5	-	1,979,275
		862,566,467	1,409,684,732
EXPENSES			
EPS EXPENSES	6	136,654,675	6,408,792
STAFF COSTS	7	394,904,648	373,142,374
ADMINISTRATION COSTS	8	206,865,194	202,429,351
DEPRECIATION PROPERTY, PLANT & EQUIPMENT	12	18,145,818	25,696,179
DEPRECIATION INVESTMENT PROPERTY	14	31,565,115	29,913,524
AMORTISATION OF INTANGIBLE ASSETS	12	4,003,393	4,708,137
		792,138,843	642,298,357
OPERATING PROFIT		70,427,624	767,386,375
FINANCE INCOME	9	75,086,689	52,567,697
FINANCE COSTS	10	232,000	1,389,200
PROFIT BEFORE TAXATION		145,282,313	818,564,872
TAX	28	43,584,694	245,569,462
PROFIT AFTER TAXATION		101,697,619	572,995,410
APPROPRIATION			
PROPOSED DIVIDENDS	11	10,169,762	57,299,541
RETAINED PROFITS		91,527,857	515,695,869

STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	NOTES	2013/2014 Kshs	2012/2013 Kshs
ASSETS			
NON CURRENT ASSETS			
PROPERTY, PLANT AND EQUIPMENT	12	1,729,668,485	1,711,389,426
INTANGIBLE ASSETS	13	11,888,879	10,152,625
INVESTMENT PROPERTY	14	1,090,132,484	1,121,697,598
LONG TERM LOANS ADVANCED	15	3,990,377,816	3,970,977,458
UNQUOTED INVESTMENT	16	104,657,797	104,657,797
INVESTMENT IN TREASURY BONDS	17	-	200,232,000
TOTAL NON-CURRENT ASSETS		6,926,725,461	7,119,106,904
CURRENT ASSETS			
SCHEMES IN PROGRESS	18	628,720,661	911,974,296
LOAN AMOUNTS RECEIVABLE	19	1,980,868,743	3,061,147,369
INVENTORIES	20	411,913,068	203,314,041
TRADE AND OTHER RECEIVABLES	21	118,004,810	111,992,737
INVESTMENT IN TREASURY BILLS	22	902,911,559	
CASH AND BANK BALANCES	22	355,694,594	879,715,087
TOTAL CURRENT ASSETS		4,398,113,435	5,168,143,530
TOTAL ASSETS		11,324,838,896	12,287,250,434
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
EQUITY	23	6,936,000,000	6,936,000,000
UNREALISED GAIN ON SALE OF HOUSES	24	573,164,255	529,586,160
RETAINED PROFITS	25	2,252,415,361	1,991,757,946
TOTAL EQUITY		9,761,579,616	9,457,344,106
NON-CURRENT LIABILITIES			
LONG TERM LOANS BORROWED	26	-	1,218,807,146
TOTAL NON-CURRENT LIABILITIES		-	1,218,807,146
CURRENT LIABILITIES			
TRADE AND OTHER PAYABLES	27	1,432,362,424	1,352,206,800
DIVIDENDS PAYABLE	11	100,810,718	90,640,956
TAXATION	28	30,086,138	168,251,426
TOTAL CURRENT LIABILITIES		1,563,259,280	1,611,099,182
TOTAL EQUITY AND LIABILITIES		11,324,838,896	12,287,250,434
The financial statements were approved by the Board on 18th September 2014 and signed on its behalf by:			
CHAIRMAN.....		DATED.....	
Ag. MANAGING DIRECTOR.....		DATED.....	

STATEMENT OF CHANGES IN EQUITY

	EQUITY	UNREALISED GAIN ON SALE OF HOUSES	RETAINED PROFIT	TOTAL
	Kshs	Kshs	Kshs	Kshs
1ST JULY 2012	6,936,000,000	404,999,869	1,486,147,476	8,827,147,345
Prior Year Adjustments			(37,466,881)	(37,466,881)
House Equalization Reserve			68,198,546	68,198,546
Unrealised Gain		124,586,291	-	124,586,291
Dividends paid for 2010/2011		-	(43,802,979)	(43,802,979)
Proposed dividends for year			(57,631,309)	(57,631,309)
Profit for the year	-	-	576,313,093	576,313,093
30TH JUNE 2013	6,936,000,000	529,586,160	1,991,757,946	9,457,344,106
1ST JULY 2013	6,936,000,000	529,586,160	1,991,757,946	9,457,344,106
Prior Year Adjustments			97,523,195	97,523,195
House Equalization Reserve			71,606,363	71,606,363
Unrealised Gain		43,578,095		43,578,095
Proposed dividends for year			(10,169,762)	(10,169,762)
Profit for the year			101,697,619	101,697,619
30TH JUNE 2014	6,936,000,000	573,164,255	2,252,415,361	9,761,579,616

STATEMENT OF CASH FLOWS

	Notes	2013/2014 Kshs	2012/2013 Kshs
OPERATING ACTIVITIES			
Cash generated from operations	30	1,488,538,880	1,598,806,942
Dividends paid		-	(43,802,979)
Taxation paid	28	(117,144,791)	(187,649,100)
Net cash generated from/(used in) operating activities		1,371,394,089	1,367,354,863
INVESTING ACTIVITIES			
Purchase of fixed assets		(73,557,827)	(594,625,171)
Loans advanced		(78,070,456)	(187,990,560)
Tenant purchase		(473,034,973)	(744,596,618)
Cash proceeds from disposal of assets		141,600	1,347,660
Redemption of loans		502,313,895	537,951,664
investing activities		(122,207,760)	(987,913,025)
FINANCING ACTIVITIES			
Retirement of Treasury Bonds		200,000,000	-
Long term loans borrowed		81,093,008	1,683,924,238
Long term loan repayment		(1,151,388,271)	(2,243,093,269)
Net cash generated from/(used) in financing activities		(870,295,263)	(559,169,031)
Decrease in cash and cash equivalents		378,891,066	(179,727,193)
CASH & CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		879,715,087	1,059,442,280
CASH & CASH EQUIVALENTS AT THE END OF THE YEAR	22	1,258,606,153	879,715,087

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the Corporation's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Corporation.

The financial statements have been prepared in accordance with the Public Finance Management (PFM) Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

B. Revenue recognition

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is recognized at the fair value of consideration received or expected to be received in the ordinary course of the Corporation's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Corporation's activities as described below.

- i) Interest income is recognized as it accrues unless its collectability is in doubt.
- ii) Rental income is recognized in the income statement as it accrues using the effective lease agreements.
- iii) Professional fees refer to fees earned on projects by the Corporation's. The fees are recognized at 70% in the year of commencement of construction works and the remaining 30% over the period of the project.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- iv) Finance income comprises interest receivable from bank deposits and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.
- v) Gain/loss on sale of houses is recognized in the income statement depending on the mode of sale. Gain on sale of houses on outright sale schemes is recognized in the year of sale and for tenant purchase schemes the gain is amortized over the period of the loan.
- vi) Revenue from the sale of Panels is recognized in the year in which the Corporation delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- vii) Other income is recognized as it accrues.

C. Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognized in profit or loss in the income statement.

D. Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognized in the income statement on reducing balance basis to write down the cost of each asset to its residual value over its estimated useful life. The annual rates in use are:

Buildings	2.5%
Plant and machinery	5%
Motor vehicles, including motor cycles	25%
Computers and equipment	30%
Furniture and fittings	20%

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal.

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

E. Intangible assets

Intangible assets comprise purchased computer software licenses, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of the intangible assets from the year that they are available for use.

F. Amortization and impairment of intangible assets

Amortization is calculated on the reducing balance basis over the estimated useful life of computer software.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

G. Investment property

Buildings, or part of a building and land held for long term rental yields and/or capital appreciation, and which are not occupied by the Corporation, are classified as investment property under non-current assets.

Investment property is carried at cost less depreciation and any impairment losses.

H. Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK), long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. The bonds are measured at fair value through profit or loss.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

J. Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the basis of first in first out (FIFO) method.

K. Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

L. Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date.

M. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

N. Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

O. Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortized cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the Corporation or not, less any payments made to the suppliers.

P. Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees. The scheme is administered by an in-house team and is funded by contributions from both the Corporation and its employees. The Corporation also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The Corporation's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month and has been reviewed to Kshs.1,080 per month.

Q. Provision for staff leave pay

Employees' entitlements to annual leave are recognized as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date.

R. Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Corporation operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

T. Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

(i) Income taxes

The Corporation is subject to income taxes in Kenya. Significant judgment is required in determining the Corporation's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Corporation recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Critical judgments in applying the entity's accounting policies

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

- Depreciation rates for property and equipment

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. TURNOVER

The sources of income are as stipulated below:

	2013/2014	2012/2013
	Kshs	Kshs
Interest	509,077,695	477,913,042
Rents	205,003,312	200,449,519
Professional Fees	14,006,170	25,651,374
Gain on Sale of Houses	40,840,626	660,131,157
	768,927,802	1,364,145,092

4. OTHER INCOME

	2013/2014	2012/2013
	Kshs	Kshs
Interest on Staff Loans	28,453,205	28,530,587
Income from Partnerships	600,000	1,200,000
Gain on Disposal of Fixed Assets	141,600	629,270
Miscellaneous (Tender Documents, Application Forms)	11,443,892	11,926,748
	40,638,696	42,286,606

NOTES TO THE FINANCIAL STATEMENTS (Continued)
5. MANUFACTURING, TRADING, PROFIT AND LOSS ACCOUNT
Manufacturing Account

	2013/2014	2012/2013
	Kshs	Kshs
Manufacturing Account		
Raw Materials	86,266,883	19,196,905
Direct Labour	10,798,986	12,788,775
Other Direct Overheads	6,610,589	20,902,886
Prime Costs	103,676,458	52,888,566
Production and Other Factory Overheads	9,276,069	4,107,234
Depreciation	30,068,124	8,246,402
Cost of Work in progress	(62,414,565)	(6,373,843)
Production Costs of Goods Completed	80,606,086	58,868,359

Trading, Profit and Loss Account

	2013/2014	2012/2013
	Kshs	Kshs
Sales	52,999,969	1,273,759
Cost of Goods Sold		
Opening Stock of Finished Goods	55,213,899	-
Less: Write Down of Inventories	(44,479,786)	
Production Costs of Goods completed	80,606,086	58,868,359
Closing Stock of Finished panels(Cost)	(11,605,064)	(55,213,899)
Cost of Goods Sold	79,735,135	3,654,460
Gross Loss	(26,735,166)	(2,380,701)
Other income	-	1,979,275
	(26,735,166)	(401,426)
Selling and Marketing Costs	46,943,935	1,122,395
Depreciation	966,944	
Administration expenses	9,008,661	1,631,937
	56,919,540	2,754,332
Trading Loss	(83,654,706)	(3,155,758)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. EPS EXPENSES

EPS trading loss is arrived at after charging:

	2013/2014	2012/2013
	Ksh	Ksh
Cost of Goods Sold	79,735,135	3,654,460
Selling and Marketing Costs	47,910,879	1,122,395
Administration expenses	9,008,661	1,631,937
	136,654,675	6,408,792

7. STAFF COSTS

Staff costs comprise the following:

	2013/2014	2012/2013
	Kshs	Kshs
Retirement Benefit Costs	43,340,536	39,022,448
Salaries & Emoluments	351,564,113	334,119,926
	394,904,648	373,142,374

The number of persons employed by the Corporation as at 30.06.2014 was 256 (as at 30.06.2013: 271).

National Housing Corporation established the NHC provident fund scheme in 1998. In compliance with the treasury circular number 18/2010, the scheme was closed from 1st July 2011 and the staff retirement benefits scheme (Defined Contribution) was established then.

The provident fund scheme is established under trust and was closed to new entrants and any further contributions to the scheme were stopped by the Corporation.

The staff retirement benefits scheme was established for all new and eligible employees who had more than five years to attain the mandatory retirement age of sixty years and whose terms of service were not to remain contractual.

The Corporation therefore only makes contributions to the staff retirement benefits scheme.

Currently there are no amounts owed to the Staff Retirement Benefits Scheme.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
8. PROFIT BEFORE TAX

Profit before tax is stated after charging:

(a) Administration Costs

	2013/2014 Kshs	2012/2013 Kshs
Administration Costs		
Auditors Remuneration	1,224,960	1,224,960
Property & Estates	44,555,796	40,088,639
Motor Vehicle Expenses	10,194,626	7,695,320
Repairs of Equipment	5,953,639	4,321,349
Travelling General	10,387,333	7,710,509
Printing & Stationery	8,455,604	7,971,041
Office rents	19,103,971	19,025,645
Postage & Telephones	4,171,524	3,851,184
Advertising	6,967,700	9,227,232
Insurance	12,790,772	5,485,070
Bank Charges	3,096,991	3,033,739
Library Expenses	996,933	777,665
Staff Uniforms	1,187,529	442,455
Exhibition	1,070,988	238,106
Training	6,042,011	3,980,443
Bad Debts Provision	8,277,871	9,893,079
Post contract payments	1,943,703	29,126,395
Debt Collection Expenses	474,951	4,432,606
Legal Charges	6,106,713	4,157,177
Staff Sports Club	454,125	641,765
Consultancy General	13,842,732	10,245,250
Medical in Patient	13,708,094	5,732,729
Donations	803,642	408,378
Entertainment	9,287,162	10,068,453
Total Administration Costs	191,099,370	189,779,189

NOTES TO THE FINANCIAL STATEMENTS (Continued)
(b) Director Expenses

	Kshs.	Kshs.
Honoraria	1,176,774	944,219
Sitting Allowances	8,920,000	7,157,218
Travel and Accomodation	4,512,507	3,620,739
Other Expenses	1,156,544	927,986
Total	15,765,824	12,650,162

9. FINANCE INCOME

The interest income is made up of:

	2013/2014 Kshs	2012/2013 Kshs
Interest Income from Government Securities	42,668,226	19,747,578
Interest Income from current accounts with banks	32,418,463	32,820,119
	75,086,689	52,567,697

10. FINANCE COSTS

The interest expense is made up of:

	2013/2014 Kshs	2012/2013 Kshs
Bond Premiums Amortised	232,000	1,389,200

11. PROPOSED DIVIDENDS

In 2013/2014 a provision of Kshs. 10,169,762 was made for proposed dividends being 10% of the profits after tax. (2012/2013; Kshs. 57, 631,309).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
12. PROPERTY, PLANT AND EQUIPMENT SCHEDULE

FIXED ASSETS	LAND & BUILDING	EPS PRODUCTION PLANT & MACHINERY	MOTOR VEHICLES	PLANT & EQUIPMENT	FURNITURE & FITTINGS	COMPUTER SYSTEM	TOTAL
COST	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
AT 1ST JULY 2012	1,113,571,896		53,276,218	51,450,998	52,308,565	72,643,403	1,343,251,080
Additions	248,903,405	507,373,727	12,107,407	11,192,694	5,427,554	1,188,250	786,193,037
Disposals/ Adjustments	(243,910,802)	-	(3,152,052)	(86,400)		(152,300)	(247,301,554)
AT 30th JUNE 2013	1,118,564,499	507,373,727	62,231,573	62,557,292	57,736,119	73,679,352	1,882,142,562
AT 1ST JULY 2013	1,118,564,499	507,373,727	62,231,573	62,557,292	57,736,119	73,679,352	1,882,142,562
Additions	5,320,456	8,946,124	362,900	1,926,512	55,168,065	1,738,770	73,462,827
Disposals/ Adjustments				(195,295)	(141,600)	(5,975,408)	(6,312,303)
AT 30th JUNE 2014	1,123,884,955	516,319,851	62,594,473	64,288,509	112,762,584	69,442,714	1,949,293,087
DEPRECIATION							
AT 1ST JULY 2012			29,425,360	31,089,684	29,731,634	55,146,454	145,393,132
Adjustment prior year							-
Charge for the Year							-
-Amortization							-
-Depreciation	1,459,679.05	6,391,211	7,212,742	5,242,420	4,536,718	3,190,647	26,573,738
On Disposal/Adjustment			(2,540,625)	(34,505)		(98,283)	(2,673,413)
AT 30th JUNE 2013	1,459,679	6,391,211	34,097,477	36,297,600	34,268,352	58,238,818	169,293,457
AT 1ST JULY 2013	1,459,679	6,391,211	34,097,477	36,297,600	34,268,352	58,238,818	170,753,136
Adjustment prior year							-
Charge for the Year							-
-Amortization							-
-Depreciation	5,775,424	24,608,181	6,466,807	4,900,378	4,392,665	3,037,431	49,180,886
On Disposal/Adjustment				(36,798)	(141,600)	(131,022)	(309,420)
AT 30th JUNE 2014	7,235,103	30,999,391	40,564,284	41,161,179	38,519,417	61,145,227	219,624,602
NET BOOK VALUE							
AT 30th JUNE 2013	1,117,104,820	500,982,516	28,134,096	26,259,693	23,467,767	15,440,534	1,711,389,426
AT 30th JUNE 2014	1,116,649,852	485,320,460	22,030,189	23,127,330	74,243,167	8,297,487	1,729,668,485

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The depreciation amounts charged to the statement of comprehensive income are as follows

DEPRECIATION	NHC	EPS	TOTAL
ASSET CLASS	Kshs		
Motor Vehicles	5,980,178	486,629	6,466,807
Plant & Equipment	4,839,739	24,668,820	29,508,559
Land & Buildings	-	5,775,424	5,775,424
Furniture & Fittings	4,288,470	104,195	4,392,665
Computer System	3,037,431	-	3,037,431
Total Property Plant and Equipment	18,145,818	31,035,068	49,180,886
Intangible Assets (Note 13)	4,003,393		4,003,393
Investment Property (Note 14)	31,565,115	-	31,565,115
TOTAL	53,714,326	31,035,068	84,749,394

During the year there was a burglary at the EPS factory and assets worth Kshs. 263,234.78 and total cash amounting to Kshs. 63,353 were stolen. The factory had been insured against burglary hence we are expecting compensation from the Insurance Company. We have adjusted our books to reflect the loss of the assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
13. INTANGIBLE ASSETS

Intangible Assets have been recognized using the cost model as shown below

	Kshs.
COST	
AT 1ST JULY 2012	23,569,316
Additions	2,687,986
Disposals/ Adjustments	
AT 30th JUNE 2013	26,257,302
AT 1ST JULY 2013	26,257,302
Additions	95,000
Disposals/ Adjustments	5,644,647
AT 30th JUNE 2014	31,996,949
DEPRECIATION	
AT 1ST JULY 2012	11,060,365
Adjustment prior year	
Charge for the Year	
-Amortization	5,044,312
On Disposal/Ajustment	
AT 30th JUNE 2013	16,104,677
AT 1ST JULY 2013	16,104,677
Adjustment prior year	
Charge for the Year	
-Amortization	4,003,393
On Disposal/Ajustment	
AT 30th JUNE 2014	20,108,070
NET BOOK VALUE	
AT 30th JUNE 2013	10,152,625
AT 30th JUNE 2014	11,888,879

NOTES TO THE FINANCIAL STATEMENTS (Continued)
14. INVESTMENT PROPERTY

Investment property has been recognized using the cost model as shown below

	Kshs.
COST	
AT 1ST JULY 2012	1,219,700,046
Additions	61,590,704
Disposals/ Adjustments	
AT 30th JUNE 2013	1,281,290,750
AT 1ST JULY 2013	1,281,290,750
Additions	
Disposals/ Adjustments	
AT 30th JUNE 2014	1,281,290,750
DEPRECIATION	
AT 1ST JULY 2012	130,279,626
Adjustment prior year	
Charge for the Year	
-Amortization	
-Depreciation	30,233,064
On Disposal/Ajustment	(919,540)
AT 30th JUNE 2013	159,593,150
AT 1ST JULY 2013	159,593,150
Adjustment prior year	
Charge for the Year	
-Amortization	
-Depreciation	31,565,115
On Disposal/Ajustment	
AT 30th JUNE 2014	191,158,266
NET BOOK VALUE	
AT 30th JUNE 2013	1,121,697,598
AT 30th JUNE 2014	1,090,132,484

NOTES TO THE FINANCIAL STATEMENTS (Continued)
15. LONG TERM LOANS ADVANCED

These are made of loans to Local Authorities, Rural Housing Loans, Staff Loans and Tenant Purchase Loans.

	2013/2014	2012/2013
	Kshs	Kshs
Local Authorities	57,027,952	67,454,463
Rural Housing Loans	528,469,019	643,587,061
Staff Loans	584,925,111	551,590,253
Tenant Purchase	2,819,955,733	2,708,345,681
	3,990,377,816	3,970,977,458

16. UNQUOTED INVESTMENTS

These are investments held with;

	2013/2014	2012/2013
	Kshs	Kshs
CONSOLIDATED BANK		
4% Non-Cum Preference Shares of Sh.20.00 each.	4,100,000	4,100,000
Ordinary Shares of Sh.20 each	1,100,000	1,100,000
RESEARCH DEVELOPMENT LTD		
Ordinary Shares of Sh.20 each	99,457,797	99,457,797
	104,657,797	104,657,797

The Consolidated Bank shares are valued at cost. They arose following take-over of some troubled financial institutions by the Government. These institutions were Jimba Credit, Union Bank and Business Finance Ltd.

The other investment is in Research Development Co. Ltd, which is a fully owned subsidiary of NHC. It was resolved that the company should be liquidated hence in compliance with the International Financial Reporting Standards the accounts of Research Development Co. Ltd have not been consolidated.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
17. INVESTMENTS IN TREASURY BONDS

	2013/2014	2012/2013
	Kshs	Kshs
In 5 to 10 Years	-	200,000,000
Amortised Discount	-	232,000
	-	200,232,000

The discount and premiums on purchase of the securities has been written down to the Statement of Comprehensive Income, the write down was based on the lifespan of the security. The Treasury bond matured in August 2013 and there was no further investment in treasury bonds thereafter.

18. SCHEMES IN PROGRESS

These are valued at cost, and comprise:

	2013/2014	2012/2013
	Kshs	Kshs
Tenant Purchase Housing Schemes	312,045,120	654,263,437
Outright Sale Housing Schemes	118,490,788	98,124,948
Other Projects	198,184,752	159,585,911
	628,720,661	911,974,296

Included in other projects are Kshs. 81,274,817.10 and Kshs. 116,909,934.92 being amounts incurred on the new ERP system and the GOK Police Housing Project respectively. The new ERP system is still at the design stage.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
19. LOAN AMOUNTS RECEIVABLE

	2013/2014	2012/2013
	Kshs	Kshs
Rural Housing Loans		
Amounts Due	444,176,345	405,800,842
Provision for Bad Debts	(71,162,140)	(63,041,761)
	373,014,205	342,759,081
Local Authorities	995,654,996	916,187,121
Staff Loans	11,633,322	27,715,531
Tenant Purchase	120,711,625	24,701,346
Outright sale Debtors	479,854,595	1,749,784,290
	1,980,868,743	3,061,147,369

A general Provision for Bad debts is provided for Rural Housing Loans. No provision on Local Authority loans is provided since they are secured on the properties.

20. INVENTORIES

Inventories have been valued at the lower of cost and net realizable value (NRV) and are made up of:

	2013/2014	2012/2013
	Kshs	Kshs
Consumable Inventories-NHC	2,265,842	2,400,303
Stock of unsold houses	77,378,110	-
Consumable Inventories-EPS	6,964,252	2,788,800
EPS Work In Progress	68,788,408	6,373,843
EPS stock of Finished panels	11,605,064	55,213,899
EPS stock of Raw materials	244,911,393	136,537,196
	411,913,068	203,314,041

NOTES TO THE FINANCIAL STATEMENTS (Continued)
21. TRADE AND OTHER RECEIVABLES

These are made up of:

	2013/2014	2012/2013
	Kshs	Kshs
Rent Arrears	126,992,294	118,921,396
Provision for bad debts on Rents	(48,853,675)	(55,922,567)
Sundry Debtors	39,866,191	48,993,908
	118,004,810	111,992,737

A provision for bad debts was made in our books at the rate of 5% the amounts were reflected in both the statement of financial position and the statement of comprehensive income.

22. CASH AND BANK BALANCES

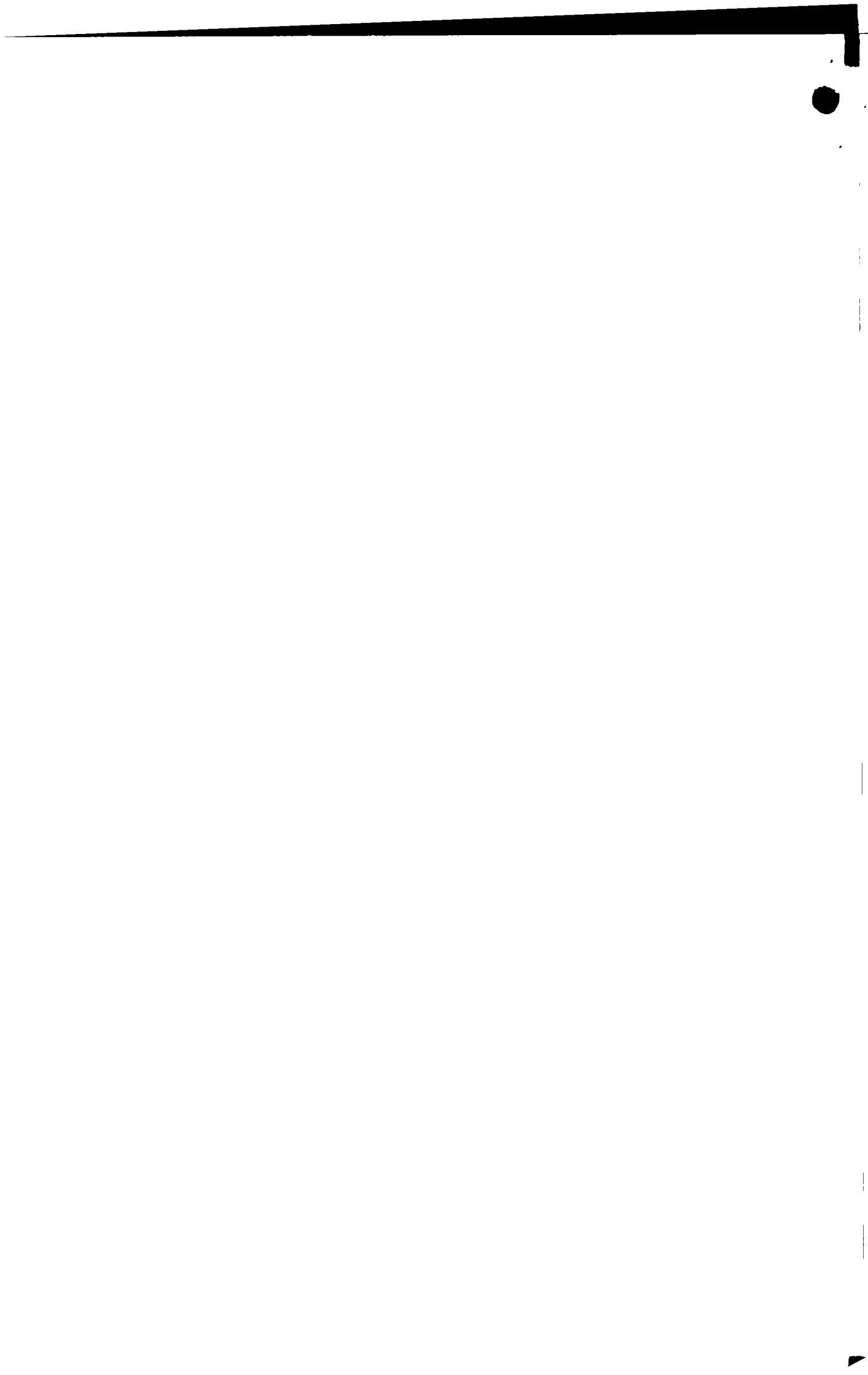
For purposes of the cash flow statement, cash and cash equivalent represent cash and bank balances and investments in 91-day Treasury Bills. These were:

	2013/2014	2012/2013
	Kshs	Kshs
Cash and Bank Balances	355,694,594	879,715,087
Treasury Bills	902,911,559	-
	1,258,606,153	879,715,087

23. EQUITY

The Corporation was established under the Housing Act, Cap 117 and is fully owned by the Government of Kenya.

- a. Conversion of total debts (arrears and principal) owed to GOK by NHC amounting to Sh.5.32 billion into equity.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

EQUITY (Continued)

An inter-ministerial Committee on National Housing Corporation's capital restructuring presented its report to the Cabinet in 2003. The Cabinet, during its deliberations, approved the NHC capital restructuring which included the following:

- a. Injection of additional funds in the form of equity to the tune of Sh.4.8 billion.

The Corporation has so far received Sh.1.616 billion as part of the implementation of the Cabinet. The table below is an analysis of the Corporation's equity:

Remarks	Financial Year	Kshs.
Equity Injection to NHC	2007/2008	216,000,000
Equity Injection to NHC	2008/2009	250,000,000
Equity Injection to NHC	2009/2010	250,000,000
Equity Injection to NHC	2010/2011	900,000,000
Total		1,616,000,000
Conversion of Total Debts owed to GOK by NHC	2002/2003	5,320,000,000
TOTAL EQUITY		6,936,000,000

There was no capital injection in the year under review.

24. UNREALIZED GAIN ON SALE OF HOUSES

This is the gain on sale of Tenant Purchase schemes, which will be realized over the life of the Tenant purchase loans. The balance as at the balance sheet date was Ksh.573,164,255

	2013/2014	2012/2013
	Kshs	Kshs
Balance b/f	529,586,160	404,999,869
Unrealized gain recognized in the year	77,397,522	157,562,178
Gain realized recognized in the year	(33,819,428)	(32,975,888)
Total	573,164,255	529,586,160

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. RETAINED PROFITS

This is made up as follows:

	2013/2014	2012/2013
	Kshs	Kshs
Opening balance	1,991,757,946	1,486,147,476
Prior year adjustments	97,523,195	(37,466,881)
House Equalization Reserve	71,606,363	68,198,546
Proposed Dividends	(10,169,762)	(57,631,309)
Dividends paid	-	(43,802,979)
Profit after tax for the year	101,697,619	576,313,093
Closing balance	2,252,415,361	1,991,757,946

The House Equalization Account

In an effort to clear the outstanding Local Authorities debts, management decided to enter into negotiations with the now defunct local authorities. During these negotiations some Council's agreed to engage in a debt swap arrangement through transfer of property to the Corporation. In the course of the negotiations some of the resolutions resulted in some gain to the Corporation. There were instances where the properties transferred were either above or below the book value of the outstanding loan balances.

Due to the foregoing, management was of the view that interest income accrued in such schemes should not be recognized in our statement of comprehensive income until when it was certain that income from those schemes would be realized, hence the amounts would be held in a reserve account (house equalization account). On successful transfer of the property by the debtor, management would then be able to determine the total gain or loss whose entries would be made in the statement of comprehensive income. In cases where the negotiations would be unsuccessful then the Council's debt would be reinstated and all the amounts recognized in the reserve would then be realized in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
26. LONG TERM LOANS BORROWED

As at the beginning of the year NHC had a total loan balance of Kshs. 1,218,807,146.20. The book balance was loan amounts owed to contractors under the contractor financing model. The projects developed under this model were Langata IV & V and Madaraka B D housing projects financed by LEMNA International and EPCO respectively.

	2013/2014		TOTAL
	LEMNA	EPCO	
Opening balance	551,409,890	667,397,256	1,218,807,146
Add: Net Increase in Loan amounts payable	81,093,008	0	81,093,008
Less: Total Loan Repayment in the year	(632,502,898)	(518,885,373)	(1,151,388,271)
Less: Amounts transferred to Current Liability		(148,511,883)	(148,511,883)
CLOSING BALANCE	0	0	0

In the year a total of Kshs. 1,151,388,271 was paid off to the contractors Kshs. 632,502,898 to LEMNA international and Kshs. 518,885,373 to EPCO. An amount of Kshs. 148,511,883 that was payable to EPCO was transferred to creditors and is included in note 27 under contractors. This loan amount was recognized as a current liability as it is to be repaid in less than twelve months.

27. TRADE AND OTHER PAYABLES

These comprise:

	2013/2014	2012/2013
	Kshs	Kshs
House Deposits	290,877,619	640,396,987
Ruai Police Housing House Deposit	89,000,000	-
TP Service Charge	94,960,802	17,624,610
Contractors	827,606,610	555,877,949
Sundry Creditors	129,917,393	138,307,254
	1,432,362,424	1,352,206,800

NOTES TO THE FINANCIAL STATEMENTS (Continued)
TRADE AND OTHER PAYABLES (Continued)

House deposits are amounts received from prospective house purchasers in respect of the various housing schemes. The amounts are treated as creditors until the houses are completed and handed over to purchasers.

Tenant Purchase service charge are amounts accrued and payable by house tenant purchasers and some Rental Properties to cater for maintenance of common areas and insurance of properties against fire and peril.

The amounts due to contractors relate to amounts accrued in respect of the ongoing and completed housing projects but remain unpaid.

28. TAXATION
Corporate Tax Movement

	2013/2014	2012/2013
Balance Brought Forward	(168,251,426)	(84,849,592)
Prior year over provision	110,487,766	-
Provision for tax for the year 2013/2014	(43,584,694)	(246,991,326)
Tax payable	(45,882,575)	(24,059,609)
Paid During the year	117,144,791	187,649,100
At end of the year	(30,086,138)	(168,251,426)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
29. RELATED PARTY TRANSACTIONS
(a) Principal Loan Balances for Staff

The amounts outstanding (balances not due) on loans to officers of the Corporation are:

	Ksh.	Ksh.
Tenant Purchase Loans	337,163,037	383,255,858
Staff Loans		
Car Loans	35,117,018	31,798,400
Computer Loans	265,990	945,995
House loans	549,542,104	511,245,859
	584,925,112	543,990,253
Total Loan Amount Advanced to Staff	922,088,149	927,246,111

The loans classified as staff loans are amounts advanced to staff at an interest rate of 5% per annum, the amounts are set out in note 15.

The Tenant purchase loans are loans advanced to the Corporation's staff under the same terms as the general public at an interest rate of 13% per annum. These amounts are contained in note 15 and are included in the tenant purchase loans.

All the loans have been advanced as per the terms prescribed in the terms of employment and the Corporation's regulations.

(b) Directors Expenses

The directors' expenses were Ksh.15,765,824 (2012/2013: Ksh. 12,650,162.).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
(c) Remuneration of Key Management

Included in the Staff Cost in Note 3 are the salaries and benefits of top management as follows:

	2013/2014	2012/2013
	Ksh	Ksh
Salaries & Benefits	22,797,523	11,357,906
	22,797,523	11,357,906

30. CASH GENERATED FROM OPERATING ACTIVITIES

	2013/2014	2012/2013
	Shs.	Shs.
CASHFLOW GENERATED FROM OPERATIONS		
Net Profit (Loss) before Tax	145,282,312	823,304,419
Adjustments:		
For items not involving movement of cash		
Depreciation	84,749,395	63,310,793
Realised gain on sale of houses	(33,819,428)	124,586,291
Bond Premium	232,000	
Bad Debts Provisions	8,277,871	9,893,079
Amortisation of Premium on Treasury Bonds	232,000	1,389,200
Write down of Inventory	44,479,786	-
Gain (loss) on disposal	(141,600)	(629,270)
House Equalisation Account		68,198,546
Prior year adjustments		(37,466,881)
Operating profit before working capital	249,292,336	1,052,586,177
Working capital adjustments:		
Decrease/(Increase) in debtors & prepayments	(6,012,076)	401,644,510
Decrease (Increase) in inventories	(208,599,027)	(197,221,867)
(Decrease) Increase in creditors	90,325,386	(1,118,885,947)
Housing schemes in progress	283,253,635	3,173,268,801
Increase in Loan amount receivable	1,080,278,626	(1,712,584,732)
Working capital changes	1,239,246,544	546,220,765
CASH GENERATED	1,488,538,880	1,598,806,942

NOTES TO THE FINANCIAL STATEMENTS (Continued)
31. REDEMPTION OF LONG TERM LOANS

Long term loans include loans to Local Authorities, Rural Housing Loans and staff loans. See Note 15.

	2013/2014	2012/2013
	Kshs	Kshs
TENANT PURCHASE		
At start	2,708,345,681	2,309,710,252
Advanced	473,034,973	744,596,618
Repayment	(361,424,920)	(345,961,189)
At 30th June	2,819,955,734	2,708,345,681
Other Loans		
At start	1,262,631,777	1,237,271,747
Advanced	78,070,456	187,990,566
Repayment	(170,280,151)	(162,630,536)
At 30th June	1,170,422,082	1,262,631,777
	3,990,377,816	3,970,977,458