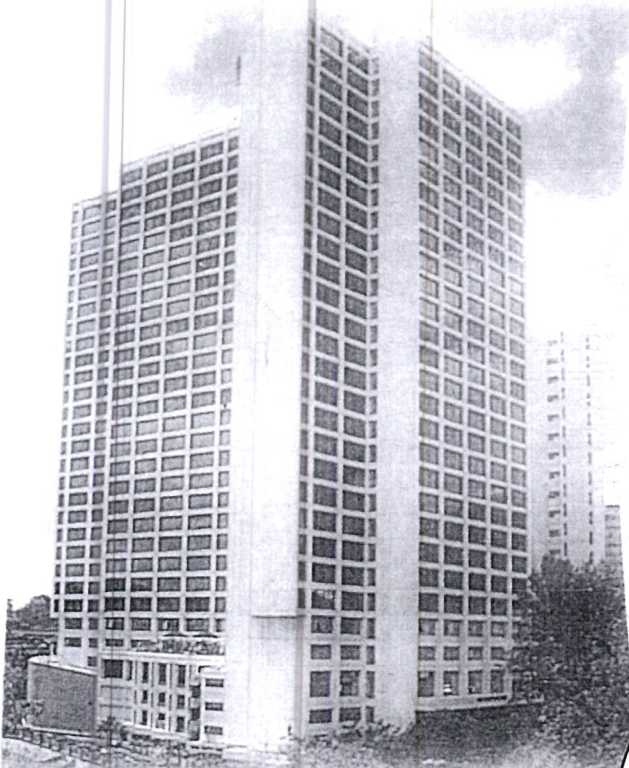


ANNUAL REPORT & ACCOUNTS 1999/2000

4



PARLIAMENT
OF KENYA
LIBRARY



BOARD OF TRUSTEES



NATIONAL
SOCIAL
SECURITY
FUND

557-3

NSSF



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KENYA NATIONAL ASSEMBLY
Accession: 10013411
Call No: 657-3 NSSF





BOARD OF TRUSTEES

The following members of the Board held office/were appointed during the year.

Mr. M.M.J Kisoso	Chairman
Mr. S.S. Boit	Permanent Secretary, Office of the President
Dr. K. Gitu	Permanent Secretary, Ministry of Labour and Manpower Development
Mr. M.L. Odour-Otieno	Permanent Secretary, Ministry of Finance
Mr. Hirji Shah	Chairman - FKE
Mr. J.J. Mugalla	Secretary General - COTU
Mr. B.M. Munyao	Deputy Secretary General - COTU
Mr. T.D. Owour	Executive Director - FKE
Mr. D.W. Masika	Managing Trustee

BANKERS

Kenya Commercial Bank Ltd
National Bank of Kenya Ltd

AUDITORS

KPMG Peat Marwick - Certified Public Accountants, were appointed as the authorized auditors of the Fund under section 29(2)(b) of the Exchequer and Audit Act, (Cap 412), to audit the 1999/2000 financial statements.

CHAIRMAN'S REPORT



Mr. J. Olubayi
Chairman

I have the pleasure to present the Fund's annual report and financial statements for the year ended 30 June, 2000.

Business Environment

During this period, the country experienced a negative economic growth rate of 0.3%. This was as a result of poor performance of major sectors like Agriculture and Manufacturing which recorded negative growth rates of 2.4% and 1.5% respectively.

The financial sector remained relatively stable although the banking industry still faced the problem of non-performing loans, which comprised 39.9% of the total

loan portfolio. The tourism sector continued to pick up though in a slower pace compared to the 12 months ending June 1999 resulting to a drop in total receipts by 8.3%.

Total employment rose by 7.3% mainly in the informal and private sectors, but the ongoing retrenchment programmes both in the public and private sectors continue to impact negatively on the Fund's growth.

The economy also experienced a reduced trading activity evidenced by a fall in the NSE index by 390 points. This situation was caused by reduced savings and increase in import and export prices by 11% and 8% respectively.

Inflation rate rose by 77% from 3.5% in financial year ending June, 1999 to 6.2% in the period under review. This increase was mostly due to increase in food prices, prolonged drought and increase of V.A.T rate from 15% to 18%.

The Gross Domestic Product declined by 0.3%. Real capital formation declined for the third year in a row. Other factors which contributed to poor performance of the economy included; severe power shortages, governance and management problems, poor transport and telecommunication infrastructure, reduced domestic investment and demand for goods and services.

Property prices and investment returns where the Fund holds a high proportion of its investments continued to be depressed.

Results

Against the difficult economic background, the Fund's performance was fairly satisfactory. Income declined by 30% to Kshs. 1.9 billion compared to Kshs. 2.7 billion the previous year. Expenditure fell by 45% from Kshs. 4.2 billion in 1999 to Kshs. 2.3 billion. The fall is attributable to reduction in provisions for doubtful investments, foreseeable losses on housing projects and doubtful accrued interest receivable.



CHAIRMAN'S REPORT CONT'D

Consequently, a deficit of Kshs. 0.4 billion was recorded against 1.5 billion in 1999.

Net assets fell by 3% from 44.4 billion in 1999 to Kshs.42.9 billion with a corresponding decline in Members' Funds. This was as a result of provisions earlier mentioned and increase in current obligations.

Investments after provisioning for doubtful investments of Kshs. 2.9 billion stood at Kshs. 42.6 billion (1999 Kshs. 43.5 billion). A broad classification of the portfolio is as follows:-

Class	KShs. (billion)	Percentage
Government stock	2.4	5.27
Nairobi City Council and unquoted stock	0.6	1.32
Tenant Purchase debtors	1.8	3.96
Term deposits/loan	4.8	10.55
Real Estate	31.3	68.79
Quoted securities	<u>4.6</u>	<u>10.11</u>
	45.5	<u>100.00</u>
Provision for doubtful Investments	<u>(2.9)</u>	
	<u>42.6</u>	

During the period under review, contributions increased from Kshs. 1.59 billion in 1999 to Kshs. 1.63 billion while membership stood at 50,013 employers and 2,784,288 employees.

Benefits paid amounted to Kshs. 1.87 billion compared to Kshs. 1.79 the previous year.

Outlook

As indicated in my last report, a policy framework for the country's Social Security sector within which the Fund can chart its strategic plan is necessary. The management is working closely with the Government through Ministry of Labour and Manpower Development to achieve this.

Equally critical, the deliberate decision to tilt the investment portfolio mix to an economically viable position through divesting from real properties will be pursued with vigour.

Finally, may I take this opportunity to once again thank employees of the Fund for their commitment to duty and members (both employers and employees) whose support and goodwill has enabled the Fund to come this far.

J. OLUBAYI
CHAIRMAN



REPORT OF THE TRUSTEES

The trustees are pleased to present the report of the National Social Security Fund and the audited financial statements for the year ended 30 June 2000.

Mission Statement

The mission of the Fund is to provide basic social security and welfare support to workers. The basic objective is to provide social security.

Principal Activity

National Social Security Fund is a provident Fund organization established under an Act of Parliament. Its principal activity is the provision of basic Social Security.

Operations

All the Fund's departments play a very significant role in attaining the Fund's basic objectives. In this regard, the departments perform the following activities:

1) Compliance Department

The responsibility of the department is to recruit and register members as well as collection of contributions through the Fund's Area/Branch network. A total of Kshs. 1.63 billion in contributions was collected during the year against Kshs. 1.59 billion collected in 1999. The department does also exercise enforcement powers through prosecution.

2) Benefits Department

The department processes benefits payment. During the year, 45,231 benefit application claims totaling Kshs. 1.87 billion were paid compared to claims totaling Kshs. 1.79 billion paid the previous year. These figures are expected to continue increasing as more members retire.

3) Finance Department

The department is charged with the responsibility of developing and maintaining an efficient and effective accounting and financial control system, and producing accurate and timely financial reports.

4) Personnel Department

The Department deals with staff recruitment, development and other related matters to ensure availability of an adequate pool of human resources.



REPORT OF THE TRUSTEES CONT'D

5) Computer Department

Information systems play a very key role in keeping the Fund's members informed on their contribution status besides providing other departments with up-to-date operational data for decision making. This is in addition to developing user based systems to address specific departmental/user needs.

6) Administration Department

The department provides common services such as procurement of supplies, transport, messengerial and cleaning services amongst others.

Performance

During the year, a deficit of Kshs. 0.40 billion was recorded compared to Kshs. 1.47 billion the previous year. Total income fell from Kshs. 2.69 billion to Kshs. 1.9 billion due to the declining portfolio of liquid investments. It is, however, anticipated that this position will improve as more properties are off loaded through the Tenant Purchase Scheme.



STATISTICAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2000

1)	Expenditure	Kshs. '000'	%
	Staff expenditure	1,225,665	46.78
	Administrative expenses	878,884	33.54
	Depreciation charge	44,873	1.71
	Provision for foreseeable losses on housing projects	36,209	1.38
	Provision for costs incurred on suspended projects/developments	1,518	0.06
	Writeoff of property, plant & equipment	31,083	1.19
	Provision for doubtful debts	<u>401,920</u>	<u>15.34</u>
		2,620,152	<u>100.00</u>
	Reversal of provision for doubtful investments	<u>(271,233)</u>	
	Total	<u>2,348,919</u>	
2)	Benefits Payment		
	Age	492,703	26.32
	Survivors	248,517	13.27
	Invalidity	46,092	2.46
	Withdrawal	1,068,847	57.10
	Emigration	9,713	0.52
	Refunds	<u>6,115</u>	<u>0.33</u>
	Total	<u>1,871,987</u>	<u>100.00</u>
3)	Investment Income		
	Dividends/ interest on stocks	337,282	17.27
	Rent	646,840	33.12
	Interest and Discounts on Term Deposits	886,330	45.39
	Other income	28,955	1.48
	Interest on Tenant Purchase Scheme	<u>53,541</u>	<u>2.74</u>
	Total	<u>1,952,948</u>	<u>100.00</u>
4)	Investments		
	Tenant Purchase Scheme debtors	1,843,421	4.05
	Loans	1,100,000	2.42
	Land and buildings	31,311,705	68.84
	Quoted equities	4,634,581	10.19
	Government of Kenya Stocks	1,936,388	4.26
	Banks and Financial Institutions	3,582,844	7.88
	Unquoted stocks and equity	587,271	1.29
	Treasury bills	<u>486,408</u>	<u>1.07</u>
	Total	<u>45,482,618</u>	<u>100.00</u>



5) Contributions Versus Benefits Paid

Financial Year Ended 30th June						
Year	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
Contributions (Kshs billion)	1.39	1.54	1.59	1.54	1.59	1.63
Benefits (Kshs billion)	0.78	1.05	1.53	1.62	1.79	1.87

6) Registered Employees

Financial Year Ended 30th June						
Year	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
Registered Employees (No.s)	2,252,234	2,315,593	2,429,903	2,523,247	2,635,229	2,784,288



7. Registered Employers

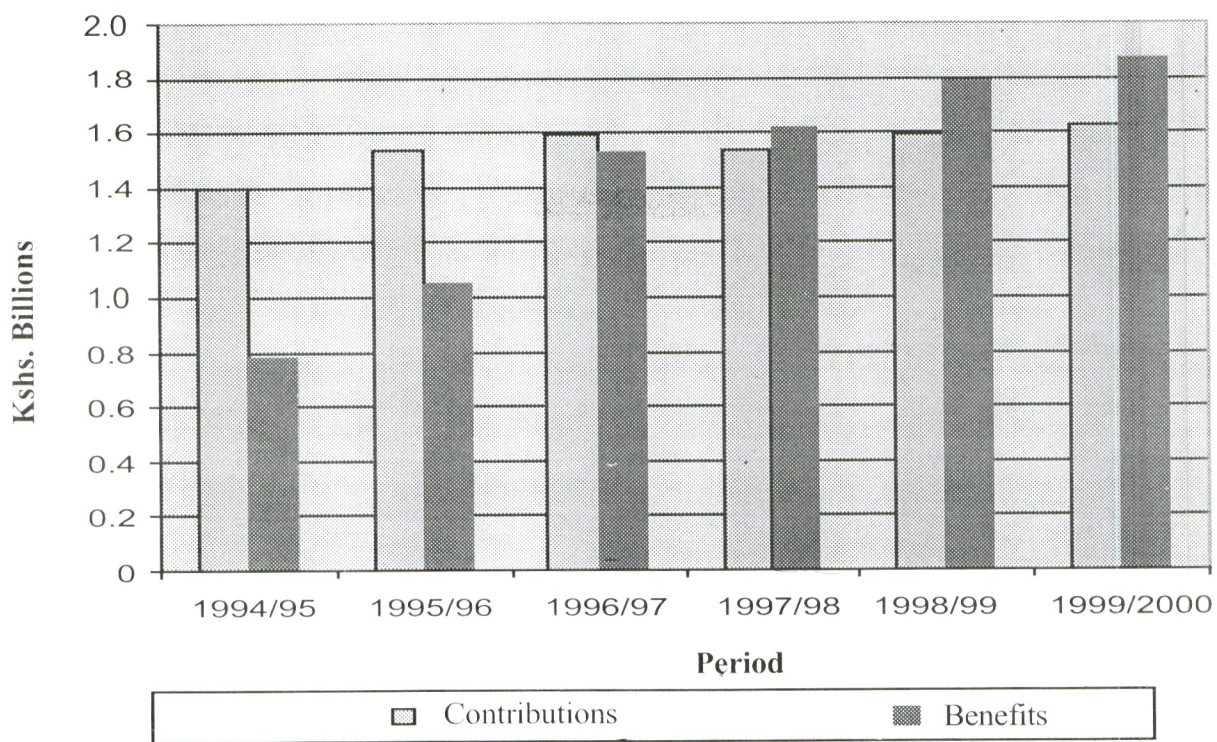
Financial Year Ended 30th June						
Year	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
Registered Employers (No.s)	53,240	54,673	56,278	57,240	49,290	50,013

8. Members' Fund and Net Assets

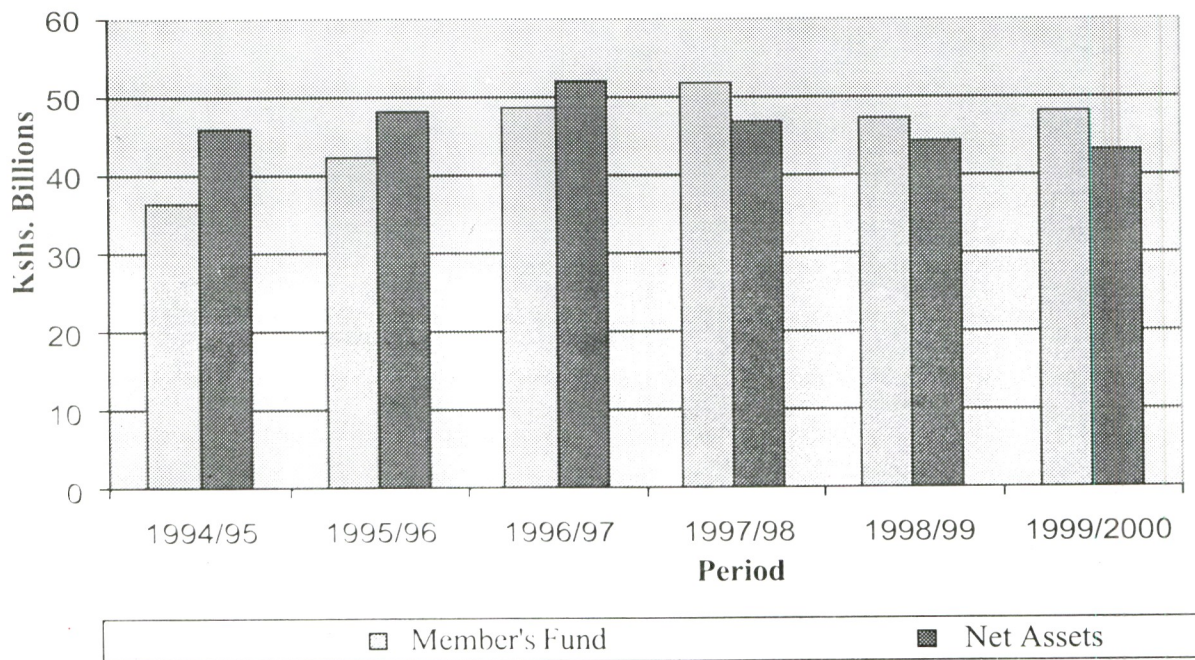
Financial Year Ended 30th June						
Year	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
Members' Fund (Kshs.billion)	36.30	42.20	48.60	51.90	47.20	48.20
Net Assets (Kshs.billion)	45.80	48.20	52.10	46.80	44.40	43.00



Contributions Vs Benefits Paid



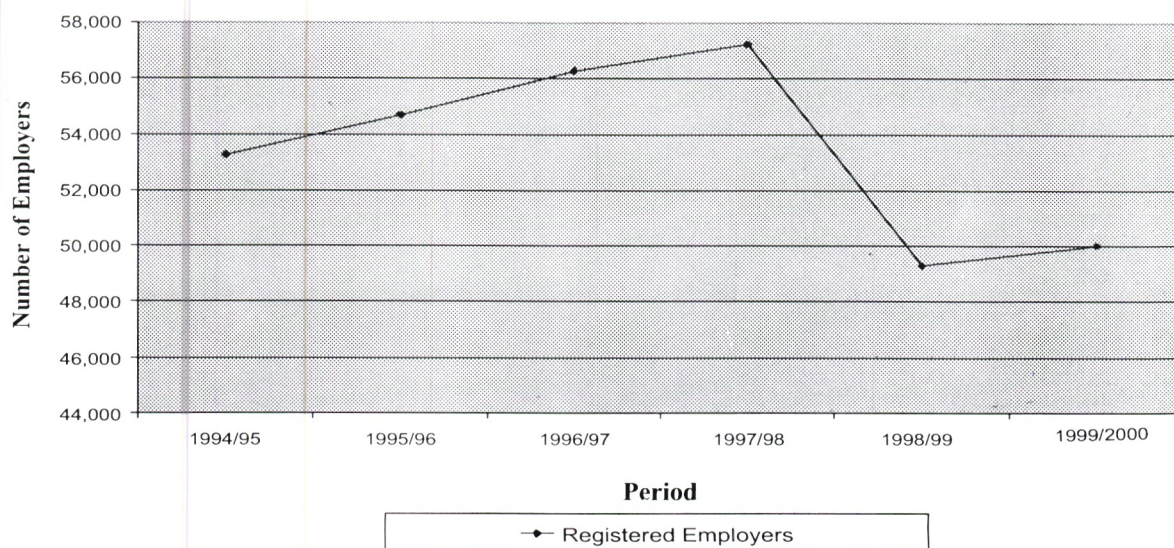
Member's Fund Vs Net Assets



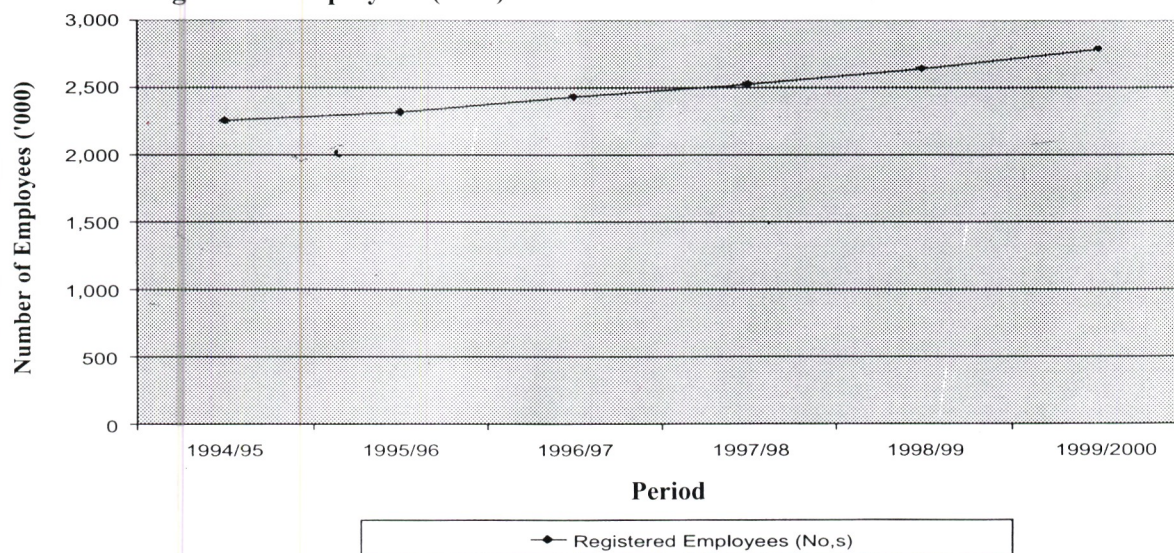


STATISTICAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2000

Registered Employers (No.s)



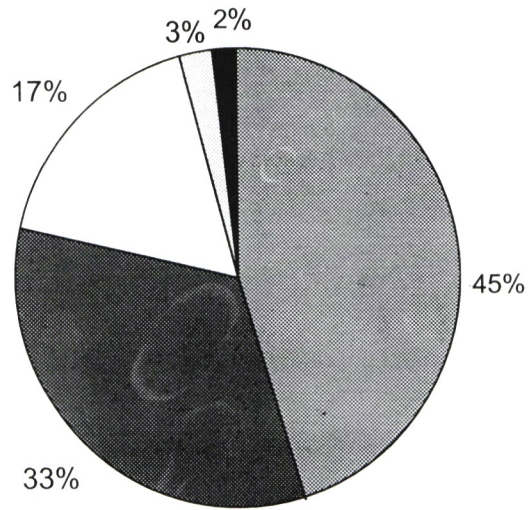
Registered Employees (No.s)





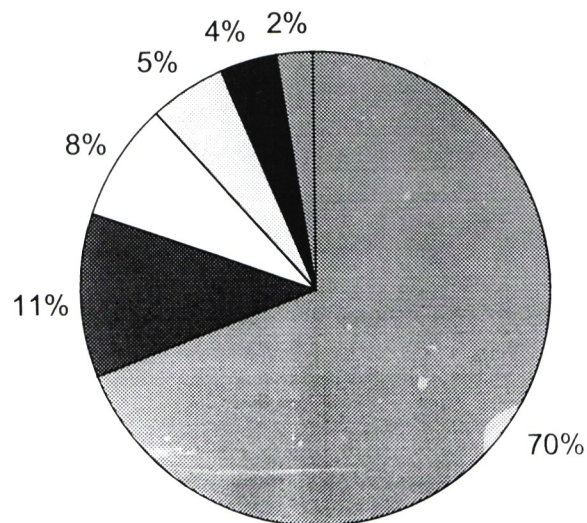
STATISTICAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2000

Investment Income



	45%	Interest and Discount on Term Deposits
	33%	Rent
	17%	Dividends/interest on stocks
	3%	Interest on Tenant purchase Scheme
	2%	Other income

Investments

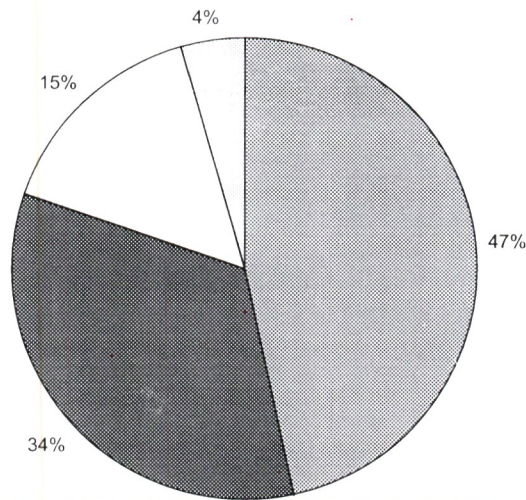


	70%	Lands and buildings
	11%	Quoted & Unquoted equities
	8%	Banks and Financial Institutions
	5%	Government of Kenya Stocks & TBills
	4%	Tenant Purchase Scheme debtors
	2%	Loans



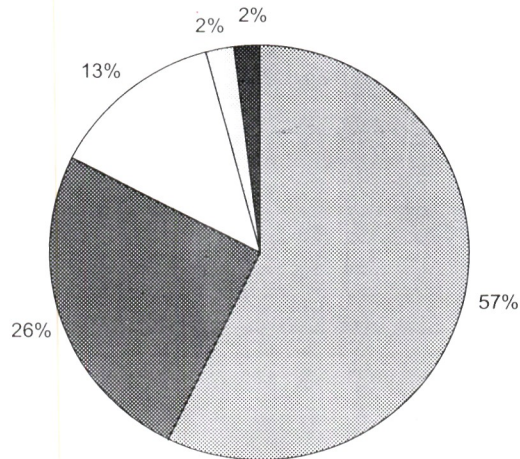
STATISTICAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2000

Expenditure



47%	Staff expenses
34%	Administrative expenses
15%	Provision for doubtful debts
4%	Others

Benefits Payments



57%	Withdrawal
26%	Age
13%	Survivors
2%	Invalidity
2%	Emigration & Refunds

**REPORT OF THE AUDITOR GENERAL (CORPORATIONS)
ON THE ACCOUNTS OF NATIONAL SOCIAL SECURITY FUND
FOR THE YEAR ENDED 30 JUNE 2000**



The Accounts of National Social Security Fund for the year ended 30 June 2000 have been examined on my behalf by the Fund's authorized auditors in accordance with Section 29 (2) (b) of the Exchequer and Audit Act, (Cap 412). The authorized auditors have duly reported to me the results of their audit and on the basis of their report to me, I am satisfied that all the information and explanations considered necessary for the purpose of the audit were obtained. Proper books of account have been kept and the Accounts are in agreement therewith.

In my opinion, and subject to the matters referred to herebelow, the Accounts, when read together with the notes thereof, present fairly the state of the Fund's financial affairs as at 30 June 2000 and of the results of its operations and cash flows for the year then ended.

1. Financial Performance

In the year 1999/2000 the Fund incurred a net loss of Kshs. 1,571,413,000 which brought its accumulated losses to Kshs. 7,951,471,000 as at 30 June 2000. As was the case in the previous year, the unfavourable results realized by the Fund in 1999/2000 were mainly as a result of various provisions charged to the Accounts to cater for possible non-realization of investments totalling Kshs. 439,647,000 which were apparently made against imprudent past investment decisions.

2. Year 2000 Computer Conversion Contract

In December 1997 and evidently **without invitation** of open competitive tenders, the Fund awarded a contract to a consulting firm, **which also doubled up** as the Fund's IT Consultant, to acquire and install Parallel Computer Programme (CFMS) at a cost of Kshs. 14,581,190. The contract included specification for computer equipment, and other hardware required for installation and testing of the equipment, overseeing the process of procurement, development of application software and training of Fund's staff. The Parallel System was delivered to NSSF in November 1998 but went into parallel operation in January 1999. Between June and July 1999, the System, which appears to have been designed as a stop gap measure instead of a long term operational one, was tested three times by a CFMS Committee and was found to contain serious deficiencies. The Committee particularly noted that:

- (i) The developer did not provide the source code used to develop the CFMS;
- (ii) Accuracy of processed data was not apparent;
- (iii) There lacked consistency in data handling;
- (iv) The efficiency of the system was wanting;
- (v) Completeness of the service could not be ascertained and;
- (vi) Stress resistance was not tested due to the hurried manner in which the implementation was carried out.

Consequently the System failed to function as the main frame did not provide explanations for rejections to enable users understand and take corrective action. Between September 1998 and July 2000 and despite the fact that the System had failed to function or produce accurate data, the



Fund paid the Consultant a total of Kshs. 73,769,676, an amount which was far in excess of the agreed contract price of Kshs. 14,581,190 for the job. Apart from the fact that it is not clear why the Fund paid such an excessive sum of money to the Consultants for installing a system which did not function, the justification for the contract overrun of Kshs. 59,188,486 has not been provided. Consequently, it has not been possible to confirm the propriety of the total expenditure of Kshs. 73,769,676 reportedly incurred to provide a computer parallel system the usefulness for which could not be confirmed.

3. Payment of Legal Fees

The legal fees expenditure of Kshs. 293,530,000 shown in the Accounts for 1999/2000 includes an amount of Kshs. 278,712,167 payable as legal fees to a firm of advocates in respect of the Sololo Outlets court case against which the Fund had, in 1994 paid the same firm Kshs. 294 million. Apart from the fact that it has not been possible to establish the extent of services provided to the Fund by these lawyers in respect of the court case, the value of the subject suit must have been quite big to attract a total charge of over Kshs. 0.57 billion. Consequently, it has not been possible to confirm the propriety of the expenditure of Kshs. 278,712,167 accrued in the Trustees' Accounts for 1999/2000, particularly in view of the earlier payment of Kshs. 294 million to the same lawyers for the same case.

4. Moktar Daddah Street Project

In September 1997 the Fund, without proper feasibility studies and without adequate financial provision, commissioned a building firm to construct a 33 storey commercial building at Moktar Daddah Street-Nairobi for a contract sum of Kshs. 3,181,468,427. About a year later, in August 1998 the Fund reviewed and approved the scaling down of the Project by about 30% of the original contract but after the contractor had done five mezzanine floors at a cost of Kshs. 1,925,000,000 or about 61% of the total original contract price. Following the scaling down of the Project the contractor demanded compensation of Kshs. 408,542,191 for breach of contract which if paid, would bring total expenditure on the contract to Kshs. 2,333,542,191 or about 73% of the original contract sum of Kshs. 3,181,468,427.

It would appear, therefore, that the Fund's handling of this Project was quite unsatisfactory as it clearly reflects poor planning and execution of the Project.

5. Nyayo Estate, Embakasi

In 1995 and as previously reported, the Fund entered into a contract with a construction company to build 4,774 units of houses at Embakasi Nyayo Estate at a cost of Kshs. 14.18 billion. The Project, which should have been fully completed by 30 April 1999, however, had only 696 units completed and handed over to the Fund as at 30 June 2000 at a total cost of Kshs. 14,198,000,000 out of which Kshs. 12.3 billion (88%) has already been paid to the contractor. An additional 460 units have been completed and the Project, which is three years behind schedule, is presently only 24.2% complete while the rate of construction work has decreased to a level of near abandonment. Its completion within the original cost parameters is, therefore, highly uncertain. In addition, the Fund has not indicated how the remaining 3,618 units are to be completed within



the 13% balance of the contract price. The Fund also expects to realize Kshs. 11,609,000,000 on disposal of all the housing units when completed, thereby realizing a possible loss of Kshs. 2,589,000,000 on such disposal.

6. Outer Ring Road Plot

On 25 January 1995, the Fund purchased land plot LR 209/11314 situated along Outer Ring Road, on Jogoo Road Junction measuring 4.581 hectares (approx. 11.31 acres) at a total cost of Kshs. 124,500,000 or about Kshs. 11,000,000 per acre. However, when account is taken of the location and the general environment of the property, the land appears grossly over-priced. The land also encroaches portions of both Jogoo Road and Outer Ring Road reserves. In addition, the Fund contracted a private company to prepare a layout plan for development of housing units and to obtain approval for such project from the City Council of Nairobi at a cost of Kshs. 1,518,000. There was, however, no budgetary provision made in the Fund's Estimates for 1999/2000 to cater for the development of the Project. In addition no satisfactory justification for the undertaking of such a project has been provided.

7. Investment In Properties

The Fund developed the following projects which are going to the market for sale as indicated below

Project	Number of houses	Total cost Kshs.	Anticipated total selling price Kshs.	Anticipated potential loss Kshs.
Hazina Estate	375	2,175,287,000	1,118,000,000	1,057,287,000
Kitisuru	96	950,867,000	859,000,000	91,867,000
Kangemi	104	1,318,000,000	919,400,000	337,800,000
Total		4,444,154,000	2,896,400,000	1,547,754,000

The above analysis indicates that the Fund stands to lose Kshs. 1,547,754,000 on the anticipated sale of the above projects, a loss which would have been avoided had proper planning and feasibility studies been carried out before the Fund invested heavily on the projects. In addition the Fund paid a contractor Kshs. 6,769,475 to clear bushes for the Kitisuru Housing Project in 1996. During the year under review, the main Project contractor was awarded a variation for site bush/plants clearance for the same property in the total amount of Kshs. 6,300,000 which, therefore, brought total expenditure on same site clearance to Kshs. 13,069,475. The Fund has not provided adequate justification for the double job and the related payment on site clearance and as a result, it has not been possible to confirm the propriety of the total expenditure of Kshs. 13,069,475 incurred on site clearance for this Project.



8. Loans and Deposits in National Bank of Kenya Ltd

During the year 1999/2000 the Fund converted its deposits in National Bank of Kenya Ltd amounting to Kshs. 1,100,000,000 into an unsecured long term loan to the Bank repayable in equal semi annual instalments of Kshs. 84,600,000 with interest payable on a monthly basis. Although the Bank paid interest totalling Kshs. 94,399,890 up to 06 July 2000, it defaulted in payment of the first instalment and interest from 08 July 2000. Since then the Bank has not been servicing the loan as per the agreement.

9. Members Contributions

The members' Fund Account for the year 1999/2000 reflects contributions totalling Kshs. 21,415,813,000 as at 30 June 2000 which included contributions totalling Kshs. 7,300,000,000 held in a Suspense Account. These balances were brought forward from previous years but could not be allocated to members' accounts, as the individual members' accounts were unknown. As was the case in previous years there was no significant action taken to clear the suspense accounts, particularly in view of the magnitude of the balances involved. The Fund is presently unable to identify the members accounts into which these suspense accounts would be posted and as a result it is not possible to confirm that pensioners funds totalling Kshs. 7,300,000,000 held in the suspense accounts are secure and will eventually benefit the relevant contributors.

S. M. Maluki
S. M. MALUKI

AUDITOR GENERAL (CORPORATIONS)

14 March 2002



INCOME & EXPENDITURE ACCOUNT

YEAR ENDED 30 JUNE 2000

		2000	1999
	Note	KShs '000	KShs '000
Income			
Dividend income		337,282	438,582
Rental income	2	646,840	705,859
Interest on bank deposits and discount on Treasury Bills		886,330	1,518,769
Interest earned on Tenant Purchase Scheme		53,541	-
Profit on disposal of property, plant and equipment		30	1,294
Other Income		<u>28,925</u>	<u>22,403</u>
		<u>1,952,948</u>	<u>2,686,907</u>
Expenditure			
Staff costs	3	1,225,665	1,151,903
Administrative expenses	4	878,884	661,030
Depreciation charge		44,873	61,670
Write-off of property plant and equipment		31,083	-
Provision for doubtful investments		-	742,500
Reversal of provision for doubtful investments		(271,233)	(76,585)
Provision for foreseeable losses on housing projects		36,209	944,271
Provision for loss on suspended projects		1,518	-
Provision for doubtful accrued rental income		113,729	46,968
Provision for doubtful accrued interest receivable		273,153	566,673
Provision for other doubtful debtors		<u>15,038</u>	<u>57,828</u>
		<u>2,348,919</u>	<u>4,156,258</u>
Deficit for the year	22	<u>(395,971)</u>	<u>(1,469,351)</u>



CASH FLOW STATEMENT

YEAR ENDED 30 JUNE 2000

	2000 KShs'000	1999 KShs'000
Cash flow from operating activities		
Deficit for the year	(395,971)	(1,469,351)
Adjustments for:		
Depreciation	44,873	61,670
Property, plant and equipment written off (Net)	31,083	-
Provision for doubtful investments	-	742,500
Reversal of provision for doubtful investments	(271,233)	(76,585)
Profit on disposal of property, plant and equipment	(30)	(1,294)
Provision on suspended projects	1,518	-
Provision for foreseeable losses on housing projects	<u>36,209</u>	<u>944,271</u>
Operating (deficit)/ surplus before working capital changes	<u>(553,551)</u>	<u>(201,211)</u>
Decrease in Debtors and prepayments	73,965	80,591
Increase in claimable tax account	(1,021)	(11,613)
Decrease/(increase) in accrued income	88,976	(160,632)
Increase in creditors and accruals	<u>(135,247)</u>	<u>406,004</u>
	<u>297,167</u>	<u>314,350</u>
Net cash flow from operations	<u>(256,384)</u>	<u>515,561</u>
Cash flow from investing activities		
Redemption of Government Stock	369,788	219,083
Acquisition of Unquoted stocks and equity	-	25,185
Redemption/ (additions) of deposits with Financial Institutions	876,334	(372,337)
Development of land and buildings	(756,625)	(1,567,264)
Proceeds on sale of land and buildings	58,300	-
Receipts from Tenant Purchase debtors	296,679	-
Purchase of property, plant and equipment	(3,057)	(24,947)
Proceeds from sale of property, plant and equipment	<u>30</u>	<u>1,294</u>
Net cash flows from investing activities	<u>841,449</u>	<u>(1,718,986)</u>



CASH FLOW STATEMENT CONT'D

	2000 KShs'000	1999 KShs'000
Cash flow from financing activities:		
Members contributions	1,651,801	1,593,855
Benefit payments	<u>(1,871,987)</u>	<u>(1,792,200)</u>
Net cash flow from financing activities	<u>(220,186)</u>	<u>(198,345)</u>
Net increase/(decrease) in cash & cash equivalents	<u>364,879</u>	<u>(1,401,770)</u>

Movement in cash & Cash equivalents.

	2000 KShs'000	1999 KShs'000	Change in year KShs'000
Cash and bank balances	66,445	76,796	(10,351)
Treasury Bills	486,408	100,250	386,158
Bank overdraft	<u>(127,073)</u>	<u>(116,145)</u>	<u>(10,928)</u>
	<u>425,780</u>	<u>60,901</u>	<u>364,879</u>



NOTES TO THE ACCOUNTS YEAR ENDED 30 JUNE 2000

1. Significant Accounting Policies

a) Accounting Convention

The accounts are prepared under the historical cost convention as modified by the revaluation of certain assets.

b) Accounting for Contributions

Contributions from employers/employees are accounted for on a receipts basis.

Benefits to members are accounted for on a payment basis. Benefit payment cheques going stale before they are presented to the bank are written back in the cash book and a liability accrued for in the books.

Interest payable on members' accumulated contributions (standard contributions plus interest) is accrued annually at the agreed rate in accordance with Section 19(2) & (3) of the National Social Security Fund Act. (2000 and 1999 - 2¹/₂%)

c) Income Recognition

(i) Dividends

Dividends are accounted for on a receipt basis

(ii) Interest on deposits with financial institutions

Interest on deposits with financial institutions is accounted for on an accrual basis.

(iii) Interest/ discounts on Treasury Bills and Treasury Bonds

Interest on Treasury bills and bonds are credited to income on a straight-line basis over the maturity period of the investments.

(iv) Coupon interest on government securities

Coupon interest on government securities is accounted for on an accrual basis.

d) Tenant Purchase Scheme

Interest income on Tenant Purchase Scheme loans is calculated on the balance outstanding at the rate prevailing. The rate currently at 15% is variable at the discretion of NSSF's Board of Trustees.



NOTES TO THE ACCOUNTS CONT'D

e) Depreciation

Depreciation is calculated on a straight line basis, at annual rates estimated to write off the carrying values of property, plant and equipment over their expected useful lives as follows:-

Freehold and long term lease hold land	Nil
Short term leasehold land	Over the remaining lease period
Motor vehicles	20%
Computers and microfilming equipment	33.33%
Office Furniture	10%
Office Equipment	12.5%
Fittings and furnishings	20%

f) Investments

i) Quoted Equities

Equities are stated at market value. Differences between cost and market value are debited/(credited) to an unrealised revaluation reserve. Upon sale of the investment the surplus/(deficit) arising from the transaction will be transferred to the Income and Expenditure account.

ii) Unquoted Equities

Unquoted equities are shown at cost less provision for any permanent diminution in value.

iii) Treasury bills and bonds, and government bearer bonds

Treasury bills and bonds, and government bearer bonds, are stated at cost.

g) Investments in Land and Buildings

Undeveloped land, partly developed land and buildings are stated at cost or valuation.

Cost is defined as :

Undeveloped land - Cost of the land plus incidental expenses.

Partly developed land held for long term investments - Cost of land as defined above plus construction work certified and paid.

Partly developed land which a decision to sell has been made - Cost as defined above, less any foreseen losses on immediate sale.

NOTES TO THE ACCOUNTS CONT'D



	2000 KShs'000	1999 KShs'000
2. Rental Income		
Social Security House - Nairobi	241,185	288,318
Social Security House - Mombasa	38,256	33,685
Bruce House - Nairobi	97,965	100,338
Hazina Towers	27,109	30,889
View Park Towers	67,000	81,543
Hazina Plaza - Mombasa	56,000	48,000
Hazina Estate - Nairobi	80,646	88,630
Other properties	<u>38,679</u>	<u>34,456</u>
	<u>646,840</u>	<u>705,859</u>
3. Staff Costs		
Salaries	660,406	622,139
House allowance	233,322	212,813
Acting allowance	675	505
Entertainment allowance	5,121	4,672
Leave allowance	37,691	37,318
Hardship allowance	382	508
Staff pension and gratuity	106,085	99,410
Staff welfare	44,755	41,314
Medical expenses	34,567	34,329
Special accommodation allowance	552	247
NSSF contributions for staff	1,786	1,765
Transfer allowance	1,135	470
Transport allowance	93,749	90,290
Utility allowance	<u>5,439</u>	<u>6,123</u>
	<u>1,225,665</u>	<u>1,151,903</u>

NOTES TO THE ACCOUNTS CONT'D



4. Administrative Expenses

	2000 KShs '000	1999 KShs '000
Rent and rates	243,460	325,094
Legal fees	293,530	10,908
Repairs and maintenance	80,232	57,456
Consultancy fees	57,821	40,309
Insurance	56,283	49,177
Telephone and postage	24,712	18,833
Transport expenses	23,732	32,861
Electricity, water and conservancy	18,735	18,350
Printing and stationery	17,015	21,118
Advertising	15,934	18,655
Travelling and subsistence allowance	10,371	14,094
Bank interest and charges	9,376	7,078
Audit fees	6,253	5,491
Exhibition expenses	5,364	4,507
Board, committees and conferences	3,541	5,658
Renovations	3,344	3,276
Books and publications	2,429	1,359
Subscriptions and donations	1,156	1,495
Training and Seminars	1,292	3,704
Uniforms	6	4,363
Understatement on stale cheques	-	12,371
Other incidental expenses	4,298	4,873
	<u>878,884</u>	<u>661,030</u>

Included in the rent and rates is Kshs. 79.9 million (1999 - Kshs 54.7 million) being rent expense on space occupied by the NSSF in Social Security House-Nairobi.

5. Taxation

According to section 45 of the First Schedule of Income Tax Act effective 1 January 1997, the Fund is exempted from taxation.

Tax issues for periods prior to 1 January 1997 had however not been finalised with the Income Tax Department and during the year the Kenya Revenue Authority demanded Kshs. 7,806,613,470 being unpaid taxes together with interest and penalties thereon. The Minister for Finance however waived the amount after the Fund appealed to the Ministry.

NOTES TO THE ACCOUNTS CONT'D



6. Property, Plant and Equipment

	Computer &						Total
	Land	Microfilming Equipment	Motor Vehicles	Office Equipment	Office Furniture	Fittings & Furnishing	
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Cost or valuation							
At 1.7.99	*124,540	139,173	188,110	134,657	108,860	20,778	716,118
Additions	-	1,469	-	569	1,019	-	3,057
Adjustments/ (write off)	-	1,109	-	(3,208)	(37,943)	-	(40,042)
Disposals	-	-	(304)	-	-	-	(304)
At 30.6.00	<u>124,540</u>	<u>141,751</u>	<u>187,806</u>	<u>132,018</u>	<u>71,936</u>	<u>20,778</u>	<u>678,829</u>
Depreciation							
At 1.7.99	-	120,588	161,778	93,078	50,275	20,363	446,082
Charge for the year	-	8,116	13,511	15,515	7,130	601	44,873
Adjustments/ (write-off)	-	4,574	3,217	(1,542)	(14,820)	(388)	(8,959)
Disposal	-	-	(304)	-	-	-	(304)
At 30.6.00	-	<u>133,278</u>	<u>178,202</u>	<u>107,051</u>	<u>42,585</u>	<u>20,576</u>	<u>481,692</u>
Net Book Value							
At 30.6.00	<u>124,540</u>	<u>8,473</u>	<u>9,604</u>	<u>24,967</u>	<u>29,351</u>	<u>202</u>	<u>197,137</u>
At 30.6.99	<u>124,540</u>	<u>18,585</u>	<u>26,332</u>	<u>41,579</u>	<u>58,585</u>	<u>415</u>	<u>270,036</u>

*Represents undeveloped land/plots in Mavoko and Ngong Road, earmarked for own use development.

NOTES TO THE ACCOUNTS CONT'D



7. Undeveloped Land

	2000 KShs'000	1999 Kshs'000
Nairobi		
Tassia Estate*	1,709,717	1,653,330
Embakasi	753,731	753,731
Langata	383,778	383,778
Muthaiga	296,550	296,550
Bishops Road	228,411	228,411
Likoni Road	227,936	227,936
Ngong Road	157,227	157,227
Belle Vue	152,522	152,522
Outering Road**	129,050	127,532
Loita Street	70,095	70,095
Elgon Road	50,743	50,743
Upper Hill	42,385	42,385
Forest Edge Langata	40,566	40,566
Nairobi South B	32,814	32,814
Hospital Hill	31,222	31,222
	<u>4,306,747</u>	<u>4,248,842</u>
Coast		
Mtwapa Project	551,957	551,957
Bamburi Project	188,373	188,373
Mombasa Town Project	<u>127,322</u>	<u>127,322</u>
	<u>867,652</u>	<u>867,652</u>
Other Areas		
Mavoko Projects	897,659	897,659
Athi River Project**	594,946	581,848
Kajiado Project	107,333	107,333
Eldoret Project	51,025	51,025
Syokimau	<u>22,766</u>	<u>22,766</u>
	<u>1,673,729</u>	<u>1,660,631</u>
Provision for losses on suspended projects	(87,183)	(85,665)
	<u>6,760,945</u>	<u>6,691,460</u>

* During the year Tassia Estate plots were revalued at a Trustees valuation to reflect the current market value which resulted in a surplus of KShs 56.3 million.

** Additional costs incurred in the year on Outering Road and Athi River Project land relate to planning, demarcation and registration of titles.

NOTES TO THE ACCOUNTS CONT'D



8. Land and Buildings

	2000 Kshs '000	1999 Kshs '000
Social Security House – Nairobi	4,529,564	4,529,564
Social Security House-Mombasa	135,084	135,084
Bruce House - Nairobi	587,905	587,905
Moktar Daddah Street - Nairobi*	1,925,041	1,572,766
Social Security House Annex - Nairobi**	541,531	540,278
Prudential Estate - Nairobi	-	3,000
Lenana Road Development **	221,567	221,567
Hospital Road Development**	100,659	100,659
Hazina Towers	590,864	590,864
View Park Towers	915,501	913,799
Hazina plaza - Mombasa	458,791	458,791
Nyayo Estate - Embakasi *	12,704,619	13,993,763
Machakos Development	68,174	68,174
Ojijo Road - Nairobi	181,081	181,081
Kangemi Development*	882,219	1,305,671
Hazina Estate	2,098,287	2,172,002
Kileleshwa Development**	47,384	47,384
Kitisuru Development*	950,867	784,076
Kibera Highrise Estate - Nairobi	143,300	117,609
State House Road	471,901	471,901
Milimani Flats	103,562	103,562
Karen Development**	502,142	502,142
Kenyatta Avenue Development	<u>1,013,171</u>	<u>1,013,171</u>
	29,173,214	30,414,813
Less:		
Provision for foreseeable losses	(4,048,480)	(4,012,271)
Provision for losses on suspended projects	<u>(573,974)</u>	<u>(573,974)</u>
	<u>24,550,760</u>	<u>25,828,568</u>

* Development in progress ** Projects Suspended

The significant movement in the year in various projects is as follows:

	Nyayo		Hazina	Kitisuru	Kibera		Total
	Estate	Kangemi			Highrise	Others	
	Embakasi	Development	Estate	Development	Estate		
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cost/valuation							
At 01.07.99	13,993,763	1,305,671	2,172,002	784,076	117,609	12,041,692	30,414,813
Additions	204,156	12,548	3,285	166,791	-	355,230*	742,010
Revaluation	-	-	-	-	214,791	-	214,791
TPS sales	(1,435,000)	(436,000)	(77,000)	-	(189,100)	(3,000)	(2,140,100)
Directs sales	<u>(58,300)</u>	-	-	-	-	-	<u>(58,300)</u>
At 30.06.00	<u>12,704,619</u>	<u>882,219</u>	<u>2,098,287</u>	<u>950,867</u>	<u>143,300</u>	<u>12,393,922</u>	<u>29,173,214</u>

*Included in additions is Kshs. 352,274,000 incurred on Moktar Daddah Street project -Nairobi.

Kibera Highrise Estate was revalued by the Trustees at 30 June 2000 to reflect the current market value of the Estate.



NOTES TO THE ACCOUNTS CONT'D

9. Long Term Loan

	2000	1999
	KShs'000	KShs'000
National Bank of Kenya Limited		
Redeemable within one year	253,845	84,615
Redeemable after one year	<u>846,155</u>	<u>1,015,385</u>
	<u>1,100,000</u>	<u>1,100,000</u>

The long term loan was granted by the Fund to the Bank in August 1999. Interest is chargeable on monthly basis at two-thirds of the Bank's base lending rate while the principal is redeemable in equal semi-annual instalments. The interest charged during the year has been recovered in full.

10. Tenant Purchase Scheme

	2000	1999
	KShs'000	KShs'000
Embakasi Estate	1,230,394	-
Mountain View Estate	382,454	-
Hazina Estate	69,395	-
Kibera Highrise Estate	158,648	-
Prudential Estate	<u>2,530</u>	<u>-</u>
	<u>1,843,421</u>	<u>-</u>

Under the Tenant Purchase Scheme (TPS), introduced during the year, the Fund expects to raise funds by selling some of its properties to the public.

The selling price of each property is recoverable through monthly instalments over a period not exceeding 15 years (20 years for staff members). The purchasers make equal monthly instalments comprising principal and interest. The principal repayment is applied against the balance outstanding while the interest is recognised as income. Interest is charged on the balance outstanding at the beginning of the month at a rate, currently 15%, which is variable and is at the discretion of the NSSF's Board of Trustees.

Title to the property transfers upon the full payment of the selling price.



NOTES TO THE ACCOUNTS CONT'D

11. Quoted Equities

	2000	1999
	KShs'000	KShs'000
Kenya Power & Lighting Company Limited		
8,553,168 (1999 - 5,702,112) Ordinary Kshs. 20 shares		
3,550 4% Kshs. 20 Preference Shares		
750 7% Kshs. 20 Cumulative Preference Shares	440,524	966,508
 Kenya Breweries Limited		
6,026,099 Kshs. 10 Ordinary Shares	394,709	470,036
 B.A.T. (K) Limited		
20,000,000(1999;15,000,000) Kshs. 10 Ordinary shares	1,140,000	1,290,000
 Brooke Bond (K) Limited		
1,437,500 Kshs 10 Ordinary Shares	106,375	212,750
 Bamburi Portland Cement Company Limited		
57,314,178 Kshs. 5 Ordinary Shares	1,676,440	1,504,497
 E.A. Portland Cement Company Limited		
24,300,000 Kshs. 5 Ordinary Shares	301,320	340,200
 Kenya Commercial Bank Limited		
1,000,000 Kshs. 10 Ordinary Shares	28,000	46,000
 Housing Finance Company of Kenya Limited		
12,961,901 Kshs. 5 Ordinary Shares	91,381	162,024
 Firestone East Africa (1969) Limited		
8,176,800 Kshs. 5 Ordinary Shares	105,890	134,917
 National Bank of Kenya Limited		
96,105,519 Kshs..5 Ordinary Shares	345,983	576,633
 Athi River Mining Company Limited		
870,000 Kshs. 5 Ordinary shares	<u>3,959</u>	<u>4,785</u>
	<u>4,634,581</u>	<u>5,708,350</u>