REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF EGERTON UNIVERSITY

FOR THE YEAR ENDED 30 JUNE 2014

ANNEX 1

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EGERTON UNIVERSITY

ANNUAL REPORT

&

FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR

ENDED

JUNE 30, 2014

Egerton University is ISO 9001:2008 Certified
"Transforming Lives Through Quality Education"

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KEY UNIVERSITY INFORMATION AND MANAGEMENT

(a) Background Information

i. Background

Egerton University is the premier Agricultural public University in Kenya. It was founded in 1939 under the name Egerton Farm School. By 1955, it was upgraded and renamed Egerton Agricultural College. It became a constituent college of the University of Nairobi in 1986 and a year later in 1987 became a fully fledged University following the Enactment of the Egerton University Act of 1987. This Act was repealed and replaced by the Universities Act No 42 of 2012.

ii. Vision

A world class University for the advancement of humanity.

iii. Mission

To generate and disseminate significant knowledge and offer exemplary education that contributes to national and global development.

(b) Principal Activities

The Core business of the University as provided by the Universities Act No 42 of 2012 of the Laws of Kenya includes:

- Teaching
- Discovery, transmission, and preservation of knowledge
- Promotion of social fairness in all matters affecting students and staff
- Cooperation with Government in the planned development of university education
- Advisory and consultancy services

(c) Key Organs of the University

The University's day-to-day management is under the following key organs:

- University Council
- University Management Board
- The Senate

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2014 and who had direct fiduciary responsibility are shown on page 8.

(e) Fiduciary Oversight Arrangements

The University Council is responsible and accountable to the Government of Kenya through the Ministry of Education, Science and Technology for ensuring that the University complies with the Universities Act 2012, the University Statutes (2013) and adheres to the highest standards of corporate governance as prescribed in the State Corporations Act and the University Council Charter.

The Council consists of nine members- the Chairman & five other members, representative of the National Treasury, Representative of the Principal Secretary Ministry of Education Science & Technology and the Vice Chancellor.

(f) Headquarters Contacts

Egerton University
P.O. Box 536 - 20115, **EGERTON**
KENYA
Tel: (254) 051-2217891/2/051-2217781
E-mail: info@egerton.ac.ke
Website: www.egerton.ac.ke

(g) Bankers

Kenya Commercial Bank Ltd,
Egerton University Branch,
P.O. Box 248 – 20115, **EGERTON**

Barclays Bank of Kenya Ltd.
P.O. Box 66- 20100
NAKURU

Co-operative Bank of Kenya Ltd.
P.O. Box 2982 – 20100,
NAKURU

(h) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

(i) Principal Legal Adviser

Sheth & Wathigo Advocates
Vickers Building
P.O. Box 611 – 20100
NAKURU

CHANCELLOR

PROFESSOR SHEM OYOO WANDIGA, EBS, FRSC
EBS, Frsc, B.Sc (Howard University), M.Sc. (Maryland), Ph.D (Reserve University)

THE UNIVERSITY COUNCIL

	NAME/POSITION	QUALIFICATION
	Dr. Reardon Olubayo **CHAIRMAN**	- DVM (Kiev), - M.Sc. (UON), - Ph.D. (Utrecht).
	Mr. Josiah Okumu, **Member**	B.Ed. (UON), M.Ed. (Wales).
	Mrs. Joy Murithi, **Member**	Rep. P.S. The National Treasury
	Mr. Dan N. Nguchu **Member**	- B.Sc. (Haile Sellasie), - MBA (USIU).

Mr. Paul M. Maina,
Member

Rep. P.S. Ministry of Education, Science & Technology

Mrs. Alasa O. Hirsi,
Member

Dip. Clin. Med (KMTC)
HND (KMTC)
MPH (Western Cape)

Dr. William K. T. Chong,
Member

- BVM (UON),
- M.Sc. (Reading).

Mrs. Monica K. Kilonzo
Member

- B.Ed. (UON),
- M.Ed. (Bristol).

Prof. James K. Tuitoek
Secretary

- B.Sc. Agric. (UON),
- M.Sc. (Manitoba),
- Ph.D. (Guelph).

MANAGEMENT TEAM

Prof. J. K. Tuitoek,
B.Sc. Agric. (Nairobi),
M.Sc. (Manitoba). Ph.D. (Gueloh)

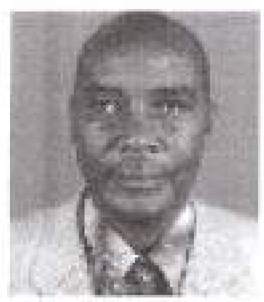
Prof. R. A. Mwonya,
Dip (Egerton),
B.Sc., M.Sc, Ph.D. (Iowa)
Deputy Vice-Chancellor
(Academic Affairs)

Prof. Njenga Munene J
B.V.M., M.Sc.,Ph.D. (U.O.N)
Deputy Vice-Chancellor
(Administration & Finance)

Prof. J. Gowland Mwangi
Dip (Egerton), B.Sc. M.Sc.
(Georgia), Ph.D. (Ohio State)
Deputy Vice-Chancellor
(Research & Extension)

Prof. S. F. O .Owido
B.Sc., M. Sc. (U.O.N),
Ph.D. (Illinois)
Registrar (AA)

Dr. T. K. Serrem,
B.Ed (Nairobi), M.Ed.
(Manchester), D.Ed.
(Bristol)
Registrar (Admin)



Prof. A.C. Kibor
B.V.M., M.Sc. (U.O.N),
Ph.D. (Edinburgh)
Director (R & E)

Mr. Moses .O. Ouma
C.P.A (K), B.Agbm (Egerton), MBA (KU)
Finance & Accounts Controller

Prof. L.N. Nakhone-Wati
B. Sc., M.Sc. (U.O.N), Ph.D. (Nottingham)
Principal
(Nakuru Town Campus College)

University Librarian
M/s Janegrace Kinyanjui
BA, MSc.

CHAIRMAN'S STATEMENT

It is my honour, duty and privilege to present you an overview of the University performance for the year ended 30th June 2014. Despite the many challenges facing the University's operating environment, especially the presence and continuous entry of public and private universities in Nakuru and other major towns in Kenya, Egerton University continues to implement and focus on its objectives.

Governance

The University is focused in enhancement of Egerton as a centre of excellence in agriculture through training, research; extension services and policy formulation to promote food security as part the University's contribution towards the achievement of vision 2030 through flagship projects.

The University has put initiatives for the turnaround of Ngongongeri and the ARC Hotel to make them viable commercial enterprises now run as Egerton University Investment Company under the management of a Managing Director.

Financing and Policies

During the year ended 30th June 2014, Egerton University was mainly funded through the Government Capitation (59%) and Appropriation in Aid (A-I-A) (41 %) for its recurrent expenditure.

Finally, let me thank the Government of Kenya, Council members, Management and Staff for their dedication and participation over the year in striving to make Egerton a world class University for the advancement of Humanity.

Dr. Reardon Olubayo, Ph.D
Chairman, Egerton University Council

VICE-CHANCELLOR'S REPORT

I have the pleasure to present the Annual Report and Financial Statements of Egerton University for the year ended June 30, 2014 as per the Universities Act 2012 and the Public Audit Act 2003.

During the year under review the University realized a surplus of Ksh 448,812,768 as compared with Ksh 565,438,752 for the year ended June 30, 2013. The University has continued to expand its financial resource base and generated increased levels of appropriation in Aid (A-I-A) over the last four years as shown in the table and figure below.

Income

INCOME TRENDS IN KSHS "000"

Income Type	June 2011	June 2012	June 2013	June 2014
Revenue from Exchange Transactions	1,102,701	1,144,185	2,123,568	2,413,910
Revenue from Non-Exchange Transactions	2,081,485	2,290,584	2,818,921	3,359,894
Total Income	3,184,186	3,434,769	4,942,489	5,773,804

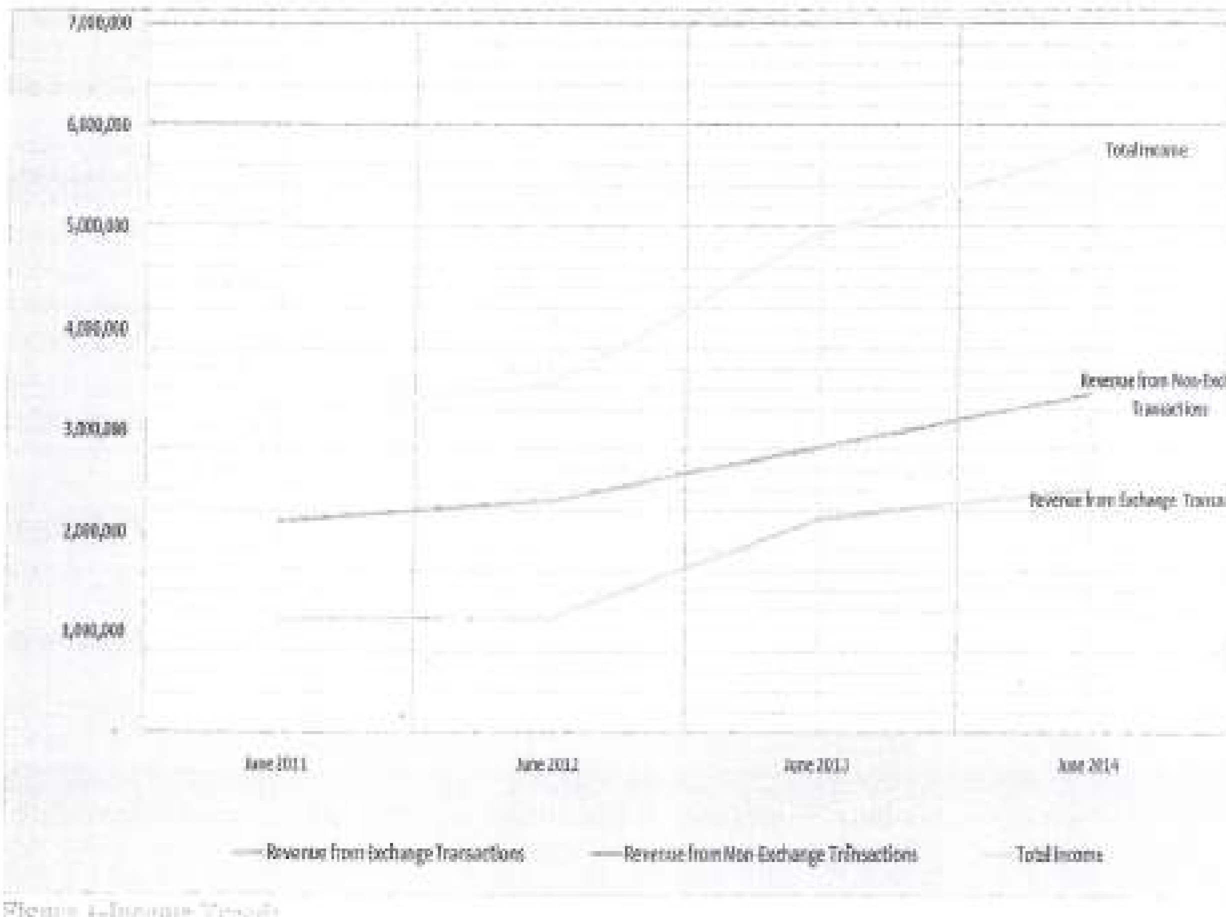


Figure 1-Income Trends

Expenditure

Personnel emoluments continued to comprise the largest part of the expenditure during the year at 60% of total expenditure while all other expenses constituted the balance of 40%. The table below shows the expenditure trends over the last five years. Overall total expenditure has been rising steadily over the last four years.

EXPENDITURE TRENDS IN KSHS "000"

Expenditure Type	June 2011	June 2012	June 2013	June 2014	Proportion
Staff Costs	2,257,314	2,093,121	2,505,903	3,213,145	60%
Other Expenses	931,538	1,332,925	1,626,804	2,111,846	40%
Total Expenses	**3,188,852**	**3,426,046**	**4,132,707**	**5,324,991**	**100%**

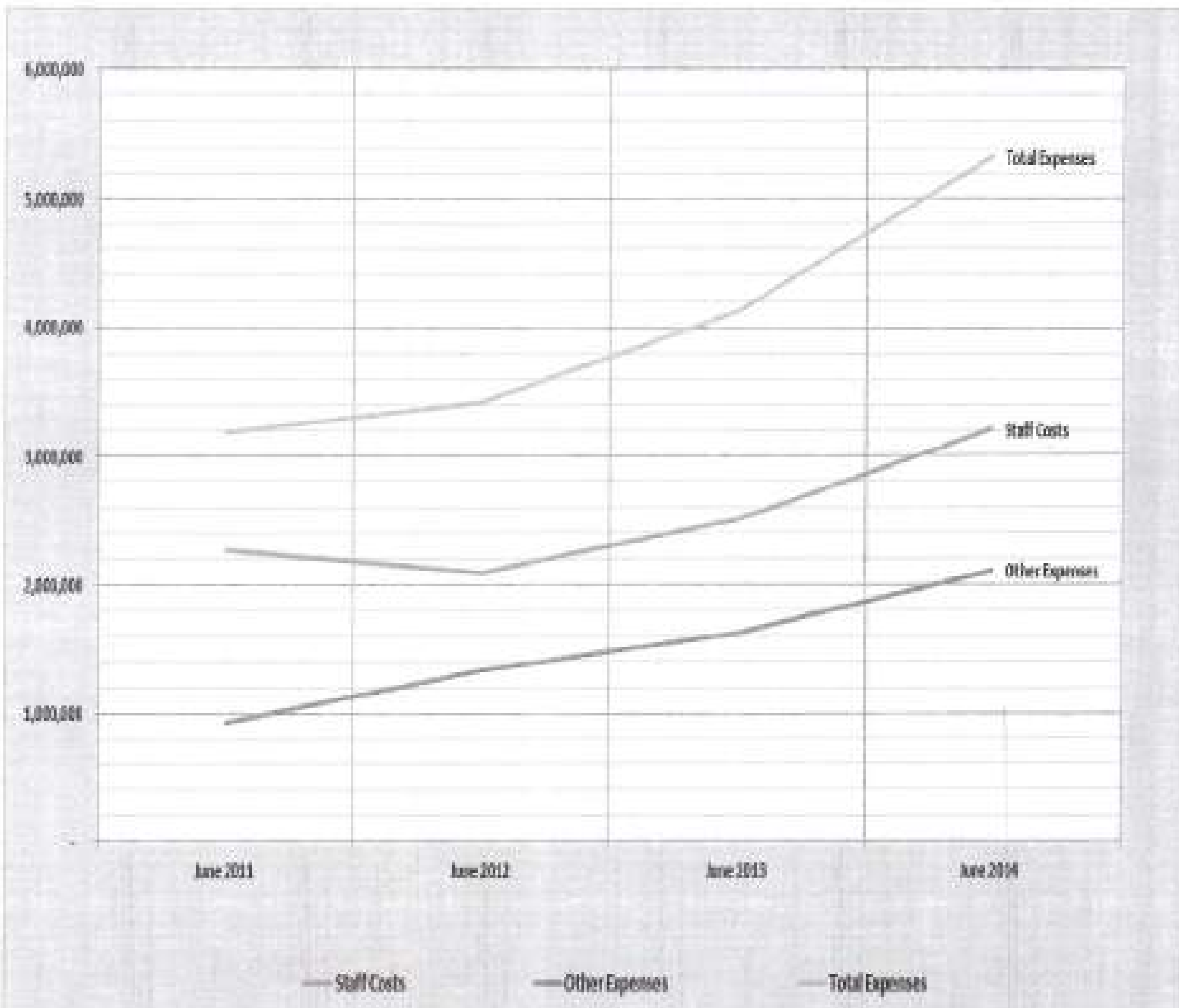


Figure 2-Expenditure Trends

Total Income versus Total Expenditure

The relationship between income and expenditure is as shown in figure 3. Significant surpluses have been realised in the last two years.

INCOME AND EXPENDITURE TRENDS OVER THE LAST FIVE YEARS

Income/Expenditure	June 2011	June 2012	June 2013	June 2014
Total Income	3,184,186	3,434,769	4,942,489	5,773,804
Total Expenditure	3,188,852	3,426,046	4,132,707	5,324,991

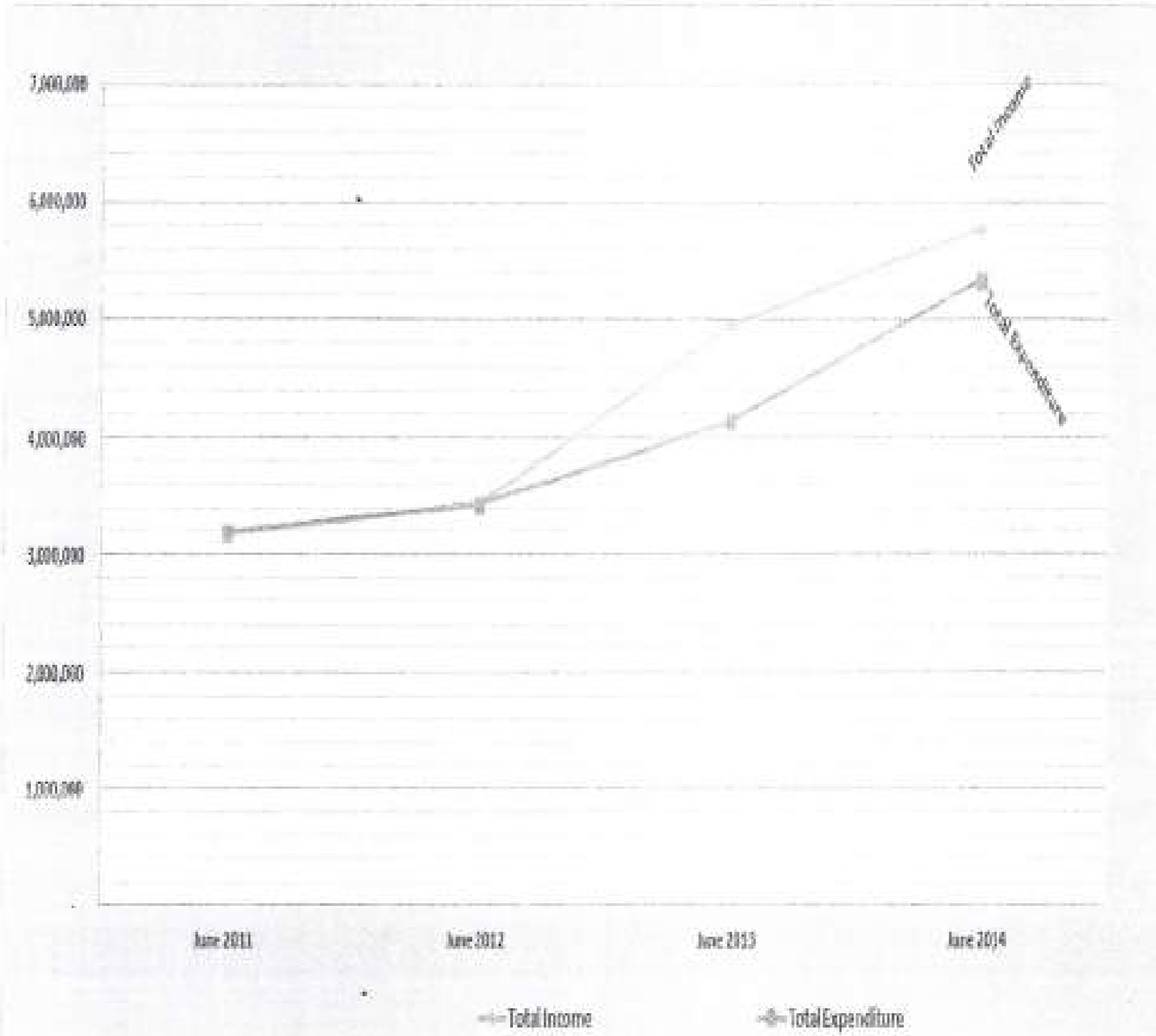


Figure 3-Relationship between Total Income and Total Expenditure

Property, Plant & Equipment

The University's Property Plant and Equipment has also grown overtime as shown in the table below. The reduction in work in progress during the year 2012/2013 was due transfers of completed buildings then held in work in progress to the asset of buildings.

	Ksh "000"	Ksh "000"	Ksh "000"
Type of Property	**Land & Buildings**	**W.I.P**	**Other Assets**
June 2011	1,068,936	2,227,871	177,313
June 2012	1,055,826	2,472,661	190,236
June 2013	2,796,293	590,458	309,393
June 2014	2,931,957	1,115,261	218,499

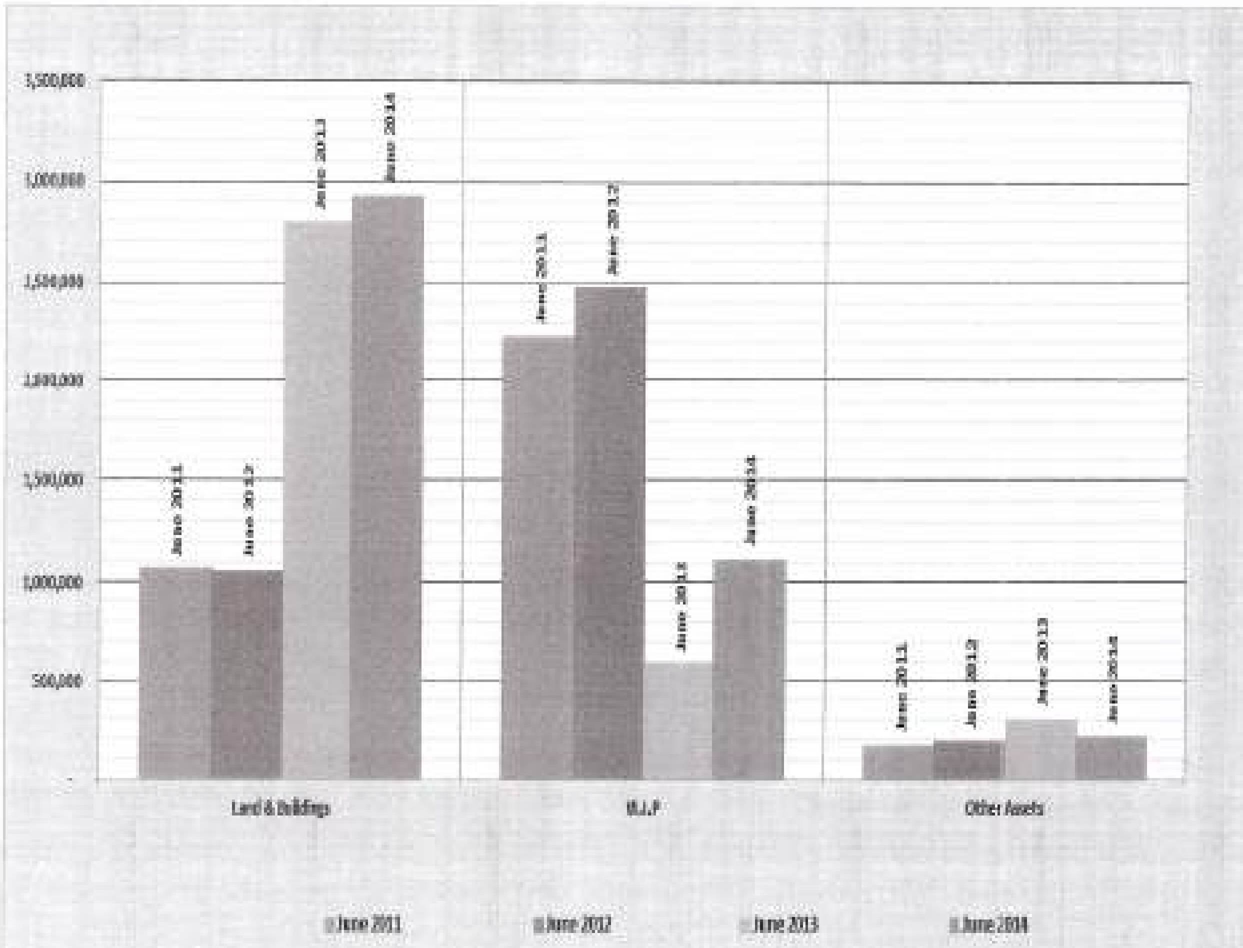
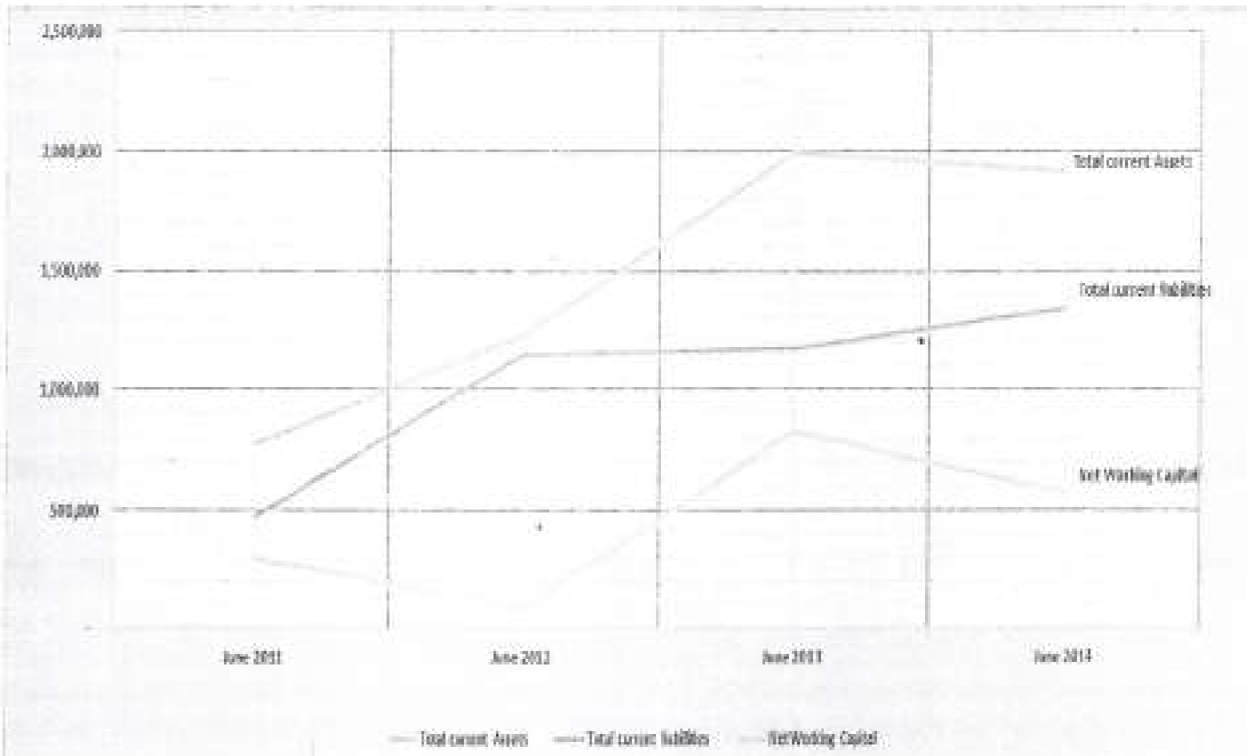


Figure 4-Property, Plant & Equipment

Working Capital

The University has had a healthy Working capital position with positive net current assets position over the years as shown below:

	Ksh "000"	Ksh "000"	Ksh "000"	Ksh "000"
Working Capital	June 2011	June 2012	June 2013	June 2014
Total current Assets	768,357	1,228,162	1,993,066	1,915,096
Total current liabilities	475,039	1,141,361	1,167,590	1,347,699
Net Working Capital	295,278	86,801	825,477	567,396



The University continued with its Core business of Teaching, Training and Research. On behalf of Egerton University I wish to take this opportunity to thank the Government and all our development partners who have continued to support the University in its endeavour to expand its teaching facilities, research, academic exchange programmes and industrial linkages.

Finally I would like to express my gratitude to the University Council for providing enabling Policy Guidelines and the entire University staff and Students who worked tirelessly to ensure successful and smooth operations of the University during the year 2013/2014.

Thank you.

Prof. J. K. Tuitoek, PhD, EBS.
VICE-CHANCELLOR

CORPORATE GOVERNANCE STATEMENT

COMMITTEES OF COUNCIL

The University Council is responsible and accountable to the Government of Kenya through the Ministry of Education, Science and Technology for ensuring that the University complies with the Universities Act 2012, the University Statutes (2013) and adheres to the highest standards of corporate governance as prescribed in the State Corporations Act and the University Council Charter.

The Council consists of nine members- the Chairman & five other members, representative of the National Treasury, Representative of the Principal Secretary Ministry of Education Science & Technology and the Vice Chancellor. The functions of the Council are:

(i) Administer the property and funds of the University in a manner and for purposes which shall promote the best interests of the University; but the Council shall not charge or dispose of immovable property of the University without prior approval of the Chancellor;

(ii) Receive on behalf of the University or a constituent college, donations, endowments there from to the constituent college or other bodies or persons;

(iii) Provide for the welfare of the staff and students of the University;

(iv) Enter into association with other Universities or other institutions of learning, whether within or outside Kenya as the Council may deem necessary and appropriate; and

(v) After consultation with the Senate, make regulations governing the conduct and discipline of the students of the University.

The Committees have delegated authority to assist the Council effectively carry out its obligations.

The University Council and its Committees are supported by the University Management Board which consists of ten members.

The Council has eight committees namely

1. Finance, Investment and General Purposes Committee

The Committee recommends to the Council for its approval the annual estimates and expenditure and oversee University investments and endowment funds and shall pay due regard to the necessity to refer matters of major importance to the Council for final approval.

2. Audit, Governance and Risk Management Committee

The Committee oversee safeguarding of assets; operations of adequate systems; control processes, preparation of accurate financial reporting of results; operations and statements in compliance with legal and statutory requirements and standards; internal and external audits; risk management strategies; institutional governance; monitoring of performance contract; and quality assurance.

3. Building, Planning & Development Committee

The Committee is charged with all arrangements for construction of new buildings; responsible for authorizing expenditure for capital work with the provision to delegate minor maintenance work to University Management; and report progress to University Council.

4. Academic and Research Committee

The Committee advises on the development and implementation of academic and research programmes and policies; make recommendations for the sourcing, administration and distribution of scholarships; oversee a reward scheme for excellence in teaching, research and extension; receive regular reports from and provide advice to the Deputy Vice-Chancellor (Academic Affairs) and the Deputy Vice-Chancellor (Research and Extension) on the development of policy and procedures relating to academic and research; and consider and report any matter referred to it by the Council and Senate.

5. Grievances, Handling and Appeals Committee

The Committee oversees staff, students and other stakeholder's grievances; and staff and students appeal against disciplinary action.

6. Sealing and Honorary Degree Committee

The Committee authorizes affixing of the University seal to appropriate documents on behalf of the Council; and nomination of distinguished personalities in various fields for the conferment of honorary degrees of the University.

7. Appointments Committee

The Committee appoints Professors and Staff in Grade 15; search candidates for position of Principal's; Deputy Vice-Chancellors and Vice-Chancellor and make recommendations to the Council; and consider disciplinary matters for Principals and Deputy Vice-Chancellor's and recommend to Council.

8. Tegemeo Institute of Agricultural Policy and Development Committee

The Committee has the responsibility to: Provide stewardship and ensure alignment of Institute

Objectives with those of the University; Implement and review annually the Institute Strategic plan; approve the Institute annual budgets, business plans and policies; ensure good management and identify risks and internal controls in the institute; monitor and evaluate management performance against approved plans and programmes; approve organizational structures and staffing levels; promote and integrate good corporate governance at the leadership, management and in all levels of the organization; strategize on the institute development and sustainability;

advocate on behalf of and enhance the visibility of Tegemeo institute locally and internationally and assist in mobilizing resources for the institute.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The University continues to engage in a number of Corporate Social Responsibility Activities as shown below:

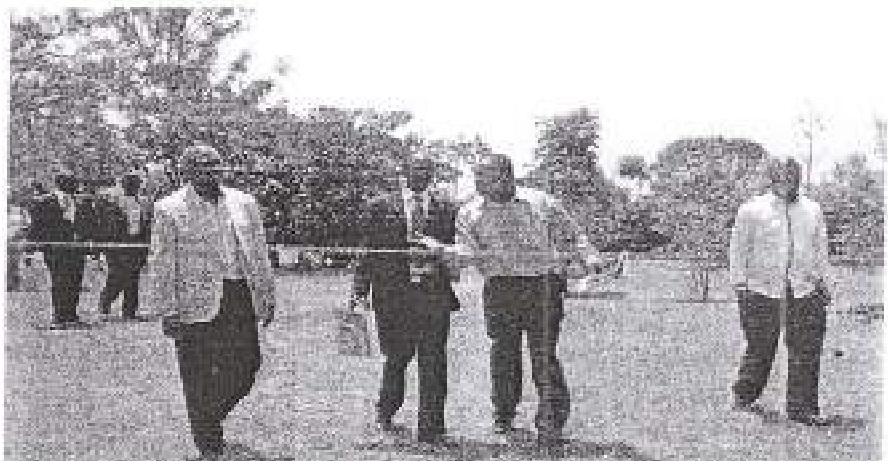
Farmers Magazine - *"Seeds of Gold"*

Egerton University launched a magazine titled the **Seeds of Gold** in 15th February 2014. Speaking during the launch of magazine in the ceremony held at Egerton university Lord castle ground, the university vice-chancellor Prof. James Tuitoek, said the launch of magazine was in line with the university obligation of disseminating crucial information on the latest technology and research to the farmers to help them upgrade to commercial farming. The vice-chancellor emphasize that the programme aims at enhancing food security and helping the country achieve its vision 2030 blue print of having enough food for the ever increasing population.

The magazine which is a partnership of Egerton University and the Nation Media Group, aims at helping the farmers to access latest research and technology from the researchers based at Egerton University. The vice chancellor added that the new initiative will pull researchers from the university research rooms to the field to share what their latest knowledge with the farmers.

Speaking during the same function, the Nakuru county governor Mr. Kinuthia Mbugua in a speech read on his behalf by county executive member in charge Agriculture and livestock Dr. Stanley Chepkwony, praised the initiative saying that the programme has come at a time when the country is struggling to increase food production and that the initiative will benefit millions of farmers.

The Nation media Group Chief operation officer Tom Mshidi speaking on behalf the Nation Media Group Chief executive officer Mr. Linus Gitahi, said that Nation Media Group entered into a partnership with Egerton university to make sure that the research information which was not available to farmers is easily accessible at minimal cost.



REPORT OF THE DIRECTORS

The Council submits their report together with the financial statements for the year ended June 30, 2014 which show the state of the University's financial affairs.

Principal activities

The principal activities of the University are shown on page 3.

Results

The results of the University for the Year ended June 30, 2014 are set out on page 24.

Directors

The members of the University Council who served during the year are shown on page 6 & 7.

Auditors

The Auditor General is responsible for the statutory audit of the University in accordance with the Part III of the Public Audit Act 2003.

By order of the Council

STATEMENT OF UNIVERSITY COUNCIL RESPONSIBILITY

Part III of the Public Audit Act, 2003, requires the Council to prepare financial statements in respect of that *University*, which give a true and fair view of the state of affairs of the *University* at the end of the financial year/period and the operating results of the *University* for that year/period. The Council is also required to ensure that the *University* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *University*. The Council is also responsible for safeguarding the assets of the *University*.

The Council is responsible for the preparation and presentation of the *University's* financial statements, which give a true and fair view of the state of affairs of the *University* for and as at the end of the financial year (period) ended on June 30, 2014. 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 University; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair resentation 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 *University*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *University's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the Public Audit Act 2003. The Council is of the opinion that the *University's* financial statements give a true and fair view of the state of *University's* transactions during the financial year ended June 30, 2014, and of the *University's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *University*, which have been relied upon in the preparation of the *University's* financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Council to indicate that the *University* will not remain a oing concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The *University's* financial statements were approved by the Council on 26th September 2014 and signed on its behalf by:

Mr. Dan N. Nguchu Chairman, Council Finance Committee	Prof. James K. Tuitoek, PhD, EBS Vice Chancellor

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON EGERTON UNIVERSITY FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Egerton University set out on pages 24 to 65, which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting 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 misstatements, whether due to fraud or error.

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The Audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Receivables from Exchange Transactions

The receivables from exchange transactions balance stood at Kshs1,088,625,779 as at 30 June 2014. Included in the balance was an overdue imprests of Kshs.112,555,799 and student debtor's balance of Kshs.942,803,139.

Although, the University made a provision for bad debts of Kshs.41,340,570 and the credit and debt management policy of the University provides that imprest shall be recovered within one month from the due date, some debts were noted to have been outstanding since the year 1994. No satisfactory explanation was given by the management. In the circumstances therefore, the recoverability of the receivables from exchange transactions balance of Kshs.1,088,625,779 as at 30 June 2014 could not be confirmed.

2. Property, Plant and Equipment

i) Land

As previously reported, the property, plant and equipment balance of Kshs.4,265,717,348 as at 30 June 2014 includes twenty one (21) parcels of land valued at Kshs.965,594,800. It was not clear how this value was arrived at since the University did not have valuation reports/documents for the parcels. Further, out of these parcels only eight (8) of them have title deeds.

In the circumstances, the accuracy and ownership of the property, plant and equipment balance of Kshs.4,265,717,348 as at 30 June 2014 could not be confirmed.

ii) Stalled Projects

The property, plant and equipment balance of Kshs.4,265,717,348 also includes work in progress amounting to Kshs.1,115,261,365. The work in progress includes an amount of Kshs.197,473,480 in respect of two projects, namely the office administration and the agronomy and horticulture buildings whose construction has stalled for more than twenty (20) years. The stalled projects continue to tie funds for which the University does not derive any value. Further, the delay in completion of the projects is likely to increase construction costs.

iii) Acquisition of Land

As previously reported, on 3 September 2012 Egerton University entered into an agreement with African Inland Church (AIC) Kenya, to buy three (3) acres of land, registered as LR No. 16672/37 at a price of Kshs.1,500,000 per acre. The University paid a deposit of Kshs.1,500,000 on 18 October 2012. According to clause 3.1 of the agreement, the balance of Kshs.3 million was to be paid within 90 days from the date of agreement, subject to the vendor issuing the University with ownership documents.

Although, the vendor and the University signed a deed of variation to extend the transaction by 90 days, it is not clear when the transaction would be completed since the document was not dated or signed by an advocate.

The University had neither paid the balance nor received the ownership documents as at 30 June, 2014, since there were restrictions placed against the land title.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly the financial position of the University as at 30 June 2014, and of its financial performance and its cash flows for the year then ended and comply with the International Public Sector Accounting Standards (Accrual Basis) and Universities Act, 2012 of the Laws of Kenya.

FCPA Edward R. O. Ouko, CBS
AUDITOR GENERAL

Nairobi

15 February 2016

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2014

Particulars	Note	Total to 30-Jun-14 Kshs.	Total To 30-Jun-13 Kshs.
Revenue from Non-Exchange Transactions			
GoK Recurrent Capitation Grant	2(a)	2,832,379,438	2,410,280,658
Research & Extension Income-Main campus	3	369,864,634	306,483,378
Other Revenue from Non-Exchange Transactions	4	11,544,935	2,140,230
Tegemeo Income for the period	24 (a)	146,105,039	100,017,100
Total Revenue from Non-Exchange Transactions		**3,359,894,047**	**2,818,921,365**
Revenue from Exchange Transactions			
Tuition and Related Fees	5	1,907,831,634	1,863,687,120
Other Services Rendered	6	151,971,918	215,237,269
Interest Income	7	31,164,425	11,569,658
EUICO Incomes for the Period	25	237,232,635	67,556,546
		2,328,200,613	**2,158,050,593**
Total Revenue		**5,688,094,660**	**4,976,971,958**
Expenditure			
Staff Costs	8	3,213,144,718	2,505,903,373
Council Expenses	9	19,974,562	15,176,388
Administrative and Central Services	10	675,517,940	537,054,977
Repairs and Maintenance Expenses	11	70,777,359	86,541,685
Academic Departments Expenses	12	435,638,610	546,320,941
Research & Extension Expenses	13	357,941,602	259,902,717
Expenses-IGU Inputs	14	72,371,351	65,626,894
Depreciation Expenses	15	168,749,562	157,098,500
Tegemeo Expenses for the period	24 (a)	131,398,085	113,091,966
EUICO Expenses for the Period	25	179,477,207	90,332,974
		5,324,990,996	**4,377,050,415**
Other gains/(Losses)			
Gain (Loss) on Revaluation Investment-Shares		7,870	(164,844)
Decrease in Provision for bad debts		84,579,067	(38,210,237)
Gain (Loss) on Foreign Exchange		2,140,767	-
Gain/(Loss) on biological Assets		(5,186,950)	3,602,840
Gain/(Loss) on Disposal of Assets		4,168,350	289,450
	16	**85,709,104**	**(34,482,791)**
Surplus/ (Deficit) for the Period		**448,812,768**	**565,438,752**
Attributable to:			
Owners of the controlling entity		**448,812,768**	**565,438,752**

EGERTON UNIVERSITY
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Note	30-Jun-14 Kshs.	30-Jun-13 Kshs.
ASSETS			
Current Assets			
Cash in Bank and in Hand	17 (a)	402,113,962	503,000,376
Short Term Fixed Deposits	17 (b)	282,483,821	439,922,731
Receivables from Exchange Transactions	18 (a)	1,088,625,779	985,747,607
Receivables from Non-Exchange Transactions	18 (b)	2,350,587	-
Inventories	19	139,521,531	64,395,615
Agricultural Assets	20	134,630,650	98,755,670
		2,049,726,329	**2,091,821,998**
Non Current Assets			
Property, Plant& Equipment	21(a)	4,265,717,348	3,596,448,259
Investments	22	947,827	939,957
		4,266,665,175	**3,597,388,216**
Total Assets		**6,316,391,504**	**5,689,210,214**
LIABILITIES			
Current Liabilities			
Bank Overdraft	17 (c)	374,528,690	449,872,805
Trade and Other Payables	23 (a)	718,930,795	591,797,085
Provisions and Accruals	23 (b)	254,239,724	125,919,637
		1,347,699,210	**1,167,589,527**
Net Assets		**4,968,692,295**	**4,521,620,688**
General fund		3,667,479,011	3,632,624,551
Accummulated Surplus(Deficit)		1,301,213,283	888,996,137
Total Capital and Liabilities		**4,968,692,295**	**4,521,620,688**

Juitoek.

Prof. James K. Tuitoek, Ph.D, EBS
Vice Chancellor

f-Dan N. Nguchu
Chairman, Council Finance Committee

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 30 JUNE 2014

Particulars	Note	Capital Reserves	Revenue Reserves	Total
		Kshs.	Kshs.	Kshs.
Period ended 30 June 2013				
Balance as at 01/07/2012		**3,520,398,674**	**285,125,558**	**3,805,524,233**
Tegemeo Assets		33,256,876	-	33,256,876
Adjustments Prior year items		3,969,000	38,431,827	42,400,827
Capital Grants		75,000,000		75,000,000
Surplus from operations			565,438,752	565,438,752
Balance as at 30/06/2013		**3,632,624,551**	**888,996,137**	**4,521,620,688**
Period ended 30 June 2014				
Balance as at 01/07/2013		**3,632,624,551**	**888,996,137**	**4,521,620,688**
Tegemeo Assets		(1,395,412)		(1,395,412)
Tegemeo Reserve trasferred to Deferred Inome			(36,595,622)	(36,595,622)
Capital Grants	2(b)	36,249,872		36,249,872
Surplus from operations			448,812,768	448,812,768
Balance as at 30/06/2014		**3,667,479,011**	**1,301,213,283**	**4,968,692,295**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2014

Particulars	Note	30-Jun-14 Kshs.	30-Jun-13 Kshs.
Operating Activities			
Surplus for the year		448,812,768	565,438,752
Adjustments for			
Depreciation	15	168,749,562	157,098,500
Adjustments in Reserves for prior years items		(36,595,622)	33,256,876
Depreciation-EUICO		6,427,973	2,986,943
Movement in Provisions for the year	23 (b)	128,320,087	34,805,866
Prior year motor vehicles			(3,969,000)
(Profit)/Loss on disposal of Assets	6	(4,168,350)	(289,450)
(Gain)/Loss on Revaluation of Shares	16	(7,870)	
Investment Income	7	(31,164,425)	(11,569,658)
Interest Expense	10	11,372,087	8,061,893
		691,746,211	785,820,722
Changes in Working Capital			
(Increase)/Decrease in Biological Assets	20	(35,874,980)	(45,871,830)
(Increase)/Decrease in Receivables	18 (a)	(105,228,759)	(509,484,831)
(Increase)/Decrease in Inventories	19	(75,125,915)	15,997,758
Increase/(Decrease) in Payables	23 (a)	127,133,711	(180,193,509)
		(89,095,944)	(719,552,412)
Cash Generated from Operations		602,650,267	66,268,310
Investing Activities			
Interest/Bank Charges Paid	10	(11,372,087)	(8,061,893)
Purchase of Property, Plant and Equipment	21(a)	(847,838,512)	(54,573,590)
Tegemeo Assets Additions			(33,256,876)
Adjustments Prior year items		1,984,500	42,400,827
Decrease in investments			164,844
Interest earned from Investments	10	31,164,425	11,569,658
Cash on Disposal of Assets	6	4,180,325	289,450
		(821,881,348)	(41,467,580)
Financing Activities			
GoK Capital Grants	2(b)	36,249,872	75,000,000
Net Cash from Financing Activities		36,249,872	75,000,000
Net Increase/(Decrease) in Cash and Cash Equivalents		(182,981,209)	99,800,730
Cash and Cash Equivalents at the start of the period		493,050,302	393,249,572
Cash and Cash Equivalents at the Close of theperiod	17 (a)	310,069,093	493,050,302

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 30TH JUNE 2014

Particulars	Note	Original Budget Yr 2013/2014 Kshs.	Adjustments Yr 2013/2014 Kshs.	Final Budget Yr 2013/2014 Kshs.	Actual on Comparable Basis Yr 2013/2014 Kshs.	Performance Difference Yr 2013/2014 Kshs.
Revenue from Non-Exchange Transactions						
GoK Recurrent Capitation Grant	2(a)	2,676,505,900	155,873,538	2,832,379,438	2,832,379,438	0
Research & Extension Income-Main campus	3	198,000,000	-	198,000,000	369,864,634	171,864,634
Other Revenue from Non-Exchange Transactions	4				11,544,935	
Total Revenue from Non-Exchange Transactions		2,874,505,900	155,873,538	3,030,379,438	3,213,789,008	171,864,635
Revenue from Exchange Transactions						
Tuition and Related Fees	5	1,560,285,100	-	1,510,285,000	1,907,831,634	347,546,634
Other Services Rendered	6	161,864,384	-	161,864,384	183,136,343	21,271,959
EUICO		40,100,000	-	40,010,010	57,755,428	
Internal Borrowings		-		394,757,877		
Savings b/f		533,260,721	-	533,260,721		
		2,295,410,105	-	2,690,167,982	2,148,723,406	360,818,593
Total Revenue		5,169,916,005	155,873,538	5,720,547,420	5,362,512,414	540,683,228
Expenditure						
Staff Costs	8	2,674,891,505	550,631,415	3,225,522,920	3,213,144,718	(12,378,202)
Administrative and Central Services	10	564,656,555	129,697,604	694,354,159	695,492,502	1,138,343
Repairs and Maintenance Expenses	11	83,412,044	(14,415,550)	69,196,494	70,777,359	1,580,865
Academic Departments Expenses	12	458,648,372	21,271,111	479,919,482	435,638,610	(44,280,872)
Research & Extension Expenses	13	223,000,000	8,000,000	231,000,000	357,941,602	126,941,602
Expenses-IGU Inputs	14	70,000,000	(14,389,169)	55,610,831	72,371,351	16,760,520
Depreciation Expenses	15	6,888,288	(6,888,288)	-	168,949,562	
EUICO		144,000,000	(6,200,000)	137,800,000		
Total Expenditure		4,225,696,764	667,707,122	4,893,403,886	5,014,115,704	89,762,256
Other gains/(Losses)						
Gain (Loss) on Revaluation Investment-Shares		-	-	-		-
Decrease in Provision for bad debts		-	-			-
Gain (Loss) on Foreign Exchange		-	-	-		-
Gain/(Loss) on biological Assets		-	-	-		-
Gain/(Loss) on Disposal of Assets		-	-	-		-
	16	-	-	-		-
Surplus from Recurrent Budget		944,219,241	(511,833,584)	827,143,534	348,396,710	450,920,972
GoK Development Grant	2(a)	40,500,000	-	40,500,000	36,249,872	(4,250,128)
Capital Expenditure	21(a)	984,719,241		862,643,634	818,715,496	(43,928,038)
Surplus (Deficit) for the Period		0	(511,833,584)	0	(434,068,914)	495,598,882

NOTES TO THE FINANCIAL STATEMENTS

1.1 Statement of Compliance and Basis of Preparation

The University's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) as issued by Public Sector Accounting Standard Board (PSASB) that was established by the Public Finance Management Act (PFM) No.18 of 24th July, 2012. The Board was gazetted by the Cabinet Secretary, National Treasury on 28th February, 2014. The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the University. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

1.2 Summary of significant accounting policies

a) Revenue Recognition

i) Revenue from Non-exchange Transactions

Fees

The University recognizes revenues from fees when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the University and the fair value of the asset can be measured reliably.

Transfers from other Government Entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the University and can be measured reliably.

ii) Revenue from Exchange Transactions

Rendering of Services

The University recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Sale of Goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the University.

Interest Income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

Rental Income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

b) Budget Information

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the University. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or University differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) **Investment Property**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition. Transfers are made to or from investment property only when there is a change in use.

d) **Property, Plant and Equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the University recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Land is not depreciated as it is deemed to have an infinite life. Depreciation on other property is charged so as to write off the assets during their estimated useful life, using the straight- line method. Assets acquired during the year attract full depreciation charge.

The annual rates used are:-

Buildings	-	2.5%
Machinery & equipment	-	20%
Furniture & fittings	-	12.5%
Dairy equipment / plant / tractors	-	10%

Motor vehicles	-	25%
Library books	-	20%
Computers and Appliances	-	33.3%

e) Leases

Finance leases are leases that transfer substantially the entire risks and benefits incidental to ownership of the leased item to the University. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The University also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the University will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the University. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

f) Intangible Assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite.

g) Research and Development Costs

The University expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the University can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

h) Financial Instruments

Financial Assets

Initial Recognition and Measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The University determines the classification of its financial assets at initial recognition.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-Maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the University has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of Financial Assets

The University assesses at each reporting date whether there is objective evidence that a financial asset or a University of financial assets is impaired. A financial asset or a University of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the University of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a University of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

i) Financial Liabilities

Initial Recognition and Measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The University determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and Borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

j) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the University.

k) Provisions

Provisions are recognized when the University has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the University expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent Liabilities

The University does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent Assets

The University does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the University in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

l) Key Management

The University's key management represents all those staff in grade 16 and above

m) Changes in Accounting Policies and Estimates

The University recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

n) Employee Benefits

Retirement Benefit Plans

The University provides retirement benefits for its employees and. Defined contribution plans are post employment benefit plans under which an University pays fixed contributions into a separate University (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future