Grant Thornton

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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Kaarvan Crafts Foundation (the Company)** as at **December 31, 2016** and the related income and expenditure account, statement of comprehensive income, cash flow statement and statement of changes in fund balances together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

b) in our opinion:

   (i) the balance sheet and income and expenditure account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

   ii) the expenditure incurred during the year was for the purpose of the Company's business; and

   iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

c) in our opinion and to the best of our information and according to the explanations given to us the balance sheet, income and expenditure account, statement of comprehensive income, cash flow statement and statement of changes in fund balances together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2016 and of the deficit, total comprehensive income, its cash flows and changes in fund balances for the year then ended; and

d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

We draw attention towards note 1.2 to the financial statements which states that currently, the Company is in process of renewing its license under Section 42 of the Companies Ordinance, 1984 from the Securities Exchange Commission of Pakistan. Our opinion is not qualified in respect of this matter.

Grant Thornton Anjum Rahman

CHARTERED ACCOUNTANTS
Engagement Partner: Imran Afzal
Lahore
Date: April 7, 2017

KAARVAN CRAFTS FOUNDATION

(A Company set up under section 42 of Companies Ordinance, 1984)

Balance sheet

As at December 31, 2016

	Note	2016 (Rupees)	2015 (Rupees)
Assets			
Non-current			
Property and equipment	4	7,814,790	9,332,617
Intangible assets	5	460,611	-
Long term security deposits		389,527	490,750
Non-current assets		8,664,928	9,823,367
Current			
Grants receivable	6	4,164,783	2,534,176
Advances, prepayments and other receivables	7	227,996	856,137
Advance income tax		7,311,276	6,047,715
Short term investments	8	31,000,000	41,000,000
Cash and bank balances	9	735,887	11,502,833
Current assets		43,439,942	61,940,861
Total assets		52,104,870	71,764,228
Equity and liabilities			
Equity			
Accumulated surplus	10	48,316,681	64,733,286
Total equity		48,316,681	64,733,286
Liabilities			
Non-current			
Deferred liabilities	11	990,350	459,596
Non-current liabilities		990,350	459,596
Current			
Trade and other payables	12	2,797,839	6,571,346
Current liabilities		2,797,839	6,571,346
Total liabilities		3,788,189	7,030,942
Total equity and liabilities		52,104,870	71,764,228
Contingencies and commitments	13		

The annexed notes 1 to 27 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

KAARVAN CRAFTS FOUNDATION

(A Company set up under section 42 of Companies Ordinance, 1984)

Income and expenditure account

For the year ended December 31, 2016

	Note	2016 (Rupees)	2015 (Rupees)
Continuing Operations			
Grants	14	21,175,356	73,907,715
Other income	15	1,939,224	1,444,184
Total income		23,114,580	75,351,899
Project Expenditure:			
Punjab Skills Development Fund (PSDF)	16	13,280,108	37,317,088
Other projects expenses	17	10,467,842	10,958,114
		23,747,950	48,275,202
Administrative expenses	18	15,400,529	5,692,405
Other expenses	19	382,706	-
(Deficit) / Surplus for the year from continuing operations		(16,416,605)	21,384,292
Discontinued Operations			
Profit / (Loss) from discontinued operations	20	-	(50,867)
(Deficit) / **Surplus for the year**		(16,416,605)	21,333,425

The annexed notes 1 to 27 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

KAARVAN CRAFTS FOUNDATION

(A Company set up under section 42 of Companies Ordinance, 1984)

Statement of changes in fund balances

For the year ended December 31, 2016

	General fund (Rupees)
Balance as at January 01, 2015	43,399,861
Surplus for the year ended December 31, 2015	21,333,425
Balance as at December 31, 2015	64,733,286
Deficit for the year ended December 31, 2016	**(16,416,605)**
Balance as at December 31, 2016	**48,316,681**

The annexed notes 1 to 27 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

KAARVAN CRAFTS FOUNDATION

(A Company set up under section 42 of Companies Ordinance, 1984)

Cash flow statement

For the year ended December 31, 2016

	Note	2016 (Rupees)	2015 (Rupees)
Cash flows from operating activities			
(Deficit) / Surplus for the year		(16,416,605)	21,333,425
Adjustments for non cash items:			
Depreciation	4	1,233,759	1,391,847
Provision for gratuity		2,850,993	-
Loss/(gain) on disposal of property and equipment		377,975	(315,257)
Grant amortization		(4,881,765)	(1,415,404)
Amortisation of intangible assets		102,635	-
Bad debts written off		-	8,774
Operating (deficit) / surplus before working capital changes		(16,733,008)	21,003,385
Working capital changes:			
Change in stock in trade		-	209,921
Change in trade debts		-	154,950
Change in advances, prepayments, other receivables and grant receivable		(2,266,027)	17,030,308
Change in trade and other payables		(4,673,218)	(3,770,765)
		(6,939,245)	13,624,414
Cash (used in) / generated from operations		(23,672,253)	34,627,799
Gratuity paid during the year		(1,951,283)	-
Deferred grant received		5,412,519	1,875,000
Net cash (used in) / from operating activities		(20,211,017)	36,502,799
Cash flows from investing activities			
Proceeds from disposal of property and equipment		-	556,950
Purchase of property and equipment		(93,906)	(2,105,529)
Purchase of intangible assets		(563,246)	-
(Increase) / decrease in long term security deposits		101,223	(325,301)
Investment made / (redeemed) in term deposit certificates - net		10,000,000	(33,000,000)
Net cash (used in) / from investing activities		9,444,071	(34,873,880)
(Decrease) / Increase in cash and cash equivalents		(10,766,946)	1,628,919
Cash and cash equivalents at the beginning of year		11,502,833	9,873,914
Cash and cash equivalents at the end of year	9	735,887	11,502,833

The annexed notes 1 to 27 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

Notes to the financial statements

For the year ended December 31, 2016

1 Status and nature of the business

1.1 Kaarvan Crafts Foundation ("the Company") was incorporated as not for profit guarantee limited company on November 10, 2004 under Section 42 of the Companies Ordinance, 1984. The registered office of the Company is at 137-1, C Block Model Town, Lahore. The principal activities of the Company are to provide employment to poor women at fair wages, to trained women in vocational skills like crafting (e.g. Adda work, domestic tailoring, and embroidery etc.), to educate them with capacity building skills (e.g. Literacy and numeracy training, product production, pricing, planning and leadership skills) and to enable them to become micro entrepreneur by building bridges between women and market so that they can sell in high end market.

1.2 The Company is required to renew its license granted u/s 42 of the Companies Ordinance, 1984 so as to comply with circular No. 02/2015 dated January 01, 2015. The Company has filed relevant application with Commission, which is still in process. The Commission has acknowledged receipt of relevant application and has also approached the Ministry of Interior to proceed with NOC/clearance requirements. Moreover, as advised by its legal advisor, the company has also filed an application with Ministry of Interior on January 31, 2017 asking for clearance of the company for onward renewal by SECP. However, the company had not discontinued its activities and these financial statements have been prepared on going concern basis as management and legal advisor of the company is of the view that the company can continue its activities during renewal process. The management of the Company is confident that license will be renewed shortly.

2 Basis of preparation

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 shall prevail.

2.2 New and amended standards and interpretations

The Company has adopted following accounting standards and amendments and interpretations of IFRSs which became effective during the current year:

Standard or Interpretation

IFRS 10, 12 & IAS 27	Consolidated Financial Statements, Disclosure of Interests in Other Entities and Separate Financial statements - Investment Entities: Applying the Consolidation Exception (Amendment)
IFRS 11	Joint Arrangements - Accounting for Acquisition of Interest in Joint Operation (Amendment)
IAS 1	Presentation of Financial Statements - Disclosure Initiative (Amendment)
IAS 16 & 38	Property, Plant and Equipment and intangible assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendments)
IAS 16 & 41	Property, Plant and Equipment IAS 41 Agriculture - Agriculture: Bearer Plants (Amendment)
IAS 27	Separate Financial Statements – Equity Method in Separate Financial Statements (Amendment) 'Investment in Associates and Joint Ventures.

Improvements to Accounting Standards Issued by the IASB in September 2014

IFRS 5	Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal
IFRS 7	Financial Instruments: Disclosures - Servicing Contracts
IFRS 7	Financial Instruments: Disclosures - Applicability of the offsetting disclosures to condensed interim financial statements
IAS 19	Employee Benefits - Discount rate: regional market issue

Adoption of the above standards and amendments have no significant effect on these financial statements except certain additional disclosures.

2.3 Standards and interpretation issued but not yet effective for the current financial year

The following revised standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard or Interpretation		Effective Date (Annual periods beginning on or after)
IFRS 2	Share-based Payment – Classification and Measurement of Share-based Payment Transactions (Amendments)	01 January 2018
IFRS 10 & IAS 28	Consolidated Financial Statements and Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
IAS 7	Statement of Cash Flows - Disclosure Initiative - (Amendments)	01 January 2017
IAS 12	Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)	01 January 2017
IFRS 4	Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – (Amendments)	01 January 2018
IAS 40	Investment Property: Transfers of Investment Property (Amendments)	01 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	01 January 2018

Currently, the company is evaluating impacts of these standards on its financial statements.

2.4 Standards that are not yet adopted by SECP

In addition to the above, the following new standards have been issued by IASB which are yet to be notified by the Securities and Exchange Commission of Pakistan for the purpose of applicability in Pakistan:

Standard or Interpretation		Effective Date
IFRS 9	Financial Instruments Classification and Measurement	01 January 2018
IFRS 14	Regulatory Deferral accounts	01 January 2016
IFRS 15	Revenue from Contracts and Customers	01 January 2018
IFRS 16	Leases	01 January 2019

2.5 Basis of measurement

These financial statements, except for cash flow information, have been prepared under the historical cost convention.

2.6 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectation of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgments were exercised in application of accounting policies are discussed below:

-assumptions and estimates used in determining the recoverable amount, residual values and useful lives of property and equipment;

-assumptions and estimates used in disclosure and assessment of provision for contingencies.

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3 Significant accounting policies

3.1 Property and equipment

Operating assets - Owned

Property and equipment are stated at cost less accumulated depreciation and impairment in value, if any. Cost of property and equipment consists of historical cost and directly attributable costs of bringing assets to their present location and condition. Depreciation is charged to income and expenditure account by applying written down value method at the prescribed rates, which are considered appropriate to write-off asset over its estimated remaining useful economic life.

Depreciation

Depreciation on additions is charged from the month in which an asset is acquired or capitalized while no depreciation is charged for the month in which the asset is disposed off.

De-recognition

Assets retired from active use and held for disposal are shown at lower of its written down value and net realizable value. No depreciation is charged on these assets.

Normal repairs and maintenance are taken to income and expenditure account, as and when incurred. Major renewals and replacements are capitalized when assets replaced, if any, are retired. Gain and loss on disposal of assets is taken to the income and expenditure account.

Impairment

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Operating assets - Donated

Property and equipment, not returnable to the donors, are stated at assessed values less accumulated depreciation on the basis of contractual arrangements with the relevant donors. Depreciation is charged over their expected useful lives at the rates mentioned in Note 4 to the financial statements.

3.2 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Intangible assets are recognized when it is probable that the expected future economic benefits will flow to the entity and the cost of the assets can be measured reliably. Cost of the intangible asset includes purchase cost and directly attributable expenses incidental to bring the asset for its intended use.

Costs associated with maintaining computer software are recognized as an expense as and when incurred.

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is charged over the estimated useful life of the asset on a systematic basis applying the straight line method.

Useful lives of intangible operating assets are reviewed, at each balance sheet date and adjusted if the impact of amortization is significant.

3.3 Stock in trade

These are valued at lower of cost and net realizable value applying the following basis:

Raw materials	-	At average cost
Work in process	-	Average manufacturing cost
Finished goods	-	Average manufacturing cost
Wastes	-	At net realizable value

Net realizable value signifies the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale.

3.4 Financial instruments

3.4.1 Financial assets

Financial assets are recognized when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transaction costs. A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial assets of the Company are classified as follows:

3.4.2 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 recognition, these are measured at amortized cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. These are included in current assets, except for maturities for greater than twelve months after the balance sheet date, which are classified as non-current assets. Loans and receivables with less than twelve months maturities are classified as current assets. The Company's cash and cash equivalents, trade debts and deposits fall into this category of financial assets. Loans and receivables are subject to review for impairment at each reporting date to identify whether there is objective evidence that the financial asset is impaired.

3.4.3 Held to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

3.4.4 Financial liabilities

The Company's financial liabilities include trade and other payables. Financial liabilities are measured initially at fair value, less attributable transaction costs. Financial liabilities are measured subsequently at amortized cost using the effective interest method.

3.4.5 Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

3.4.6 Offsetting of financial assets and financial liabilities

A financial asset and financial liability is offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set off the transaction and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3.5 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand and bank balances and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

3.6 Revenue recognition

-Local sales are recorded on dispatch of goods to customers.

-Profit on bank deposits is recognized on a time proportion basis taking into account the effective yield on deposits.

-Grants related to income are accounted for in accordance with the requirement of IAS-20 "Accounting for Government Grants and Disclosure of Government Assistance" i.e. Grants are recognized as income over the periods necessary to match them with the related cost which they are intended to compensate, on a systematic basis.

3.7 Taxation

Tax charge for current taxation is based on taxable income at the current rates of taxation after taking into account the applicable tax credits and tax rebates realized, if any. The company has registered itself u/s 2(36) of the Income Tax Ordinance, 2001 and accordingly, it is entitled to avail tax credit available u/s 100C of Income Tax Ordinance, 2001.

3.8 Staff retirement benefits - Gratuity

The company operates an unfunded gratuity scheme for its permanent employees. Provision is made annually to cover the obligations under the scheme as per following rules:

• a permanent employee who has completed a minimum of 1 year continuous service with the company shall be entitled to gratuity from the start of service;

• an employee shall be entitled to gratuity at the rate of one basic salary for each completed year of service;

• basic salary shall be deemed to be the basic salary for the last month immediately preceding the month in which gratuity becomes payable; and

• employee can withdraw his/her gratuity at the end of each year by giving an undertaking.

3.9 Provisions

A provision is recognized when the Company has a legal or constructive obligation as a result of a past event and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

3.10 Project costs

These are stated at cost as and when actual expenses are incurred on project, including staff training and other project related expenses.

3.11 Foreign currency translation

Assets and liabilities in foreign currency are stated in Pak Rupees at the rates of exchange ruling on the balance sheet date or rate of exchange fixed under contractual agreements. Transactions in foreign currency are translated at the exchange rate prevailing at the date of transaction. All exchange differences are included in the income and expenditure account.