
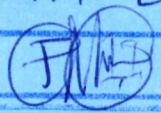


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 30 JUL 2019	DAY: TUESDAY
TABLED BY: MAJORITY LEADER	
CLERK AT TABLE:	

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
TOURISM FINANCE CORPORATION**

**FOR THE YEAR ENDED
30 JUNE 2018**



TOURISM FINANCE CORPORATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th JUNE 2018

Prepared in accordance with the Accrual Basis of Accounting Method under the International
Financial Reporting Standards (IFRS)

TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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TOURISM FINANCE CORPORATION REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

KEY CORPORATE INFORMATION

The main Corporate information of the Corporation is as follows:

BACKGROUND INFORMATION

The Corporation derives its operating mandate from section 75(1) of the Tourism Act No. 28 of 2011 which commenced on 1st of September 2012 and which replaced the KTDC Act Cap. 382.

At cabinet level, the Corporation is represented by the Cabinet Secretary Ministry of Tourism who is responsible for the general policy and strategic direction of the Corporation.

PRINCIPAL ACTIVITY

The principal activity of the Corporation is to facilitate and finance development of tourism and tourism related facilities through advancement of Loans.

BOARD OF DIRECTORS

As indicated in the statement of Directors' Responsibilities on page 2 the Corporation's Board of Directors was appointed during the previous financial year 2015/2016.

These appointments were with effect from 02/10/15 vide Gazette Notice No. 7453 of 02/10/2015 and No. 9444 of 17/12/2015 for the Directors and Gazette Notice No. 4649 of 23/06/2016 for the Chairman.

The appointed Board of Directors are listed in the Report of the Directors.

CORPORATION SECRETARY

The services of the Corporation Secretary are being conducted in house by the Head of Legal Services and Corporation Secretary.

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

REGISTERED OFFICE

Utalii House,
Uhuru Highway,
P.O Box 42013,
NAIROBI, KENYA.

Telephone: +254 20 311474
Email: info@tourismfinance.go.ke
Website: www.tourismfinance.go.ke

INDEPENDENT AUDITORS

The Auditor General,
Office of The Auditor General,
Anniversary Towers, University way,
P.O Box 30084-00100,
NAIROBI, KENYA.

CORPORATE BANKERS

Kenya Commercial Bank Limited,
University Way,
P.O Box 7206,
NAIROBI, KENYA.

PRINCIPAL LEGAL ADVISER

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

**TOURISM FINANCE CORPORATION
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BOARD OF DIRECTORS



**PATRICK OSERO
CHAIRMAN**

DoB: 29th January 1963

Mr. Osero is the current Chairman of Tourism Finance Corporation having been appointed on 24th June 2016. He has vast experience in leadership of Development Financial Institutions having served as the Chairman of Agricultural Finance Corporation between 2013 and 2015 and the Vice Chairman of Agriculture Development Corporation (ADC) between 2009 and 2012. He also held the position of Assistant Complex Manager in various stations at the Agriculture Development Corporation.

Mr. Osero holds a Master's of Science in Entrepreneurship from the Jomo Kenyatta University of Agriculture and Technology and a Bachelor of Science in Agriculture from the University of Baraton.



**FATUMA HIRSI MOHAMED(MRS.)
CBS
Principal Secretary; Ministry of
Tourism**



DoB:

Prior to joining the Ministry of Tourism as the Principal Secretary, Mrs. Fatuma Hirsi Mohamed was an international Civil Servant working for the United Nations. She has previous experience in various business sectors including telecom, media and banking contributing to their corporate and business reputation and success.

Fatuma has wide experience in strategic implementation and governance of business through marketing, public relations, communications, community and stakeholder relation building, corporate social responsibility and media engagement. She has also been spokesperson for the companies she served.

Academically, she has an MBA in strategy and marketing, a BA (Hons) in languages and a postgraduate diploma in Public Relations. She is currently at the tail-end of completing a PhD in Communications Studies. Fatuma has been recognized for her leadership and honoured with a Fellow and lifetime achievement award from the Public Relations Society of Kenya which she served as chairman for 5 years. She has also been awarded by the President of the Republic of Kenya with an Order of Chief of the Burning Spear (CBS).

**TOURISM FINANCE CORPORATION
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 FOR THE YEAR ENDED JUNE 30, 2018**

 <p>FRANKLIN NDII DIRECTOR</p>	<p>DoB: 25th May, 1952</p> <p>Mr. Ndi is a career accountant having worked in various organizations: the most recent being Kenya Utalii College where he was the Financial Controller from 1984 to 2004. He is currently the Managing Director of African Dew Tours and Travel Ltd. He holds a Master of Business from the University of Free State, is a Certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya.</p> <p>He was appointed to the Board on 2nd of October 2015 and brings on board a wealth of experience in Financial Management gained from the Public Sector where he has over 41 years' experience in Financial Management & Administration.</p>
 <p>PAULINE RWAMBA DIRECTOR</p>	<p>DoB: 29th December 1972</p> <p>Ms. Pauline Rwamba is a career Social/Community Development Specialist. She was appointed to the Board on 2nd October, 2015. She is a consultant with Polypat Consultancy Firm offerings training on Donor Relations, Youth and Women Empowerment, Table Banking and Revolving Fund, Strategic Plans, Market and Value Chains, Group Dynamics and Conflict Resolution, Psychosocial Support, Impact Evaluation and Documentation, Financial Literacy and Resource Mobilization.</p> <p>She holds a Master's degree in Business Administration, Marketing Option and an undergraduate degree in Business Administration, Entrepreneurship option.</p>

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 <p>PAUL KURGAT DIRECTOR</p>	<p>DoB: 9th May 1969</p> <p>Mr. Kurgat was appointed to the Board on 2nd October, 2015. He is the current General Manager of Somak Safaris Kenya. He has served in senior positions in several hospitality institutions and brings on the Board over twenty-one (21) years' experience in the Tourism and Hospitality industry.</p> <p>He holds a Bachelor's Degree in Hospitality and Events Management from Moi University and is currently pursuing a Masters in Tourism Management at the Moi University. He is also a graduate of the Kenya Utalii College. Mr. Kurgat is a member of the General Assembly of Action Aid and is the National Chairman of the Kenya Utalii College alumni.</p>
 <p>ALICE MANYALA Director representing The National Treasury</p>	<p>DoB: 23rd September 1960</p> <p>Ms. Alice Ogwel Manyala is the Alternative Director to the Cabinet Secretary, The National Treasury. She is the Senior Assistant Secretary, the National Treasury and was appointed to the Board on 14th October, 2015.</p> <p>She holds a Post Graduate Diploma in International Relations and Bachelor of Arts Degree both from the University of Nairobi. Ms. Manyala brings on the Board over twenty-five (25) years of Public Sector experience gained in her distinguished career as a civil servant having worked in various capacities at the headquarters of the Ministry of Foreign Affairs and Kenya Missions abroad and the National Treasury.</p>
 <p>SAID MWANGI ALI DIRECTOR</p>	<p>DoB: 9th November 1967</p> <p>Mr. Said M. Ali, is a Marketing Consultant with over twenty (20) years' experience in Marketing. He is the current Chairman of Kenya Safari Lodges and Hotels Limited and Rodex E.A Ltd</p> <p>He is the founder of Kenya Motor Repairers Association and a former Board Member of Hotel & Restaurant Board (now TRA) and the former Secretary of Culture Kenya Arab Friendship. He was appointed to the Board on 2nd October, 2015.</p>

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**EDITH ALUSA
DIRECTOR**

DoB: 9th December, 1974

Ms. Alusa is currently a Principal Partner at EED Advisory, a consultancy firm offering service in the energy and environment space. She is a seasoned consultant in tourism and has held senior positions at Camco Clean Energy, NIRAS Consulting, Homegrown Ltd (now Finlays) and the Ecotourism Society of Kenya.

Ms. Alusa, who has been a member of the Commission on Education and Communication of the IUCN since 2014 and sits on the board of Ecotourism Kenya.

Edith was appointed on 2nd of October, 2015 and brings on the Board over nineteen (19) years' experience in Natural Resource Management, Environmental Policy Planning, Environmental Assessments and Sustainable tourism management.

She holds a Master of Science Degree in Water and Environmental Management from Loughborough University (UK) and a Bachelor of Arts Degree (Geography) from Baraton University (Kenya). She is a Chevening Scholar, with training in applied environmental economics at the Imperial College London (UK).

**TOURISM FINANCE CORPORATION
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MANAGEMENT TEAM AS AT 30 JUNE, 2017

 <p>ORUMOI. T. JONAH Managing Director</p>	<p>Mr. Orumoi holds a Master of Science in Finance and Investment (Merit) from Queen Mary University of London, UK and is FACCA qualified. He is a graduate of BA (Hons) in Accounting & Finance of the East London University, UK. He was the Head of Finance & ICT at the Kenya Tourism Board and has previously worked as Finance & Leasing Contracts Manager/ acting Head of Procurement at G4S and as a Senior Principal Finance Officer, Thurrock Council, UK.</p>
 <p>CAROLYNE MISOI Head of Human Resources & Administration</p>	<p>Carolyn Misoi has an MBA from the University of Salford (UK), a Bachelor of Arts and a Diploma in PR and Personnel Management. She is a member of the IHRM and KIM. She has 24 years of experience in Human resources and joined TFC in January 2011. She has worked at K.C.A University and National Oil Corporation of Kenya.</p>
 <p>DOMINIC NDEWA Head of Investments</p>	<p>Dominic Ndewa holds a Masters in Economic Policy Management and a Bachelor of Economics. He is a CPA (K), and a Certified Investments and Securities Analyst. Mr. Ndewa joined TFC in December 2010 from the Ministry of Finance (Treasury) where he was a Principal Economist for over 15 years.</p>

**TOURISM FINANCE CORPORATION
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NORAH RATEMO
 Head of Credit

Norah Ratemo holds a MBA Finance option and a Bachelor’s degree in Commerce (Accounting). She is a CPA (K) and member of ICPAK and Association of Women Accountants in Kenya. She joined TFC in 2011 having worked in the banking industry in K-Rep and Eco Bank as a Credit Analyst.



NORMAN MWANGI
 Head of Finance – up to October 2017

Norman Mwangi holds a Master’s degree in Business Administration (Finance) and also a Bachelor degree in Education (Mathematics & Business Studies)
 He is also a Certified Public Accountant of Kenya and a Member of the Institute of Certified Public Accountants of Kenya.
 He joined the Corporation in 2017 and left in October 2017.



SABINA NYAMU
 Ag. Head of Finance – from November 2017

Sabina Nyamu holds a Master of Business Administration and Bachelor of Business Administration. She is a Certified Public Accountant (K) and a member of the Institute of Certified Public Accountants. She joined the Corporation in 2004.

**TOURISM FINANCE CORPORATION
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ANGELITA KARIUKI
 Senior Legal Officer & Ag. HOLS & CS up
 to September 2017.

Angelita Wamuyu is an Advocate of the High Court of Kenya and holds Bachelor of Laws Degree from the University of Nairobi (Hons.) and a Post Graduate Diploma in Laws from the Kenya School of Law. She joined the Corporation in 2011. She acted as Head of Legal Services & Corporation Secretary till September 2017 after the position was substantively filled.



JOHN SAITOTI KARIA
 Head of Legal Services – from September
 2017

Mr John Saitoti Karia is the Head of Legal Services and Corporation Secretary. He is an Advocate of the High Court of Kenya and a Certified Secretary. He is an active Member of the Law Society of Kenya, the Institute of Certified Public Secretaries of Kenya and a Member of the Chartered Institute of Arbitrators (Kenya Branch). He holds a Master's degree in Law (LLM) from the University of Exeter (UK), a Postgraduate Diploma in Law from the Kenya School of Law and a Bachelor of Laws degree (LLB) from University of Nairobi.

John has previously worked for Kenindia Assurance Co. Ltd and the Laptrust/CPF Group where he was the Legal Services Manager. He joined the Corporation in September 2017.



PATRICIA GACHUNGI
 Head of Procurement

Patricia Gachungi holds Master's degree in Science (Procurement and Logistics) and also Bachelor degree in Commerce (Business Administration). She also has a Graduate Diploma in Purchasing and Supply. She is a Member of the Kenya Institute of Supplies Management and also of Chartered Institute of Purchasing and Supply.

**TOURISM FINANCE CORPORATION
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EMILY SIMIYU
Head of Audit

Emily Simiyu holds a Master of Business Administration degree (Finance) as well as a Bachelor of Commerce degree (Finance). She is a Certified Information Systems Auditor, a CPA-K finalist, a member of the Institute of Certified Public Accountants of Kenya (ICPAK) as well as being a member of Information Systems Audit and Control Association

**TOURISM FINANCE CORPORATION
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CHAIRMAN'S STATEMENT



Mr. Patrick Osero, Chairman

During the Financial Year FY 2017/18, the Global economy expanded by 3.6% compared to a growth of 3.1% registered in 2016/17. The United States of America registered a growth of 2.2% in 2017 compared a growth of 1.5% in 2016, largely due to increase in household income that supported private consumption and investments. The growth in United Kingdom decelerated to 1.5 per cent in 2017 due to a weaker aggregate demand and uncertainty surrounding the Brexit negotiations.

In China, real Growth Domestic Product (GDP) was boosted by fiscal support and recovery in exports to grow by 6.8 per cent in 2017 compared to 6.7 per cent in 2016. Real GDP in Sub Sahara Africa expanded by 2.6 per cent in 2017, mainly due to higher commodity prices and favorable external environment.

Kenya's economy is estimated to have expanded by 4.9 per cent in 2017 compared to a revised growth of 5.9 per cent in 2016. The slowdown in the performance in the economy was partly attributed to uncertainty associated with prolonged electioneering period coupled with adverse effects of weather conditions.

The performance across the various sectors of the economy varied widely, with Accommodation and Food services, Information and Communication Technology; Education; Wholesale and Retail trade; and Public Administration registering accelerated growths in 2017 compared to 2016. On the other hand, growths in Manufacturing; Agriculture, forestry and Fishing; and Financial and Insurance decelerated significantly over the same period and therefore dampened the overall growth in 2017.

It is in this context that I am pleased to report the performance of Tourism Finance Corporation during the financial year 2017/2018. The Tourism sector recorded improvements despite a prolonged electioneering period and negative travel advisories issued by some countries in 2017. Tourism earnings increased by 20.3% from Kshs. 99.7billion in 2016 to Kshs 119.9billion in 2017. The number of international visitor arrivals increased by 8.1% to 1,448.8 thousand in 2017. The number of Hotel bed-nights occupancy increased by 11.3 per cent from 6,448.5 thousand in 2016 to 7,174.2 thousand in 2017. The number of international conferences contracted by 15.9% from 227 in 2016 to 191 in 2017 while local conferences increased by 2.4% from 3,775 to 3,844 over the same period.

Operating Environment:

During the year under review, key macroeconomic indicators largely remained stable and therefore supportive of the growth in 2017. Interest rates declined due to the impact of their capping that became effective in September 2016. In the money market, the Kenyan shilling strengthened against most of the trading currency but weakened against the Euro and the US Dollar in 2017.

TOURISM FINANCE CORPORATION REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

During 2017, the Central Bank continued to pursue accommodative monetary policy aimed at increasing credit uptake by private sector to stimulate economic growth. The Central Bank Rate (CBR) was retained at 10.0 per cent to continue anchoring inflation expectations in 2017. The maximum lending rate was capped at no more than 4.0 per cent above the CRB. Average interest rate on deposits increased to 8.22 per cent in December 2017 from 7.33 per cent in December 2016. Commercial Banks' average lending interest rates on loans and advances remained stable at 13.64 per cent in December 2017. The 91-day Treasury bill rate fell from 8.44 per cent in December 2016 to 8.01 per cent in December 2017. The above scenario had a direct effect on the Corporation's lending environment.

The TFC mandate of providing Credit facilities and undertaking strategic Investments is premised on the need to generate value, creating jobs, and supporting economic growth. Thus, advancing credit facilities to start up enterprises is a sensitive phenomenon to changes in macroeconomic environment and consequently, the challenges in the operating environment directly impact the nascent enterprises within the tourism sector, which is the TFC sector of focus.

The year under review witnessed the lifting of a moratorium on lending and disposal of asset placed by the Ministry of Tourism and Wildlife in 2016. This allowed the Corporation to continue with its lending function as part of its major mandate in the industry. Although the moratorium on loans was lifted, the Corporation was not able to fully undertake its lending function as half of the budget allocation from the exchequer for onward lending had not been released as at the end of the financial year 2017/18. This to a large extent affected the corporation's performance target in terms of reduced loan portfolio and subsequently posed a great challenge in the delivery of its mandate.

As I present this Financial Statement, I wish to recognize the role played by various entities in realizing the results reported in this Financial Statement FY2017/2018. I take cognizance of the continued commitments of the Corporation's staff to hard work, resilience and team spirit. I appreciate our esteemed customers, the parent Ministry of Tourism and Wildlife, The National Treasury, our business partners, clients and other stakeholders for their support and contributions to the Corporation's success. Finally, I would like to sincerely thank my fellow Board members for their commitment to duty and the support they have accorded me.



PATRICK OSERO
CHAIRMAN, BOARD OF DIRECTORS

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

REPORT OF THE MANAGING DIRECTOR



**Mr. Orumoi T. Jonah
Managing Director**

Tourism has been selected as one of the leading sectors in achieving the goals of the Vision 2030 and one of the main pillars contributing to over 10% of the country's Gross Domestic Products. Kenya aims to be among the ten long haul tourist destinations in the world, offering a high-end, diverse and distinctive visitor experience that few of her competitors can offer.

To fulfill the above objective, Tourism Finance Corporation has been positioned in the market to effectively facilitate the development and expansion of bed capacity, development of new products and rehabilitation of the existing accommodation facilities in the country.

With the current tourism trend and increased demand for tourist attraction, there is no doubt that TFC will be expected to play a catalytic role in the development and investment in tourism to increase bed capacity to 65,000 by the year 2030.

Kenya has enjoyed a unique combination of spectacular tourist attractions and a liberalized economy making it an ideal investment location, especially for investors interested in the development of sustainable and quality tourism. It is with this in mind that TFC was created 1965 and now enshrined in the New Tourism Act No. 28 of 2011 as Tourism Finance Corporation, with the mandate of providing development funding for long term investment and business advisory services to entrepreneurs in the tourism sector.

The year 2017, marked the commencement of implementation of the Corporation's five year Strategic Plan – 2017/ 2022. The plan has focused more on growth areas, market forces, emerging technologies, and entrepreneurship trends, internal capabilities and competencies and opportunities for growth for the corporation and a new organization structure attuned to fit a modern financial institution and to deliver the mandate of TFC;

The performance of the Corporation during the financial year 2017/2018 presents a brighter outlook with the total non-performing loans improving from **62%** in 2016/2017 to close at **44%** by 30th June 2018 and an increased loan portfolio closing at Kshs. **833,705,797.50**. The period witnessed the Corporation instituting a continuous review of Credit Policy and documentation of recovery procedures by clearly outlining the approval process of loans, adopting industry standards in loan management, Introduction and use of CRB reports in carrying out appraisals. These measures, to a large extent have reduced the portfolio of non-performing loans.

TOURISM FINANCE CORPORATION REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

As a state owned DFI, the Corporation shall continue to operate in a manner that meets the socio-economic and development goals of the Government by realigning its strategy to Agenda Four of the National Government. Operations of the corporation shall continuously be geared towards addressing some of the social and economic challenges facing the country such as wealth creation, unemployment and value addition. Additionally, the corporation is targeting on supporting new investments and tourist facilities and initiatives that are aimed at placing Kenya among the top ten long-haul tourist destinations globally.

In order to enhance tourist product diversification, the Corporation, during the year, identified various innovative products for financing. These include; Development of Convention Centers and New Hotels on the Sunset and Mombasa Beach site; Development of Meru Mulika Eco- Lodge; Development of Tourist Information Centre (CBD); Development of Amusement Park both in Naivasha and Nairobi; Development of An aquarium at Mombasa Beach Hotel (Water Park at the Coast & Lake Victoria); Miracle garden at Uhuru park; Development of adventure sports and wellness parks; Development of cruise Boats and floating restaurant in Mombasa & Kisumu, and Development of Nyakagera Project (Lake Victoria Islands) among others.

In addition, the Corporation invigorated engagements with various organizations for technical support and financing of renewable solar energy projects. These include; GTZ, Viability Africa, Solid State Power, PowerPoint, Solatrend Limited and Power Africa. During the period, the Corporation signed an MOU with UN Habitat, for the provision of specialized technical assistance and capacity building in the development of sustainable tourism investments – including support for community based tourism initiatives.

Another critical area of focus for the Corporation is partnership with the County Governments. The Corporation has commenced deepening her strategic engagements and partnerships with devolved units to support them through business advisory in their respective counties on tourism investments and profiling of bankable tourist investment projects.

Going forward, the Corporation will continue to implement a growth strategy that focuses on delivering value and playing a lead role in fostering an enabling investment environment to Kenya's tourism sector. I wish to thank the corporation staff and our stakeholders on the support provided for an effective and efficient model of performance implemented in the organization. As we embark on the New Year I have confidence that the corporation will achieve better results and have a greater impact to the people of Kenya and tourism players round the world.

I am persuaded that with the support of our dedicated Board Members and Management, the corporation is capable of delivering the expectation of the industry and to ensure that our investors and shareholders reap maximum return on their investments.



**ORUMOI T. JONAH
MANAGING DIRECTOR**

TOURISM FINANCE CORPORATION REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

CORPORATE GOVERNANCE STATEMENT

Corporate Governance comprises the rules, practices and processes by which Tourism Finance Corporation is directed and controlled. It also provides the framework for attaining our objectives. The Board of Directors has embraced Governance as the mode of engagement and interaction between the Corporation's Board, Management, Stakeholders and Regulators for the sustainable benefit of the country.

Section 77(4) of the Tourism Act CAP 383 of the Laws of Kenya sets out the Corporation's Board's responsibilities as to "...ensure proper & effective performance of the functions of the Corporation". The Board of Directors of the Corporation has embraced the responsibility to direct, control and to be held accountable by the government and the people of Kenya to ensure the Corporation undertakes its mandate in full compliance with the law, regulations, the highest standards of Corporate Governance and business ethics.

The Corporation continues to operate under tenets of the Constitution of Kenya, and in compliance with the governing law being the Tourism Act CAP 383 of the Laws of Kenya. It also complies with the provisions of other relevant statutes such as the State Corporation's Act CAP 446 of the Laws of Kenya.

The Corporation is also in compliance with the governance tenets of the Code of Governance for State Corporations (Mwongozo Code of Governance) which offers a corporate governance code for all state corporations. The Corporation being a Development Financial Institution (DFI) and a member of the Association of Africa Development Institutions (AADFI) has also endeavored to incorporate the governance standards set by the Association wherever possible. In addition to the foregoing, the Corporation continues to participate in the association's peer reviews to gauge its level of compliance with the association's governance and compliance standards.

Board Charter

The Board Charter guides the Board in the exercise of its responsibilities. It enables Board members understand their individual and collective roles to ensure they help the Corporation fulfill its mandate. It provides an overview of:

- The roles, functions, responsibilities and powers of the Board and individual directors.
- The functions and powers of the Board Committees and the Full Board
- The policies and practices of the Board.

The principles and policies contained in the Charter are in addition to and are not intended to change or interpret any statute, law or regulation.

TOURISM FINANCE CORPORATION REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Board Composition

The Corporation's Board is made up of ten (10) members led by a non-executive and independent Chairman, one executive Managing Director, one director representing the Cabinet Secretary; National Treasury, one director representing the Principal Secretary; Ministry of Tourism and six independent and non-executive directors. The composition of the Board is as outlined in Section 77 of the Tourism Act CAP 383 of the Laws of Kenya.

The Directors who held office during the year under review to the date of this report are listed under the Board of Directors section in this report.

Committees of the Board

The Board has four standing committees which meet on a quarterly basis or more frequently as deemed necessary. These committees are:

- **Finance, Human Resource & Administration Committee:** The committee is responsible for the Corporation's Finance, Human Resource & Administration issues. The committee provides financial strategy and oversight for the Corporation, monitors the policies and practices of the Corporation in relation to human resources and offers advice and recommendations of the Corporation's human resource strategies and policies. It also provides oversight to the legal, ICT, Procurement and Public Relations departments. It consists of five members chaired by a non-executive director.
- **Credit Committee** The committee is responsible for the Corporation's Credit issues. The committee determines the Credit Policy of the Corporation. The Credit Committee has the authority to make decision on approval or rejection of credit facilities. It consists of five members chaired by a non-executive director.
- **Investment Committee:** The committee is responsible for the Corporation's Investment's issues. The role of the committee is to maintain the prudent and effective investment of the Corporation's resources and to formulate and oversee the investment policies and management of the Corporation Investments. It consists of five members chaired by a non-executive director.
- **Audit Committee:** The committee is responsible for the Corporation's Internal Audit & Risk Management function. It assesses the effectiveness of the Corporation's internal control and risk management framework, reviews the impact of significant accounting and reporting issues, meets the management, external and auditors to review the financial statements and results of the audit process by ensuring management acts on audit and risk management reports issues. It consists of four members chaired by a non-executive director.

TOURISM FINANCE CORPORATION REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

As reported in the previous financial year, the Corporation now has a functional board.

The Corporation has put together a Corporate Social Responsibility (CSR) Policy that will be presented to the Board for consideration and approval. The Corporation however continues to sponsor events that are socially driven on a case by case basis pending approval of the policy by the Board.

The Policy will ensure that Corporate Responsibility is a key aspect that should be embedded in the Corporation's business practices. TFC as a corporation will therefore ensure formation of relevant partnerships with appropriate bodies, stakeholders and organizations in order to be involved in sustainable projects.

The draft policy is set to achieve the following:

- i) To support activities which help cleaner, greener and healthier environment and thereby enhancing TFC's perception as a social responsible entity.
- ii) To Interact with members of the Community and improve their welfare, and
- iii) To Build TFC's Corporate Image and reputation.
- iv) To cultivate a better understanding of the company, its plans, achievements and policies by different publics.

Focus Areas are:

- ✓ SMEs
- ✓ Communities
- ✓ Health
- ✓ Environment

This will ensure that the corporation fully gives back to the society in the areas where its presence is felt.

During the current 2017/2018FY, The Corporation carried out the following CSR activities as the subject matter refers:

1. Eco Warrior Award – 5th October 2017

TFC Sponsored the event with Ksh. 250,000 to support businesses with excellent and replicable best practices, able to translate the SDGs in Tourism into their operations, and positively demonstrate and report tangible outcomes.

2. Support for the needy during the Festive season – 30th March -1st April 2018

During the Festive Season (Easter Holiday), Tourism Finance Corporation remembered the needy women, girls and boys suffering from burns, accidents and domestic violence needy under the Reconstructive Surgeries Surgical Camp. The corporation sponsored the event with Ksh. 87,150 to support the exercise that was carried out at Aga Khan Hospital in Mombasa to cater for the hospital and medical bills at the festive weekend.

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of the Tourism Finance Corporation's affairs.

PRINCIPAL ACTIVITY

The Core mandate of the Corporation is to provide financial assistance to investors or entrepreneurs in the Tourism sector as provided for under Section 77 of the Tourism Act CAP 383.

RESULTS

The results of the Corporation for the year ended June 30, 2018 are set out on page 4.

DIVIDENDS

The Director's do not recommend payment of dividend.

DIRECTORS

The current Board of Directors was appointed during the previous 2015/2016 financial year as follows:

a) As Directors vide Kenya Gazette Notice No. 7453 of 02/10/2015 (effective 02/10/2015),

1. Edith Alusa
2. Paul Kurgat
3. Rwamba Pauline
4. Franklin Ndi
5. Evanson Njoroge Kamuri (Dr.)
6. Hanningtone Joel Gaya (Prof.)

b) As Director vide Kenya Gazette Notice No. 9444 of 17/12/2015 (effective 02/10/2015),

1. Said A. Mwangi

The same Gazette Notice No. 9444 revoked the appointment of the following as a Director effective 02/10/2015:

1. Evanson Njoroge Kamuri (Dr.)

c) As Non- Executive Chairman vide Kenya Gazette Notice No. 4649 of 23/06/2016 (effective 24/06/2016),

1. Patrick Osero

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

AUDITORS

The Auditor General is responsible for the statutory audit of Tourism Finance Corporation.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Corporation's Board sitting on^{18th} September 2018.

By Order of the Board

.....


Corporation Secretary

Date:^{17/09/2019}.....

**TOURISM FINANCE CORPORATION
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Tourism Finance Corporation's Board of Directors was dully constituted within the 2015/2016 financial year as provided for under section 77 of the Tourism Act 2011, CAP 383 of the Laws of Kenya. The term of the previous Board of directors had expired on 17th April 2013. The current Board of Directors was appointed with effect from 02/10/2015 vide Gazette Notice No. 7453 of 02/10/2015 and Gazette Notice No. 9444 of 17/12/2015. The Chairman was appointed vide Gazette Notice No. 4649 of 23/06/2016.


The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year (period) ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept the responsibility for the Corporation's Financial Statements for the financial year ended 30th June 2018. These have been prepared using appropriate accounting policies supported by reasonable and prudent judgment and estimates, in conformity with International Financial Reporting Standards, in the manner required by the PFM Act, the requirements of the Tourism Act and the February 1991 Treasury guidelines on Investment. 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 its operating results. The Directors further confirm the completeness of the accounting records maintained by the Corporation, which have been relied upon in the preparation of the financial statements as well as the adequacy of the 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 twelve months from the date of this statement.

Director: 

Date: 17-01-2019

Director: 

Date: 17-01-2019

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON TOURISM FINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Tourism Finance Corporation set out on pages 1 to 54 which comprise the statement of financial position as at 30 June 2018, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts 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 35 of the Public Audit Act, 2015. 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.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Tourism Finance Corporation as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (Accrual Basis) and comply with the Tourism Act, No.28 of 2011.

Basis for Qualified Opinion

1. Property, Plant and Equipment (PPE)

The depreciation schedule availed for audit review indicates that the net book value for motor vehicles is zero having been fully depreciated. However, physical inspection and enquiries indicate that the motor vehicles whose registration numbers are: KBL 882G (Volkswagen Jetta), KBB 582G (Nissan X-trail), KBN 992E (Toyota Prado) and KBN 993E (Toyota Prado) are still in use and thus the entity still derives economic benefits. These motor vehicles therefore ought to be revalued so as to ascertain their fair value.

In the circumstances, it has not been possible to confirm that property, plant and equipment balance of Kshs.12,378,645 as at 30 June 2018 is fairly stated.

2. Investments

(a) Differing Values in Share Certificates and Financial Statements

Share certificates availed for audit scrutiny for the various investments held by TFC had differences amounting to Kshs.126,225,803 compared to the amounts reflected in the financial statements as analyzed below;

Subsidiary	Financial Statements Kshs	Value as per the Share Certificates Kshs	Difference Kshs
Kenya Safari Lodges	116,061,176	83,237,100	32,824,076
Kabarnet Hotel Ltd	5,432,120	4,910,000	522,120
Golf Hotel Ltd	4,000,000	4,827,480	(827,480)
Mountain Lodges Ltd	2,893,520	6,101,160	(3,207,640)
Kenya Hotel Properties Ltd	114,189,360	117,603,012	(3,413,652)
African Tours and Hotels	4,691,900	5,469,360	(777,460)
International Hotel Ltd	135,939,167	34,516,942	101,422,225
The Ark Ltd	549,340	823,976	(274,636)
Buffalo Springs Hotel	1,000,000	1,041,750	(41,750)
Total			126,225,803

b) Valuation of Shares

The current value of the shares held in the Subsidiaries and Associates is based on historical values and thus does not reflect the current net value of the shares. The Corporation has never carried out a revaluation of the shares since time of acquisition.

In view of the above, it has not been possible to confirm the accuracy of the investments balance of Kshs.397,742,463 as at 30 June 2018.

3. Investment Properties

The investment properties balance of Kshs.3,143,630,670 as at 30 June 2018 includes capital work in progress amounting to Kshs.43,630,670 comprising of Kshs.21,997,694 which had been carried forward since the year 2011 and Kshs.21,632,976 additions for the year 2016/2017. Further, the capital work in progress brought forward balance of Kshs.21,997,694 includes a 10% deposit of Kshs.3,500,000 paid on 3 February 2012 for Marina project land valued at Kshs.35,000,000. However, and as reported in the previous years the project is yet to take off, the land purchase deal appears to have stalled and the contract has already lapsed and may never crystallize.

Consequently, it has not been possible to determine the carrying value of investments balance of Kshs.3,143,630,670 as at 30 June 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Tourism Finance Corporation in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

1. Capital Work in Progress

The Corporation entered into a contract with C.M Construction East Africa Limited for the proposed external repainting works and fire escape staircase in Utalii House at a contract sum of Kshs.21,922,810.

The work was to start on 26 January 2017 with an expected end date of 31 May 2017. By December 2017, the repainting works were complete pending rectification of defects identified during an inspection exercise.

As at the time of audit in October 2018, the contactor had not yet addressed the defects as advised.

Similarly, as at December 2017, the fire escape staircase work was at 45% completion level. The works on the north wing side of the building had however not started. By the time of audit in October 2018, the works were still pending and the contractor had already been paid a total of Kshs.18,098,959.

Consequently. It has not been possible to establish whether the payment was commensurate with the work done.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Basis for Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the procedures performed, except for the matter described in the Conclusion on Effectiveness of Internal Controls section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (Accrual Basis) 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.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern and using the applicable basis of accounting unless the management either intends to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015. In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions

of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Corporation's policies and procedures may deteriorate.

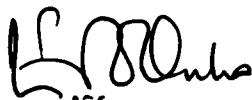
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

16 May 2019


TOURISM FINANCE CORPORATION
Reports and Financial Statements
For the Year ended June 30, 2018

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018


		2018	2017
	Note	<u>KShs</u>	<u>KShs</u>
ASSETS			
Non-Current Assets			
Investment Property	3	3,143,630,670	3,143,630,670
Property, Plant and Equipment	4	12,378,645	26,306,194
Intangible Assets	5	-	-
Investments	6	397,742,463	397,742,463
Loans	7	795,898,615	637,732,567
Deferred Tax Asset	22	62,352,816	62,352,816
		4,412,003,209	4,267,764,710
Current Assets			
Trade and other receivables	8	251,272,157	193,824,047
Cash and Cash Equivalents	9	616,576,342	728,116,736
		867,848,499	921,940,783
TOTAL ASSETS		5,279,851,708	5,189,705,493
EQUITY AND LIABILITIES			
Capital and Reserves			
Equity Funds	28	106,000,000	106,000,000
Pre-Investment Studies Grant	29	281,212	281,212
Loan Fund	25(c)	1,307,722,200	1,232,722,200
Capital Reserve	10(a)	20,506,020	20,506,020
Retained Earnings	10(b)	3,459,907,351	3,496,785,107
Restructuring Reserve	11	88,580,842	88,580,842
		4,982,997,625	4,944,875,381
Non-Current Liabilities			
Irredeemable GOK Revolving Fund Loan	12	48,000,000	48,000,000
Employees Benefits Provision	39	71,320,821	67,664,919
		119,320,821	115,664,919
Current Liabilities			
Trade and other Payables	13	177,533,262	129,165,193
		177,533,262	129,165,193
TOTAL EQUITY AND LIABILITIES		5,279,851,708	5,189,705,493

TOURISM FINANCE CORPORATION
Reports and Financial Statements
For the Year ended June 30, 2018

These financial statements were approved by the Board on 2018 and signed on their behalf by:


.....
DIRECTOR

17-01-2019
.....
DATE


.....
DIRECTOR

17-01-2019
.....
DATE

The Statement of Financial Position, Statement of Comprehensive Income, Statement of changes in Equity and Cash Flow statement are to be read in conjunction with the accounting policies and the notes which form part of these financial statements.

TOURISM FINANCE CORPORATION
Reports and Financial Statements
For the Year ended June 30, 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2018 KShs	2017 KShs
REVENUES			
Interest From Loans	30	65,421,036	70,849,928
Rental Income	27	156,902,852	137,299,448
Dividend Income	17	4,000,000	3,200,000
Other Income	19	9,741,243	2,305,280
TOTAL REVENUES		236,065,131	213,654,656
OPERATING EXPENSES			
Administration Costs	23	107,638,613	101,290,124
Personnel Costs	24	169,782,950	159,646,426
Directors' Emoluments and Expenses	26	10,492,196	21,215,944
Depreciation	4 & 5	15,037,949	14,746,452
TOTAL OPERATING EXPENSES		302,951,708	296,898,946
OPERATING PROFIT/ (LOSS)		(66,886,577)	(83,244,290)
Finance Income(Bank Deposit Interest Income)	18	35,304,496	25,530,844
Profit/(Loss) Before Taxation - see page 41		(31,582,081)	(57,713,446)
Income Tax Expense/ (credit)			
Deferred Tax (Income)/Expense	22	-	(19,748,342)
Withholding Tax Paid	10	5,295,675	3,829,626
Profit/(Loss) After Taxation		5,295,675	(15,918,716)
		(36,877,756)	(41,794,730)
RETAINED PROFIT/(LOSS) FOR THE YEAR		(36,877,756)	(41,794,730)

TOURISM FINANCE CORPORATION
Reports and Financial Statements
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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

	Equity	Pre-investment	Capital	Retained	Restructuring	Total
	Funds	Studies-Grant	GOK Grant	Earnings	Reserve	Equity
	Kshs.	Kshs.	Reserve	Kshs.	Kshs.	Kshs.
		Fund	Fund			
As at 1 st July 2016	106,000,000	281,212	857,722,200	3,538,579,837	88,580,842	4,611,670,111
GOK Grant received - Note 25(c)	-	-	375,000,000	-	-	375,000,000
Retained Profit/(Loss) For the Year- page 3	-	-	-	(41,794,730)	-	(41,794,730)
As at 30th June 2017	106,000,000	281,212	1,232,722,200	3,496,785,107	88,580,842	4,944,875,381
GOK Grant Received - Note 25(c)	-	-	75,000,000	-	-	75,000,000
Retained Profit/(Loss) for the Year - page 3	-	-	-	(36,877,756)	-	(36,877,756)
As at 30th June 2018	106,000,000	281,212	1,307,722,200	3,459,907,351	88,580,842	4,982,997,625

TOURISM FINANCE CORPORATION
Reports and Financial Statements
For the Year ended June 30, 2018
STATEMENT OF CASH FLOWS

	Note	2018 Kshs	2,017 Kshs.
<u>Cash Flows From Operating Activities</u>			
Net Income/(Loss) for the year after Exceptional Item but before Taxation		(31,582,081)	(57,713,446)
Adjustments:			
Depreciation	3 & 4	15,037,949	14,746,452
Increase/(Decrease) in Loans' Provision	15	32,677,593	25,120,000
Increase/(Decrease) in Employees Benefits Provision	39	3,655,902	22,726,142
(Surplus)/Deficit on disposal of computer equipment	4 & 19	-	(5,000)
Income from Investment (Dividend)	17	(4,000,000)	(3,200,000)
Interest From Bank Deposits	18	(35,304,496)	(25,530,844)
Operating Income/(Loss) before Working Capital Changes		(19,515,130)	(23,856,696)
(Increase)/Decrease in Debtors	8	(57,448,110)	(1,725,127)
Increase/(Decrease) in Creditors	13	48,368,069	19,924,750
Cash generated from Operations		(28,595,171)	(5,657,073)
Corporation & Withholding Taxes for the year Paid	10	(5,295,675)	(3,829,626)
Loan interests Recovered/(Capitalized)	40(a)	(27,688,827)	(27,717,070)
Net Cash Inflow/(Outflow) From Operating Activities		(61,579,673)	(37,203,769)
<u>Cash Flows From Investing Activities:</u>			
Dividends Received	17	4,000,000	3,200,000
Interest from Bank Deposits	18	35,304,496	25,530,844
Capital work in progress (WIP)	3	-	(21,632,976)
Purchase of Fixed Assets	4	(1,110,400)	(1,990,263)
Proceeds from disposal of computer equipment	4 & 19	-	5000
Principal Loans Disbursed	40(b)	(195,670,762)	(5,909,786)
Principal Loans Recovered	40(c)	32,515,948	90,135,513
Net Cash Inflow/(Outflow) From Investing Activities		(124,960,718)	89,338,332
<u>Cash Flows From Financing Activities:</u>			
GOK Grant Received	25	75,000,000	375,000,000
Net Cash Inflow/(Outflow) From Financing Activities		75,000,000	375,000,000
Net Increase/ (Decrease) in Cash and Cash Equivalents		(111,540,391)	427,134,563
Cash & Cash Equivalents at Beginning of the Period		<u>728,116,736</u>	<u>300,982,173</u>
Cash & Cash Equivalents at End of the Period	9	<u>616,576,342</u>	<u>728,116,736</u>
<u>NOTE:Cash & Cash Equivalents are reconciled below</u>			
Cash at Bank		572,199,782	176,793,325
Cash in Hand		45,066	33,122
Flexi Treasury Bills and Fixed Deposits		44,331,494	551,290,289
Cash & Cash Equivalents at end of the period	9	<u>616,576,342</u>	<u>728,116,736</u>

TOURISM FINANCE CORPORATION
Reports and Financial Statements
For the Year ended June 30, 2018

COMPARISON OF BUDGET AND ACTUAL

INCOME	A	B	C=B-A	D=C/A	Remark	
ITEM	2017/2018 FINAL REVISED APPROVED BUDGET KSHS.'000'	CURRENT YEAR 2017/2018 ACTUAL KSHS.'000'	VARIANCE REVISED BUDGET TO ACTUAL YEAR KSHS.'000'	VARIANCE IN PERCENTAGE (%)	UNFAVOURABLE (U)/FAVOURABLE (F) U or F	REMARKS
Interest from Loans	123,565	65,421	(58,144)	-47.06%	U	There was less lending than was anticipated and bulk of it happened towards end of FY
Rental Income	138,490	156,903	18,413	13.30%	F	Rent was more due to improved occupancy and rates change
Dividend Income	7,000	4,000	(3,000)	-42.86%	U	Dividend was from Golf Hotel only declared within the year
Interest on Fixed Deposits & TB	67,107	35,304	(31,803)	-47.39%	U	Deposit funds were less than anticipated & GOK Grant not fully received
Other Income	22,000	9,741	(12,259)	-55.72%	U	Loan appraisal and commitment fees were less due to low lending
TOTAL INCOME	358,162	271,369	(86,793)	-24.23%	U	
EXPENDITURE						
Personnel Costs	180,196	169,783	(10,413)	-5.78%	F	All of TFC Organization structure positions not fully filled.
Directors' Emoluments & Expenses	15,000	10,492	(4,508)	-30.05%	F	Directors attended less training than was budgeted.
Entertainment	414	768	354	85.51%	U	Unfavourable as more official business related entertainment held.
Local Travelling Costs	9,000	16,538	7,538	83.76%	U	More than budget as more travel to projects carried out.
Overseas Travelling Costs	5,000	3,924	(1,076)	-21.52%	F	Less than budget as there was low external travel
Motor Vehicle Expenses	3,846	2,060	(1,786)	-46.44%	F	Breakages were avoided as vehicles well serviced thus cutting costs
Depreciation	26,227	15,038	(11,189)	-42.66%	F	Not all budgeted items were bought and also most items are fully depreciated, hence savings
Office Expenses	19,372	11,196	(8,176)	-42.21%	F	PR activities were well controlled, subscriptions and telephone were also under control

TOURISM FINANCE CORPORATION
Reports and Financial Statements
For the Year ended June 30, 2018

Properties Maintenance	1.500	3.231	1.731	115.40%	U	Utalii House Management fees were introduced within the year caused the deficit
Security	6.640	6.814	174	2.62%	U	Additional fees due to use of APs to secure Utalii House.
Cleaning Costs	5.670	3.757	(1.913)	-33.74%	F	No additional fees were charged by the contracted firm
Lifts Maintenance	2.000	1.988	(12)	-0.60%	F	Fees were slightly lower than budget & based on contract.
Electricity Cost	16.500	6.841	(9.659)	-58.54%	F	No tariff hike was witnessed, power usage was also well controlled
Water and Conservancy	1.206	1.855	649	53.81%	U	Water usage controlled, but there were frequent water purchase from lorry vendors and also increase in tariff by Water Co. in the year.
Auditors' Remuneration	522	406	(116)	-22.22%	F	No review upwards of fees was witnessed
Legal Fees	10.000	6.687	(3.313)	-33.13%	F	All fees charged and invoices received were accrued & were lower.
Valuation Fees	5.000	-	(5.000)	-100%	F	No valuation of property was carried out
Consultancy Fees	12.000	5.243	(6.757)	-56.31%	F	Fees paid incurred on Lending Rates and on Risk Strategy Consultancy and were lower than budget.
Bank Charges	385	230	(155)	-40.26%	F	These were well within budget as no commission costs on T/Bills as TFC only dealt with F/Ds
Rent and Rates	3.200	2.072	(1.128)	-35.25%	F	These were less than budget & paid as levied by County Govts.
Provision for Bad Debts	10.000	32.678	22.678	226.78%	U	Specific & general provision made at 15% based on board approval of 27/07/2017.
Insurances	2.388	1.350	(1.038)	-43.47%	F	This was paid as invoiced and was well within budget.
TOTAL EXPENSES	336,066	302,951	(33,115)	-9.85%	F	
Profit/(Loss) before Tax	22.096	(31,582)	(53,678)	-242.93%	U	
Less: Withholding Tax	10,066	5,295	(4,771)	-47.40%	F	
Less: Deferred Tax	-	-	-	-	-	
Net profit /(loss) after Tax	12,030	(36,877)	(48,907)	-406.54%	U	

* U = Unfavourable variance

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F = Favourable variance

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Statement of Compliance

The Public Finance Management (PFM) Act 2012 section 192 provided the setting up of the Public-sector Accounting standards board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval of the adoption of the International Financial Reporting Standards (IFRS) for State Organs operating as commercial business entities, the pronouncements made by the Board have no significant impact on the Corporation's Financial Statements as Tourism Finance Corporation has been preparing its Financial Statements in accordance to IFRS.

The Financial Statements have been prepared in accordance with the 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) Basis of Presentation

The accounting policies adopted have been applied consistently.

They are presented in the functional currency Kenya shillings (KShs) and are prepared under the historical cost convention as modified by the revaluation of certain Property, Plant and Equipment.

c) Changes in accounting policy and disclosures

New and amended standards adopted by the Corporation:

- i. The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

As the Corporation does not have any financial assets and financial liabilities that qualify for offset, the

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application of the amendments has had no impact on the disclosures or on the amounts recognised in the Corporation Financial Statements.

IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Corporation Financial Statements.

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

The application of the amendments to IAS 36 has had no material impact on the disclosures or on the amounts recognised in the Corporation Financial Statements since the Corporation has had no impairment or reversal of impairment.

- ii. IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key Requirements of IFRS 9:

All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an

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irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The Directors of the Corporation anticipate that the application of IFRS 9 in the future will not have a significant impact on amounts reported in respect of the Corporation's financial assets and financial liabilities.

- iii. In May 2015, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The Corporation however derives a substantial amount of its revenue from cash sales, and the directors do not anticipate that the application of IFRS 15 will have a significant impact on the amounts reported in respect of the Corporation's revenue from contracts with customers.

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- iv. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:
- a) when the intangible asset is expressed as a measure of revenue; or
 - b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Corporation uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

The directors of the Corporation do not anticipate that the application of the standard will have a significant impact on the Company's financial statements.

- v. The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a Corporation of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of IAS 40; and
- (b) the transaction meets the definition of a business combination under IFRS 3

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The Directors of the Corporation do not anticipate that the application of these amendments will have a significant impact on the Corporation's financial statements.

- vi. These IFRS improvements are effective for accounting periods beginning on or after 1 January 2016. The directors of the Corporation do not anticipate that the application of these improvements to IFRSs will have a significant impact on the Corporation's financial statements.

(i) Early Adoption of Standards

The Corporation did not early-adopt any new or amended standards in the period.

d) Accounting for unquoted investments in subsidiary and associated companies

Financial statements of subsidiary and associated companies have not been consolidated in these financial statements. However, the corporation's investments in these companies are stated at cost under non-current assets and comprise equity shares these companies in accordance with the February 1991 Investment Guidelines issued by Treasury.

e) Classification of Funds

The Corporation's financing has been classified in accordance with the February 1991 Investment Guidelines as follows:

- i) **Equity Fund:**
These are the initial funds supplied by the Government to purchase equity interest in tourism related companies.

- ii) **Commercial Loans Fund:**

Funds provided by the Government to lend on a commercial basis to tourism related companies and to be repaid to the Government over a period of fifteen years from January 1991. The Loan was fully repaid in the year 2000/2001.

However, the Corporation continues to lend on commercial basis even after fully repaying the Government as it has built up a stable lending base from loan recoveries.

- iii) **Revolving Loans Fund:**

This fund was set up by the Government for the corporation to manage and provide loan finance to assist Kenyans to become established in the tourism industry. However, following Board approval on 21st of September 2010, these two Loan Funds were merged into one

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TFC Loans Fund by opening a new Bank Account to manage it.

The Revolving and commercial Funds Bank Accounts were consequently closed to conform with this approval and also with the Revised Credit Policy and Manual. The closed bank accounts were replaced by the new Loan Fund bank account that was subsequently opened.

f) Accounting for Feasibility Studies Grant

The Corporation was granted funds by the Government to carry out feasibility studies. Payments made or to be made on completed feasibility studies are charged fully against this fund.

g) Provision for Doubtful Debts

The corporation is responsible for bad debts incurred on both Commercial and Revolving Fund Programs in accordance with the February 1991 Investment Guidelines.

The provisions made against possible losses are reduced from the Investments, Loans and Debtors to which they relate. Loans which are non-performing and which have no further recovery prospects are written off against their Specific Provisions upon approval by the Board.

h) Property, Plant & Equipment

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

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

Depreciation is calculated on the straight line basis to write down the cost of each asset, or the revalued amounts, to their residual values over their estimated useful lives as follows:

Land	-	0.0%
Buildings	-	2.5% (up to 30 June 2011)
Buildings	-	0.0% (from 01 July 2011)
Furniture & Fittings	-	12.5%
Electronic Equipment	-	30.0%
Motor Vehicles	-	25.0%

A full depreciation is provided for during the financial year of acquisition but no depreciation is provided for during the financial year of disposal. In case of a revalued asset, no depreciation is charged or provided for on the revaluation surplus during the financial year of valuation but full depreciation is provided for in subsequent financial years.

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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 recognised so that the asset is written down immediately to its estimated recoverable amount.

i) Investment Property

Investment property which includes land and buildings are subsequently carried at re-valued amounts, being their fair value at the date of revaluation by independent external valuer.

Increase (or decreases) in the carrying amounts of assets arising from revaluation are credited (or debited) to income statement in the year of revaluation as the case may be. Capital works in progress (CWIP) relates mainly to the costs of ongoing but incomplete works on buildings, civil works and installations.

Land and Buildings, having been reclassified as investment property under IAS 40 since 2011/2012 financial year, are not depreciated. They are revalued after every three years.

j) Revenue

Revenue is recognised to the extent that it is probable that future economic benefit will flow to the Corporation and the revenue can be reliably measured.

Revenue is recognised 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:

k) Finance Income:

This consists of amounts received and receivable from short-term bank deposits.

i) Loan Interest Income:

Interest receivable in respect of administering the Corporation's Loan fund programme.

ii) Rental Income:

Rent is recognised in the income statement as it accrues using the effective lease agreements.

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iii) Other Income:

Major items in this category normally include Personnel Loan's interest, Loan Appraisal and Commitment fees, proceeds received from sale of Tender documents and Directors fees received and receivable during the Financial Year.

iv) Dividend income

It is recognised in the income statement in the year it is declared/recommended

l) Intangible Assets

Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software.

These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, for over three years.

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

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 recognised so that the asset is written down immediately to its estimated recoverable amount.

m) Trade and Other Receivables

Trade and other receivables are recognised 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.

n) 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.

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Current income tax relating to items recognised directly in equity is recognised in equity and Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for

financial reporting purposes.

o) 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 insignificant risk of changes in Bank account balances include amounts held at the Kenya Commercial Bank at the end of the Financial Year.

p) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised 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 suppliers.

q) Comparative figures

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

r) 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, 2017.

s) Employee benefits

The Corporation operates a Defined Contribution Staff Retirement Benefits Scheme for its employees who are on Permanent & Pensionable Terms of Service. The assets of the scheme are held in a separate trustee administered fund that is funded by contributions made by the Employer at 15% and by the Employee at 7.5% of Basic Salary. The Corporation's Contributions to the Scheme are charged to Statement of Comprehensive Income in the year in which they relate.

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The Corporation also contributes to the statutory National Social Security Fund. This is a defined contribution pension scheme registered under the National Social Security Act. The Corporation's obligations under the scheme are limited to specific obligations legislated from time to time and are currently limited to a maximum of KShs 200 per month per employee.

The Corporation has provided in its Terms and Conditions of Service the payment of Terminal Benefits upon one's leaving. This is payable to eligible employees who serve a continuous term not less than two (2) years from the date of employment to date of leaving. Each employee earns thirty (30) terminal leave days per every served year. The Benefits due for current staff as at 30th June 2018 based on their accumulated terminal leave days and their basic Salaries.

t) Loans

The Corporation's core mandate is to give credit for purposes of facilitating financing and development of tourist facilities in Kenya.

The credit given forms the loans that are repayable within a maximum of ten (10) years with a principal moratorium period of up to (twelve) 12 months. All loans are currently approved by the board after a successful appraisal by management. Repayments are first allocated to clear interest arrears and the balance to clear principal originally disbursed. Specific provision is made in respect to loans where, in the opinion of the board, recoveries are doubtful. General provision is made based on 1% of the total loan portfolio at the end of the financial year as per the current credit policy.

2. FINANCIAL RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Taking risk is core to the Corporation's business, and the operational risks are an inevitable consequence of being in business.

The Corporation's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

The Corporation's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

The key types of risk include:

1. Market risk - includes interest rate and other price risk.
2. Credit risk
3. Liquidity risk.

Credit Risk:

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's loans and advances to customers and investment securities.

For risk management reporting purposes, the Corporation considers all elements of credit risk exposure such as individual obligator default risk and sector risk. In the normal course of its business, the

Corporation incurs credit risk from loans and advances to customers. The credit risk exposure is, however, managed through assessment of each borrower considering the financial position, past experience and other factors as well as monitoring the performance of borrowers' businesses during the loan term.

As at 30th June 2018 Non-performing loans to the Corporation's borrowers stood at 50% compared to 62% as at the same date previous year. Based on a portfolio of Kshs. 970,680,914 as at 30th June 2018, this result into an average of Kshs. 485,340,457 as non-performing loans. As the Corporation has put in stringent measures for recovery purposes which includes Public Auctions of specific dormant borrowers, non-performing loans are expected to be reduced to 15%. This not forms the risk exposure which now amounts to Kshs. 72,801,068.

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Market Risk:

The Corporation's activities expose it to market risks and the effects of changes in market prices and interest rates, thus leading to inflationary pressures. The Corporation's overall risk management programme focuses on the unpredictability of this risk to minimize potential adverse effects on its financial performance.

The Corporation does this by purchasing competitively and lending on a fixed interest rate regime. The Corporation is able to do this because it does not take deposits but instead lends its own capital.

The Corporation does not deal in foreign exchange and as such its exposure to forex risk at all.

Liquidity Risk:

This is the risk that the Corporation will encounter difficulties in meeting its financial commitments from its financial liabilities. Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities to meet its obligations. Ultimate responsibility for liquidity risk management framework for the management of the Corporation's short, medium and long term funding and liquidity management requirements.

Liquidity position is monitored through daily cash position as well as monthly cash forecast that monitors debt structure and expected cash position. The responsibility for managing daily and monthly liquidity assessment resides with the Financial Manager. However, the statement of financial position liquidity management resides with the Corporation's Finance and administration Committee.

Liquidity risk also relates to the risk that the Corporation would miss out attractive investment opportunities due to lack of funding. This risk is mitigated by the fact that the Investments held in treasury bills can be converted to cash when funds are required.

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3. INVESTMENT PROPERTY

	4. PROPERTY, PLANT AND EQUIPMENT		5. INTANGIBLE ASSETS								
	Land & Buildings	Capital Work In Progress (CWIP)	Total of Investment Property	Furniture, Fixtures and Equipment	Computer and Accessories	Cutlery and Halloware	Motor Vehicles	Total of Property, Plant & Equipment	ERP Software	Capital Work In Progress (CWIP)	Total of ERP Software
<u>Year ended 30 June 2017</u>											
Cost/Valuation											
At cost on 01 July 2016	3,100,000,000	21,997,694	3,121,997,694	116,525,028	9,321,732	31,497	19,316,076	145,194,333	14,000,000	-	14,000,000
Additions for the year/CWIP	-	21,632,976	21,632,976	461,129	1,529,134	-	-	1,990,263	-	-	-
Elimination on disposal	-	-	-	-	(123,800)	-	-	(123,800)	-	-	-
As at 30 June 2017	3,100,000,000	43,630,670	3,143,630,670	116,986,157	10,727,066	31,497	19,316,076	147,060,796	14,000,000	-	14,000,000
Depreciation											
As at 01 July 2016	-	-	-	77,756,057	9,101,440	-	19,316,076	106,173,573	13,958,377	-	13,958,377
Charge for the year	-	-	-	14,200,679	504,150	-	-	14,704,829	41,623	-	41,623
Elimination on disposal	-	-	-	-	(123,800)	-	-	(123,800)	-	-	-
As at 30 June 2017	-	-	-	91,956,736	9,481,790	-	19,316,076	120,754,602	14,000,000	-	14,000,000
Net Book Value											
Balance as at 30 June 2017	3,100,000,000	43,630,670	3,143,630,670	25,029,421	1,245,276	31,497	-	26,306,194	-	-	-
<u>Year ended 30 June 2018</u>											
Cost/Valuation											
At cost on 01 July 2017	3,100,000,000	43,630,670	3,143,630,670	116,986,157	10,727,066	31,497	19,316,076	147,060,796	14,000,000	-	14,000,000
Additions for the year/CWIP	-	-	-	-	1,110,400	-	-	1,110,400	-	-	-
Misallocated Asset Correction	-	-	-	220,290	(220,290)	-	-	-	-	-	-
As at 30 June 2018	3,100,000,000	43,630,670	3,143,630,670	117,206,447	11,617,176	31,497	19,316,076	148,171,196	14,000,000	-	14,000,000

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Depreciation						
As at 01 July 2017	-	91,956,736	9,481,790	-	19,316,076	120,754,602
						14,000,000
Charge for the year	-	14,200,679	837,270	-	-	15,037,949
As at 30 June 2018	-	106,157,415	10,319,060	-	19,316,076	135,783,551
						14,000,000
Net Book Value						
Balance as at 30 June 2018	3,100,000,000	43,630,670	3,143,630,670	11,049,032	1,298,116	31,497
						12,378,645
						-
						-

NB: Assets Acquired during the 2017/2018FY KShs

e-Board Management System	350,000
Website Design and Development	760,400
	<u>1,110,400</u>

Misallocated Asset correction refers to one Sony 55" LCD TV and DVD player purchased in 2010/2011 FY at cost Kshs. 220,290 which is fully depreciated. This was properly posted in the ledger under OF/E and depreciated under the same and depreciation amounts well allocated annually under OF/E but the cost had been misallocated to Computer & Computer Accessories in the Financial Statements. This is now corrected.

A disclosure is made to the effect that the four (4) Motor Vehicles being owned by the Corporation are fully depreciated. However, they are still being fully used and TFC is deriving economic benefit as a result of this use. To ascertain their fair value, these Vehicles will be revalued by an independent appointed Valuer on an open market basis during the next 2018/2019FY.

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Notes:

a) IAS 16 requires that the comparative figures for movements in property, plant and equipment be disclosed. These are recognized at cost incurred initially to bring the asset to working condition for the intended use. The initial cost includes costs of purchase, site preparation, delivery, installation and professional fees. The cost is netted with accumulated depreciation and impairment where applicable to arrive at the net book value which is the carrying amount of the asset at the end of the financial year

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

b) No depreciation is provided for Cutlery and Holloware since none of these items have been put into use.

c) A revaluation of Utalii House was carried out in June 2004 by Crystal Valuers Ltd, professional valuers, on an open market basis and gave the value as KShs. 570,000,000. The resulting revaluation surplus of KShs. 497,972,875 was transferred to Revaluation.

Reserve (note 10)). As per IAS 16 we adopted the approach where the balance in the revaluation reserve in respect to an asset to be transferred to retained earnings when the asset is sold, as at that point it is a realised gain.

As indicated under Accounting Policies in note 1(j), the first financial year of depreciating this revaluation surplus was 2004/2005. The original cost was KShs 72,027,125.

A further revaluation was carried out in March 2011 by Regent Valuers International (K) Ltd, professional valuers, on an open market basis. This was in respect to Utalii House valued at KShs 730,000,000(surplus KShs 152,764,800).

A further revaluation was carried out in July 2014 by Crystal Valuers Ltd, professional valuers, on an open market basis. This was in respect

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to Utalii House valued at KShs 1,600,000,000 up from KShs 730,000,000(surplus KShs 870,000,000).

A revaluation was carried out during the 2012/2013 year by Metrocosmo Ltd, professional valuers, on open market basis with respect to

KTDC's Mombasa Island Plot. The market value was given as KShs 600,000,000 against previously carrying cost of KShs 6,945,472 resulting into surplus of KShs 593,054,528 which was realized through the Statement of Comprehensive of KShs 593,054,528 which was realized through the Statement of Comprehensive Income as provided by International Accounting standard (IAS) 40 paragraph 35.

A further revaluation was carried out in December 2014 by Trans Country Valuers Ltd, professional valuers, on an open market basis. This was in respect to Mombasa Island Plot valued at KShs 700,000,000 up from KShs 600,000,000(surplus KShs 100,000,000).

A revaluation was carried out in June 2014 by Metrocosmo Ltd, professional valuers, on an open market basis. This was in respect to the corporation's plot along Moi Avenue in Nairobi valued at KShs 800,000,000 against its then carrying amount of KShs 15,000,000 resulting into surplus of KShs 785,000,000 which was realized through the Statement of Comprehensive Income as per IAS 40.

d) Capital Work In Progress (CWIP) carrying amount of KShs 21,997,694 as at 30th of June 2016 comprises the amount of architectural services paid in the previous year(s) with respect to Utalii House phase II rehabilitation works KShs 17,937,694 and deposit and survey fees with respect to the proposed acquisition of Marina land in Shimoni, Kwale KShs 4,060,000 (deposit KShs 3,500,000 and fees KShs 560,000). Further payments were made under CWIP in 2016/2017FY KShs. 21,632,976 and were in respect to paintings and rehabilitation works to Utalii House that were contracted during the previous year. These were paid to Contractor CM Construction Ltd. Kshs. 18,098,960 and Kenchuan Architects Ltd. Kshs. 3,534,016. These works had not been completed and commissioned as at 30th June 2018.

Property, Plant and Equipment include the following items that are fully depreciated

	30th of June 2018		30th of June 2017	
	Cost or Valuation	Normal annual depreciation	Cost or Valuation	Normal annual depreciation
Furniture, Fittings and Equipment	<u>KShs</u> 29,796,039	<u>KShs</u> 3,724,505	<u>KShs</u> 3,965,517	<u>KShs</u> 912,053

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Computer and Accessories	23,101,442	6,930,433	23,101,442	6,930,433
Motor Vehicles	<u>19,316,075</u>	<u>4,829,019</u>	<u>19,316,075</u>	<u>4,829,019</u>
	72,213,556	15,483,956	46,383,034	12,671,505

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6. INVESTMENTS

Project	Percentage Held %	Equity Investment 2018 KShs	Equity Investment 2017 KShs
(i) Subsidiaries			
Kenya Safari Lodges & Hotels Ltd	84.07	116,061,176	116,061,176
Bomas of Kenya Ltd	100.00	5,080,000	5,080,000
Mt.Elgon Lodge Ltd	72.90	1,345,780	1,345,780
Sunset Hotel Ltd	95.40	11,450,000	11,450,000
Kabarnet Hotel Ltd	98.20	5,432,120	5,432,120
Golf Hotel Ltd, Kakamega	80.00	4,000,000	4,000,000
African Tours & Hotels Ltd - Non-performing, being Wound up	52.60	4,691,900	4,691,900
Subtotals		148,060,976	148,060,976
(ii) Associates			
Mountain Lodges Ltd	39.70	2,893,520	2,893,520
International Hotel (K) Ltd	40.05	135,939,167	135,939,167
Kenya Hotel Properties Ltd	53.9	114,189,360	114,189,360
Buffalo Springs Ltd	41.00	1,000,000	1,000,000
Subtotals		254,022,047	254,022,047
(iii) Others			
Maralal Safari Lodge Ltd	15.50	802,000	802,000
The Ark Ltd	5.50	549,340	549,340
African Tours & Hotels Preference Shares	-	29,100	29,100
Subtotals		1,380,440	1,380,440
Grand Totals		403,463,463	403,463,463
Less: Provision for Investment in AT & H Ltd.		(4,721,000)	(4,721,000)
Provision for Investment in Buffalo Springs Ltd.		(1,000,000)	(1,000,000)
TOTAL INVESTMENTS		397,742,463	397,742,463

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Notes to Investments - continued

a) All the investments listed above are stated at their historical costs amounts at the time of acquisitions.

b) Buffalo Springs Ltd was leased to Mara Simba Lodge by Isiolo Town Council and the Corporation along with the Ministry of tourism and the Ministry of Finance sought for legal opinion from the Attorney General since Isiolo County council moved in because of the Corporation's failure to pay land rent arrears. The legal opinion advised that Isiolo County Council was right in exercising its Landlord rights. Following various meetings, it was finally decided that a forensic audit should be done by the Kenya National Audit Office to bring out the position of the Corporation in regard to equity investment and the outstanding loan.

This matter was substantively discussed by the KTDC Board sitting at its 234th meeting held on the 25th of February, the 3rd and the 4th of March 2010 where it was resolved that the Forensic Audit be carried out. Consequently, the Corporation requested the Auditor General to carry out the Audit. The Auditor General by his letter dated 15th of September 2010 advised the Corporation to outsource the Forensic Audit Services. The Corporation has not yet engaged an Audit Firm for these services.

c) All the investments indicated above are performing, except as indicated in (ii) below. They are operating on a day to day basis and the Corporation does not finance any of their operating costs. The others indicated as non-performing are either operating below capacity or are already dissolved awaiting removal from the books.

i) Mt. Elgon Lodge Ltd. and Kabarnet Hotel Ltd. are operating below capacity and have requested the Corporation to finance their rehabilitation so as to resume full capacity.

ii) African Tours & Travel Hotels Ltd. was placed under receivership in 1998 and later wound up. The Investment in both ordinary and in preference shares is already provided as shown above.

iii) Malalal Safari Lodge Ltd. is generally operating on low scale and largely depends on seasoned guests and customers.

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7. LOANS

Project	Principal	Principal	Interest	2018	2017
	Balance	Arrears	Arrears	Total	Total
	KShs	KShs	KShs	KShs	KShs
1-Delight Dreamland Hotel Ltd	-	-	-	-	(50,000)
2-Hotel Big Five Ltd.	-	8,581,360	28,381,727	36,963,087	33,129,392
3-Patido Fast Foods Ltd.	961,231	(601,062)	-	360,169	2,009,863
4-Proland Ltd	3,008,363	7,679,421	397,306	11,085,090	17,212,763
5-Kabarnet Hotel Ltd	10,164,859	8,194,085	9,250,939	27,609,883	27,609,883
6-Golf Hotel Ltd, Kakamega	21,861,555	(2,138,766)	-	19,722,789	21,364,364
7-Buffalo Springs Ltd.	-	4,941,310	9,847,044	14,791,354	13,257,241
8-Mt Elgon Lodge Ltd.	1,764,795	831,576	930,852	3,527,223	3,527,223
9-Sunset Hotel Ltd, Kisumu.	35,302,407	32,669,441	27,124,300	95,096,148	90,060,537
10-Metro Enterprises Ltd.	-	-	33,474,906	33,474,906	33,474,906
11-Olimo Synergy Ltd	4,065,414	10,934,586	9,752,931	24,752,931	22,185,635
12-Kogelo Hotel Ltd	5,943,311	17,063,179	12,865,263	35,871,753	32,151,247
13-Lake Victoria Beach Resort Ltd	2,543,800	7,456,200	3,481,147	13,481,147	14,705,838
14-Willow Ltd.	3,947,364	11,067,636	14,434,324	29,449,324	26,380,989
15-Kitale Nature Conservancy Ltd.	4,622,791	3,689,574	-	8,312,365	11,045,694
16-Kidee Investments Ltd.	-	-	-	-	7,572,693
17-Ketarak Cottages Ltd.	578,936	(263,765)	-	315,171	621,920
18-Reef Hotels (Management) Co. Ltd.	9,225,890	971,289	93,474	10,290,653	11,686,142
19-Embeut Resort Ltd	9,444,428	20,555,572	14,796,237	44,796,237	40,879,882
20-Savona Enterprises Ltd.	3,157,840	6,844,580	7,496,381	17,498,801	15,683,880
21-Atni Holiday Resort Company Ltd.	5,138,881	9,861,669	5,015,590	20,016,140	18,311,970
22-West Vision Holdings Ltd	16,251,956	1,280,595	160,715	17,693,266	20,152,436
23-Triple Trojan Investment Ltd.	5,131,575	(395,305)	43,416	4,779,686	6,244,366
24-Lagoon Development Ltd.	-	(738,801)	-	(738,801)	(1,858,801)
25-Marura Ikumi Ltd	7,491,223	(246,063)	-	7,245,160	9,187,363
26-Kipini Swahili Eco - Lodges Ltd.	18,981,479	29,857,228	1,851,010	50,689,717	48,838,707
27-Kangocho & Company Ltd	26,293,140	(269,045)	-	26,024,095	31,828,548
28-Trinity Tours & Safaris Ltd	-	-	-	-	1,326,230
29-Kenya Hotel Properties Ltd.	101,647,735	23,101,780	92,590,776	217,340,291	176,492,896
30-Kenya Safari Lodges & Hotels Ltd	11,688,462	4,312,218	-	16,000,680	15,214,605
31-Jaqanaz Resort Ltd	19,844,690	380,917	-	20,225,607	-
32-Tafara Ltd.	29,526,844	960,275	-	30,487,119	-
33-Bungoma Royal Suites Ltd	54,824,128	-	(2,905,198)	51,918,930	-
34-The Q. Holdings Ltd	33,230,065	-	(3,252,884)	29,977,181	-
35-Afrika Lodges Ltd	8,982,275	(7,224)	-	8,975,051	-
36- Comfort Hotels & Lodges Ltd	15,400,000	(22,279)	-	15,377,721	-
37-Jirime Hotel & Resort	20,825,000	175,000	192,500	21,192,500	-
38-Peniel Group of Hotels Ltd	6,054,802	22,744	-	6,077,546	-

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TOTALS	497,905,239	206,752,925	266,022,756	970,680,920	750,248,412
Less: Total provision for Loans in suspense				(62,929,613)	(34,340,746)
Total of loans Book values				906,751,307	715,907,666
Less: Total provision for Bad Loans				(110,852,692)	(78,175,099)
TOTAL LOANS NET OF PROVISIONS				795,898,615	637,732,567

Loans Provisions

	2018	2017
	Total	Total
	KShs	KShs
Loans Bad Debts Provision Brought Forward on 1st of July	78,175,099	53,055,099
Provision Made / (Write Back) per Note 15 (a)	<u>32,677,593</u>	<u>25,120,000</u>
Loans Bad Debts Provision Carried Forward on 30th June	<u>110,852,692</u>	<u>78,175,099</u>

Loans with Kshs. Nil balances in the 2017 column are new ones that were disbursed within the FY 2017/2018

8. TRADE AND OTHER RECEIVABLES

	KShs	KShs
These Comprise:		
Debtors (Note below)	385,172,614	336,063,134
Deposit and Prepayments	<u>8,466,300</u>	<u>127,670</u>
	393,638,914	336,190,804
Fixed Deposit at Euro Bank Ltd. (In Liquidation)	<u>47,819,761</u>	<u>47,819,761</u>
	441,458,675	384,010,565
<u>Less: Provision For Bad Debts on debtors</u>	<u>(142,366,757)</u>	<u>(142,366,757)</u>
Provision For Bad debts	<u>(47,819,761)</u>	<u>(47,819,761)</u>
	<u>251,272,157</u>	<u>193,824,047</u>

Note: Debtors comprise of:

(i) Current Tenants Debtors	106,946,832	55,035,844
(ii) Unit Debtors (excluding Dividends)	145,702,610	145,702,610
(iii) Dividends due from Kenya Hotel Properties Ltd.	27,064,677	27,064,677
(iv) Ex-Tenants Debtors	68,080,017	70,794,760
(v) Staff Debtors	918,650	898,329
(vi) Ex-Staff Debtors	6,190,400	6,166,672
(vii) Other Debtors (see below)	<u>30,269,428</u>	<u>30,400,242</u>
	<u>385,172,614</u>	<u>336,063,134</u>

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Included in the amount for Deposit & Prepayments for current financial year is the amount Kshs. 7 million paid to Bench Events Ltd of England to host the 2018 Africa Hotel Investment Forum (AHIF) in Nairobi in early October 2018.

The book value of Fixed Deposit at Euro Bank Ltd (in Liquidation) is classified from Cash & Cash Equivalents under Note 9 to Debtors under Note 8. This is since this amount has been outstanding for a considerably long time from year 2003 and can no longer qualify for classification as Cash & Cash Equivalents.

Current tenant debtors were more for current year as most of the tenants were not able to clear their arrears in time.

Staff debtors were more than previous year as more staff had taken advances than previous year. These are recovered in maximum of twelve (12) months.

Ex-tenant debtors are those who gave up office and parking spaces and left with rent balances. The dividends due are the ones declared as per note 17 but had not been received as at the year end.

Other Debtors include payment in 2014/2015 financial year by the corporation as directed by the court of a deposit of KShs 30.1m in judgement awarded to Sundowner Ltd who sued the corporation for damages resulting from a failed loan disbursement. The corporation has already appealed against the award.

9. CASH AND CASH EQUIVALENTS

	2018	2017
	<u>KShs</u>	<u>KShs</u>
a. Short term deposits		
Fixed Deposits	44,331,494	551,290,289
b. Bank and cash balances		
Cash at Bank	572,199,782	176,793,325
Cash in Hand	45,066	33,122
	<u>572,244,848</u>	<u>176,826,447</u>
Total cash & Cash Equivalents	<u><u>616,576,342</u></u>	<u><u>728,116,736</u></u>

For the purpose of Cash Flow Statement, the year-end Cash and Cash equivalents shown above is offset and reduced, where applicable, by Bank Overdraft if any. During the current year 2017/2018 new Loans continued to be disbursed per note 40 (b).

Cash and cash equivalents as at 30th June 2018 were less than that of previous year mainly due to massive loan disbursements during the current year which were more than that of the previous year.

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All these funds are held at Kenya Commercial Bank University Way. The account numbers holding the funds are as follows:

Short Term Deposits

Name	A/C No.	2018	2017
		Kshs.	Kshs.
1. Privatization Fixed Deposit	1104822970	-	35,991,067
2. Loan Funds Fixed Deposit	1177740990	44,331,494	41,839,268
3. Loan Funds Fixed Deposit	1123183503	-	473,459,954
		-----	-----
		44,331,494	551,290,289
		=====	=====

Bank and Cash Balances

Name	A/C No.	2018	2017
		Kshs.	Kshs.
4. TFC Administration A/c	1104821397	4,618,897	3,023,233
5. TFC Loan Fund A/c	1123183503	528,681,184	171,841,058
6. TFC Privatization Funds	1104822970	37,943,452	45,123
7. TFC Loan Funds Interests	1123183805	102,295	988,409
8. TFC Sinking Fund A/c	1104823721	230,055	269,293
9. TFC Tenant Deposit A/c	1123183619	623,899	626,209
10. TFC Petty Cash A/c	-	45,066	33,122
		-----	-----
		572,244,848	176,826,447
		=====	=====

Grand Total **616,576,342** **728,116,736**

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 10. GENERAL FUND

This Comprises:

a) CAPITAL RESERVE

	2018 <u>KShs</u>	2017 <u>KShs</u>
Capital Reserve b/f	20,506,020	20,506,020
	<hr/>	<hr/>
Capital Reserve c/f	<u>20,506,020</u>	<u>20,506,020</u>

b) RETAINED EARNINGS

Balance Brought Forward including Revaluation Reserve	3,496,785,107	3,538,579,837
<u>Prior Period Adjustment</u>		
Retained Earnings/(Loss) for the year	<u>(36,877,756)</u>	<u>(41,794,730)</u>
Retained Earnings/(Loss) Carried Forward	<u>3,459,907,351</u>	<u>3,496,785,107</u>

TOTAL GENERAL FUND	<u>3,480,413,371</u>	<u>3,517,291,127</u>
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10. GENERAL FUND- continued

Withholding tax paid during current year of KShs. 5,295,675 was on Bank Deposit interest earnings (2017: Kshs 3,829,626)

11. RESTRUCTURING RESERVE

	2018 Kshs.	2017 Kshs.
Revolving Fund Programme	16,701,086	16,701,086
Commercial Fund Programme	<u>71,879,756</u>	<u>71,879,756</u>
	<u><u>88,580,842</u></u>	<u><u>88,580,842</u></u>

The Revolving and Commercial Loans' Restructuring Reserve fund was provided out of profits to cover possible losses on loans under the Loan Programme.

Restructuring in subsidiary companies resulted in deferment of outstanding loans interests which were then separated from the loans to retain them at principal loan balances. The subsequent interest charges on these loans were suspended.

The deferred interest before the suspension of the interest so far forms the possible loss on these loans and has already been offset from the Reserve. Currently the corporation does not have any deferred interest on loans in its books.

The February 1991 Investment Guidelines provided for the restructuring of the subsidiary companies through the above referred Capital Restructuring Reserve.

No new additional Loan Restructuring Reserve was provided out of Profits during the current year (2017: KShs Nil)

12. IREDEEMABLE GOK REVOLVING FUND LOAN

This Loan was given by the Government of Kenya (GOK) at the inception of the Corporation to finance the disbursement of loans to indigenous Kenyans to establish tourist-related business enterprises under the Revolving Fund loans programme.

The Government later rescheduled this loan in December 1986 by writing off the arrears and retaining the loan at Principal at KShs. 48,000,000 being irredeemable and carrying an interest of 8.5% p.a. as from 1st January 1990.

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The resulting annual interest amount of KShs. 4,080,000 has over the years been charged to income every financial year and becomes due for payment to the Treasury on the 1st of July of the following financial year.

However, following successful request by the Corporation to the Government of Kenya, Treasury through their letter dated 4th of September 2009 waived the annual interest on this Irredeemable Loan.

Interest for the current year 2016/2017 has therefore not been charged as per note 16 and only the Principal Loan is now due as shown below:

	2018 KShs	2017 KShs
Irredeemable GOK Revolving Fund Loan	48,000,000	48,000,000
	<u>48,000,000</u>	<u>48,000,000</u>

13. TRADE AND OTHER PAYABLES

2018

2017

KShs

KShs

These Comprise:

(a) Creditors (Note (a) below)	165,499,103	120,841,779
(b) Provisions:		
(i) Gratuity for Employees on Contract Terms	4,691,656	3,124,744
(ii) Employees Leave and Off days Benefits	7,342,503	5,198,670
	<u>177,533,262</u>	<u>129,165,193</u>

Note (a) Creditors are comprised of:

(i) Creditors for Accrued Expenses	27,249,310	14,462,102
(ii) Current Tenants for Rent Deposit	14,435,186	9,681,384
(iii) Current Tenants Payments in Advance	2,133,891	876,817
(iv) Audit Fees	1,624,000	1,218,000
(v) VAT - Output and Withholding	92,181,165	74,949,217
(vi) Payroll Recoveries	16,803,394	17,238,050
(vii) Current Staff Creditors	5,657,250	87,334
(viii) Ex - Staff Creditors	5,398,410	2,312,378
(ix) Other Creditors	16,497	16,497
	<u>165,499,103</u>	<u>120,841,779</u>

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a) Creditors

Creditors include, among others, creditors for expenses, tenants rent deposits received, tenants who had paid in advance as at the yearend & VAT-output and withholding. Ex-staff creditors include amounts of benefits due to employees who leave towards end of a financial year but had not been paid as at 30th of June 2018.

b) (i) Gratuity for Employees on Contract

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

c) (ii) Employees Leave and Off Days Benefits

This refers to monetary liability for employee's accrued annual leave and off days as at the balance sheet date. This was more than last year as most staff had not been able to take their balances of Leave days during the current year compared to previous year.

14. OFFICE EXPENSES

These Comprise:	2018	2017
	Kshs.	Kshs.
Publicity, Advertising & Public Relations	4,392,697	4,604,775
Printing and Stationery	1,554,880	1,468,895
Telephone and Postages	1,033,989	1,408,732
Subscriptions and Donations	2,022,194	1,265,134
General Office Expenses	1,546,792	1,653,977
Repairs and Maintenance of Office Equipment	645,740	751,679
ASK Shows	-	602,754
	<u>11,196,292</u>	<u>11,755,946</u>

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The expenditure for current financial year was slightly lower than that of the previous year.

15. BAD DEBTS PROVISION

This comprises provisions made/(written back) during the year as analysed below:

	2018	2017
	<u>Kshs</u>	<u>Kshs</u>
a) <u>Provision on Loans</u>		
Specific Provision write back for Delight Dreamland Hotel Ltd Loan	-	(2,880,000)
Specific Provision made for Savona Enterprises Ltd Loan	2,317,686	1,545,124
Specific provision made for Kogelo Hotel Ltd Loan	4,751,153	3,167,435
Specific provision made for Lake Victoria Beach Resort Ltd Loan	2,424,374	1,616,249
Specific provision made for Willow Ltd Loan	3,898,452	2,598,968
Specific provision made for Proland Ltd Loan	2,661,258	1,774,172
Specific provision made for Metro Enterprises Ltd Loan	16,176,854	17,298,052
General provision made on loan portfolio	447,816	-
Sub Total on Loans	<u>32,677,593</u>	<u>25,120,000</u>
b) <u>Provision on Ex-Tenants's Debtors</u>		
Sub Total on Ex-Tenants' Debtors	-	-
Grand Total of Provisions (written back)/made	<u>32,677,593</u>	<u>25,120,000</u>

The Corporation continued with its recovery strategy during the current year in an effort to realize recoveries from non-performing loans.

The above specific provisions on loans were approved by the Board sitting on 27th of July 2017. The Provisions were approved to be scattered over a period of five (5) years at graduated percentages of the loan balance. For current 2017/2018 FY it is provided at 15% (2017: at 10%) as per the approval.

Current year's general provision of KShs 447,816 has been made to fully satisfy credit policy which provides for 1% general provision on total loans portfolio which as at 30th June 2018 stood at KShs. 970,680,914 hence the new general provision is the difference provided in 2017/2018 financial year.

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As reported in last year's Financial Statements the Corporation continued to pursue the recovery of the current debts including the Euro Bank Ltd (in liquidation) Fixed Deposit of Ksh. 61,692,978 (including interest). However, no new recovery was made on this deposit during the current year.

The current Deposit balance with interest is KShs 57,842,978 (KShs 61,692,978 less KShs 3,850,000 total received so far).

The book value of this deposit as at 30th of June 2018 stood at KShs 47,819,761 per note 8 (2017: KShs 47,819,761).

The entire of the book value of this fixed deposit is provided for as indicated in note 8 and no new write back was made as there was no recovery (2017: KShs Nil).

No further provision was made to cover possible losses on debts from Ex-tenants for Utalii House as they are adequately provided (2017: KShs Nil).

Total net provision made for current financial year stood at KShs 32,677,593 compared to last year's total provision made of KShs 25,120,000.

16. INTEREST EXPENSE

This refers to the amount incurred and paid on borrowings by the Corporation.

The Corporation does not currently have an operational Bank Overdraft facility on its Administration account as it used to have earlier.

It managed its cash flows well and hence do not overdraw this bank account. There was, therefore, no interest on overdraft this year as was the case the previous year.

17. DIVIDEND INCOME

This refers to dividends declared/recommended from shares held in the investee Companies like:

	2018	2017
	<u>KShs</u>	<u>KShs</u>
<u>Golf Hotel Ltd, Kakamega</u>		
- final for years ending 30 th June 2014 & 2015	-	3,200,000
- final for years ending 30 th June 2016 & 2017	4,000,000	-
	<u>4,000,000</u>	<u>3,200,000</u>

The dividends are recorded as gross. This is since the Corporation as a Resident Payee is automatically exempted from withholding tax on dividends received under the provisions of the Income Tax Act as it holds more than 12.5% shareholding in the company.

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Dividends declared in the previous year(s) of KShs 27,064,677 from Kenya Hotel Properties Ltd are still outstanding as at 30th June 2018.

18. BANK DEPOSIT INTEREST INCOME

	2018	2017
This Comprises:	<u>KShs</u>	<u>KShs</u>
Interest from Flexible Treasury Bills	-	-
Interest from Fixed & Call Deposits	35,304,496	25,530,844
	<u>35,304,496</u>	<u>25,530,844</u>

This is interest earned during the financial year from Fixed Deposit accounts held by the Corporation at Kenya Commercial Bank Ltd. The interest rates for the current financial year were on an upward trend from as low as 7.00% p.a. in 2016/2017 financial year to as high as 9.50% p.a. in the current 2017/2018 financial year.

Interest earnings were therefore more than that of previous year as interest rates were generally higher during the current year and more funds were placed in interest earning bank accounts.

Bank Deposit Interest Income is classified in the statement of comprehensive income as Finance Income as it is not derived from the ordinary activities of the Corporation.

The 15% withholding tax deducted from Bank Deposit Interest Income is accounted for separately in the Statement of Comprehensive Income.

19. OTHER INCOME

	2018	2017
This Comprises:	<u>KShs</u>	<u>KShs</u>
Personnel Loans Interest	23,728	21,323
Directors Fees	31,500	321,500
Miscellaneous Income	23,097	327,429
Restructuring Commission	-	228,014
Loans Appraisal fees	5,680,371	1,402,014
Loan Commitment fees	3,982,547	-
Gain from disposal of Assets	-	5,000
	-----	-----
	<u>9,741,243</u>	<u>2,305,280</u>
	=====	=====

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Miscellaneous Income includes amongst others commission earned upon remittance to third parties on payroll deductions like insurances. Gain from disposal of assets in the previous year was in respect to a lap top disposed to and recovered from benefits due to a former employee at Kshs. 5,000. The asset costing Kshs. 123,800 per note 4 had fully depreciated at Kshs. 123,800 as at beginning of the year.

20. CONTINGENT LIABILITY - TAX LIABILITY

As at 30th June 2006, there was a contingent liability resulting from penalties and interest on outstanding tax for the years 1993 to 1999 charged by the Kenya Revenue Authority.

The Corporation has been in negotiations for a 100% waiver with the Kenya Revenue Authority (KRA).

The Minister of Finance through a letter dated 21st January 2005, granted the Corporation a 50% Tax waiver. Negotiations for waiver of the balance 50% have been on-going and were not through as at 30 June 2012. On 10 August 2005, KRA wrote a letter to the Corporation advising it to pay KShs 3,725,631 which is about 30% of total section 72(D) penalties less 50% waiver already granted to enable KRA facilitate a resubmission of the case to the Minister of Finance. This payment was done in 2005/2006 financial year.

The total penalties and interest stood at KShs 167,689,035 out of which KShs 83,844,517.50 was waived by the Minister for Finance on 21st January 2005 leaving a balance of KShs 83,844,517.50. This is after paying all the principal taxes due.

By a letter dated 12th of March 2009 to KRA, Treasury indicated that it was considering our justifications for request for waiver with a view of coming up with an acceptable solution and sought KRA indulgence in the matter.

The matter was placed before the Corporation's Board meeting on 14th and 15th June 2010 where it was agreed that a Tax Consultant be engaged to scrutinize these tax penalties and interest and advise the Corporation.

The Tax Consultant called PKF Taxation Services Ltd was engaged during the previous financial year. The Consultant managed to get a breakthrough at KRA on all Tax matters to date. The Corporation paid as requested by KRA Principal Taxes of KShs 1,442,792 for year of Income 2000 and KShs 1,843,862 for year of Income 2001 so as to qualify for application of waiver of penalties and interest on both years. All Principal Tax arrears to date were therefore cleared.

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Consequently, the Corporation through the Parent Ministry of Tourism wrote to the Minister for Finance requesting for waiver of penalties and interest for years 2000 & 2001 totalling to KShs 29,575,483 and also for full waiver of balance of KShs 83,844,517.50 for years 1993 to 1999.

The Ministry of Finance through their letter dated 2nd of April 2013 communicated the Minister's decision and approval for a 100% waiver under section 94(4) of the Income Tax Act. The Corporation was therefore relieved from this Contingency Liability as at 30 June 2013 and also for current year.

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21. NUMBER OF EMPLOYEES

The number of employees as at 30th June of each the two comparative financial years is as follows:

	<u>2018</u>	<u>2017</u>
Beginning of the Year	55	47
<u>Less:</u> Resignation	(6)	(5)
Retirements	(2)	(1)
Terminations	-	(1)
<u>Add:</u> Recruitments	1	15
End of the Year	<u>48</u>	<u>55</u>

During the current year the serving staff reduced by the retirement of two (2) officers and resignation of six (6) officers.

Recruitment was in respect to one (1) position as shown below. Comparison for 2016/2017 and 2017/2018 is as follows:

<u>Retirement</u> 2017	<u>Resignation</u> 2017	<u>Termination</u> 2017	<u>Recruitment</u> 2017
Driver (Alois Momanyi)	HOLS & CS – Mary Njeri Chairman – Patrick Osero CICTO – Shadrack Mwaniki CICTO – Gladys Kitony PO- Damacrine Ondicho	HOC – Abraham Kamau	Chairman – Patrick Osero CIO – Abdinassir Ali LO- Farheen Khadija EAA – Joy Kaburu CPRO – Mohamed Ahmed IA- Robert Terwa HOL & CS – Mary Njeri PA- Timothy Amuyunzu PO – Kiplimo Kenei CICTO – Gladys Kitony HOF – Norman Mwangi HOA – Emily Simiyu SIA – Grace Ndegwa HOPR – Patricia Gachungi SA- Musa Abdi

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Retirement 2018	Resignation 2018	Termination 2018	Recruitment 2018
EAA- Serah Nakeel PRA- Grace Aluoch	IA- Robert Terwa CIO-Abdinasir Abdi HOF- Norman Mwangi PRO- Claire Gatheru SIO – Godfrey Kimanzi CPRO- Mohamed Ahmed	None	HOLS- John Saitoti

22. DEFERRED TAX

The computations of the Deferred Tax

	2018	2017
The net deferred tax liability is made up of:	<u>KShs</u>	<u>KShs</u>
Accelerated Capital Allowance	(9,953,579)	(9,953,579)
Tax Losses	(29,602,737)	(29,602,737)
Provision for terminal dues	(20,299,476)	(20,299,476)
Provision for gratuity	(937,423)	(937,423)
Provision for leave pay	(1,559,601)	(1,559,601)
	<u>(62,352,816)</u>	<u>(62,352,816)</u>

	2018	2017
	<u>KShs</u>	<u>KShs</u>
Deferred tax (income)/expense	19,748,342	19,748,342
	<u>19,748,342</u>	<u>19,748,342</u>

Reconciliation of expected tax, based on accounting loss to tax charge.

	2018	2017
	<u>KShs</u>	<u>KShs</u>
Accounting profit/(loss) before taxation	(31,582,081)	(57,713,446)
Tax at applicable rate (30%)	(17,314,034)	(17,314,034)
Expenses not subject to tax(Depreciation)	4,423,937	4,423,937
Over/Under provision in prior years	(5,896,745)	(5,896,745)
Income not subject to tax(Dividend income)	(960,000)	(960,000)
Income not subject to tax(gain on asset disposal)	(1,500)	(1,500)
	<u>(19,748,342)</u>	<u>(19,748,342)</u>

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Movement in deferred tax
 account

	2018 <u>KShs</u>	2017 <u>Kshs.</u>
Opening Balance	(62,352,816)	(42,604,474)
(Credit)/Charge to Income Statement	-	(19,748,342)
Deferred Tax Liability/(Asset) Closing Balance	<u>(62,352,816)</u>	<u>(62,352,816)</u>

23. ADMINISTRATION COSTS

	Note	2018 Kshs.	2017 Kshs.
These comprise:			
Entertainment	32	767,707	788,650
Travelling Costs	33	20,461,361	18,615,300
Motor vehicle Expenses	34	2,060,055	1,651,043
Office Expenses	14	11,196,292	11,755,946
General repairs and maintenance	27	1,106,820	1,826,059
Security	27	6,814,614	6,432,180
Cleaning Costs	27	3,757,345	3,949,866
Utalii House Management Fees	27	1,934,797	-
Utalii Hse Generator Running Costs	27	189,270	140,320
Lift Maintenance	27	1,988,107	2,219,820
Electricity	27	6,840,606	13,067,577
Water and Conservancy	27	1,855,162	677,415
Rent and Rates	27	2,071,856	3,176,622
Auditors Remuneration	35	406,000	406,000
Legal, Valuation and consultancy	38	11,930,732	9,926,561
Bank Charges	36	230,419	192,177
Bad debts Provision (Written Back)	15	32,677,593	25,120,000
Insurances	37	1,349,877	1,344,588
Total		<u>107,638,613</u>	<u>101,290,124</u>

The loss for the current year KShs 31,582,081 (2017: loss KShs 57,713,446) has been arrived at after charging/(crediting) the following:

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	2018 Kshs.	2017 <u>Kshs.</u>
Personnel Costs - note 24	169,782,950	159,646,426
Directors' Emoluments and Expenses - note 26	10,492,196	12,215,944
Depreciation - notes 3, 4 & 5	15,037,949	14,746,452
Auditors Remuneration - note 35	406,000	406,000
Provision for bad debts made/(written back) - note 15	32,677,593	25,120,000
Finance Income (Bank Deposit Interest Income) - note 18	(35,304,496)	(25,530,844)
Rental Income - note 27	156,902,852)	(137,299,448)

24. PERSONNEL COSTS

	2018 <u>KShs</u>	2017 <u>KShs</u>
The analysis of the various items forming the Personnel Costs are shown below:		
Salaries and Wages	82,358,053	75,553,428
House Allowance	20,549,561	19,697,712
Employer's Pension Contribution	10,224,478	3,969,911
Employers NSSF Contribution	126,000	121,600
Medical Aid and Surgical scheme	15,609,707	8,129,368
Extraneous Allowance	780,000	-
Staff Training	3,284,649	2,706,496
Staff Gratuity	2,513,783	2,595,180
Leave Travel Cost, Leave & Off Days Provision	7,425,049	6,406,655
Staff Uniforms and Uniforms Cleaning	-	29,050
Terminal Benefits Provision Expense	11,276,706	26,192,502
Staff Welfare	2,850,537	2,918,916
Staff Group Life & Personal Accident Cover	1,219,041	1,112,379
Commuting Allowance	8,418,493	8,033,945
Staff Telephone Allowance	1,373,979	1,235,003
MD's Other Remunerative Allowances	720,000	710,000
Internship Allowance	1,052,914	234,281
	<u>169,782,950</u>	<u>159,646,426</u>

Annual salary increments continued to be awarded to serving employees in applicable months within the year as was the case the previous year. The Employer's pension contribution for previous 2016/2017 FY had been offset with Kshs. 3,998,638 being employer's contribution paid with respect to a past Managing Director while serving on contract basis for (6) years. This had been paid by the Corporation to TFC Staff Retirement Benefits Scheme and was regularized by offsetting the same from that year's contributions due. Medical expenditure was more as payments were based on requested reimbursements by the provider based on usage by staff and their dependants

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25. RELATED PARTY TRANSACTIONS

(a) Government of Kenya

The Government of Kenya is the principal shareholder of the entity, holding 100% of the entity's equity Interest

(b) Employees

The Corporation provides all qualifying employees with car and housing loans on terms more favourable than available in the market.

The benefit obtained by staff is subjected to income tax as required under the Kenya Income Tax Act. The following were the transactions with related parties during the financial year.

c) Loan Fund

This fund refers to Grants that have over the years been received from the Government of Kenya (GOK). The treatment of GOK grant is as provided under the International Accounting Standard No. 20 which provides for recognition of costs or expenses related to a Government Grant as income in the same period as the relevant expense/disbursements.

The GOK grant received by the Corporation is development in nature and is utilized in making loan disbursement to borrowers in fulfilment of the Corporation's core mandate of financing tourism related projects.

This is Income approach and was adopted to the grant received in the 2004/2005 financial year.

	2018	2017
	KShs	KShs
GOK Grant Received in 2004/2005 Financial Year	7,500,000	7,500,000
Disbursement/Expense realized to Income in 2005/2006 Financial Year	(2,027,800)	(2,027,800)
Balance of Grant Fund	5,472,200	5,472,200
GOK Grant Received in 2009/2010 Financial Year	400,000,000	400,000,000
GOK Grant Received in 2010/2011 Financial Year	300,000,000	300,000,000
GOK Grant Received in 2011/2012 Financial Year	78,000,000	78,000,000
GOK Grant Received in 2012/2013 Financial Year	60,000,000	60,000,000
GOK Grant Received in 2013/2014 Financial Year	14,250,000	14,250,000
GOK Grant Received in 2016/2017 Financial Year	375,000,000	375,000,000
GOK Grant received in 2017/2018 FY	75,000,000	-
Balance of Grant Fund as at 30th of June	<u>1,307,722,200</u>	<u>1,232,722,200</u>

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d) Investee Companies

The following balances are the Related Parties' Relationships between the Corporation and the Investee Companies shown above as per IAS.

		2018	2017
	<u>Type of Debt</u>	<u>KShs</u>	<u>KShs</u>
i) Kenya Safari Lodges & Hotels Ltd	Loan	16,000,680	15,214,605
	Unit Debtors	12,650,463	12,650,463
ii) Bomas of Kenya Ltd	Unit Debtors	1,535,951	1,535,951
iii) Mt.Elgon Lodge Ltd	Loan	3,527,223	3,527,223
	Unit Debtors	26,526,507	26,526,507
iv) Sunset Hotel Ltd, Kisumu	Loan	95,096,148	90,060,537
	Unit Debtors	25,058,109	22,058,109
v) Kabarnet Hotel Ltd	Loan	27,609,883	27,609,883
	Unit Debtors	45,909,849	45,909,849
vi) Golf Hotel Ltd, Kakamega	Loan	19,722,789	21,364,364
	Unit Debtors	3,017,767	3,017,767
vii) African Tours & Hotels Ltd	Unit Debtors	149,543	149,543
	Tenant Debtors	8,016,872	8,016,872
viii) Mountain Lodges Ltd	Unit Debtors	622,678	622,678
ix) International Hotel (K) Ltd	Unit Debtors	11,415,080	11,415,080
x) Kenya Hotel Properties Ltd	Unit Debtors	41,745,449	41,745,449
xi) Buffalo Springs Ltd	Loan	14,791,354	13,257,241
	Unit Debtors	649,193	649,193
xii) Maralal Safari Lodge Ltd	Unit Debtors	60,000	60,000
xiii) The Ark Ltd	Unit Debtors	354,482	354,482
	Total	354,460,020	348,745,796

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26. DIRECTORS EMOLUMENTS AND EXPENSES

The analysis of the various items forming the Directors' Emoluments & Expenses are shown:

	2018	2017
	<u>KShs</u>	<u>KShs</u>
Directors' Sitting Allowances	4,142,000	6,876,400
Directors' Mileage Claims, Lunch & Subsistence Allowances	4,594,446	10,390,071
Directors' Medical Insurance Cover	237,366	234,493
Board Training	614,500	1,734,000
Board Overseas Travelling Costs	903,884	1,949,330
Board Secretarial Services	-	<u>31,650</u>
	<u>10,492,196</u>	<u>21,215,944</u>

Directors' mileage & subsistence allowances as well as travel costs for previous year were more than previous year as the Board held more meetings to clear backlog. There were also more travelling for training locally and to overseas for bench marking. The expenditure for current 2017/2018 was therefore less than that of the previous year.

27. RENTAL INCOME

	2018	2017
	<u>KShs</u>	<u>KShs.</u>
The Rental Income is from investment property as follows:		
Offices Rental Income	142,733,134	126,237,017
Parking Rental Income	<u>14,169,718</u>	<u>11,062,431</u>
	<u>156,902,852</u>	<u>137,299,448</u>

Offices rent recorded significant rise as a result of improved occupancy, full implementation of rent escalation per clause in lease agreement and changes in rental rates for new tenancy. Parking Rental income includes utalii house parking KShs 11,511,120 and Mombasa Island parking rent and of KShs 2,658,598 this experienced a notable increase as, on average, more space was occupied than was in the previous year. The direct operating expenses arising from investment property is as follows:

	2018	2017
	<u>Kshs.</u>	<u>KShs</u>
General Repairs and Maintenance	1,106,820	1,826,059
Security	6,814,614	6,432,180
Cleaning Costs	3,757,345	3,949,866
Generator Costs & Management Fees	2,124,067	140,320
Lifts Maintenance Costs	1,988,107	2,219,820
Electricity Costs	6,840,606	13,067,577
Water and Conservancy	1,855,162	677,415
Rent & Rates	<u>2,071,856</u>	<u>3,176,622</u>
	<u>26,558,577</u>	<u>31,489,859</u>

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These are costs are incurred in running and maintaining the Corporation's Investment Properties known as Utalii House, Hilton plot Building along Moi Avenue in Nairobi and Mombasa island plot building. They comprise, among others, Security costs, Cleaning Costs and Generator Running expenses.

There are four (4) Lifts installed at Utalii House whose quarterly maintenance fees are paid as per current contract.

The cost of electricity power supplied to Utalii House is paid by the Corporation. The power supplied to all other KTDC buildings is paid directly by the tenants themselves.

The cost of water supplied to Utalii House is paid by the Corporation. The water supplied to all other KTDC buildings is paid directly by the tenants themselves.

Rent and Rates were paid to the County Governments of Nairobi and Mombasa for land rates and to Commissioner of Lands for land rent during the year.

They were in respect to Utalii House plot, Moi Avenue plot in Nairobi and Mombasa Island plot.

28. EQUITY FUNDS

These are the initial funds paid by the Government of Kenya (GOK) as equity investment in the Corporation. The funds were used by the Corporation to acquire equity interest in tourism related companies

	2018 <u>KShs</u>	2017 <u>KShs</u>
Equity Fund Investment by GOK in the Corporation	106,000,000	106,000,000
	<u>106,000,000</u>	<u>106,000,000</u>

29. PRE-INVESTMENT STUDIES GRANT

These are the funds that were initially granted by the Government of Kenya (GOK) to help the Corporation carry out feasibility studies before investment in equity.

	2018 <u>KShs</u>	2017 <u>KShs</u>
Pre - Investment Studies Grant	281,212	281,212
	<u>281,212</u>	<u>281,212</u>

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30. INTEREST FROM LOANS

This is interest income earned during the year from balances of loans disbursed out of KTDC Loan Fund. The applicable Interest Rate is 11% p.a. from 1st of July 2017 following Board approval of 21st of January 2017. However the two loans that were approved and disbursed during the 2015/2016 financial year were given at 21% for Kenya Properties Ltd and at 0% for Kenya Safari Lodges and Hotels Ltd.

	2018	2017
	<u>KShs</u>	<u>KShs</u>
Interest from Loans	65,421,036	70,839,153
	<u>65,421,036</u>	<u>70,839,153</u>

However generally loan interest charges were on a downward trend month after month as a result of massive recovery witnessed in the current year and also previous year.

31. SURPLUS ON REVALUATION OF INVESTMENT PROPERTY

There were no investment property revaluations during the current financial year.

Any gain in the fair value of investment properties is recognized through the Income Statement as provided for by the International Accounting standard No. 40 paragraph 35.

32. ENTERTAINMENT

This was incurred during the year as paid through payroll to Heads of Departments (HODs) as provided in the Term Conditions of Service.

It also involves approved claims for expenses incurred on official business.

	2018	2017
	<u>KShs</u>	<u>KShs</u>
Entertainment	767,707	788,650
	<u>767,707</u>	<u>788,650</u>

33. TRAVELLING COSTS

Travelling costs comprise Local and Overseas travel expenses incurred by officers of the Corporation sent on assignments outside their Nairobi station. Such travel involves visits undertaken for loans appraisals: borrowers follow audits at the Units and for training purposes.

Fewer Officers travelled outside the Country during the current year compared to previous year, hence lower Overseas Travelling Costs.

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	2018	2017
	Kshs.	KShs
Local Travelling costs	16,537,308	14,265,546
Overseas Travelling costs	3,924,053	4,349,754
	<u>20,461,361</u>	<u>18,615,300</u>

34. MOTOR VEHICLE EXPENSES

These are costs incurred in running of the Corporation's motor vehicles during the year which compared well with the previous year.

	2018	2017
	KShs	KShs
Fuel and Oil	1,119,812	1,009,046
Repairs and Service	940,243	641,997
	<u>2,060,055</u>	<u>1,651,043</u>

35. AUDITORS RENUMERATION

The Corporation's Financial Statements of the Corporation are audited by The Auditor General. The current applicable fees are accrued as at the end of each financial year and are invoiced and payable after the issuance of the Audit Certificate. They are currently based annually at KShs 406,000(KShs 350,000 plus 16% VAT KShs 56,000).

The annual fees are as follows:

	2018	2017
	KShs	KShs
Auditors Remuneration	406,000	406,000
	<u>406,000</u>	<u>406,000</u>

36. BANK CHARGES

Currently the Corporation operates all its Bank Accounts at Kenya Commercial Bank Ltd along University Way in Nairobi.

The comparative expenditure for both years is as follows:

	2018	2017
	KShs	KShs
Bank Charges	230,419	192,177
	<u>230,419</u>	<u>192,177</u>

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37. INSURANCES

These refer to the insurances for the corporation's buildings, motor vehicles and office equipment. The comparative amounts for the two years is as follows.

	2018	2017
	<u>KShs</u>	<u>KShs</u>
Insurances	1,349,877	1,344,588
	<u>1,349,877</u>	<u>1,344,588</u>

38. LEGAL, VALUATION & CONSULTANCY FEES

	2018	2017
	<u>KShs</u>	<u>KShs</u>
Legal Fees	6,687,285	4,650,447
Consultancy Fees	5,243,447	5,276,114
	<u>11,930,732</u>	<u>9,926,561</u>

Legal Fees

The Corporation involved its Legal Division to deal with most of its legal issues and contracted Lawyers' fees especially on Tenants and Loans are to be recovered from the clients. Legal fees are only expensed in exceptional cases where it was considered impossible to recover from the client or debtor.

For current year, these legal costs were higher compared to previous year as it involved clearing backlog of old cases.

Valuation Fees

No valuation fees were incurred during the current financial year as no investment property was revalued (2017: Kshs. Nil)

Consultancy Fees

The fees for current financial year were on consultancy relating to TFC's Lending Interest Rate and on Risk Strategy. The fees for previous year were for the development of the Corporation's Strategic Plan.

39. RETIREMENT BENEFIT OBLIGATION

a) KTDC Staff Retirement Benefits Scheme

The Corporation operates a Defined Contribution Staff Retirement Benefits Scheme for its employees who are on Permanent & Pensionable Terms of Service. The assets of the scheme are held in a separate trustee administered fund that is funded by contributions made by Employer at 15% and by

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Employee at 7.5% of Basic Salary. The Corporation's contributions to the scheme are charged to Statement of Comprehensive Income in the year in which they relate.

All Employer and Employee contributions due for the current year 2017/2018 had fully been paid as at 30th June 2018 except for June 2018 contributions which were paid in July 2018.

b) KTDC Terminal Benefits Provision

The Corporation has provided in its Terms and Conditions of Service the payment of Terminal Benefits upon one's leaving.

This is payable to eligible employees who serve a continuous term not less than two (2) years from the date of employment to date of leaving. Each employee earns thirty (30) terminal leave days per every served year after revision of HR policy during the previous 2016/17 FY up from previously twenty-one (21) days. The Benefits due for current staff as at 30th June 2018 based on their accumulated terminal leave days and also their Basic Salaries was KShs 71,320,821 (2017: KShs 67,664,919) which reflects an increase of KShs 3,655,902 from the previous year.

40. LOANS' TRANSACTIONS

a) Interest Capitalized

Interest Capitalized as shown in the Cash Flows from Operating Activities refers to Interest recovered during the year after being netted with Interest charged to the Loans. This is the net Interest additions or capitalized to the Loans during the year.

	2018	2017
	<u>KShs</u>	<u>KShs</u>
Interest Recovered from Loans	37,732,209	43,132,858
Interest Charged to Loans & Earned as Income	<u>(65,421,036)</u>	<u>70,849,928)</u>
	<u><u>(27,688,827)</u></u>	<u><u>(27,717,070)</u></u>

b) Loans Disbursed

Disbursements KShs. 195,670,762 in the current 2017/2018 financial year were for eight (8) new loans per Note 7 and one (1) existing loan all totalling to Kshs. 194,268,339 as well as refund for overpaid three (3) loans totalling to Kshs. 1,387,423 and payment for land survey fees on an existing borrower at Kshs. 15,000 which was Capitalized.

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Disbursements KShs 5,909,786 in the previous 2016/2017 financial year were not for new loans as they related KShs 5,906,568 to Kenya Safari Lodges and Hotels Ltd and KShs.3,218 bank charges on dishonoured repayment cheques from borrowers Proland Hotel Ltd KShs. 2,574 and Kipini Swahili Eco Lodge Ltd. KShs. 644 which were capitalized to loans.

	2018	2017
	<u>KShs</u>	<u>KShs</u>
Principal Loans Disbursed	195,670,762	5,909,786
	<u>195,670,762</u>	<u>5,909,786</u>

c) Principal Loans Recovered

Principal Loans Recovered during the current financial year 2017/2018 were less than that of the previous year since last year had seen a number of borrowers clearing their loans in lump sum. As reported in the previous year the Corporation continued to put more efforts in the recovery process.

The amount involved was in respect to principal balance and principal arrears recovered both which totalled to KShs 32,515,948 (2017: KShs 90,135,513). Interest recovered is explained in (a) above.

	2018	2017
	<u>KShs</u>	<u>KShs</u>
Principal Loans Recovered	32,515,948	90,135,513
	<u>32,515,948</u>	<u>90,135,513</u>

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**PROGRESS ON FOLLOW UP OF EXTERNAL AUDIT OBSERVATIONS FOR 2016/2017
 FINANCIAL YEAR**

The following is the summary of issues raised by The Auditor General as well as TFC's Management comments that were provided to clear the issues. The Corporation nominated focal persons to resolve the various issues are as shown below with the associated time frame within which the issues are expected to be resolved:

Audit Query Ref No	Issue / Observations from The Auditor General	Response	Focal Point person to resolve the issue	Status	Time Frame
	<p>Basis of Qualified Opinion</p> <p>Investment Property</p> <p>Work – in Progress</p> <p>The Investment property balance of Kshs. 3,143,630,670 as at 30 June 2017 includes capital work-in-progress amounting to Kshs. 43,630,670 comprising of KShs 21,997,694 which had been carried forward since the year 2011 and KShs 21,632,976 additions for the year under review. Further, the capital work-in-progress brought forward balance of KShs 21,997,694 includes a 10% deposit of KShs 3,500,000 paid on 3 February 2012 for Marina project land valued at Kshs. 35,000,000. However, and as reported in the previous year, the project is yet to take off and the land purchase deal appears to have stalled, and that the contract has already lapsed and may never crystalize. Consequently, it has not been possible to determine the carrying value of investment property balance of KShs 3,143,630,670.</p>	<p>The Corporation has noted that the purchase is no longer tenable and would like to close this matter. In this regard, TFC has engaged the advocates of the vendor who hold the deposit with the aim of closing the matter and have the deposit refunded back. The Corporation is pursuing this matter with the aim of having it solved amicably out of Court.</p>	<p>Head of Legal Services and Corporation Secretary (HOLS & CS)</p>	<p>Un-resolved</p>	<p>31th March 2019</p>

TOURISM FINANCE CORPORATION
Reports and Financial Statements
For the Year ended June 30, 2018

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Emphasis of Matter

Loan to Buffalo Springs

As previously reported and as indicated in Note 7 to the financial statements, included in the loan balance of KShs 750,248,412 is an amount of KShs 13,257,241 (2015/2016 – KShs 12,120,276) loaned to Buffalo Springs Ltd, an associate of Tourism Finance Corporation. According to information available, the premises in which the company operated were leased to another tenant by the then Isiolo Town Council due to failure by the Corporation to pay land rent arrears. This effectively crippled operations of the company leading to its inability to repay the loan. In the circumstances, the recoverability of the loan amounting to KShs 13,257,241 is doubtful.

It is true that the premises in which Buffalo Springs operated was leased to another tenant by the then Isiolo Town Council, but without the knowledge and approval of the Corporation. The corporation, having known these new facts, made a specific provision of KShs 4,944,309.85 and interest in suspense provision of KShs 8,312,931 and these fully covers the loan balance of KShs 13,257,240.85 as at 30th of June 2017 and thereafter. The matter was discussed at Public Accounts Committee hearing on 22nd August 2013 where it was referred to the Office of The Auditor General to carry out a forensic audit. TFC wrote to The Auditor General on 4th October 2013 but there has been no response so far. A reminder letter was written again to office of the auditor general on 18th September 2017. TFC is still waiting for guidance on this matter from the Auditor General's office.

Head of
 Legal Services
 and
 Corporation
 Secretary
 (HOLS & CS)

Un-
 resolved

31th March
 2019