

**BAHRIA FOUNDATION**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**



**A. F. FERGUSON & CO.**

The Board of Directors  
Bahria Foundation  
Bahria Complex II  
M. T. Khan Road  
Karachi

January 27, 2015

C 0342

Dear Sirs

**DRAFT FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014**

We have pleasure in enclosing ten copies of the draft financial statements of Bahria Foundation (the Foundation) for the year ended June 30, 2014 with our draft audit report thereon initialled by us for identification purposes. We shall be pleased to sign our report in its present or amended form after:

- (a) these financial statements have been approved by the Board of Directors of the Foundation and signed by the Managing Director and the Director Finance;
- (b) we have seen the Board's specific approval for the items listed in Annexure 'A' to this letter;
- (c) we have received the signed audit report and audited accounts of Bahria Hajj and Umra Services (Pvt.) Limited, a subsidiary of the Foundation; and
- (d) we have received a signed letter of representation along the lines of the draft provided to the management of the Foundation.

We take this opportunity to draw your attention to certain accounting and related matters which are set forth in the following paragraphs:

**2. RESPONSIBILITIES OF THE MANAGEMENT AND AUDITORS IN RELATION TO THE FINANCIAL STATEMENTS**

The responsibilities of the independent auditors, in a usual examination of financial statements, are explained in International Standard on Auditing 200, "Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing." While the auditors are responsible for forming and expressing their opinion on the financial statements, the responsibility for the preparation of the financial statements is primarily that of the Foundation's management in accordance with applicable financial reporting framework, which includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error. The management's responsibilities include to provide the auditor with (i) all information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements; (ii) any additional information that the auditor may request from management and, where appropriate, those charged with governance; and (iii) unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence. The audit of the financial statements does not relieve the management of its responsibilities. Accordingly, our examination of the books of accounts and records should not be relied upon to disclose all the errors or irregularities in relation to the financial statements.

We would like to inform the management that unless we have signed the auditors' report on these financial statements, the same shall remain and be deemed unaudited.

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**A. F. FERGUSON & CO.**

Letter C 0342  
dated January 27, 2015

**3. FIXED ASSETS NOT TAGGED**

During our audit we noted that the fixed assets of the Foundation are not assigned unique identification numbers. This may lead to misappropriation of fixed assets. Further, missing or dislocated items may not be detected. We recommend that the management should carry out a detailed exercise to physically verify and tag fixed assets and reconcile the results to the fixed asset register.

**4. BOOK-KEEPING OF BAHRIA DEVELOPERS AND CONSTRUCTIONS (BDC)**

During our audit we noted that recording of transactions of BDC is done at Karachi office while relevant supports are kept at Islamabad office. Proper synchronization of transactions and their recording in the books of accounts was not being done. We recommend that all documents and supports of transactions be kept at the location where the accounting function is performed.

**5. MEASUREMENT OF COST INCURRED ON INDIVIDUAL PROJECTS OF BAHRIA ENTERPRISE SYSTEM AND TECHNOLOGY (BEST)**

During our audit we noted that proper cost schedules for individual projects carried out by BEST are not prepared. Management only records purchases of materials (e.g. computer hardware) as cost of goods sold (COGS) and no other project related expenses such as salaries are allocated to COGS as proper budgets and records of working hours incurred on an individual project are not in place. We recommend that the management should prepare detailed expense schedules for all projects on an individual basis so that costs can be identified and linked accurately.

**6. RECORDING OF GRATUITY EXPENSE**

We recommend that the management should record the provision against gratuity expense based on actuarial valuation which should be carried out at least once in three years. We understand that the management has not appointed an actuary for evaluation of its gratuity liability. We recommend that an actuary should be appointed and actuarial valuation should be conducted for the year ending June 30, 2015.

**7. INTERNAL AUDIT DEPARTMENT**

During our audit we noted that there is no separate Internal Audit Department. The Finance Department carries out internal audits of the divisions. We recommend that the Board should form a separate Internal Audit Department so that the work done by the finance team can be independently reviewed with the results being communicated directly to the Board.

We wish to place on record our appreciation of the courtesy and cooperation extended to us during the course of our audit.

Yours truly

encls



**BAHRIA FOUNDATION**

**LIST OF ITEMS REQUIRING SPECIFIC APPROVAL OF THE BOARD OF DIRECTORS AS REFERRED TO IN PARAGRAPH 1 (b) OF OUR LETTER C 0342 DATED JANUARY 27, 2015**

	<b>Rupees</b>
(a) Capital expenditure incurred – tangible and intangible	284,809,873
(b) Fixed assets having written down value of Rs 45,430,575 disposed of for	50,614,225
(c) Bad debts written off	369,091
(d) Welfare contribution expense during the year	49,291,091
(e) Share of Director General Welfare and Rehabilitation Pakistan Navy and NHS Directorate in the net income generated from Bahria Complex III and IV	75,706,794
(f) Investments made during the year – net	1,183,785
(g) Trade debts provided for during the year	1,841,377
(h) Liabilities no longer required written back during the year	35,918,288
(i) Related party transactions as disclosed in note 28 to the financial statements	

*AWC*



**INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS**

We have audited the accompanying financial statements of **Bahria Foundation**, which comprise the balance sheet as at June 30, 2014, and income statement, cash flow statement and statement of changes in accumulated fund for the year then ended and a summary of significant accounting policies and other explanatory notes.

**Board of Directors' Responsibilities for the Financial Statements**

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International standards on auditing as applicable in Pakistan. Those standards require that we comply with the ethical requirements and plan and perform the audit 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 assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion the financial statements present fairly in all material respects the financial position of Bahria Foundation as at June 30, 2014 and of its financial performance and cash flows for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Chartered Accountants

Engagement Partner: **Rashid A. Jafer**

Dated: February 13, 2015

Karachi

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BAHRIA FOUNDATION  
BALANCE SHEET  
AS AT JUNE 30, 2014

	Note	2014	2013
		----- Rupees -----	
<b>Non-current assets</b>			
Property, plant and equipment			
Operating assets	3	801,501,281	674,941,445
Capital work-in-progress	4	171,848,150	143,642,496
Intangible assets	5	12,413,127	-
		985,762,558	818,583,941
Investment properties	6	1,257,536,101	1,273,676,069
Long-term loan	7	-	2,195,506
Long-term investments	8	4,600,200	4,600,200
Long-term security deposits		14,145,019	14,182,019
<b>Current assets</b>			
Stock-in-trade	9	54,507,907	43,855,291
Trade debts	10	271,605,826	212,379,523
Short term investments	11	161,467,060	162,650,795
Loans and advances	12	23,056,347	17,103,393
Trade deposits and short-term prepayments	13	81,654,803	80,251,398
Other receivables	14	163,150,665	104,769,383
Taxation recoverable		12,368,810	12,256,656
Cash and bank balances	15	207,589,460	315,317,618
		975,400,878	948,584,057
<b>Current liabilities</b>			
Current maturity of advance rent		126,547,216	165,480,493
Trade and other payables	16	187,978,052	185,894,887
		314,525,268	351,375,380
		660,875,610	597,208,677
<b>Non-current liabilities</b>			
Deferred liability - provision for staff retirement gratuity		140,386,146	71,203,569
Long-term loans and advance rent		36,326,697	24,276,522
Security deposits from students		79,843,560	67,957,077
		256,556,403	163,437,168
Contingencies and commitments	17		
<b>Net assets</b>		<u>2,666,363,085</u>	<u>2,547,009,244</u>
<b>Financed by:</b>			
Accumulated fund		1,865,814,085	1,760,460,244
Contribution from Director General Welfare and Rehabilitation (DGWR) Pakistan Navy		800,549,000	786,549,000
		<u>2,666,363,085</u>	<u>2,547,009,244</u>

The annexed notes 1 to 37 form an integral part of these financial statements.

AKG

  
MANAGING DIRECTOR

  
FINANCE DIRECTOR

**BAHRIA FOUNDATION  
INCOME STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2014**

	Note	2014 ----- Rupees -----	2013 ----- Rupees -----
Net sales	18	139,603,467	114,616,189
Cost of goods sold	19	105,357,501	48,776,260
Gross profit		34,245,966	65,839,929
Rental income	20	562,311,466	411,106,793
Service income	21	295,736,875	269,833,652
Fee income	22	648,121,145	544,287,944
		1,540,415,452	1,291,068,318
Operating, selling and administrative expenses	23	1,409,091,850	1,078,645,963
Operating income		131,323,602	212,422,355
Other income	24	109,997,237	60,240,791
		241,320,839	272,663,146
Financial charges	25	2,503,884	1,397,267
Other charges	26	128,367,193	90,418,321
		130,871,077	91,815,588
Income before taxation		110,449,762	180,847,558
Taxation	27	5,095,921	17,297,300
Income after taxation		105,353,841	163,550,258
Other comprehensive income		-	-
Total comprehensive income		105,353,841	163,550,258

The annexed notes 1 to 37 form an integral part of these financial statements.

*AWG*

  
MANAGING DIRECTOR

  
FINANCE DIRECTOR

BAHRIA FOUNDATION  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2014

	Note	2014	2013
		----- Rupees -----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash used in operations	29	(1,163,414,292)	(784,054,554)
Staff gratuity - net		69,182,577	3,140,080
Taxes paid		(5,208,075)	(7,676,833)
Long-term security deposits - net		37,000	(8,797,800)
Fee received		640,336,358	539,850,761
Rent received		535,428,364	405,370,292
<b>Net cash inflow from operating activities</b>		<u>76,361,932</u>	<u>147,831,946</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditure incurred - tangible and intangible		(284,809,873)	(157,995,817)
Long term loans		(2,500,000)	(6,432,760)
Proceeds from sale of fixed assets		50,614,225	5,456,808
Short term investments		1,183,735	(57,650,795)
Interest income received		25,535,340	34,594,584
<b>Net cash outflow on investing activities</b>		<u>(209,976,573)</u>	<u>(182,027,980)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Contribution made by DGWR		14,000,000	48,013,113
Security deposits from students		11,886,483	8,390,690
<b>Net cash inflow from financing activities</b>		<u>25,886,483</u>	<u>56,403,803</u>
<b>(Decrease) / increase in cash and cash equivalents</b>		<u>(107,728,158)</u>	<u>22,207,769</u>
Cash and cash equivalents at beginning of the year		315,317,618	293,109,849
<b>Cash and cash equivalents at end of the year</b>	30	<u><u>207,589,460</u></u>	<u><u>315,317,618</u></u>

The annexed notes 1 to 37 form an integral part of these financial statements.

*AKO*

  
MANAGING DIRECTOR

  
FINANCE DIRECTOR



BAHRIA FOUNDATION  
 STATEMENT OF CHANGES IN ACCUMULATED FUND  
 FOR THE YEAR ENDED JUNE 30, 2014

	Contribution from DGWR- Pakistan Navy	Accumulated fund	Total
	----- Rupees -----		
Balance as at June 30, 2012	738,535,887	1,596,909,986	2,335,445,873
Contribution during the year	48,013,113	-	48,013,113
Total comprehensive income for the year ended June 30, 2013	-	163,550,258	163,550,258
<b>Balance as at June 30, 2013</b>	<u>786,549,000</u>	<u>1,760,460,244</u>	<u>2,547,009,244</u>
Contribution during the year	14,000,000	-	14,000,000
Total comprehensive income for the year ended June 30, 2014	-	105,353,841	105,353,841
<b>Balance as at June 30, 2014</b>	<u><u>800,549,000</u></u>	<u><u>1,865,814,085</u></u>	<u><u>2,666,363,085</u></u>

*Arko* The annexed notes 1 to 37 form an integral part of these financial statements.

  
 MANAGING DIRECTOR

  
 FINANCE DIRECTOR

**BAHRIA FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**1. THE FOUNDATION AND ITS OPERATIONS**

Bahria Foundation was established in 1982 under the Charitable Endowments Act, 1890 to undertake commercially viable businesses for the welfare of retired as well as serving officials of the Pakistan Navy, their dependents and families, including civilians working in the Pakistan Navy.

The address of its registered office is Bahria Complex II, M.T. Khan Road, Karachi. Bahria Foundation is administratively divided into three wings:

- Bahria Foundation - South;
- Bahria Foundation - North; and
- Bahria Foundation - Centre.

The above wings are carrying out various commercial activities by setting up separate divisions. The following is a list of divisions set up by Bahria Foundation:

**SOUTHERN REGION**

- Head Office, Karachi
- Bahria Complexes
- Falah Trading Agency
- Bahria Travels
- Bahria Paints
- Bahria Security System and Services
- Bahria Recruiting Agency
- Bahria Maritime Services
- Bahria Pharmacy
- Bahria Colleges
- Bahria Enterprise and System Technologies
- Bahria Filling Station
- Bahria Developers and Constructors

**NORTHERN REGION**

- Head Office, Islamabad
- Falah Trading Agency
- Bahria Bakery
- Bahria Mini Flour Mills
- Bahria Security System and Services
- Bahria Travels
- Bahria Pharmacy
- Bahria Colleges

**CENTRAL REGION**

- Head Office, Lahore
- Bahria Colleges

**1.1 Statement of compliance**

Bahria Foundation falls within the purview of Economically Significant Entities (ESE) under the requirements set out in the Technical Release (TR) – 5, "IASB Standards – Council's Statement on applicability (Revised 2006)". Accordingly, these financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984.

**1.2 Basis of preparation**

These financial statements have been prepared under the historical cost convention except that certain investments are carried at fair value and inventories are carried at lower of cost and net realisable value.

- i) These financial statements include the financial statements of the allied divisions of Bahria Foundation, South, North and Centre.
- ii) Inter divisional balances and transactions have been eliminated.

**1.3 Functional and presentational currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Foundation operates. The financial statements are presented in Pakistani Rupees, which is the Foundation's functional and presentational currency.

**1.4 New and amended standards and interpretations to published approved accounting standards that are effective in the current year**

There are certain new and amended standards and interpretations that are mandatory for the Foundation's accounting periods beginning on or after July 1, 2013 but are considered not to be relevant or do not have any significant effect on the Foundation's operations and are, therefore, not disclosed in these financial statements.

*Ali*

