

AUDITORS' REPORT TO BOARD OF DIRECTORS

We have audited the accompanying balance sheet of the PUNJAB EDUCATION FOUNDATION as of 30 June 2006 and the related income and expenditure account together with the notes forming part thereof, for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

- (a) Opening balances as on 1 July 2005 have been incorporated in the books of account based on accounts audited by DG commercial audit Lahore who certified that accounts present a fair statement of financial operations subject to the observations contained in the audit report. Moreover, as per Section 10(3) of the Punjab Education Foundation Act, 2004, the accounts of the Foundation shall be audited by an auditor, to be appointed by the Government, being a person who is a chartered accountant within the meaning of the Chartered Accountants Ordinance, 1961 (X of 1961). Therefore, we do not, express an opinion on the financial statements of the prior periods and the impact, if any, which may arise in the current or future periods due to this matter.
- (b) Long term loans include overdue instalments of Rupees 20.523 million against which recovery of Rupees 3.786 million was made in the subsequent period. However, no provision against overdue / non-performing loans has been made in the enclosed financial statements.
- (c) Provision for income tax has not been made in the financial statements. Moreover, we have not seen any exemption of income tax notified by the income tax department.

In our opinion, except for the effects of matters stated in paragraph (a) to (c) above, the financial statements give a true and fair view of the financial position of the Foundation as of 30 June 2006, and of the results of its operations for the year then ended.

LAHORE: 04 MAY 2007



RIAZ AHMAD & COMPANY
Chartered Accountants



PUNJAB EDUCATION FOUNDATION

BALANCE SHEET AS AT 30 JUNE 2006

	NOTE	2006 Rupees	2005 Rupees
NON-CURRENT ASSETS			
Operating fixed assets	3	21,820,708	18,485,593
Advance for purchase of lands		4,042,500	4,042,500
Long term loans	4	<u>39,796,430</u>	<u>46,946,230</u>
		65,659,638	69,474,323
CURRENT ASSETS			
Stores		-	3,150
Current portion of long term loans	4.3	27,847,789	22,425,457
Advances, prepayments and other receivables	5	9,384,008	157,474,147
Short term bank deposits	6	615,000,000	540,700,000
Cash and bank balances	7	<u>107,093,839</u>	<u>40,693,762</u>
		759,325,636	761,296,516
LESS : CURRENT LIABILITIES			
Accrued and other liabilities	8	<u>901,283</u>	<u>1,092,998</u>
NET CURRENT ASSETS		758,424,353	760,203,518
LESS : NON-CURRENT LIABILITIES			
Long term loan	9	27,630,624	27,630,624
Deferred credits	10	<u>235,000</u>	<u>15,428,313</u>
NET ASSETS		796,218,367	786,618,904
CONTINGENCIES AND COMMITMENTS			
	11	<u>-</u>	<u>-</u>
		<u>796,218,367</u>	<u>786,618,904</u>
REPRESENTED BY:			
Fund	12	200,000,000	200,000,000
Accumulated surplus		596,218,367	586,618,904
		<u>796,218,367</u>	<u>786,618,904</u>

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

**PUNJAB EDUCATION FOUNDATION
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2006**

	NOTE	2006 Rupees	2005 Rupees
INCOME			
Profit / mark-up on bank deposits		56,309,844	18,938,033
Amortization of deferred credits	10	15,193,313	96,000
Other income	13	2,131,750	1,426,603
		<u>73,634,907</u>	<u>20,460,636</u>
EXPENDITURES			
Programme expenditure	14	43,617,071	96,000
Administrative and general expenses	15	19,905,190	10,756,027
Financial and other charges	16	513,183	112,078
		<u>64,035,444</u>	<u>10,964,105</u>
SURPLUS FOR THE YEAR		<u>9,599,463</u>	<u>9,496,531</u>

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

**PUNJAB EDUCATION FOUNDATION
STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED 30 JUNE 2006**

PARTICULARS	FUND	ACCUMULATED SURPLUS	TOTAL
	(-----RUPEES-----)		
Balance as on 30 June 2004	588,441,000	341,842,310	930,283,310
Effect of prior period error (Note 17)	-	(19,430,624)	(19,430,624)
Transferred to long term loan (Note 9)	(18,600,000)	-	(18,600,000)
Effect of change in accounting policy (Note 2.4)	(270,235,000)	254,710,687	(15,524,313)
Balance as on 30 June 2004 - Restated	<u>299,606,000</u>	<u>577,122,373</u>	<u>876,728,373</u>
Grant transferred to Secretary Education	(99,606,000)	-	(99,606,000)
Surplus for the year	-	9,496,531	9,496,531
Balance as on 30 June 2005	<u>200,000,000</u>	<u>586,618,904</u>	<u>786,618,904</u>
Surplus for the year	-	9,599,463	9,599,463
Balance as on 30 June 2006	<u><u>200,000,000</u></u>	<u><u>596,218,367</u></u>	<u><u>796,218,367</u></u>

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

PUNJAB EDUCATION FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

1. LEGAL STATUS AND FUNCTIONS OF THE FOUNDATION

Punjab Education Foundation (PEF) was established in 1991 under Punjab Education Foundation Act, 1991 and subsequently restructured in 2004 as a body corporate under the Punjab Education Foundation Act, 2004. The principal activity of the Foundation is to provide technical and financial assistance for the establishment, expansion, improvement and management of educational institutions, incentives to students and teachers and promotion of quality education through public-private partnerships.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

These financial statements have been prepared under the historical cost convention.

2.2 Operating fixed assets and depreciation

Operating fixed assets except freehold land are stated at cost less accumulated depreciation and impairment loss (if any). Freehold land is stated at cost. Depreciation is charged to income applying the straight-line method to write off the cost of asset over its estimated useful life. Depreciation on additions is charged from the month in which the assets are available for use while no depreciation is charged in the month in which disposal is made.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized. Gain or loss, if any, on disposal of operating fixed assets is included in current year's income.

2.3 Revenue recognition

(a) Interest income / return on term deposits is recognized on accrual basis.

(b) Service charges on loans are recognized on receipt basis.

2.4 Grants-in-aid

The principal source of funding for the Foundation's activities is grants and donations from Government / Non-Government organizations. Grants-in-aid are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Foundation will comply with all attached conditions. Fair value signifies the amount received in cash and current market value in case of grant received in kind. Grants relating to costs are deferred and recognized in the income and expenditure account over the period necessary to match them with the cost that they are intended to compensate.

Grants-in-aid relating to the purchase of operating fixed assets are included in non-current liabilities as deferred credit and are credited to the income and expenditure account over the expected useful lives of the related assets.

Change in Accounting Policy:

In the previous years, Grants-in-aid were presented as fund in the balance sheet. During the year the Foundation has changed its accounting policy and now the Grants-in-aid are presented as Deferred Credits and amortized in the income and expenditure account over the period necessary to match with the related cost.

Had there been no change in accounting policy, the amounts recognized in financial statements would have been different as follows:

	2006 Rupees	2005 Rupees
Fund would have been higher by	270,235,000	270,235,000
Accumulated surplus lower by	270,000,000	254,806,687

2.5 Employees' benefits

The foundation operates non-funded defined benefit pension scheme for permanent employees. Monthly contributions / provisions are made to cover the obligations under these schemes. Staff retirement benefits are payable to staff on completion of prescribed qualifying period of service under these scheme.

Employees are entitled to encash leaves if not availed during the preceding year. Leaves are accumulated at the rate of 4 days for each calendar month. Provision is made annually on gross salary to cover the obligation.

2.6 Provisions

Provisions are recognized when the foundation has a present obligation as result of past event(s), which it is probable, will result in an outflow of economic benefits and a reliable estimate can be made of the amount of the obligation.

	2006 Rupees	2005 Rupees
8 ACCRUED AND OTHER LIABILITIES		
Salaries payable	-	540,670
Rent payable	-	207,000
Pension contribution payable	73,569	89,698
Leave salary payable	601,561	-
Interest payable on G.P fund	-	107,849
Income tax	3,754	-
Service charges payable	43,750	-
Accrued expenses	143,812	147,781
Others	34,837	-
	<u>901,283</u>	<u>1,092,998</u>
9 LONG TERM LOAN		
Balance as on 1 July	27,630,624	38,030,624
Less: Repaid	-	10,400,000
Balance as on 30 June	<u>27,630,624</u>	<u>27,630,624</u>
9.1	This long term loan was given by Technical Education and Vocational Training Authority of the Punjab (TEVTA) out of the loan received from Asian Development Bank. This loan was disbursed by the Foundation to technical and educational institutes for purchase of furniture, equipment and civil works.	
10 DEFERRED CREDITS		
Grant -in- aid (Note 10.1)	15,193,313	15,289,313
Special grant from chief minister	85,000	85,000
Donations	150,000	150,000
	<u>15,428,313</u>	<u>15,524,313</u>
Amortized during the year	15,193,313	96,000
	<u>235,000</u>	<u>15,428,313</u>
10.1	Grant -in-aid was received from the Government of the Punjab for development , social service, education and other programmes.	
11 CONTINGENCIES AND COMMITMENTS		
11.1 CONTINGENCIES		
These represent certain cases by some defaulter NGOs against the foundation, which are being contested in the court of law. The management is of the view that these are not likely to result in any liability against the foundation.		
	2,100,644	NIL
11.2 COMMITMENTS	NIL	NIL
12 FUND		
It represents seed money sanctioned by the Government of the Punjab for establishment of Punjab Education Foundation.		
13 OTHER INCOME		
Service charges	184,423	1,413,003
Gain on sale of fixed assets	1,297,627	-
Sale proceeds from brochures	-	3,600
Lease income	-	10,000
Sale of scrap	9,475	-
Miscellaneous	640,225	-
	<u>2,131,750</u>	<u>1,426,603</u>

3. OPERATING FIXED ASSETS

DESCRIPTION	C O S T			ACCUMULATED DEPRECIATION			BOOK VALUE	DEPRECIATION	
	As at 01 July 2005	Additions/ (Deletions)	As at 30 June 2006	As at 01 July 2005	Adjustments	As at 30 June 2006	As at 30 June 2006	Charge for the year	Rate %
Freehold lands	15,525,425	-	15,525,425	-	-	-	15,525,425	-	-
Furniture and fixtures	435,658	351,100 (38,914)	747,844	376,112	(38,914)	363,756	384,088	26,558	10
Vehicles	3,699,592	3,155,610 (1,532,966)	5,322,236	2,163,075	(1,532,966)	1,562,731	3,759,505	932,622	10-20
Machinery and equipment	1,898,600	1,003,085 (58,485)	2,843,200	534,495	(58,385)	691,510	2,151,690	215,400	5-33
Electric installations	56,791	(34,271)	22,520	56,791	(34,271)	22,520	-	-	10
2006 Rupees	21,616,066	4,509,795 (1,664,636)	24,461,225	3,130,473	(1,664,536)	2,640,517	21,820,708	1,174,580	
2005 Rupees	20,731,670	884,396	21,616,066	2,594,302	-	3,130,473	18,485,593	536,171	

	2006 Rupees	2005 Rupees
8 ACCRUED AND OTHER LIABILITIES		
Salaries payable	-	540,670
Rent payable	-	207,000
Pension contribution payable	73,569	89,698
Leave salary payable	601,561	-
Interest payable on G.P fund	-	107,849
Income tax	3,754	-
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Miscellaneous	640,225	-
	<u>2,131,750</u>	<u>1,426,603</u>

	2006 Rupees	2005 Rupees
14 PROGRAMME EXPENDITURE		
Foundation assistance to schools (Note 14.1)	36,003,800	-
Cluster based teacher training (Note 14.2)	5,245,666	-
Capacity building of PEF- staff (Note 14.3)	202,250	-
Seminars, workshops and symposiums	333,000	-
Grants given to NGOs	1,832,355	96,000
	<u>43,617,071</u>	<u>96,000</u>

14.1 These expenditures were incurred to provide financial assistance as tuition fees and allied charges to private schools at the rate of Rupees 300 per student on enrollment basis.

14.2 These expenditures were incurred on teachers training programmes, i.e. activity based learning, conceptual clarity of content knowledge and pedagogical skills.

14.3 These expenditures were incurred for enhancing the capacity of Punjab Education Foundation officers and staff through short courses of information technology, finance and management.

15 ADMINISTRATIVE AND GENERAL EXPENSES

Staff salaries, allowances and other benefits	10,788,958	6,140,862
Pension contribution	962,445	1,244,244
Leave salary	601,561	-
Traveling and conveyance	1,170,876	37,245
Rent, rates and taxes	1,346,374	794,180
Vehicles running and maintenance	1,089,579	816,952
Office maintenance and other expenses	200,058	35,500
Electricity charges	321,943	199,139
Telephone and fax	472,984	459,415
Water and gas	31,300	34,490
Printing and stationery	614,074	38,896
Postage and telegrams	174,044	3,335
Advertisement	605,334	39,808
News papers and periodicals	37,541	41,363
Uniform and liveries	25,855	12,150
Entertainment	67,775	39,445
Auditor's remuneration (Note 15.1)	58,600	-
Legal and professional	62,000	107,100
Depreciation	1,174,580	536,171
Software development charges	35,000	-
Miscellaneous	64,309	175,732
	<u>19,905,190</u>	<u>10,756,027</u>

	2006 Rupees	2005 Rupees
15.1 AUDITOR'S REMUNERATION		
Audit fee	50,000	-
Out of pocket expenses	8,600	-
	<u>58,600</u>	<u>-</u>
16 FINANCIAL AND OTHER CHARGES		
Reversal of excess accrued service charges	505,703	-
Bank charges	7,480	-
Interest on General provident fund	-	112,078
	<u>513,183</u>	<u>112,078</u>
17 PRIOR PERIOD ERROR		

Provision for interest accrued on funds received from TEVTA was not made in prior period. Therefore, provision of Rupees 19,430,624 has been made as prior period error through statement of changes in fund as on 30 June 2004.

18 CORRESPONDING FIGURES

- 18.1 Advance for purchase of land is presented as non current asset on the face of Balance Sheet. Previously, it was presented in advances, prepayments and other receivables.
- 18.2 Long term loan payable to TEVTA is presented as non current liability. Previously it was presented in funds.
- 18.3 Advance for purchase of land of Rupees 85,000 is grouped in advance for purchase of land previously it was grouped in operating fixed assets as land.