# THE INDUS HOSPITAL

## FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2017

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**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of The Indus Hospital (the Hospital) as at June 30, 2017 and the related statement of comprehensive income, statement of changes in fund balance and the statement of cash flows 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 Hospital'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 auditing standards 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 accounts have been kept by the Hospital as required by the Companies Ordinance, 1984;

(b) in our opinion:

(i) the balance sheet and statement of comprehensive income together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied except for the change as stated in note 2.9.1 to the financial statements with which we concur;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, statement of comprehensive income, statement of changes in fund balance and the statement of cash flows together with the notes forming part thereof conform with the 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 Hospital's affairs as at June 30, 2017 and of the total comprehensive income, changes in fund balance and its cash flows 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).

**Chartered Accountants**
**Karachi**
**Date: November 30, 2017**

**Engagement Partner: Osama Kapadia**

THE INDUS HOSPITAL
BALANCE SHEET
AS AT JUNE 30, 2017

| | Note | 2017 | 2016 (Restated) | 2015 (Restated) |
|---|---|---|---|---|
| | | ----------------------------- | -Rupees- | ----------------------------- |
| **ASSETS** | | | | |
| **Non-Current Assets** | | | | |
| Operating assets | 4 | 2,438,191,120 | 818,053,842 | 787,210,767 |
| Capital work-in-progress | 5 | 2,218,813,121 | 1,160,859,855 | 315,274,695 |
| Intangible assets | 6 | 3,156,829 | 2,918,487 | 3,108,297 |
| | | 4,660,161,070 | 1,981,832,184 | 1,105,593,759 |
| **Current Assets** | | | | |
| Inventories | 7 | 360,119,034 | 257,308,734 | 269,567,909 |
| Advances, deposits, prepayments and other receivables | 8 | 593,016,102 | 180,680,117 | 120,182,335 |
| Short term investments | 9 | 334,996,139 | 376,149,351 | 467,105,002 |
| Cash and bank balances | 10 | 3,065,681,454 | 2,080,780,892 | 762,088,477 |
| | | 4,353,812,729 | 2,894,919,094 | 1,618,943,723 |
| **TOTAL ASSETS** | | 9,013,973,799 | 4,876,751,278 | 2,724,537,482 |
| **FUND** | | | | |
| Accumulated fund | | 1,213,132,315 | 1,059,907,286 | 731,222,518 |
| **LIABILITIES** | | | | |
| **Non-Current Liabilities** | | | | |
| Deferred capital grant | 11 | 4,475,856,223 | 1,818,189,697 | 1,340,130,671 |
| **Current Liabilities** | | | | |
| Deferred income | 12 | 2,526,635,259 | 1,579,792,573 | 453,479,489 |
| Trade and other payables | 13 | 798,350,002 | 418,861,722 | 199,704,804 |
| | | 3,324,985,261 | 1,998,654,295 | 653,184,293 |
| **CONTINGENCIES AND COMMITMENTS** | 14 | | | |
| **TOTAL FUND AND LIABILITIES** | | 9,013,973,799 | 4,876,751,278 | 2,724,537,482 |

The annexed notes 1 to 26 form an integral part of these financial statements.

Chief Executive Officer

Director

THE INDUS HOSPITAL
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2017

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | ----------Rupees---------- | |
| **INCOME** | | | |
| Value of services rendered to patients financed through: | | | |
| - Zakat | | 1,772,791,570 | 1,706,720,358 |
| - Donations | | 847,568,642 | 637,233,119 |
| - Deferred capital grant | | 51,007,578 | 42,034,134 |
| Grant-Funded Research and Development Projects (GFRDP) including deferred capital grant | | 1,403,409,035 | 302,515,761 |
| | | 4,074,776,825 | 2,688,503,372 |
| Other income | 15 | 30,704,816 | 37,832,136 |
| | | 4,105,481,641 | 2,726,335,508 |
| **EXPENDITURE** | | | |
| Medicines and other supplies consumed | 16 | 778,713,689 | 749,369,077 |
| Salaries, wages and other benefits | | 1,224,243,540 | 891,974,585 |
| Depreciation | 4 | 137,304,471 | 113,337,316 |
| Amortization | 6 | 1,622,098 | 1,250,010 |
| Repairs and maintenance | | 26,378,565 | 22,136,690 |
| Insurance / takaful | | 4,531,033 | 1,410,355 |
| Fuel | | 26,673,944 | 19,525,784 |
| License fee | | 987,583 | 793,828 |
| Printing, stationery and courier | | 8,592,215 | 10,624,403 |
| Utilities | | 107,297,224 | 83,925,673 |
| Travelling and transportation | | 6,136,137 | 8,394,547 |
| Technical and professional services | | 3,929,703 | 7,032,226 |
| Auditor's remuneration | 17 | 870,000 | 320,000 |
| Security services | | 15,569,000 | 10,464,590 |
| Clearing and forwarding | | 2,184,381 | 2,534,912 |
| Marketing and advertisement | | 104,008,893 | 39,735,386 |
| Communication charges | | 7,670,681 | 7,837,487 |
| Outsourced - Medical facilities and diagnostics charges | | 114,259,944 | 92,278,002 |
| Inventories written-off | 7 | 12,857,170 | 2,023,042 |
| Rent | | 7,549,835 | 9,810,877 |
| Training and development | | 8,259,315 | 14,869,362 |
| Other expenses | | 4,335,508 | 5,486,827 |
| **Grant-Funded Research and Development Projects** | | | |
| - TB MDR Project Round 9 | | 90,448,795 | 187,768,054 |
| - TB Reach Project | | 259,923 | 15,663,594 |
| - Club Foot Disability Project | | 9,770 | 240,809 |
| - KAPS - Knee Arthritis Project | | 4,960,264 | 7,527,382 |
| - Pehla Qadam Project | | 5,768,596 | 4,687,705 |
| - Diabetes Program | | 12,399,297 | 9,151,006 |
| - IMNCI Child Survival Program | | 1,888,641 | 2,435,815 |
| - Malaria Project | | 2,435,456 | 2,674,252 |
| - In Vitro Study | | - | 13,513 |
| - Rabies Program | | 40,825 | 89,547 |
| - OPD Medicines | | - | 60,651 |
| - Diabetes Adherence Study | | 798,312 | 595,644 |
| - SSI Project | | 4,684,589 | 4,125,999 |
| - Paeds TB Program | | 15,500,326 | 4,048,743 |
| - TD - ABC Project | | 6,878,451 | 3,217,537 |
| - Malaria - The Global Fund | | 336,703,278 | 51,605,486 |
| - Onco Psychology | | 2,663,611 | 1,499,391 |
| - End TB | | 8,083,878 | 545,262 |
| - Diabetes Foot Care Clinic | | 1,453,362 | 471,260 |
| - Safe Circumcision Study | | 2,974,342 | 286,750 |
| - TB - The Global Fund | | 881,336,813 | 5,807,361 |
| - CAD 4 TB | | 574,232 | - |
| - Club Foot Disability R-2 | | 838,412 | - |
| - HCV - Hepatitis C Virus | | 8,272,200 | - |
| - HIV Program - The Global Fund | | 7,499,450 | - |
| - IVAC Project | | 3,020,783 | - |
| - MCM - My Child Matters | | 2,113,053 | - |
| - Orthopedic Program | | 1,103,720 | - |
| - PPCCS - Perceptions of Patient Centered Care Study | | 100,766 | - |
| - Vero Cell Trial | | 245,870 | - |
| - Zero TB | | 352,000 | - |
| | 18 | 1,403,409,035 | 302,515,761 |
| | | 4,007,383,964 | 2,397,650,740 |
| Surplus for the year | | 98,097,677 | 328,684,768 |
| Other comprehensive income | | - | - |
| Total comprehensive income | | 98,097,677 | 328,684,768 |

The annexed notes 1 to 26 form an integral part of these financial statements.

Chief Executive Officer

Director

THE INDUS HOSPITAL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

| | Note | 2017 | 2016 (Restated) |
|---|---|---|---|
| | | ----------------------Rupees---------------------- | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Surplus for the year | | 98,097,677 | 328,684,768 |
| Adjustments for non-cash expenses and other items: | | | |
| Depreciation | | 152,433,612 | 113,337,316 |
| Amortization | | 1,622,098 | 1,250,010 |
| Inventories written-off | | 12,857,170 | 2,023,042 |
| Loss / (gain) on disposal of fixed assets | | 143,295 | (52,931) |
| Value of services rendered to patients through donations and zakat | | (2,620,360,212) | (2,343,953,477) |
| Value of services rendered to patients through deferred capital grant | | (51,007,578) | (42,034,134) |
| Income from Grant-Funded Research and Development Projects (GFRDP) | | (1,403,409,035) | (302,515,761) |
| | | (3,907,720,650) | (2,571,945,935) |
| **Working capital changes** | | | |
| (Increase) / decrease in current assets: | | | |
| Inventories | | (115,667,470) | 10,236,133 |
| Advances, deposits, prepayments and other receivables | | (406,974,654) | (60,497,782) |
| | | (522,642,124) | (50,261,649) |
| Increase in current liabilities: | | | |
| Trade and other payables | | 362,463,258 | 219,156,918 |
| | | (160,178,866) | 168,895,269 |
| Donations received during the year | | 2,600,199,922 | 2,035,925,177 |
| Donations paid during the year | | (10,935,260) | (1,102,500) |
| Zakat received during the year | | 2,278,909,317 | 1,691,132,220 |
| | | 4,868,173,979 | 3,725,954,897 |
| **Net cash generated from operating activities** | | 898,372,140 | 1,651,588,999 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Capital expenditure | | (1,741,056,085) | (970,198,704) |
| Proceeds received from disposal of property, plant and equipment | | 3,258,330 | 52,931 |
| Purchase of intangible assets | | (1,860,439) | (1,060,200) |
| Investment disposed during the year - net | | 75,668,210 | 75,316,481 |
| Profit received on short term investments | | 104,529,814 | 92,649,338 |
| **Net cash used in investing activities** | | (1,559,460,170) | (803,240,154) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Donations for assets | | 1,634,158,083 | 470,343,570 |
| **Net increase in cash and cash equivalents** | | 973,070,053 | 1,318,692,415 |
| Cash transferred from Islamic Mission Hospital Trust | 1.3 | 11,830,509 | - |
| Cash and cash equivalents at beginning of the year | | 2,080,780,892 | 762,088,477 |
| Cash and cash equivalents at end of the year | 10 | 3,065,681,454 | 2,080,780,892 |

The annexed notes 1 to 26 form an integral part of these financial statements.

Chief Executive Officer

Director

THE INDUS HOSPITAL
STATEMENT OF CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017

| | 2017 | 2016 |
|---|---|---|
| | ------Rupees------ | |
| **Balance at the beginning of the year** | 1,059,907,286 | 731,222,518 |
| Surplus for the year | 98,097,677 | 328,684,768 |
| Other comprehensive income | - | - |
| Total comprehensive income | 98,097,677 | 328,684,768 |
| Net assets of Islamic Mission Hospital Trust transferred - note 1.3 | 55,127,352 | - |
| **Balance as at end of the year** | 1,213,132,315 | 1,059,907,286 |

The annexed notes 1 to 26 form an integral part of these financial statements.

Chief Executive Officer

Director

**THE INDUS HOSPITAL**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED JUNE 30, 2017**

## 1. LEGAL STATUS AND OPERATIONS

1.1 The Indus Hospital (the Hospital) is a not for profit organization incorporated in Pakistan on June 23, 2008 as a company limited by guarantee, not having share capital, under section 42 of the repealed Companies Ordinance, 1984 (now Companies Act, 2017). The registered office of the Hospital is situated at Plot C-76, Sector 31/5, Opposite Darussalam Society, Korangi Crossing, Karachi. The principal objective of the Hospital is to provide medical, housing, educational and other facilities to the under privileged people free of cost and to apply its funds to achieve its objectives through the following fully operational units / locations:

i) Indus Hospital Korangi Campus, Karachi, Sindh;

ii) Indus Dialysis Centre and Family Medicine Clinics, PIB Colony, Karachi, Sindh;

iii) Sheikh Saeed Memorial Maternity Hospital, Korangi, Karachi, Sindh;

iv) Indus Hospital Al Ghazi Campus, Bhong.

The Indus Hospital in collaboration with Qarshi Foundation Trust and Naimat Saleem Trust has undertaken to build a hospital of 550 beds in Block-B Jubilee Town Scheme, Lahore named The Indus Hospital Punjab - Lahore Campus. The Naimat Saleem Trust has transferred the ownership of plots (measuring 25 Kanal-11 Marla-110 Square Feet) having fair market value of Rs. 1,024,000,000 via lease deed for 99 years commencing from May 1, 2017 exclusively for construction of aforementioned hospital. Moreovoer, Qarshi Foundation Trust has also agreed to provide the 45 Kanal adjoining land for the construction of the aforementioned hospital. Both the trusts have also pledged to donate for the construction of the aforementioned hospital.

During the year, the Hospital established a branch office "The Indus Hospital - UAE Branch" (the Branch) in the International Humanitarian City, Dubai, United Arab Emirates. The objective of the Branch is to develop and provide humanitarian services comprising health care awareness and provide therapeutic appliances and equipment. The Branch also collects funds for helping the Hospital to achieve its objective.

In addition to above the Hospital has taken over management and operations of other hospitals as more fully explained in note 1.2.

### 1.2 Hospital management services

The Indus Hospital entered into various agreements with Recep Tayyip Erdogen Hospital Trust (RTEHT) and Government of Sindh to manage different hospitals' operations. The agreement for the management of the Hospitals is generally for the term of 10 to 30 years. As per the terms of the agreement the Hospital shall be responsible for the entire operations and management of the said managed hospitals to provide free of cost services to the patients, for no remuneration, with funding from the respective parties.

1.3 The Indus Hospital entered into an agreement with Islamic Mission Hospital Trust (IMHT) in 2014, whereby IMHT agreed to hand over complete management and control of School of Nursing to The Indus Hospital. As per the terms of the agreement, IMHT has transferred all the assets and liabilities of the Trust and the school to the Indus Hospital and the Board of The Indus Hospital has undertaken to take over the assets and liabilities with effect from June 30, 2017. Detail of net assets transferred is as under:

| | Rupees |
|---|---|
| Operating assets (note 4) | 14,960,534 |
| Advances, deposits, prepayments & other receivables (note 8) | 5,361,331 |
| Short term investments (note 9) | 40,000,000 |
| Bank balances (note 10) | 11,830,509 |
| Trade and other payables (note 13) | (17,025,022) |
| | 55,127,352 |

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

#### 2.1.1 Statement of compliance

These financial statements have been prepared under the historical cost convention, except for remeasurement of certain financial assets and financial liabilities at fair value or amortized cost.

2.1.2 These financial statements have been prepared in accordance with the requirements of the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as notified by the Securities and Exchange Commission of Pakistan (SECP), Accounting Standard for Not for Profit Organisations (Accounting Standard for NPOs) issued by the Institute of Chartered Accountants of Pakistan (ICAP) and provisions of or directives issued under the repealed Companies Ordinance, 1984 (the Ordinance) as required by circular CLD/CCD/PR(11)/2017 dated July 20, 2017 issued by the Securities and Exchange Commission of Pakistan (SECP) and further clarification issued through SECP's press release dated July 20, 2017 that the companies whose financial year, including quarterly and other interim period, closes on or before June 30, 2017 shall prepare their financial statements in accordance with provisions of Companies Ordinance, 1984. However, the requirements as stipulated in the provisions of or the directives of the Ordinance shall prevail where these differ from the IFRSs or Accounting Standard for NPOs.

#### 2.1.3 Critical accounting estimates and judgements

The preparation of financial statements in conformity with the above requirements require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Hospital's accounting policies. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

#### 2.1.4 Initial application of a standard, amendment or an interpretation to an existing Standard

**a) Standards, amendments to published standards and interpretations that are effective in current year**

The following amendments are effective for the year ended June 30, 2017 and are relevant to the Hospital:

- IAS 16 (Amendment), 'Property, plant and equipment' and IAS 38 (Amendment), 'Intangible assets'. This amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The presumption may only be rebutted in certain limited circumstances. These are where the intangible asset is expressed as a measure of revenue; or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. It is unlikely that the amendment will have any significant impact on the Hospital's financial statements.

- IFRS 7 'Financial instruments: Disclosures' relating to servicing contracts. If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognize the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. The standard provides guidance about what is meant by continuing involvement. The amendment is prospective with an option to apply retrospectively. It is unlikely that the amendment will have any significant impact on the Hospital's financial statements.

- IAS 1,'Presentation of Financial Statements'. The amendments provide clarifications on a number of issues, including:

  - Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.

  - Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.

  - Notes – confirmation that the notes do not need to be presented in a particular order.

  - Other Comprehensive Income (OCI) arising from investments accounted for under the equity method. The share of the OCI arising from equity accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss account. Each group should then be presented as a single line item in the statement of comprehensive income.

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on July 1, 2016 are considered not to be relevant or to have any significant effect on the Hospital's financial reporting and operations.

**b) Standards and amendments to published standards that are not yet effective and have not been early adopted by the Hospital**

The following new standards, amendments and interpretations to published standards are not effective for the financial year beginning on July 1, 2016 and have not been early adopted by the Hospital:

- Amendments to IAS 7, Statement of cash flows on disclosure initiative (effective for annual accounting periods beginning on or after 1 January 2017). These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosures can be improved. The amendment will not have any significant impact on the Hospital's financial statements.

- IFRIC 22 'Foreign currency transactions and advance consideration' (effective for annual accounting periods beginning on or after 1 January 2018). This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments / receipts are made. The guidance aims to reduce diversity in practice. The amendment will not have any significant impact on the Hospital's financial statements.

- IFRS 15, 'Revenue from contracts with customers' (effective for accounting periods beginning on or after July 1, 2018). This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The Hospital is yet to assess the full impact of the standard.

- IFRS 9 'Financial instruments' (effective for accounting periods beginning on or after July 1, 2018). This standard replaces the guidance in IAS 39 'Financial instruments : Recognition and measurment'. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. It is unlikely that the standard will have any significant impact on the Hospital's financial statements.

There are a number of other standards, amendments and interpretations to published standards that are not yet effective and are also not relevant to the Hospital's financial reporting or operations and therefore, have not been presented here.

2.2 **Operating assets**

These are stated at historical cost less accumulated depreciation and accumulated impairment, if any.

Depreciation on operating assets is charged to income using the straight-line method at the rates stated in note 4. Depreciation on additions is charged from the month in which the asset is put to use and no depreciation is charged in the month of disposal.

Assets received as donation in kind are initially recognized at fair value and subsequently carried at valuation less accumulated depreciation and accumulated impairment, if any.

Assets residual values and useful lives are reviewed, and adjusted, if appropriate at each balance sheet date.

The carrying values of operating assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of operating assets is the greater of fair value less cost of disposal and value in use.

Subsequent costs are included in the assets' carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Hospital and the cost of the item can be measured reliably. Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired.

Disposal of asset is recognized when significant risks and rewards incidental to ownership have been transferred to the buyer. The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense in the period of disposal or retirement.

2.3 **Capital work-in-progress**

Capital work-in-progress is stated at cost less impairment, if any. Capital work-in-progress consists of expenditure incurred and advances made in respect of tangible and intangible assets in the course of their construction and installation. Transfers are made to relevant operating asset category as and when assets are available for use.

2.4 **Intangible assets - Computer software**

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Hospital and the cost of the asset can also be measured reliably. Intangible assets are carried at cost less accumulated amortization and any accumulated impairment, if any.

Generally, costs associated with maintaining computer software programmes are recognized as an expense as incurred. However, costs that are directly associated with identifiable software and have probable economic benefits exceeding the cost beyond one year, are recognized as an intangible asset. Direct costs include the purchase cost of software and related employee and other overhead costs.

Expenditure which enhances or extends the performance of computer software beyond its original specification and useful life is recognized as a capital improvement and added to the original cost of the software.

Computer software cost treated as intangible asset is amortized from the date the software is put to use on straight-line basis over a period of 5 years. The carrying amount of the intangible assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount.

## 2.5 Financial Instruments

### 2.5.1 Classifications

The Hospital classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale and held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at the time of initial recognition.

a) **At fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

b) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in current assets, except for maturities greater than twelve months after the balance sheet date, which are classified as non-current assets.

c) **Available-for-sale**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within twelve months from the balance sheet date.

d) **Held to maturity**

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity with a positive intention to hold to maturity.

### 2.5.2 Recognition and measurement

All financial assets are recognized at the time when the Hospital becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Hospital commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are charged to the statement of comprehensive income.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Hospital has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method.

Any gain or loss on investments which are acquired from restricted funds is recognized in deferred Income.

### 2.5.3 Financial liabilities

All financial liabilities are recognized at the time when the Hospital becomes a party to the contractual provisions of the instrument.

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A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognized in the statement of comprehensive income.

### 2.5.4 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle either on a net basis, or realise the asset and settle the liability simultaneosuly. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Hospital or the counterparty.

### 2.6 Inventories

Inventories comprise medicines, consumables and general supplies such as surgical supplies, stationery, grocery items, etc. These are valued at lower of cost and net realizable value. Cost is determined on First In First Out (FIFO) basis. Cost comprises the purchase cost and other related costs incurred in bringing the inventories to their present location and condition. Donated inventories are carried at a valuation equivalent to the cost, which would have been incurred in bringing such inventories to their present location and condition had these inventories been purchased. Net realizable value signifies the estimated selling price in the ordinary course of the business, less the estimated cost necessarily to be incurred to make the sale. Provision is made for slow moving and expired stock where necessary.

### 2.7 Stores and spares

These are valued at cost determined using the First In First Out (FIFO) method. Stores and spares are regularly reviewed for impairment and adequate provision is made for obsolete and slow moving items.

### 2.8 Cash and cash equivalents

Cash and cash equivalents for the purpose of statement of cash flows comprise of cash in hand and balances with banks in current, deposit and saving accounts and other short term highly liquid investments with original maturities of three months or less.

### 2.9 Zakat, donations and grants

Zakat and donations for treatment of patients and grants for research and development projects are considered restricted and accounted for on deferral method. Donations and grants restricted for capital expenditure and donations in kind, which are recognized at fair value, are recognised as 'deferred capital grant' when received. Any income from investments made from aforementioned restricted contributions is also accounted for on deferral method.

### 2.9.1 Change in accounting policy

During the year, due to the application of Accounting Standards for NPOs, the Hospital has changed its accounting policy with respect to restricted contributions. Restricted contributions are now recognized as "deferred income" in the balance sheet. Restricted contributions pertaining to capital expenditure are recognized as "deferred capital grant" classified in the balance sheet.

The aforementioned change in accounting policy has been applied retrospectively. Consequently, the related balances of the earliest period presented in the balance sheet and cash flows have been restated which resulted in reclassification as detailed in note 26. There is no effect of the aforementioned change on the statement of comprehensive income and accumulated fund.

### 2.10 Trade and other payables

Trade and other payables are recognized initially at fair value of the consideration to be paid in the future for goods and services received, and are subsequently measured at amortized cost using the effective interest method.

These are classified as current liabilities if payment is due within one year or less. If not, these are presented as non-current liabilities.

### 2.11 Provisions

Provisions are recognized when the Hospital has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are reviewed at each balance sheet date to reflect the current best estimate.

### 2.12 Provident Fund

The Hospital has constituted an approved contributory provident fund for all its permanent employees. Equal monthly contributions are made both by the Hospital and the employees to the Fund at the rate of 10 percent of the basic salary.

### 2.13 Foreign currency transactions and translations

These financial statements are presented in Pakistan Rupees, which is Hospital's functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the statement of comprehensive income.

### 2.14 Income recognition

Income is recognized to the extent it is possible that the economic benefits will flow to the Hospital and income can be measured reliably. Income is measured at fair value of consideration received or receivable and is recognised on the following basis:

- Donations and Zakat received for the Hospital are regarded as restricted contribution and are recognized as income as and when expenses are incurred on providing services to needy / deserving patients. Such Zakat / donations are credited to income on pre-determined service rates as "value of services rendered" which are reviewed by the Hospital quarterly.

- Income on bank deposits and short term investments are recognized on accrual basis.

- Income in respect of Grant Funded Research and Development Projects (GFRDP) is recognized as and when the related expenses are incurred for these projects, and equivalent amount is transferred from deferred income to the statement of comprehensive income.

- Deferred capital grant is recognized as income to match depreciation and amortisation provided during the year on the related capital assets.

- Proceeds generated from sale of food items in the Hospital's cafeteria, being unrestricted receipts, are recognized on receipt basis in the statement of comprehensive income.

### 2.15 Taxation

The Hospital is exempt from income tax under clause 66 Part I of the Second Schedule of the Income Tax Ordinance, 2001. Consequently no provision for taxation was made in these financial statements.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Hospital makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are related to operating and intangible assets. The Hospital reviews appropriateness of the rate of depreciation / amortization, useful life and residual values used for recording the depreciation / amortization on annual basis. Further, where applicable, an estimate of recoverable amount of assets is made for possible impairment on an annual basis.

## 4. OPERATING ASSETS

| | Leasehold land | Building and Civil Work on lease hold land | Plant, Machinery & Equipment | Computers, Printers and Network Cabling | Furniture and Fixtures | Vehicles | Books & others | Total |
|---|---|---|---|---|---|---|---|---|
| | Rupees | | | | | | | |
| **As at July 1, 2015** | | | | | | | | |
| Cost | 345,086,200 | 256,103,857 | 609,265,558 | 40,751,326 | 42,384,422 | 9,918,154 | - | 1,303,509,517 |
| Accumulated depreciation | (15,322,987) | (52,377,497) | (385,895,355) | (26,104,403) | (33,290,897) | (3,307,611) | - | (516,298,750) |
| Net book value | 329,763,213 | 203,726,360 | 223,370,203 | 14,646,923 | 9,093,525 | 6,610,543 | - | 787,210,767 |
| **Year ended June 30, 2016** | | | | | | | | |
| Opening net book value | 329,763,213 | 203,726,360 | 223,370,203 | 14,646,923 | 9,093,525 | 6,610,543 | - | 787,210,767 |
| Additions including transfers - note 5 | - | 7,026,112 | 119,528,458 | 10,150,532 | 4,446,049 | 3,029,240 | - | 144,180,391 |
| **Disposals / Write-offs** | | | | | | | | |
| Cost | - | - | - | (52,931) | - | - | - | (52,931) |
| Accumulated depreciation | - | - | - | 52,931 | - | - | - | 52,931 |
| | - | - | - | - | - | - | - | - |
| Depreciation charge | (3,450,862) | (14,694,841) | (79,525,642) | (9,743,532) | (4,003,734) | (1,918,705) | - | (113,337,316) |
| Closing net book value | 326,312,351 | 196,057,631 | 263,373,019 | 15,053,923 | 9,535,840 | 7,721,078 | - | 818,053,842 |
| **As at July 1, 2016** | | | | | | | | |
| Cost | 345,086,200 | 263,129,969 | 728,794,016 | 50,848,927 | 46,830,471 | 12,947,394 | - | 1,447,636,977 |
| Accumulated depreciation | (18,773,849) | (67,072,338) | (465,420,997) | (35,795,004) | (37,294,631) | (5,226,316) | - | (629,583,135) |
| Net book value | 326,312,351 | 196,057,631 | 263,373,019 | 15,053,923 | 9,535,840 | 7,721,078 | - | 818,053,842 |
| **Year ended June 30, 2017** | | | | | | | | |
| Opening net book value | 326,312,351 | 196,057,631 | 263,373,019 | 15,053,923 | 9,535,840 | 7,721,078 | - | 818,053,842 |
| Additions including transfers - note 5 | 1,024,000,000 | 56,456,474 | 525,161,187 | 48,843,942 | 6,502,748 | 100,047,630 | - | 1,761,011,981 |
| **Transfers from IMHT - note 1.3** | | | | | | | | |
| Cost | - | 25,857,461 | - | 1,432,126 | 1,986,239 | 7,602,749 | 2,194,313 | 39,072,888 |
| Accumulated depreciation | - | (15,634,116) | - | (633,826) | (1,049,789) | (5,542,749) | (1,251,874) | (24,112,354) |
| | - | 10,223,345 | - | 798,300 | 936,450 | 2,060,000 | 942,439 | 14,960,534 |
| **Disposals / Write-offs** | | | | | | | | |
| Cost | - | - | - | (95,730) | - | (3,320,294) | - | (3,416,024) |
| Accumulated depreciation | - | - | - | 14,399 | - | - | - | 14,399 |
| | - | - | - | (81,331) | - | (3,320,294) | - | (3,401,625) |
| Depreciation charge (note 4.1) | (8,500,725) | (14,639,151) | (100,608,509) | (15,802,736) | (5,542,354) | (7,340,137) | - | (152,433,612) |
| Closing net book value | 1,341,811,626 | 248,098,299 | 687,925,697 | 48,812,098 | 11,432,684 | 99,168,277 | 942,439 | 2,438,191,120 |
| **As at June 30, 2017** | | | | | | - | | |
| Cost | 1,369,086,200 | 345,443,904 | 1,253,955,203 | 101,029,265 | 55,319,458 | 117,277,479 | 2,194,313 | 3,244,305,822 |
| Accumulated depreciation | (27,274,574) | (97,345,605) | (566,029,506) | (52,217,167) | (43,886,774) | (18,109,202) | (1,251,874) | (806,114,702) |
| Net book value | 1,341,811,626 | 248,098,299 | 687,925,697 | 48,812,098 | 11,432,684 | 99,168,277 | 942,439 | 2,438,191,120 |
| Annual rate of depreciation (%) | 1 | 5 | 20 | 33 | 20 | 20 | 20 | |

4.1 Comprises of depreciation amounting to Rs. 137,304,471 (2016: Rs. 113,337,316) pertaining to operating expenses and Rs. 15,129,141 (2016: Nil) pertaining to assets purchased on account of Grant Funded Research and Development Projects.

## 5. CAPITAL WORK-IN-PROGRESS

| | Expansion Project | Building and Civil Works | Plant, Machinery & Equipment | Furniture and Fixtures | Vehicle | Intangible | Total |
|---|---|---|---|---|---|---|---|
| | Rupees | | | | | | |
| **Year ended June 30, 2016** | | | | | | | |
| Balance at beginning of the year | 301,712,231 | 13,245,487 | 307,977 | 9,000 | - | - | 315,274,695 |
| Add: Additions during the year | 841,852,647 | 2,391,709 | 3,181,000 | 2,768,643 | - | - | 850,193,999 |
| Less: Transfers - note 4 | - | (4,608,839) | - | - | - | - | (4,608,839) |
| Balance at end of the year | 1,143,564,878 | 11,028,357 | 3,488,977 | 2,777,643 | - | - | 1,160,859,855 |
| **Year ended June 30, 2017** | | | | | | | |
| Balance at beginning of the year | 1,143,564,878 | 11,028,357 | 3,488,977 | 2,777,643 | - | - | 1,160,859,855 |
| Add: Additions during the year | 959,506,321 | 80,230,576 | 58,066,754 | 1,194,183 | 26,825,300 | 6,889,450 | 1,132,712,584 |
| Add: Additions for QFNST during the year | - | 6,954,000 | - | - | - | - | 6,954,000 |
| Less: Transfers - note 4 | (50,141,588) | (2,749,730) | (3,181,000) | - | (25,641,000) | - | (81,713,318) |
| Balance at end of the year | 2,052,929,611 | 95,463,203 | 58,374,731 | 3,971,826 | 1,184,300 | 6,889,450 | 2,218,813,121 |

| | 2017 | 2016 |
|---|---|---|
| | ---Rupees--- | |

## 6. INTANGIBLE ASSETS

| | 2017 | 2016 |
|---|---|---|
| **Net carrying value** | | |
| Balance at beginning of the year | 2,918,487 | 3,108,297 |
| Add: Additions | 1,860,439 | 1,060,200 |
| Less: Amortization charge for the year | (1,622,098) | (1,250,010) |
| Balance at end of the year | 3,156,829 | 2,918,487 |
| **Gross carrying value** | | |
| Cost | 8,610,488 | 6,750,049 |
| Less: Accumulated amortization | (5,453,659) | (3,831,562) |
| Net book value | 3,156,829 | 2,918,487 |

6.1 The cost is being amortized over a period of 5 years.

## 7. INVENTORIES

| | 2017 | 2016 |
|---|---|---|
| Medicines (note 7.2) | 203,433,386 | 116,739,915 |
| Consumables | 103,922,769 | 103,699,708 |
| General | 27,730,868 | 17,373,519 |
| | 335,087,023 | 237,813,142 |
| Stores and spares | 25,032,011 | 19,495,592 |
| | 360,119,034 | 257,308,734 |

7.1 During the year inventories amounting to Rs.12,857,170 (2016: Rs. 2,023,042) were written off.

7.2 This includes Medicines (Lab Kits) aggregating to Nil (2016: Rs. 4,742,200) held with Interactive Research and Development.

7.3 Inventories include medicines, consumables and general supplies amounting to Rs. 75,333,408 (2016: Rs. 21,622,616) held on account of GFRDP.

| | 2017 | 2016 |
|---|---|---|
| | ---Rupees--- | |

## 8. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | 2017 | 2016 |
|---|---|---|
| **Considered Good** | | |
| Advances to: | | |
| - Suppliers and others | 206,694,524 | 59,717,867 |
| - Employees (note 8.1) | 2,012,576 | 211,992 |
| - Global Fund Sub Recipients (SRs) (note 8.2) | 114,430,790 | 52,296,878 |
| - Interactive Research and Development - IRD | 89,465,014 | 35,699,886 |
| Deposits (note 8.4) | 11,125,103 | 9,863,537 |
| Prepayments | 11,892,516 | 11,399,238 |
| Receivable from Civil Hospital Badin (note 8.3) | 146,178,264 | - |
| Receivables from other Hospitals | - | 8,015,286 |
| Other receivables (note 8.5) | 10,113,427 | 3,475,433 |
| Tax refundable / adjustable | 1,103,888 | - |
| | 593,016,102 | 180,680,117 |

8.1 The maximum aggregate amount of advances due from the Chief Executive and directors at the end of any month was Nil (2016: Nil).

8.2 This represents advances given by the Indus Hospital to its Sub Recipients (SRs), Community Health Services (CHS), Frontier Primary Health Care (FPHC) and Baluchistan Rural Support Program (BRSP), for the project titled "Expanding Control to Tuberculosis & Malaria Control Interventions in High Priority Districts of Pakistan" amounting to Rs. 97,385,245 (2016: Nil), Rs. 7,704,523 (2016: Rs. 23,096,162) and Rs. 9,341,022 (2016: Rs. 29,200,716) respectively. The Indus Hospital as Principal Recipient (PR) has received grants for the aforementioned project from The Global Fund and the Sub Recipients are the implementing support partners.

8.3 As explained in note 1.2, the Hospital entered into an agreement with Health Department of the Government of Sindh to take management control and run operations of Civil Hospital Badin. In this connection during the year, an amount of Rs. 126,697,000 (2016: Rs. 121,532,000) was transferred in the Hospital's bank account by Government of Sindh to cover the operational and capital expenditure of the Civil Hospital Badin. Further an amount of Rs. 3,012,512 (2016: Rs. 307,312) was generated from other sources. The Hospital has recorded such funds as "Payable to Civil Hospital Badin" and has disbursed funds amounting to Rs. 336,273,513 (2016: Rs. 61,453,574) against the payable during the year.

8.4 Includes Rs. 242,456 (2016: Nil) on account of deposits transferred from IMHT as explained in note 1.3.

8.5 Includes Rs. 5,118,875 (2016: Nil) on account of other receivables transferred from IMHT as explained in note 1.3.

8.6 As at 30 June, 2017, none of the receivables were past due or impaired.

| | | 2017 | 2016 |
|---|---|---|---|
| | | ----Rupees---- | |
| **9.** | **SHORT TERM INVESTMENTS** | | |
| | **- At fair value through profit or loss** | | |
| | - Meezan Sovereign Fund | 1,373,306 | 406,515 |
| | **- Held to maturity** | | |
| | - Islamic Income Certificate - Habib Metropolitan Bank Limited | 290,122,833 | 375,742,836 |
| | -Term Deposit - Meezan Bank (note 9.1) | 43,500,000 | - |
| | | 333,622,833 | 375,742,836 |
| | | 334,996,139 | 376,149,351 |

9.1 This includes Sharikah Certificate amounting to Rs.40,000,000 (2016: Nil) transferred from IMHT as explained in note 1.3.

| | 2017 | 2016 |
|---|---|---|
| | -----Rupees----- | |

## 10. CASH AND BANK BALANCES

| | 2017 | 2016 |
|---|---|---|
| Cash in hand | 1,848,739 | 600,652 |
| Balances with banks on: | | |
| - current accounts | 229,619,558 | 113,052,341 |
| - savings accounts (note 10.1) | 2,834,213,157 | 1,967,127,899 |
| | 3,063,832,715 | 2,080,180,240 |
| | 3,065,681,454 | 2,080,780,892 |

10.1 These savings accounts carry markup ranging from 2.06% to 5.16% (2016: 1.71% to 7.50%) per annum.

10.2 This includes balance with banks amounting to Rs.11,830,509 (2016: Nil) transferred from IMHT as further explained in note 1.3.

## 11. DEFERRED CAPITAL GRANT

| | 2017 | 2016 (Restated) |
|---|---|---|
| | -----Rupees----- | |
| 11.1 Movement in deferred capital grant is as follows: | | |
| Balance at the beginning of the year | 1,818,189,697 | 1,340,130,671 |
| Add: Deferred capital grant received against: | | |
| - Donation for construction of Paeds Ward | 34,526,880 | 134,687,522 |
| - Donation for other construction and capital expenditure (note 11.3) | 1,143,570,918 | 365,838,791 |
| - Donation in kind | 1,077,909,162 | 19,566,847 |
| - Donation for capital expenditure on account of GFRDP | 467,796,286 | - |
| | 2,723,803,246 | 520,093,160 |
| Less: Deferred capital grant released against: | | |
| - Depreciation on account of other construction and capital expenditure | 12,081,913 | 10,761,572 |
| - Depreciation of donated assets | 38,925,665 | 31,272,562 |
| - Depreciation of assets pertaining to GFRDP (note 4.1) | 15,129,142 | - |
| | 66,136,720 | 42,034,134 |
| Balance at end of the year | 4,475,856,223 | 1,818,189,697 |

11.2 Balance at end of the year comprises of:

| | 2017 | 2016 (Restated) |
|---|---|---|
| - Donation for construction of Paeds Ward | 638,492,568 | 603,965,688 |
| - Donation for other construction & capital expenditure (note 11.3) | 2,201,064,344 | 1,069,575,339 |
| - Donation in kind | 1,183,632,167 | 144,648,670 |
| - Donation for capital expenditure on account of GFRDP | 452,667,144 | - |
| | 4,475,856,223 | 1,818,189,697 |

11.3 Includes donation restricted for expenditure for expansion of the Hospital.

## 12. DEFERRED INCOME

Movement in the deferred income balance is as follows:

| | 2017 | | | | 2016 (Restated) | | | |
|---|---|---|---|---|---|---|---|---|
| | Zakat | Donations | GFRDP | Total | Zakat | Donations | GFRDP | Total |
| | Rupees | | | | | | | |
| **Balance at the beginning of the year** | (64,292,163) | 520,633,212 | 1,123,451,524 | 1,579,792,573 | (69,182,171) | 323,257,887 | 199,403,773 | 453,479,489 |
| Zakat / donations / grants received during the year | 2,278,909,317 | 1,155,295,264 | 1,444,679,658 | 4,878,884,239 | 1,691,132,220 | 805,441,915 | 1,226,563,512 | 3,723,137,647 |
| Donation for Ayesha Blood Centre | - | 225,000 | - | 225,000 | - | 3,919,750 | - | 3,919,750 |
| Profit on short term investments | 1,172,191 | - | - | 1,172,191 | 7,744,157 | - | - | 7,744,157 |
| Profit on daily product account | 8,044,853 | 39,039,718 | 39,052,050 | 86,136,621 | 12,733,989 | 26,349,279 | - | 39,083,268 |
| | 2,288,126,361 | 1,194,559,982 | 1,483,731,708 | 4,966,418,051 | 1,711,610,366 | 835,710,944 | 1,226,563,512 | 3,773,884,822 |
| Value of services rendered to patients | (1,772,791,570) | (847,568,642) | - | (2,620,360,212) | (1,706,720,358) | (637,233,119) | - | (2,343,953,477) |
| Expenses incurred in respect of GFRDP | - | - | (1,388,279,893) | (1,388,279,893) | - | - | (302,515,761) | (302,515,761) |
| Donations utilized to aid other hospitals | - | (10,935,260) | - | (10,935,260) | - | (1,102,500) | - | (1,102,500) |
| | (1,772,791,570) | (858,503,902) | (1,388,279,893) | (4,019,575,365) | (1,706,720,358) | (638,335,619) | (302,515,761) | (2,647,571,738) |
| **Balance as at end of the year** | 451,042,628 | 856,689,292 | 1,218,903,339 | 2,526,635,259 | (64,292,163) | 520,633,212 | 1,123,451,524 | 1,579,792,573 |

12.1 Zakat funds are restricted for expenditure on patients who are entitled to receive Zakat under the Islamic shariah.

12.2 Donations received comprise of contributions subject to implicit external restrictions for treatment of patients of the Hospital.

12.3 Contributions received on account of GFRDP are restricted for the purpose of expenditure for specific projects as per respective grant agreements.

## 13. TRADE AND OTHER PAYABLES

| | 2017 | 2016 |
|---|---|---|
| | Rupees | |
| Creditors (notes 13.1 and 13.6) | 201,382,371 | 147,904,437 |
| Accrued liabilities (note 13.6) | 71,397,774 | 21,355,794 |
| Payable to Provident Fund | 285,403 | 6,082,396 |
| Retention money | 28,376,128 | 36,666,770 |
| Security deposit - IMHT students | 4,228,700 | - |
| Payable to Interactive Research and Development | - | 2,602,290 |
| Payable under Hospital Management Services | | |
| - Tayeb Erdogan Hospital (note 13.2) | 17,206,594 | 81,535,191 |
| - Mian Shahbaz Sharif Hospital - Lahore (note 13.3) | 57,843,669 | 43,484,585 |
| - Civil Hospital Badin | - | 60,385,737 |
| - General Hospital Manawan - Lahore (note 13.4) | 183,685,902 | - |
| - Multan Institute of Kidney Diseases (note 13.5) | 213,967,716 | - |
| | 472,703,881 | 185,405,513 |
| Withholding tax payable | 9,893,465 | 10,295,813 |
| Miscellaneous | 10,082,280 | 8,548,709 |
| | 798,350,002 | 418,861,722 |

13.1 This includes payable to Swiss Pharmaceuticals (Private) Limited, a related party in respect of medical supplies purchased by the Hospital amounting to Rs. 525,878 (2016: Rs. 458,050).

13.2 As explained in note 1.2, the Hospital entered into an agreement with RTEHT to take management control and run operations of the hospital in Muzaffargarh, Punjab, which has been constructed by RTEHT. In this connection during the year, an amount of Rs. 612,108,867 (2016: Rs. 456,679,408) was transferred in the Hospital's bank account by RTEHT to cover the operational and capital expenditure of the Muzaffargarh Hospital. Further an amount of Rs. 14,685,017 (2016: Rs. 5,570,757) was generated from other sources. The Hospital has recorded such funds as "Payable to Tayeb Erdogan Hospital" and has disbursed funds amounting to Rs. 691,122,481 (2016: Rs. 451,553,795) against the payable during the year.

13.3 As explained in note 1.2, the Hospital entered into an agreement with RTEHT to take management control and run operations of 'Mian Shahbaz Sharif Hospital - Lahore', that was in line with earlier arrangement between 'Government of Punjab' and RTEHT by a contract dated, August 01, 2015. In this connection during the year, an amount of Rs. 270,417,100 (2016: Rs. 204,748,794) was transferred in the Hospital's bank account by RTEHT to cover the operational and capital expenditure of Mian Shahbaz Sharif Hospital - Lahore. Further an amount of Rs. 7,157,004 (2016: Rs. 2,086,243) was generated from other sources. The Hospital has recorded such funds as "Payable to Mian Shahbaz Sharif Hospital" and has disbursed funds amounting to Rs. 263,215,020 (2016: Rs. 163,350,453) against the payable during the year.

13.4 As explained in note 1.2, the Hospital entered into an agreement with RTEHT to take management control and run operations of 'General Hospital - Manawan Lahore', that was in line with earlier arrangement between 'Government of Punjab' and RTEHT. In this connection during the year, an amount of Rs. 200,000,000 (2016: Nil) was transferred in the Hospital's bank account by RTEHT to cover the operational and capital expenditure of General Hospital - Manawan Lahore. The Hospital has recorded such funds as "Payable to General Hospital Manawan - Lahore" and has disbursed funds amounting to Rs. 16,314,098 (2016: Nil) against the payable during the year.

13.5 As explained in note 1.2, the Hospital entered into an agreement with RTEHT to take management control and run operations of 'Multan Institute of Kidney Diseases - MIKD Multan', that was in line with earlier arrangement between 'Government of Punjab' and RTEHT. In this connection during the year, an amount of Rs. 221,125,835 (2016: Nil) was transferred in the Hospital's bank account by RTEHT to cover the operational and capital expenditure of Multan Institute of Kidney Diseases - MIKD Multan. The Hospital has recorded such funds as "Payable to Multan Institute of Kidney Diseases - MIKD Multan" and has disbursed funds amounting to Rs. 7,158,119 (2016: Nil) against the payable during the year.

13.6 Creditors include Rs. 360,455 and accrued liabilities include Rs. 12,435,867 transferred from IMHT as explained in note 1.3.

## 14. CONTINGENCIES AND COMMITMENTS

14.1 Out of the facilities of Rs. 700,000,000 (2016: Rs. 275,000,000) for opening letters of credits, the amount utilized as at June 30, 2017 was Rs. 124,005,547 (2016: Rs. 74,819,166).

14.2 Commitments for rentals under operating lease arrangements in respect for rent of offices as at June 30, 2017 amount to Nil (2016: Rs. 19,944,065) and are payable as follows:

| | 2017 | 2016 |
|---|---|---|
| | ----------Rupees---------- | |
| - within one year | - | 9,398,102 |
| - more than one year but less than five years | - | 10,545,963 |
| | - | 19,944,065 |

14.3 Contingent liabilities represent bank guarantees given to following suppliers:

| | 2017 | 2016 |
|---|---|---|
| | ----------Rupees---------- | |
| Canteen Stores Department | 1,000,000 | 1,000,000 |
| Metro Habib Cash & Carry (Private) Ltd. | 2,000,000 | - |
| | 3,000,000 | 1,000,000 |

14.4 Commitments in respect of local and foreign purchases as at June 30, 2017 amount to Rs. 1,131,138,268 (2016: Rs. 331,096,661).

| | 2017 | 2016 |
|---|---|---|
| | -----Rupees----- | |

## 15. OTHER INCOME

| | 2017 | 2016 |
|---|---|---|
| Proceeds from sales of waste materials | 250,000 | 939,170 |
| Income from cafeteria | 17,002,080 | 8,719,260 |
| Recovery of blood test cost | 10,258,339 | 17,940,329 |
| Others | 3,194,397 | 10,233,377 |
| | 30,704,816 | 37,832,136 |

## 16. MEDICINES AND OTHER SUPPLIES CONSUMED

| | 2017 | 2016 |
|---|---|---|
| Opening inventory | 235,686,118 | 255,188,303 |
| Add: Purchases | 840,670,367 | 731,889,934 |
| Less: | | |
| - Inventory written-off (note 7.1) | 12,857,170 | 2,023,042 |
| - Closing inventory | 284,785,626 | 235,686,118 |
| | 778,713,689 | 749,369,077 |

## 17. AUDITOR'S REMUNERATION

| | 2017 | 2016 |
|---|---|---|
| Fee for statutory audit | 400,000 | 200,000 |
| Other certification | 186,000 | - |
| Out of pocket expenses | 284,000 | 120,000 |
| | 870,000 | 320,000 |

## 18. GRANT- FUNDED RESEARCH AND DEVELOPMENT PROJECTS

Grant- funded research and development projects represent projects undertaken by the Hospital either within or outside its premises and funded by specific donors. The details of grant / funds received for these projects during the year and expenditure incurred on these projects are as follows:

Year ended June 30, 2017

| | --Grants / fund received-- | | --Expenditure-- | | | | |
|---|---|---|---|---|---|---|---|
| | Cash Donations / Grants | Donations in- kind | Salaries, wages and benefits | Medicines consumed | Other costs | Total Expenditure | Surplus / (Deficit) |
| | Rupees | | | | | | |
| TB MDR ProjectsRound 9 | 24,029,184 | - | - | 63,671,199 | 26,777,596 | 90,448,795 | (66,419,611) |
| Diabetes Adherence Study | 2,000,000 | - | 751,549 | - | 46,763 | 798,312 | 1,201,688 |
| Diabetes Foot Care Clinic | - | - | 1,044,900 | - | 408,462 | 1,453,362 | (1,453,362) |
| In Vitro Study | - | - | - | - | - | - | - |
| TB Reach Project | 23,620,596 | - | - | - | 259,923 | 259,923 | 23,360,673 |
| Pehla Qadam Project | 260,000 | - | 1,418,770 | - | 4,349,826 | 5,768,596 | (5,508,596) |
| END TB | 3,739,500 | - | 7,149,797 | 28,791 | 905,290 | 8,083,878 | (4,344,378) |
| Malaria Project | - | - | 2,386,389 | - | 49,067 | 2,435,456 | (2,435,456) |
| Club Feet Disability Project | - | - | - | - | 9,770 | 9,770 | (9,770) |
| IMNCI Child Survival Program | - | - | 1,636,122 | - | 252,519 | 1,888,641 | (1,888,641) |
| OPD Medicines | - | - | - | - | - | - | - |
| Rabies Program | 150,000 | - | - | - | 40,825 | 40,825 | 109,175 |
| Diabetes Program | 12,000,000 | - | 6,341,106 | - | 6,058,191 | 12,399,297 | (399,297) |
| KAPS - Knee Arthritis Project | 1,143,598 | - | 2,005,915 | 701,778 | 2,252,571 | 4,960,264 | (3,816,666) |
| Safe Circumcision Study | - | - | 1,414,708 | - | 1,559,634 | 2,974,342 | (2,974,342) |
| Malaria - The Global Fund | 300,348,361 | - | 152,015,214 | - | 184,688,064 | 336,703,278 | (36,354,917) |
| SGI Project | 7,494,052 | - | 3,877,525 | - | 807,064 | 4,684,589 | 2,809,463 |
| Paeds TB Program | 9,913,238 | - | 11,233,775 | 149,568 | 4,116,983 | 15,500,326 | (5,587,088) |
| TD - ABC Project | 5,936,041 | - | 4,882,413 | - | 1,996,038 | 6,878,451 | (942,410) |
| Onco Psychology | 456,000 | | 1,398,915 | 805,500 | 459,196 | 2,663,611 | (2,207,611) |
| TB - The Global Fund | 1,190,756,869 | 306,099,024 | 338,697,645 | 55,219,172 | 487,419,796 | 881,336,613 | 615,519,080 |
| CAD 4 TB | - | - | 478,527 | - | 95,705 | 574,232 | (574,232) |
| Club Foot Disability R-2 | - | - | - | - | 838,412 | 838,412 | (838,412) |
| Hepatitis C Virus - HCV | 15,400,000 | - | 2,862,303 | 1,160,865 | 4,249,032 | 8,272,200 | 7,127,800 |
| HIV Program - The Global Fund | - | - | 6,023,024 | - | 1,476,426 | 7,499,450 | (7,499,450) |
| IVAC Project | - | - | 132,000 | - | 2,888,783 | 3,020,783 | (3,020,783) |
| My Child Matters - MCM | 8,125,693 | - | 815,735 | - | 1,297,318 | 2,113,053 | 6,012,640 |
| Orthopedic Program | - | - | 427,033 | - | 676,687 | 1,103,720 | (1,103,720) |
| PPCCS (Perceptions of Patient Centered Care Study) | - | - | - | - | 100,786 | 100,786 | (100,786) |
| Vero Cell Trial | 1,003,788 | - | 51,048 | 113,699 | 81,123 | 245,870 | 757,918 |
| Zero TB | - | - | - | - | 352,000 | 352,000 | (352,000) |
| Total | 1,606,376,920 | 306,099,024 | 547,044,613 | 121,850,572 | 734,513,850 | 1,403,409,035 | 509,066,909 |

Year ended June 30, 2016

| | --Grants / fund received-- | | --Expenditure-- | | | | |
|---|---|---|---|---|---|---|---|
| | Cash Donations / Grants | Donations in- kind | Salaries, wages and benefits | Medicines consumed | Other costs | Total Expenditure | Surplus / (Deficit) |
| | Rupees | | | | | | |
| TB MDR ProjectsRound 9 | 104,291,053 | 86,518,267 | 66,622,920 | 77,968,397 | 43,176,737 | 187,768,054 | 3,041,266 |
| Diabetes Adherence Study | - | - | 183,880 | 320,748 | 91,016 | 595,644 | (595,644) |
| Diabetes Foot Care Clinic | - | - | 428,417 | - | 42,843 | 471,260 | (471,260) |
| In Vitro Study | 75,000 | - | - | - | 13,513 | 13,513 | 61,487 |
| TB Reach Project | 20,283,837 | - | 7,989,214 | - | 7,674,380 | 15,663,594 | 4,620,243 |
| Pehla Qadam Project | 223,200 | - | 1,510,963 | - | 3,176,742 | 4,687,705 | (4,464,505) |
| END TB | 4,660,138 | - | 233,667 | 83,002 | 228,593 | 545,262 | 4,114,876 |
| Malaria Project | - | - | 2,466,104 | - | 208,148 | 2,674,252 | (2,674,252) |
| Club Feet Disability Project | - | - | - | - | 240,809 | 240,809 | (240,809) |
| IMNCI Child Survival Program | - | - | 1,830,331 | - | 605,484 | 2,435,815 | (2,435,815) |
| OPD Medicines | - | - | 60,651 | - | - | 60,651 | (60,651) |
| Rabies Program | - | - | - | - | 89,547 | 89,547 | (89,547) |
| Diabetes Program | - | - | 4,452,219 | - | 4,698,787 | 9,151,006 | (9,151,006) |
| KAPS - Knee Arthritis Project | 2,232,045 | - | 2,060,839 | 2,418,957 | 3,047,586 | 7,527,382 | (5,295,337) |
| Safe Circumcision Study | 2,000,000 | - | 249,666 | - | 37,084 | 286,750 | 1,713,250 |
| Malaria - The Global Fund | 191,072,254 | - | 33,558,520 | - | 18,046,966 | 51,605,486 | 139,466,768 |
| SGI Project | 1,520,408 | - | 3,211,265 | - | 914,734 | 4,125,999 | (2,605,591) |
| Paeds TB Program | 5,118,582 | - | 3,598,038 | - | 450,705 | 4,048,743 | 1,069,839 |
| TD - ABC Project | 2,072,189 | - | 2,808,878 | - | 408,659 | 3,217,537 | (1,145,348) |
| Onco Psychology | - | - | 565,201 | 634,800 | 299,390 | 1,499,391 | (1,499,391) |
| TB - The Global Fund | 806,496,539 | - | 3,822,046 | - | 1,985,315 | 5,807,361 | 800,689,178 |
| CAD 4 TB | - | - | - | - | - | - | - |
| Club Foot Disability R-2 | - | - | - | - | - | - | - |
| Hepatitis C Virus - HCV | - | - | - | - | - | - | - |
| HIV Program - The Global Fund | - | - | - | - | - | - | - |
| IVAC Project | - | - | - | - | - | - | - |
| My Child Matters - MCM | - | - | - | - | - | - | - |
| Orthopedic Program | - | - | - | - | - | - | - |
| PPCCS (Perceptions of Patient Centered Care Study) | - | - | - | - | - | - | - |
| Vero Cell Trial | - | - | - | - | - | - | - |
| Zero TB | - | - | - | - | - | - | - |
| Total | 1,140,045,245 | 86,518,267 | 135,651,819 | 81,425,904 | 85,438,038 | 302,515,761 | 924,047,751 |

## 19. PROVIDENT FUND

The following information is based upon un-audited financial statements of the provident fund as at June 30, 2017 and audited financial statements as at June 30, 2016:

| | 2017 | 2016 |
|---|---|---|
| | ---Rupees--- | |
| Size of the fund- Total assets | 381,344,947 | 233,495,722 |
| Fair value of investments (note 19.1) | 346,557,955 | 208,172,096 |
| Cost of investments made | 343,744,740 | 207,737,961 |
| | ---%--- | |
| Percentage of investments made | 90 | 89 |

19.1 The break- up of fair value of investments is as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Rupees | % | Rupees | % |
| Term deposit certificates | 308,044,236 | 89% | 4,407,885 | 2% |
| Bank deposits | 38,513,719 | 11% | 203,764,211 | 98% |
| | 346,557,955 | | 208,172,096 | |

19.2 The investments out of the fund have been made in accordance with the provisions of Section 227 of Companies Ordinance, 1984 and the rules formulated for the purpose.

19.3 An amount of Rs. 64,190,407 (2016: Rs. 36,325,966) has been charged during the year in respect of Hospital's contribution to the fund.

## 20. RELATED PARTY TRANSACTIONS

Related parties represent members of Board of Directors (BOD) of the Hospital, trustees of the Islamic Mission Hospital Trust and the Rufayadah Foundation, Managed Hospitals, the key management personnel of the Hospital, entities with common directorship, entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of transactions with related parties are approved by the BOD of the Hospital.

20.1 Transactions with related parties, other than those disclosed elsewhere in these financial statements, are as follows:

| Nature of relationship | Category of Financial Statement | Nature of transaction | Name of Related Party | 2017 Rupees | 2016 Rupees |
|---|---|---|---|---|---|
| Director | Balance sheet | Donation received | Dr. Muhammad Abdullah | 500,000 | - |
| | | | Mr. Tariq N. Siddique | 320,000 | - |
| | | | Mr. Salim Razzak Tabani | 100,000 | 662,600 |
| | | | Mr. Khaliq Ur Rehman | 1,330,000 | - |
| | | | Mr. Tariq Shafi | 4,000,000 | 7,614,500 |
| | | | Abdul Hamid Paracha | 2,000,000 | 1,037,600 |
| Chief Executive Officer | Balance sheet | Donation received | Dr. Abdul Bari Khan | 240,000 | 240,000 |
| Associated Undertaking | Balance sheet | Donation received | Feroze 1888 Mills Limited | 7,718,216 | 17,667,677 |
| | | | Grace Apparel (Private) Limited | 1,000,000 | 250,000 |
| | | | Progressive Traders (Private) Limited | - | 2,200,000 |
| | | | Toyo Packaging (Private) Limited | - | 70,000 |
| | | Donation received in kind | Swiss Pharmaceuticals (Private) Limited | 15,640 | - |
| | Statement of comprehensive income | Purchases | Swiss Pharmaceuticals (Private) Limited | 6,269,996 | 6,889,714 |
| Retirement Benfit Fund | Statement of comprehensive income | Contribution | The Indus Hospital - Provident Fund | 64,190,407 | 36,325,966 |

20.2 All related party transactions are measured at fair value unless otherwise mentioned.

## 20.3 REMUNERATION OF CHIEF EXECUTIVE, FACULTY & OTHER KEY MANAGEMENT PERSONNEL

The aggregate amounts charged in the financial statements in respect of remuneration, including all the benefits to the chief executive, faculty and other key management personal are as follows:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Chief Executive | Faculty | Other Key Management Personnel | Chief Executive | Faculty | Other Key Management Personnel |
| | Rupees | | | | | |
| Management remuneration | 9,832,500 | 119,480,729 | 86,010,595 | 8,550,000 | 105,913,457 | 77,456,907 |
| Retirement benefits | 655,500 | 4,787,946 | 3,769,524 | 570,000 | 5,205,815 | 3,176,292 |
| Total | 10,488,000 | 124,268,675 | 89,780,119 | 9,120,000 | 111,119,272 | 80,633,199 |
| Number of persons including those who worked part of the year | 1 | 35 | 18 | 1 | 26 | 13 |

No remuneration is paid to any director except the Chief Executive of the Hospital.

| | 2017 | 2016 |
|---|---|---|
| **21. NUMBER OF EMPLOYEES** | | |
| Average number of employees during the year | 2,423 | 1,449 |
| Number of employees as at 30 June | 2,801 | 1,558 |

| | 2017 | 2016 |
|---|---|---|
| | Rupees | |
| **22. FINANCIAL INSTRUMENTS BY CATEGORY** | | |
| **22.1 Financial assets as per balance sheet** | | |
| **- At fair value through profit or loss** | | |
| Short term investments | 1,373,306 | 406,515 |
| **- Loans and receivables** | | |
| Deposits and other receivables | 167,416,794 | 21,354,256 |
| Cash and bank balances | 3,065,681,454 | 2,080,780,892 |
| | 3,233,098,248 | 2,102,135,148 |
| **- Held to maturity** | | |
| Short term investments | 333,622,833 | 375,742,836 |
| | 3,568,094,387 | 2,478,284,499 |
| **22.2 Financial liabilities as per balance sheet** | | |
| **- At amortized cost** | | |
| Trade and other payables | 788,171,134 | 402,483,513 |

### 22.3 Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

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The different levels of fair valuation method have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2); and

- Inputs for the asset or liability that are not based on observable market data (level 3).

There was no change in valuation technique during the year.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | ------Rupees------ | | | |
| **Year ended June 30, 2017** | | | | |
| Short term investments | 1,373,306 | - | - | 1,373,306 |
| **Year ended June 30, 2016** | | | | |
| Short term investments | 406,515 | - | - | 406,515 |

## 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### 23.1 Financial risk factors

The Hospital's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Board of Directors has overall responsibility for the establishment and oversight of Hospital's risk management framework. The Board of Directors is also responsible for developing and monitoring the Hospital's risk management policies.

**a) Market risk**

**(i) Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Hospital has no significant currency risk on obligations therefore, the Hospital's income and operating cash flows are substantially independent of changes in foreign exchange rates. As majority of the of the Hospital's financial assets and liabilities are denominated in Pak Rupees, therefore, the Hospital, at present, is not exposed to foreign currency risk.

**(ii) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Hospital does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore, a change in interest rates at the reporting date would not affect surplus of the Hospital. There are no other significant interest-bearing financial instruments.

**(iii) Other price risk**

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Hospital is not materially exposed to other price risk as it does not have any significant price sensitive instruments.

**b) Credit risk**

Credit risk represents the risk of financial loss being caused if counter party fails to discharge an obligation.

Credit risk arises from deposits with banks and financial institutions, trade debts, deposits and other receivables. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit rating. The Hospital monitors the credit quality of its financial assets with reference to historical performance of such assets and available external credit ratings.

Out of the total financial assets of Rs. 3,568,094,387 (2016: Rs. 2,478,284,499), the financial assets exposed to credit risk amount to Rs. 3,566,245,648 (2016: Rs. 2,477,683,847).

The carrying values of financial assets which are neither past due nor impaired are as follows:

| | 2017 | 2016 |
|---|---|---|
| | ------Rupees------ | |
| Deposits and other receivables | 167,416,794 | 21,354,256 |
| Short term investments | 334,996,139 | 376,149,351 |
| Cash and bank balances | 3,065,681,454 | 2,080,780,892 |
| | 3,568,094,387 | 2,478,284,499 |

Credit risk from bank deposits and short term investments is managed by placing deposits /making investments with banks/ mutual funds having sound credit ratings. The credit quality of Hospital's bank balances and short term investments can be assessed with reference to external credit ratings as follows:

| Bank / Mutual funds | Rating agency | Rating Short term | Rating Long term |
|---|---|---|---|
| Dubai Islamic Bank Pakistan Limited | JCR-VIS | A-1 | A+ |
| BankIslami Pakistan Limited | PACRA | A1 | A+ |
| United Bank Limited | JCR-VIS | A-1+ | AAA |
| Al-Baraka Islamic Bank (Pakistan) Limited | PACRA | A1 | A |
| Standard Chartered Bank (Pakistan) Limited | PACRA | A1+ | AAA |
| Bank Al-Falah Limited | PACRA | A1+ | AA |
| Habib Bank Limited | JCR-VIS | A-1+ | AAA |
| MCB Islamic Bank Limited | PACRA | A1 | A |
| Habib Metropolitan Bank Limited | PACRA | A1+ | AA+ |
| Bank Al-Habib | PACRA | A1+ | AA+ |
| Meezan Bank Ltd | JCR-VIS | A-1+ | AA |
| Sindh Bank Ltd | JCR-VIS | A-1+ | AA |
| Al-Meezan Investment Management Limited | JCR-VIS | - | AM1 |

**c) Liquidity risk**

Liquidity risk represents the risk that the Hospital will encounter difficulties in meeting obligations associated with financial liabilities. The Hospital's liquidity management involves maintaining sufficient cash, projecting cash flows and considering the level of liquid assets necessary to meet obligations associated with financial liabilities.

The table below analyses the Hospital's financial liabilities held at amortized cost into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | June 30, 2017 | | | June 30, 2016 | | |
|---|---|---|---|---|---|---|
| | Maturity upto one year | Maturity after one year | Total | Maturity upto one year | Maturity after one year | Total |
| | Rupees | | | | | |
| Trade and other payables | 788,171,134 | - | 788,171,134 | 402,483,513 | - | 402,483,513 |

## 24. FUND MANAGEMENT

The Hospital's objective when managing fund balances is to safeguard its ability to continue as a going concern and to maintain a strong fund base to support the sustained development of its operations.

## 25. CORRESPONDING FIGURES

Following reclassifications were considered necessary due to the change in accounting policy, as explained in note 2.9.1:

| Description | Head of account in financial statements for the year ended June 30, 2015 and June 30, 2016 | Head of account in financial statements for the year ended June 30, 2017 | 2016 | 2015 |
|---|---|---|---|---|
| | | | Rupees | |
| **Balance Sheet** | | | | |
| Restricted fund | Restricted fund | Deferred capital grant | 1,818,189,697 | 1,340,130,671 |
| Restricted fund | Restricted fund | Deferred income | 1,579,792,573 | 453,479,489 |
| **Statement of Comprehensive Income** | | | | |
| Income | | | | |
| Value of services rendered to patients through donation | Value of services rendered to patients through donations | Value of services rendered to patients through deferred capital grant | 42,034,134 | - |
| **Statement of Cash flows** | | | | |
| Zakat received during the year | Cash flows from financing activities | Cash flows from operating activities | 1,691,132,220 | - |
| Donations paid during the year | Cash flows from financing activities | Cash flows from operating activities | 1,102,500 | - |
| Donations received during the year | Cash flows from financing activities | Cash flows from operating activities | 2,035,925,177 | - |

The effect of other reclassifications is not material.

26. These financial statements were approved and authorized for issue on 2 2 NOV 2017 by the Board of Directors of the Hospital.

Chief Executive

Director

# OPERATIONS OF RECEP TAYYIP ERDOGAN HOSPITAL, MUZAFFARGARH
## (MANAGED BY THE INDUS HOSPITAL)

## SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

pwc

A·F·FERGUSON&Co.

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of The Indus Hospital.

### Opinion

We have audited the accompanying special purpose financial statements of the 'Operations of Recep Tayyip Erdogan Hospital, Muzaffargarh managed by the Indus Hospital' (the Project), which comprises of the balance sheet as at June 30, 2017 and the related income and expenditure account and cash flow statement for the year ended June 30, 2017 and a summary of significant accounting policies and other explanatory information.

In our opinion, the special purpose financial statements of the Project present fairly, in all material respects, the financial position of the Project as at June 30, 2017 and its surplus and its cash flows for the year ended June 30, 2017, in accordance with the basis of preparation as stated in note 2.1 to the special purpose financial statements.

### Basis for Opinion

We conducted our audit in accordance with approved auditing standards as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Project in accordance with the ethical requirements that are relevant to our audit of the financial statements in Pakistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to note 2.1 to the special purpose financial statements, which describes the basis of accounting and the use of the financial statements. As a result these special purpose financial statements may not be suitable for another purpose. Our report is intended solely for the internal use of the management of the Indus Hospital and Recep Tayyip Erdogan Hospital Trust and for submission to the Government of Punjab.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

The management of the Indus Hospital is responsible for the preparation of these special purpose financial statements in accordance with the basis of preparation stated in note 2.1 to the special purpose financial statements, and for such internal control as management of the Indus Hospital determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved auditing standards as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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As part of an audit in accordance with the auditing standards as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Project's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Chartered Accountants**
**Karachi**
**Date: January 3, 2018**

**Engagement Partner: Waqas A. Sheikh**

OPERATIONS OF RECEP TAYYIP ERDOGAN HOSPITAL
(MANAGED BY THE INDUS HOSPITAL)
BALANCE SHEET AS AT JUNE 30, 2017

| | Note | June 30, 2017 | June 30, 2016 |
|---|---|---|---|
| | | ----------Rupees---------- | |
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 5 | 408,084,831 | 357,335,826 |
| Intangible assets | 6 | 685,484 | 1,028,226 |
| | | 408,770,315 | 358,364,052 |
| **Current Assets** | | | |
| Inventories | 7 | 50,658,007 | 60,816,099 |
| Advances, deposits and other receivables | 8 | 6,762,098 | 4,207,213 |
| Receivable from The Indus Hospital | 9 | 17,206,594 | 81,535,191 |
| Short term investment | 10 | 81,600,000 | - |
| Cash in hand | | 194,479 | 213,248 |
| | | 156,421,178 | 146,771,751 |
| **Total Assets** | | 565,191,493 | 505,135,803 |
| **Funds** | | | |
| Restricted Fund | 11 | 81,020,206 | 76,460,501 |
| Deferred Capital Grant | 12 | 462,972,030 | 412,101,080 |
| | | 543,992,236 | 488,561,581 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 13 | 21,199,257 | 16,574,222 |
| **Total Funds and Liabilities** | | 565,191,493 | 505,135,803 |
| **Contingencies and Commitments** | | - | - |

The annexed notes 1 to 19 form an integral part of these financial statements.

Chief Executive Officer

Director

OPERATIONS OF RECEP TAYYIP ERDOGAN HOSPITAL
(MANAGED BY THE INDUS HOSPITAL)
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2017

| | Note | June 30, 2017 | June 30, 2016 |
|---|---|---|---|
| | | Rupees | |
| **Income** | | | |
| Value of services rendered to patients financed through restricted fund and Deferred capital grant utilized | 14 | 586,215,294 | 416,460,419 |
| Other income | 15 | 13,275,401 | 5,570,757 |
| | | 599,490,695 | 422,031,176 |
| **Expenditure** | | | |
| Salaries, wages and other benefits | | 273,265,173 | 197,422,605 |
| Medicines and related supplies consumed | 16 | 187,890,741 | 118,730,214 |
| Utilities | | 29,226,885 | 24,290,947 |
| Technical and professional services | | 22,356,824 | 17,350,900 |
| Depreciation | 5.1 | 41,925,175 | 29,023,338 |
| Amortization | 6.1 | 342,742 | 342,742 |
| Training and development | | 2,128,153 | 2,509,777 |
| Security services | | 8,685,839 | 7,794,853 |
| Patient and staff meal expenses | | 21,657 | 10,157 |
| Travelling and transportation | | 7,245,359 | 5,027,814 |
| Repairs and maintenance | | 916,431 | 2,419,635 |
| Uniform and laundry | | 3,996,233 | 3,211,766 |
| Freight expenses | | 2,423,057 | 1,207,731 |
| Insurance / Takaful | | 4,959,046 | 4,311,449 |
| Communication charges | | 2,192,079 | 2,234,090 |
| Advertising and marketing | | 1,636,233 | 942,229 |
| Printing, stationery and courier | | 463,662 | 349,595 |
| Out-sourced diagnostics charges | | - | 57,160 |
| Auditor's remuneration | | 257,234 | 268,750 |
| Other expenses | | 1,182,985 | 1,018,510 |
| Research Project Cost (Public Health Initiative) | | 8,375,187 | 3,506,914 |
| **TOTAL EXPENDITURE** | | 599,490,695 | 422,031,176 |
| **Surplus for the year** | | - | - |

The annexed notes 1 to 19 form an integral part of these financial statements.

Chief Executive Officer

Director

OPERATIONS OF RECEP TAYYIP ERDOGAN HOSPITAL
(MANAGED BY THE INDUS HOSPITAL)
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2017

| | Note | June 30, 2017 | June 30, 2016 |
|---|---|---|---|
| | | Rupees | |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Surplus for the year | | - | - |
| Adjustments for non-cash charges and other items: | | | |
| Depreciation | | 41,925,175 | 29,023,338 |
| Amortization | | 342,742 | 342,742 |
| Value of services rendered to patients and financed through restricted fund and deferred capital grant utilized | | (586,215,294) | (416,460,419) |
| Donations received in kind | | 28,743,616 | 20,843,860 |
| | | (515,203,761) | (366,250,479) |
| **Working capital changes** | | | |
| (Increase) / decrease in current assets: | | | |
| Inventories | | 10,158,092 | (25,953,499) |
| Advances, deposits and other receivables | | (2,554,885) | 1,003,447 |
| Receivable from The Indus Hospital | | 64,328,597 | (10,696,369) |
| | | 71,931,804 | (35,646,421) |
| (Increase) / decrease in current liabilities: | | | |
| Trade and other payables | | 4,625,035 | (15,179,252) |
| | | 76,556,839 | (50,825,673) |
| **Net cash utilized in operating activities** | | (438,646,922) | (417,076,152) |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | (92,674,180) | (39,804,834) |
| Profit on donation bank account | | 793,466 | - |
| **Net cash utilized in investing activities** | | (91,880,714) | (39,804,834) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Donations received during the year | | 594,508,867 | 456,679,408 |
| Zakat received during the year | | 17,600,000 | - |
| Net cash generated from financing activities | | 612,108,867 | 456,679,408 |
| Net increase / (decrease) in cash and cash equivalents | | 81,581,231 | (201,578) |
| Cash and cash equivalents at beginning of the year | | 213,248 | 414,826 |
| Cash and cash equivalents at end of the year | 17 | 81,794,479 | 213,248 |

The annexed notes 1 to 19 form an integral part of these financial statements.

**Chief Executive Officer**

Director

## 1. GENERAL INFORMATION

1.1 Recep Tayyip Erdogan Hospital (the Hospital) has been constructed in District Muzaffargarh, Punjab, Pakistan by the Turkish International Co-operation and Development Agency (TIKA) as a gift by the Government and People of Republic of Turkey, to provide state of the art medical and surgical services to the people of Pakistan, particularly to the poor and deserving people on free of cost basis.

1.2 A tri-party agreement was entered between Recep Tayyip Erdogan Hospital Trust (RTEHT), Government of Punjab, Health Department (GoPb) and the District Government, Muzaffargarh whereby the parties have agreed as follows:

- GoPb shall handover and transfer complete control of the Hospital to the RTEHT;

- District Government will transfer the title of Hospital's existing land as well as additional land required for expansion to RTEHT, however, ownership will remain with the District Government;

- GoPb and the District Government will transfer the funds to RTEHT for the face value of construction and equipment required for the Hospital and medical college;

- GoPb and the District Government will pay 70% of recurrent annual running/operational cost of the Hospital for the first 7 years and thereafter 50% from ensuing year; and

- GoPb and District Government shall not interfere in the decisions of the RTEHT and the RTEHT will work independently in all decisions.

1.3 Further, a separate agreement was entered into between RTEHT and The Indus Hospital (TIH), whereby RTEHT handed over complete control and operations of the Hospital to TIH. As per the agreement, TIH will be responsible for the entire operations and the management of the Hospital to provide free of cost services to the patients.

## 2. BASIS OF PREPARATION

### 2.1 Accounting convention and statement of compliance

These financial statements are a special purpose financial statements of the operations of the Hospital (the Project), as managed by TIH. These financial statements have been prepared for the internal use of the management of TIH and RTEHT, and for submission to GoPb.

These special purpose financial statements have been prepared under the historical cost convention in accordance with the requirements of Accounting and Financial Reporting Standards for Small-Sized Entities (SSEs) issued by the Institute of Chartered Accountants of Pakistan.

### 2.2 Functional and presentation currency

These special purpose financial statements are presented in Pakistan Rupees which is the functional currency of TIH.

### 2.3 Foreign currency transactions and translation

Transactions in foreign currencies are translated into Pakistan Rupees using exchange rates prevailing at the dates of transactions. Foreign exchange gains or losses resulting from settlement of transactions and from translation at year end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognized in the income and expenditure account.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with the above requirements require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Hospital's accounting policies. The areas involving higher degree of judgement or complexity, or areas where assumption and estimates are significant to the financial statements are disclosed below.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Hospital makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are as follows:

### 3.1 Operating assets and intangible assets

The Hospital reviews appropriateness of the rate of depreciation / amortization, useful life and residual values used for recording the depreciation / amortization on annual basis. Further, where applicable, an estimate of recoverable amount of assets is made for possible impairment on an annual basis.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these special purpose financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### 4.1 Property, plant and equipment

These are stated at cost less accumulated depreciation and impairment, if any, except for capital work in progress. Capital work in progress is stated at historical cost less impairment, if any.

Capital work-in-progress consists of expenditure incurred and advances made in respect of tangible and intangible assets in the course of their construction and installation. Transfers are made to relevant operating asset category as and when assets are available for use.

Depreciation on an asset is charged to income using the straight-line method whereby the cost of an asset is written off over its estimated useful life at the rates stated in note 4.1 to the special purpose financial statements. Depreciation on additions is charged from the month in which the asset is put to use and no depreciation is charged in the month of disposal.

Assets received as donation in kind are initially recognized at fair value and subsequently carried at the determined fair value recognized less accumulated depreciation and impairment, if any.

Gains and losses on disposal or retirement of assets are recognized in income and expenditure account currently.

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

Subsequent costs are included in the assets' carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Hospital and the cost of the item can be measured reliably. Maintenance and normal repairs are charged to income and expenditure account as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired.

### 4.2 Intangible assets - Computer software

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Hospital and the cost of the asset can also be measured reliably.

Generally, costs associated with maintaining computer software programmes are recognized as an expense as incurred. However, costs that are directly associated with identifiable software and have probable economic benefits exceeding the cost beyond one year, are recognized as an intangible asset. Direct costs include the purchase cost of software and related employee and other overhead costs.

Expenditure which enhances or extends the performance of computer software beyond its original specification and useful life is recognized as a capital improvement and added to the original cost of the software.

Computer software cost treated as intangible assets are amortized from the date the software is put to use on straight-line basis over a period of 5 years. The carrying amount of the intangible assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount.

**4.3 Inventories**

Inventories comprise medicines, consumables and general supplies such as surgical supplies, stationery, grocery items, etc. These are carried at cost, determined on first in first out (FIFO) basis. Cost comprises the purchase cost and other related costs incurred in bringing the inventories to their present location and condition. Donated inventories are carried at a valuation equivalent to the cost, which would have been incurred in bringing such inventories to their present location and condition had these inventories been purchased.

**4.4 Stores and spares**

These are valued at cost determined using the first in first out (FIFO) method. Stores and spares are regularly reviewed for impairment and adequate provision is made for obsolete and slow moving items.

**4.5 Cash and cash equivalents**

Cash and cash equivalent for the purpose of cash flow statement comprises of cash in hand and balances with banks in current, deposit and saving accounts.

**4.6 Donations and grants**

Donations and grants are accounted for on receipt basis. Donations in kind are recognized at fair value determined at the time when the donations are received.

**4.7 Restricted funds**

Zakat and donations contributed by the donors for operations of the Hospital are initially recognized under 'Restricted Fund' upon receipt.

Donations and grants restricted in its use by the donors are utilized for the purpose specified and are classified accordingly as 'Restricted Fund'. Any income from investments made from such restricted donations and grants are also credited directly to the 'Restricted Fund'.

**4.8 Trade and other payables**

Trade and other payables are recognized initially at fair value of the consideration to be paid in the future for goods and services received, and are subsequently measured at amortized cost using the effective interest method.

These are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, these are presented as non-current liabilities.

**4.9 Provident fund**

A contributory provident fund has been constituted by TIH for all permanent employees hired for the Project. Equal monthly contributions are made both by TIH and the employees to the Fund at the rate of 10 percent of basic salary.

### 4.10 Revenue recognition

- The 'Restricted Fund' is adjusted for the operating expenditure incurred during the year for running the operations of the Hospital.

- Donations for capital assets is classified as deferred capital grant in the balance sheet. A portion of deferred capital grant is released to income, equivalent to the depreciation, amortization and write-off during the year on related capital items.

- Income on bank deposits and short term investment is recognized on accrual basis.

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| | ---Rupees--- | |
| **5. PROPERTY, PLANT AND EQUIPMENT** | | |
| Operating assets - note 5.1 | 381,455,645 | 348,735,826 |
| Capital work-in-progress - note 5.2 | 26,629,186 | 8,600,000 |
| | 408,084,831 | 357,335,826 |

### 5.1 Operating assets

| | Building and Civil Works | Plant, Machinery & Equipment | Computers, Printers and Network Cabling | Furniture and Fixtures | Vehicles | Total |
|---|---|---|---|---|---|---|
| | ---Rupees--- | | | | | |
| **Year ended June 30, 2016** | | | | | | |
| Opening net book value | 8,172,852 | 14,982,631 | 11,591,930 | 11,287,039 | 1,231,817 | 47,266,269 |
| Additions including transfers - note 5.2 | 322,874,679 | 4,805,253 | 346,750 | 2,466,213 | - | 330,492,895 |
| Depreciation charge | (16,559,303) | (3,941,957) | (5,338,485) | (2,901,701) | (281,892) | (29,023,338) |
| Closing net book value | 314,488,228 | 15,845,927 | 6,600,195 | 10,851,551 | 949,925 | 348,735,826 |
| **As at June 30, 2016** | | | | | | |
| Cost | 331,186,054 | 22,387,797 | 16,308,721 | 15,576,423 | 1,409,460 | 386,868,455 |
| Accumulated depreciation | (16,697,826) | (6,541,870) | (9,708,526) | (4,724,872) | (459,535) | (38,132,629) |
| Closing net book value | 314,488,228 | 15,845,927 | 6,600,195 | 10,851,551 | 949,925 | 348,735,826 |
| **Year ended June 30, 2017** | | | | | | |
| Opening net book value | 314,488,228 | 15,845,927 | 6,600,195 | 10,851,551 | 949,925 | 348,735,826 |
| Additions including transfers- note 5.2 | 19,095,534 | 54,386,300 | 343,000 | 670,160 | 150,000 | 74,644,994 |
| Depreciation charge | (17,514,079) | (15,354,819) | (5,495,068) | (3,249,317) | (311,892) | (41,925,175) |
| Closing net book value | 316,069,683 | 54,877,408 | 1,448,127 | 8,272,394 | 788,033 | 381,455,645 |
| **As at June 30, 2017** | | | | | | |
| Cost | 350,281,588 | 76,774,097 | 16,651,721 | 16,246,583 | 1,559,460 | 461,513,449 |
| Accumulated depreciation | (34,211,905) | (21,896,689) | (15,203,594) | (7,974,189) | (771,427) | (80,057,804) |
| Net book value | 316,069,683 | 54,877,408 | 1,448,127 | 8,272,394 | 788,033 | 381,455,645 |
| **Annual rate of depreciation** | 5% | 20% | 33% | 20% | 20% | |

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| | ---Rupees--- | |

**5.2 Capital work-in-progress**
**- Building and Civil Works**

| | | |
|---|---|---|
| Balance at beginning of the year | 8,600,000 | 299,288,061 |
| Add: Additions during the year | 26,629,186 | 32,186,618 |
| Less: Transfers to operating assets - note 5.1 | (8,600,000) | (322,874,679) |
| Balance at end of the year | 26,629,186 | 8,600,000 |

## 6. INTANGIBLE ASSETS

**- Computer Software**

| | | |
|---|---|---|
| Balance at beginning of the year | 1,028,226 | 1,370,968 |
| Less: Amortization charge for the year - note 6.1 | (342,742) | (342,742) |
| Balance at end of the year | 685,484 | 1,028,226 |
| Cost | 1,713,710 | 1,713,710 |
| Less: Accumulated amortization | (1,028,226) | (685,484) |
| Net carrying value | 685,484 | 1,028,226 |

6.1 The cost is being amortized over a period of 5 years.

## 7. INVENTORIES

| | | |
|---|---|---|
| Medicine | 32,329,230 | 42,188,715 |
| Food supplies, stationery and tools | 18,328,777 | 18,627,384 |
| | 50,658,007 | 60,816,099 |

## 8. ADVANCES, DEPOSITS AND OTHER RECEIVABLES

| | | |
|---|---|---|
| Advances to suppliers and others | 3,168,348 | 1,471,940 |
| Deposits | 3,537,000 | 1,753,000 |
| Other receivables | 56,750 | 982,273 |
| | 6,762,098 | 4,207,213 |

## 9. RECEIVABLE FROM THE INDUS HOSPITAL

| | | |
|---|---|---|
| Balance at beginning of the year | 81,535,191 | 70,838,822 |
| Add: Funds received from RTEHT - notes 11 & 12 | 612,108,867 | 456,679,408 |
| Add: Other receipts | 14,068,867 | 5,570,757 |
| Less: Payment made for capital expenditure and operations of the Hospital | (690,506,331) | (451,553,796) |
| | 17,206,594 | 81,535,191 |

## 10. SHORT TERM INVESTMENT

Represents Term Deposits placed with Meezan Bank Limited having maturity of one month. These deposits carry return of 5.5% per annum.

## 11. RESTRICTED FUND

| | June 30, 2017 Zakat | June 30, 2017 Donations | June 30, 2017 Total | June 30, 2016 Zakat | June 30, 2016 Donations | June 30, 2016 Total |
|---|---|---|---|---|---|---|
| | ----------Rupees---------- | | | ----------Rupees---------- | | |
| Balance at the beginning of the year | - | 76,460,501 | 76,460,501 | - | 73,767,439 | 73,767,439 |
| Add: | | | | | | |
| Zakat / Donations received from RTEHT - note 9 | 17,600,000 | 501,370,000 | 518,970,000 | - | 370,000,000 | 370,000,000 |
| Donations in kind | - | 28,743,616 | 28,743,616 | - | 19,787,401 | 19,787,401 |
| Profit on donation account | - | 793,466 | 793,466 | - | - | - |
| | 17,600,000 | 530,907,082 | 548,507,082 | - | 389,787,401 | 389,787,401 |
| Less: | | | | | | |
| Value of services rendered to patients - note 14 | - | (543,947,377) | (543,947,377) | - | (387,094,339) | (387,094,339) |
| Balance at end of the year | 17,600,000 | 63,420,206 | 81,020,206 | - | 76,460,501 | 76,460,501 |

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| | ----------Rupees---------- | |
| **12. DEFERRED CAPITAL GRANT** | | |
| Balance at beginning of the year | 412,101,080 | 353,731,293 |
| Add: | | |
| - Donations from RTEHT for capital expenditure - note 9 | 93,138,867 | 86,679,408 |
| - Donations in kind | - | 1,056,459 |
| | 93,138,867 | 87,735,867 |
| Less: | | |
| Deferred capital grant released - note 14 | (42,267,917) | (29,366,080) |
| Balance at end of the year | 462,972,030 | 412,101,080 |
| **13. TRADE AND OTHER PAYABLES** | | |
| Creditors | 16,901,312 | 12,856,769 |
| Accrued liabilities | 4,297,945 | 3,717,453 |
| | 21,199,257 | 16,574,222 |
| **14. INCOME** | | |
| Value of services rendered to patients financed through Restricted Fund - note 11 | 543,947,377 | 387,094,339 |
| Deferred capital grant released - note 12 | 42,267,917 | 29,366,080 |
| | 586,215,294 | 416,460,419 |
| **15. OTHER INCOME** | | |
| Revenue from sale of waste material | - | 340,472 |
| Revenue from cafeteria sales | 7,456,233 | 5,105,184 |
| Exchange gain | 2,235,842 | 125,101 |
| Employee accomodation and meal recoveries | 2,617,009 | - |
| Others | 966,317 | - |
| | 13,275,401 | 5,570,757 |
| **16. MEDICINES AND OTHER SUPPLIES CONSUMED** | | |
| Opening inventory | 60,816,099 | 34,862,600 |
| Add: Purchases | 177,732,649 | 144,683,713 |
| Closing inventory - note 7 | (50,658,007) | (60,816,099) |
| | 187,890,741 | 118,730,214 |

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| | ----------Rupees---------- | |

**17. CASH AND CASH EQUIVALENTS**

| | | |
|---|---|---|
| Short term investment | 81,600,000 | - |
| Cash in hand | 194,479 | 213,248 |
| | 81,794,479 | 213,248 |

| | 2017 | 2016 |
|---|---|---|
| | ------Number of employees------ | |

**18. NUMBER OF EMPLOYEES**

| | | |
|---|---|---|
| Average number of employees during the year | 563 | 451 |
| Number of employees as at June 30 | 591 | 524 |

**19. DATE OF AUTHORIZATION FOR ISSUE**

These special purpose financial statements were approved and authorized for issue on ____________ by the Board of Directors of The Indus Hospital.

**Chief Executive Officer**

**Director**

# OPERATIONS OF MIAN MUHAMMAD SHAHBAZ SHARIF HOSPITAL, BEDIAN ROAD, LAHORE
# (MANAGED BY THE INDUS HOSPITAL)

## SPECIAL PURPOSE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED JUNE 30, 2017

pwc

A·F·FERGUSON&Co.

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of The Indus Hospital.

**Opinion**

We have audited the accompanying special purpose financial statements of the 'Operations of Mian Muhammad Shahbaz Sharif Hospital managed by The Indus Hospital' (the Project), which comprises of the balance sheet as at June 30, 2017 and the related income and expenditure account and cash flow statement for the year ended June 30, 2017 and a summary of significant accounting policies and other explanatory information.

In our opinion, the special purpose financial statements of the Project present fairly, in all material respects, the financial position of the Project as at June 30, 2017 and its surplus and its cash flows for the year ended June 30, 2017, in accordance with the basis of preparation as stated in note 2.1 to the special purpose financial statements.

**Basis for Opinion**

We conducted our audit in accordance with approved auditing standards as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Project in accordance with the ethical requirements that are relevant to our audit of the financial statements in Pakistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Basis of Accounting and Restriction on Distribution and Use**

Without modifying our opinion, we draw attention to note 2.1 to the special purpose financial statements, which describes the basis of accounting and the use of the financial statements. As a result these special purpose financial statements may not be suitable for another purpose. Our report is intended solely for the internal use of the management of the Indus Hospital and Recep Tayyip Erdogan Hospital Trust and for submission to the Government of Punjab.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

The management of The Indus Hospital is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with the basis of preparation stated in note 2.1 to the special purpose financial statements, and for such internal control as management of the Indus Hospital determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved auditing standards as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

*A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network*
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As part of an audit in accordance with the auditing standards as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Project's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

**Chartered Accountants**
**Karachi**
**Date: January 3, 2018**

**Engagement Partner: Waqas A. Sheikh**

OPERATIONS OF MIAN MUHAMMAD SHAHBAZ SHARIF HOSPITAL
(MANAGED BY THE INDUS HOSPITAL)
BALANCE SHEET AS AT JUNE 30, 2017

| | Note | June 30, 2017 | June 30, 2016 |
|---|---|---|---|
| | | Rupees | |
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 5 | 101,104,128 | 94,443,960 |
| Intangible assets | 6 | 2,203,214 | 2,820,451 |
| | | 103,307,342 | 97,264,411 |
| **Current Assets** | | | |
| Inventories | 7 | 25,518,428 | 13,654,220 |
| Advances, deposits, prepayments and other receivables | 8 | 3,774,583 | 7,424,129 |
| Receivable from The Indus Hospital | 9 | 57,843,667 | 43,484,584 |
| Cash in hand | | 161,731 | 178,276 |
| | | 87,298,409 | 64,741,209 |
| **Total Assets** | | 190,605,751 | 162,005,620 |
| **FUNDS** | | | |
| Restricted Fund | 10 | 66,883,275 | 49,217,867 |
| Deferred Capital Grant | 11 | 103,307,342 | 99,590,776 |
| | | 170,190,617 | 148,808,643 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 12 | 20,415,134 | 13,196,977 |
| **Total Funds and Liabilities** | | 190,605,751 | 162,005,620 |
| **Contingencies and Commitments** | | - | - |

The annexed notes 1 to 18 form an integral part of these financial statements.

**Chief Executive Officer** **Director**

OPERATIONS OF MIAN MUHAMMAD SHAHBAZ SHARIF HOSPITAL
(MANAGED BY THE INDUS HOSPITAL)
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2017

| | Note | June 30, 2017 | December 11, 2015 to June 30, 2016 |
|---|---|---|---|
| | | ----------Rupees---------- | |
| **INCOME** | | | |
| Value of services rendered to patients financed through restricted fund and Deferred capital grant released | 13 | 280,484,251 | 124,664,488 |
| Other income | 14 | 628,244 | 158,080 |
| **Total Income** | | 281,112,495 | 124,822,568 |
| **EXPENDITURE** | | | |
| Salaries, wages and other benefits | | 152,790,364 | 56,728,279 |
| Medicines and related supplies consumed | 15 | 71,268,415 | 37,495,562 |
| Utilities | | 7,777,251 | 3,987,715 |
| Technical and professional services | | 142,499 | 685,363 |
| Depreciation | 5.1 | 24,047,621 | 6,970,450 |
| Amortization | 6 | 617,237 | 223,457 |
| Training and development | | 3,547,017 | 3,517,893 |
| Security services | | 3,504,606 | 1,504,752 |
| Travelling and transportation | | 8,777,444 | 3,590,819 |
| Repairs and maintenance | | 1,787,574 | 6,435,592 |
| Uniform and laundry | | 1,038,367 | 166,731 |
| Freight expenses | | 1,507,880 | 902,250 |
| Insurance / Takaful | | 322,727 | 62,037 |
| Communication charges | | 869,367 | 654,682 |
| Advertising and marketing | | 1,342,462 | 702,116 |
| Printing, stationery and courier | | 438,961 | 770,348 |
| Auditor's remuneration | | 184,500 | 200,000 |
| Other expenses | | 1,148,203 | 224,522 |
| | | 281,112,495 | 124,822,568 |
| **Surplus for the year / period** | | - | - |

The annexed notes 1 to 18 form an integral part of these financial statements.

**Chief Executive Officer** **Director**

OPERATIONS OF MIAN MUHAMMAD SHAHBAZ SHARIF HOSPITAL
(MANAGED BY THE INDUS HOSPITAL)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

| | June 30, 2017 | December 11, 2015 to June 30, |
|---|---|---|
| | ----------Rupees---------- | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Surplus for the year / period | - | - |
| Adjustments for non-cash charges and other items: | | |
| Depreciation | 24,047,621 | 6,970,450 |
| Amortization | 617,237 | 223,457 |
| Donations received in kind | 20,621,711 | 18,475,432 |
| Value of services rendered to patients financed through restricted fund and Deffered capital grant utilized | (280,484,251) | (124,664,488) |
| | (235,197,682) | (98,995,149) |
| **Working capital changes** | | |
| (Increase)/decrease in current assets: | | |
| Inventories | (11,864,208) | (13,654,220) |
| Advances, deposits, prepayments and other receivables | 3,649,546 | (7,424,129) |
| Receivable from The Indus Hospital | (14,359,083) | (43,484,584) |
| | (22,573,745) | (64,562,933) |
| Increase in current liabilities: | | |
| Trade and other payables | 7,218,157 | 13,196,977 |
| | (15,355,588) | (51,365,956) |
| **Net cash utilized in operating activities** | (250,553,270) | (150,361,105) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | (21,437,066) | (52,218,821) |
| Purchase of intangible assets | - | (3,043,908) |
| Profit on donation bank account | 1,510,970 | 458,031 |
| **Net cash utilized in investing activities** | (19,926,096) | (54,804,698) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Donations received during the year / period | 270,462,821 | 205,344,079 |
| Net (decrease) / increase in cash and cash equivalents | (16,545) | 178,276 |
| Cash and cash equivalents at beginning of the year / period | 178,276 | - |
| Cash and cash equivalents at end of the year / period | 161,731 | 178,276 |

The annexed notes 1 to 18 form an integral part of these financial statements.

Chief Executive Officer

Director

## 1. GENERAL INFORMATION

1.1 Mian Muhammad Shahbaz Sharif Hospital (the Hospital) has been constructed by the Government of Punjab, at Bedian Road, Lahore, for treatment of diseases / ailments, particularly for the poor and deserving people on free of cost basis.

1.2 A tri-party agreement was entered between Recep Tayyip Erdogan Hospital Trust (RTEHT), Government of Punjab, Health Department (GoPb) and the District Government, Lahore on August 04, 2015, whereby the parties have principally agreed as follows:

- The District Government shall handover and transfer complete control of the Hospital to the RTEHT;
- The District Government shall transfer the usufruct of the existing land and the Hospital as well as the additional land required for the expansion projects to the RTEHT, however, the ownership shall remain with the District Government;
- GoPb shall be responsible to ensure the completion of all legal and legislative requirements for the transfer of 100% annual running funds according to the annual operational and capex budget approved by the Board of the RTEHT;
- GoPb and District Government shall pay 100% of recurring annual running cost of the Hospital; and
- GoPb and District Government shall not interfere in the decisions of the RTEHT and the RTEHT will work independently in all decisions.

1.3 Further, a separate agreement was entered into between RTEHT and The Indus Hospital (TIH) on December 11, 2015, whereby RTEHT handed over complete control and operations of the Hospital to TIH. As per the agreement, TIH will be responsible for the entire operations and the management of the Hospital to provide free of cost services to the patients.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

These financial statements are a special purpose financial statements of the operations of the Hospital (the Project), as managed by TIH. These financial statements have been prepared for the internal use of the management of TIH and RTEHT, and for submission to GoPb.

These special purpose financial statements have been prepared under the historical cost convention in accordance with the requirements of Accounting and Financial Reporting Standards for Small-Sized Entities (SSEs) issued by the Institute of Chartered Accountants of Pakistan.

### 2.2 Functional and presentation currency

These special purpose financial statements are presented in Pakistan Rupees which is the functional currency of TIH.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with the above requirements require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Project's accounting policies. The areas involving higher degree of judgement or complexity, or areas where assumption and estimates are significant to the financial statements are disclosed below.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Hospital makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are as follows:

**3.1 Operating assets and intangible assets**

The Hospital reviews appropriateness of the rate of depreciation / amortization, useful life and residual values used for recording the depreciation / amortization on an annual basis. Further, where applicable, an estimate of recoverable amount of assets is also made for possible impairment on an annual basis.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these special purpose financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

**4.1 Property, plant and equipment**

These are stated at cost less accumulated depreciation and impairment, if any, except for capital work in progress. Capital work in progress is stated at historical cost less impairment, if any.

Capital work-in-progress consists of expenditures incurred and advances made in respect of tangible and intangible assets in the course of their construction and installation. Transfers are made to relevant operating asset category as and when assets are available for use.

Depreciation on an asset is charged to income using the straight-line method whereby the cost of an asset is written off over its estimated useful life at the rates stated in note 5.1 to the special purpose financial statements. Depreciation on additions is charged from the month in which the asset is put to use and no depreciation is charged in the month of disposal.

Assets received as donation in kind are initially recognized at fair value and subsequently carried at the determined fair value recognized less accumulated depreciation and impairment, if any.

Gains and losses on disposal or retirement of assets are recognized in income and expenditure account currently.

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

Subsequent costs are included in the assets' carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Hospital and the cost of the item can be measured reliably. Maintenance and normal repairs are charged to income and expenditure account as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired.

**4.2 Intangible assets - Computer software**

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Hospital and the cost of the asset can also be measured reliably.

Generally, cost associated with maintaining computer software programs is recognized as an expense as incurred. However, cost that is directly associated with identifiable software and has probable economic benefits exceeding the cost beyond one year, is recognized as an intangible asset. Direct cost include the purchase cost of software and related employee and other overhead costs.

Expenditure which enhances or extends the performance of computer software beyond its original specification and useful life is recognized as a capital improvement and added to the original cost of the software.

Computer software cost treated as intangible assets is amortized from the date the software is put to use on straight-line basis over a period of 5 years. The carrying amount of the intangible assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount.

**4.3 Inventories**

Inventories comprise medicines, consumables and general supplies such as surgical supplies, stationery, grocery items, etc. These are carried at cost, determined on first in first out (FIFO) basis. Cost comprises the purchase cost and other related costs incurred in bringing the inventories to their present location and condition. Donated inventories are carried at a valuation equivalent to the cost, which would have been incurred in bringing such inventories to their present location and condition had these inventories been purchased.

**4.4 Stores and spares**

These are valued at cost determined using the first in first out (FIFO) method. Stores and spares are regularly reviewed for impairment and adequate provision is made for obsolete and slow moving items.

**4.5 Cash and cash equivalents**

Cash and cash equivalent for the purpose of cash flow statement comprises of cash in hand and balances with banks in current, deposit and saving accounts.

**4.6 Donations and grants**

Donations and grants are accounted for on receipt basis. Donations in kind are recognized at fair value determined at the time when the donations are received.

**4.7 Restricted funds**

Zakat and donations contributed by the donors for operations of the Hospital are initially recognized under 'Restricted Fund' upon receipt.

Donations and grants restricted in its use by the donors are utilized for the purpose specified and are classified accordingly as 'Restricted Fund'. Any income from investments made from such restricted donations and grants are also credited directly to the 'Restricted Fund'.

**4.8 Trade and other payables**

Trade and other payables are recognized initially at fair value of the consideration to be paid in the future for goods and services received, and are subsequently measured at amortized cost using the effective interest method.

These are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, these are presented as non-current liabilities.

### 4.9 Provident fund

A contributory fund has constituted by TIH for all permanent employees hired for the Project. Equal monthly contributions are made both by TIH and the employees to the Fund at the rate of 10 percent of basic salary.

### 4.10 Fair value of financial instruments

The carrying values of all financial instruments reflected in the financial statements approximate their fair values.

### 4.11 Foreign currency transactions and translation

Transactions in foreign currencies are translated into Pakistan Rupees using exchange rates prevailing at the dates of transactions. Foreign exchange gains or losses resulting from settlement of transactions and from translation at year end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognized in the income and expenditure account.

### 4.12 Revenue recognition

- The 'Restricted Fund' is adjusted for the operating expenditure incurred during the year for running the operations of the Hospital.

- Donations for capital assets is classified as deferred capital grant in the balance sheet. A portion of deferred capital grant is released to income, equivalent to the depreciation, amortization and write-off during the year on related capital items.

- Income on bank deposits and short term investment is recognized on accrual basis.

## 5. PROPERTY, PLANT AND EQUIPMENT

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| | ----------Rupees---------- | |
| Operating assets - note 5.1 | 101,104,128 | 93,547,493 |
| Capital work-in-progress - note 5.2 | - | 896,467 |
| | 101,104,128 | 94,443,960 |

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## 5.1 Operating assets

| | Plant, Machinery & Equipment | Computers, Printers and Network Cabling | Furniture and Fixtures | Vehicles | Total |
|---|---|---|---|---|---|
| | Rupees | | | | |
| **For the period December 11, 2015 to June 30, 2016** | | | | | |
| Opening net book value | - | - | - | - | - |
| Additions | 75,525,810 | 13,149,801 | 10,431,659 | 1,410,673 | 100,517,943 |
| Depreciation charge | (4,301,084) | (1,842,145) | (669,939) | (157,282) | (6,970,450) |
| **Closing net book value** | 71,224,726 | 11,307,656 | 9,761,720 | 1,253,391 | 93,547,493 |
| **As at June 30, 2016** | | | | | |
| Cost | 75,525,810 | 13,149,801 | 10,431,659 | 1,410,673 | 100,517,943 |
| Accumulated depreciation | (4,301,084) | (1,842,145) | (669,939) | (157,282) | (6,970,450) |
| **Net book value as on June 30, 2016** | 71,224,726 | 11,307,656 | 9,761,720 | 1,253,391 | 93,547,493 |
| **For year ended June 30, 2017** | | | | | |
| Opening net book value | 71,224,726 | 11,307,656 | 9,761,720 | 1,253,391 | 93,547,493 |
| Additions including transfers - note 5.2 | 27,962,258 | 3,739,252 | 2,173,165 | - | 33,874,675 |
| **Disposal** | | | | | |
| Cost | (317,331) | - | - | - | (317,331) |
| Accumulated depreciation | 34,554 | - | - | - | 34,554 |
| | (282,777) | - | - | - | (282,777) |
| Write-offs | (1,987,642) | - | - | - | (1,987,642) |
| Depreciation charge | (17,065,921) | (4,426,384) | (2,269,263) | (286,053) | (24,047,621) |
| **Closing net book value** | 79,850,644 | 10,620,524 | 9,665,622 | 967,338 | 101,104,128 |
| **As at June 30, 2017** | | | | | |
| Cost | 101,183,095 | 16,889,053 | 12,604,824 | 1,410,673 | 132,087,645 |
| Accumulated depreciation | (21,332,451) | (6,268,529) | (2,939,202) | (443,335) | (30,983,517) |
| **Net book value as on June 30, 2017** | 79,850,644 | 10,620,524 | 9,665,622 | 967,338 | 101,104,128 |
| **Annual rate of depreciation** | 20% | 33% | 20% | 20% | |

## 5.2 Capital Work-in-Progress

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| | Rupees | |
| Balance at beginning of the year / period | 896,467 | - |
| Add: Additions during the year / period | - | 896,467 |
| Less: Transfers to operating assets - note 5.1 | (896,467) | - |
| Balance at end of the year / period | - | 896,467 |

## 6. INTANGIBLE ASSETS

**- Computer software**

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Balance at beginning of the year / period | 2,820,451 | - |
| Add: Additions at cost | - | 3,043,908 |
| Less: Amortization charge for the year / period - note 6.1 | (617,237) | (223,457) |
| Balance at end of the year / period | 2,203,214 | 2,820,451 |
| | | |
| Cost | 3,043,908 | 3,043,908 |
| Less: Accumulated amortization | (840,694) | (223,457) |
| Net carrying value | 2,203,214 | 2,820,451 |

6.1 The cost is being amortized over a period of 5 years.

| | | June 30, 2017 | June 30, 2016 |
|---|---|---|---|
| | | ---Rupees--- | |
| **7.** | **INVENTORIES** | | |
| | Medicines | 19,887,859 | 9,633,303 |
| | Foods supplies, stationery and tools | 5,630,569 | 4,020,917 |
| | | 25,518,428 | 13,654,220 |
| **8.** | **ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES** | | |
| | Advances to suppliers and others | 1,187,383 | 6,291,281 |
| | Deposits | 651,380 | 476,265 |
| | Prepayments | 504,513 | 200,635 |
| | Receivable from associated entities | 494,831 | - |
| | Receivable from Chal Foundation | 605,683 | 280,833 |
| | Other receivables | 330,793 | 175,115 |
| | | 3,774,583 | 7,424,129 |
| **9.** | **RECEIVABLE FROM THE INDUS HOSPITAL** | | |
| | Balance at beginning of the year / period | 43,484,584 | - |
| | Add: Funds received from RTEHT - note 10 & 11 | 270,417,100 | 204,748,794 |
| | Add: Funds received from others | 2,184,935 | 1,211,396 |
| | Less: Payments made for capital expenditure and operations of the Hospital | (258,242,952) | (162,475,606) |
| | | 57,843,667 | 43,484,584 |
| **10.** | **RESTRICTED FUND** | | |
| | Balance at beginning of the year / period | 49,217,867 | - |
| | Add: | | |
| | - Donations received from RTEHT - note 9 | 252,080,000 | 147,159,700 |
| | - Donations in kind | 20,621,711 | 18,475,432 |
| | - Profit on donation account - note 9 | 1,510,970 | 458,031 |
| | - Miscellaneous donation - note 9 | 45,721 | 595,285 |
| | | 274,258,402 | 166,688,448 |
| | Less: | | |
| | - Value of services rendered to patients - note 13 | (255,819,393) | (117,470,581) |
| | - Reallocation of funds to Deferred Capital Grant - note 11 | (773,601) | - |
| | Balance at end of the year / period | 66,883,275 | 49,217,867 |
| **11.** | **DEFERRED CAPITAL GRANT** | | |
| | Balance at beginning of the year / period | 99,590,776 | - |
| | Add: | | |
| | - Donations from RTEHT for capital expenditure - note 9 | 18,337,100 | 57,589,094 |
| | - Donations in kind | 11,541,142 | 49,195,589 |
| | - Reallocation from Restricted Fund - note 10 | 773,601 | - |
| | | 30,651,843 | 106,784,683 |
| | Less: | | |
| | - Deferred capital grant released - note 13 | (24,664,858) | (7,193,907) |
| | - Net book value of operating assets disposed to RTEH / Written-off - note 5.1 | (2,270,419) | - |
| | | (26,935,277) | (7,193,907) |
| | Balance at end of the year / period | 103,307,342 | 99,590,776 |
| **12.** | **TRADE AND OTHER PAYABLES** | | |
| | Creditors | 19,322,579 | 12,053,053 |
| | Accrued liabilities | 1,092,555 | 1,143,924 |
| | | 20,415,134 | 13,196,977 |

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| | | June 30, 2017 | December 11, 2015 to June 30, 2016 |
|---|---|---|---|
| | | ----Rupees---- | |
| **13.** | **INCOME** | | |
| | Value of services rendered to patients financed through Restricted Fund - note 10 | 255,819,393 | 117,470,581 |
| | Deferred capital grant released - note 11 | 24,664,858 | 7,193,907 |
| | | 280,484,251 | 124,664,488 |
| **14.** | **OTHER INCOME** | | |
| | Proceeds from sales of waste materials | 14,972 | 8,710 |
| | Revenue from cafeteria sales | 613,272 | 149,370 |
| | | 628,244 | 158,080 |
| **15.** | **MEDICINES AND RELATED SUPPLIES CONSUMED** | | |
| | Opening inventory | 13,654,220 | - |
| | Add: Purchases | 83,132,623 | 51,149,782 |
| | Closing inventory - note 7 | (25,518,428) | (13,654,220) |
| | | 71,268,415 | 37,495,562 |

| | | 2017 | 2016 |
|---|---|---|---|
| | | ----Number of employees---- | |
| **16.** | **NUMBER OF EMPLOYEES** | | |
| | Average number of employees during the year | 349 | 252 |
| | Number of employees as at June 30 | 382 | 320 |

**17. CORRESPONDING FIGURES**

Corresponding figures and balances have been rearranged and reclassified, wherever considered necessary, for the purpose of comparison, the effects of which are not material.

**18. DATE OF AUTHORIZATION FOR ISSUE**

These special purpose financial statements were approved and authorized for issue on November 30, 2017 by the Board of Directors of The Indus Hospital.

**CHIEF EXECUTIVE OFFICER**

**DIRECTOR**

**OPERATIONS OF DISTRICT HEADQUARTER HOSPITAL BADIN**
**(MANAGED BY THE INDUS HOSPITAL)**
**SPECIAL PURPOSE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED JUNE 30, 2017**

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of The Indus Hospital.

**Opinion**

We have audited the accompanying special purpose financial statements of the 'Operations of District Headquarter Hospital Badin managed by The Indus Hospital' (the Project), which comprises of the balance sheet as at June 30, 2017 and the related income and expenditure account and cash flow statement for the year ended June 30, 2017 and a summary of significant accounting policies and other explanatory information.

In our opinion, the special purpose financial statements of the Project present fairly, in all material respects, the financial position of the Project as at June 30, 2017 and its surplus and its cash flows for the year ended June 30, 2017, in accordance with the basis of preparation as stated in note 2.1 to the special purpose financial statements.

**Basis for Opinion**

We conducted our audit in accordance with approved auditing standards as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Project in accordance with the ethical requirements that are relevant to our audit of the financial statements in Pakistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Basis of Accounting and Restriction on Distribution and Use**

Without modifying our opinion, we draw attention to note 2.1 to the special purpose financial statements, which describes the basis of accounting and the use of the financial statements. As a result these special purpose financial statements may not be suitable for another purpose. Our report is intended solely for the internal use of the management of the Indus Hospital and for submission to the Government of Sindh.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

The management of The Indus Hospital is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with the basis of preparation stated in note 2.1 to the special purpose financial statements, and for such internal control as management of The Indus Hospital determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved auditing standards as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

*A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network*
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As part of an audit in accordance with the auditing standards as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Project's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.



**Chartered Accountants**
**Karachi**
**Date:**

**Engagement Partner: Waqas A. Sheikh**

**OPERATIONS OF DISTRICT HEADQUARTER HOSPITAL BADIN**
**(MANAGED BY THE INDUS HOSPITAL)**
**BALANCE SHEET AS AT JUNE 30, 2017**

| | Note | June 30, 2017 | June 30, 2016 |
|---|---|---|---|
| | | ---Rupees--- | |
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 5 | 49,214,042 | 19,217,236 |
| Intangible assets | 6 | 915,087 | 498,167 |
| | | 50,129,129 | 19,715,403 |
| **Current Assets** | | | |
| Inventories | 7 | 39,111,559 | 10,937,279 |
| Advances, prepayments and other receivables | 8 | 4,561,200 | 589,140 |
| Receivable from The Indus Hospital | 9 | - | 60,385,738 |
| Cash in hand | | 43,852 | - |
| | | 43,716,611 | 71,912,157 |
| **Total Assets** | | 93,845,740 | 91,627,560 |
| **FUNDS** | | | |
| Restricted Fund | 10 | (160,558,078) | 68,096,268 |
| Deferred Capital Grant | 11 | 50,129,129 | 17,901,978 |
| | | (110,428,949) | 85,998,246 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Payable to The Indus Hospital | | 146,178,265 | - |
| Trade and other payables | 12 | 58,096,424 | 5,629,314 |
| **Total Funds and Liablities** | | 93,845,740 | 91,627,560 |
| **Contingencies and Commitments** | | - | - |

The annexed notes 1 to 16 form an integral part of these financial statements.

**Chief Executive Officer** **Director**

**OPERATIONS OF DISTRICT HEADQUARTER HOSPITAL BADIN**
**(MANAGED BY THE INDUS HOSPITAL)**
**INCOME AND EXPENDITURE ACCOUNT**
**FOR THE YEAR ENDED JUNE 30, 2017**

| | Note | June 30, 2017 | January 1, 2016 to June 30, 2016 |
|---|---|---|---|
| | | ---Rupees--- | |
| **Income** | | | |
| Value of services rendered to patients financed through restricted fund and Deferred capital grant utilized | 13 | 328,111,998 | 35,912,270 |
| **Expenditure** | | | |
| Salaries, wages and other benefits | | 135,969,998 | 11,649,558 |
| Medicines and related supplies consumed | 14 | 143,967,078 | 9,845,866 |
| Utilities | | 8,349,815 | 7,797,863 |
| Technical and professional services | | 4,942,687 | - |
| Blood consumables | | 5,960,490 | |
| Depreciation | 5.1 | 6,113,037 | 133,409 |
| Amortization | 6 | 176,330 | 26,833 |
| Training and development | | 1,519,690 | 730,500 |
| Security services | | 9,278,282 | 2,821,363 |
| Travelling and transportation | | 2,421,973 | 649,546 |
| Repairs and maintenance | | 5,103,695 | 966,180 |
| Insurance / Takaful | | 124,312 | - |
| Communication charges | | 1,325,697 | 57,088 |
| Advertising and marketing | | 780,699 | 209,883 |
| Rent, rates and taxes | | 1,054,250 | - |
| Printing, stationery and courier | | 438,952 | 773,829 |
| Auditor's remuneration | | 212,500 | 200,000 |
| Other expenses | | 372,513 | 50,352 |
| | | 328,111,998 | 35,912,270 |
| **Surplus for the year / period** | | - | - |

The annexed notes 1 to 16 form an integral part of these financial statements.

**Chief Executive Officer** **Director**

**OPERATIONS OF DISTRICT HEADQUARTER HOSPITAL BADIN**
**(MANAGED BY THE INDUS HOSPITAL)**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2017**

| | June 30, 2017 | January 1, 2016 to June 30, 2016 |
|---|---|---|
| | Rupees | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Surplus for the year / period | - | - |
| Adjustments for non-cash charges and other items: | | |
| Depreciation | 6,113,037 | 133,409 |
| Amortization | 176,330 | 26,833 |
| Value of services rendered to patients financed through Restricted fund and Deferred capital grant utilized | (328,111,998) | (35,912,270) |
| | (321,822,631) | (35,752,028) |
| **Working capital changes** | | |
| (Increase) / Decrease in current assets: | | |
| Inventories | (28,174,280) | (10,937,279) |
| Advances, prepayments and other receivables | (3,972,060) | (589,140) |
| Receivable from The Indus Hospital | 60,385,738 | (60,385,738) |
| | 28,239,398 | (71,912,157) |
| Increase in current liabilities: | | |
| Trade and other payables | 52,467,110 | 5,629,314 |
| Payable to The Indus Hospital | 146,178,265 | - |
| | 226,884,773 | (66,282,843) |
| **Net cash utilized in operating activities** | (94,937,858) | (102,034,871) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | (36,109,843) | (19,350,645) |
| Purchase of intangible asset | (593,250) | (525,000) |
| **Net cash utilized in investing activities** | (36,703,093) | (19,875,645) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Donations received during the year / period | 130,139,654 | 121,763,444 |
| Bank profit on funds received during the year / period | 1,545,149 | 147,072 |
| **Net cash generated from financing activites** | 131,684,803 | 121,910,516 |
| Net increase in cash and cash equivalents | 43,852 | - |
| Cash and cash equivalents at beginnig of the year / period | - | - |
| Cash and cash equivalents at end of the year / period | 43,852 | - |

The annexed notes 1 to 16 form an integral part of these financial statements.

**Chief Executive Officer** **Director**

**OPERATIONS OF DISTRICT HEADQUARTER HOSPITAL BADIN**
**(MANAGED BY THE INDUS HOSPITAL)**
**FOR THE YEAR ENDED JUNE 30, 2017**
**NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS**

## 1. GENERAL INFORMATION

The Government of Sindh (GoS) desires to improve the quality of health sector in the province of Sindh in alignment with the requirements of modern times. Accordingly, under the Public Private Partnership (PPP) Act 2010, the Government of Sindh, Department of Health, entered into an agreement dated March 18, 2015 with The Indus Hospital (TIH) for a period of ten years, in respect of District Headquarter Hospital, Badin (the Hospital), whereby the parties have principally agreed as follows:

- GoS will transfer the control, use and management of the personnel, building, furniture/fixtures, supplies, equipment of the Hospital to TIH;

- GoS to release the entire annual budgetary allocation of the Hospital under the agreement to TIH through one line transfer, as a performace / results based support;

- any expansion in services shall entitle TIH to seek additional funds, which the GoS shall consider on merit;

- TIH to be responsible to manage the Hospital including financial management, Human Resource management, training of staff, purchase of medicines, equipment and consumables etc. within the budget provided by the GoS and other resources;

- TIH to deliver the services which the Hospital is mandated to, in an efficient and cost effective manner; and

- TIH to be responsible for proper maintenance of health facilities comprising of physical assets of the Hospital.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

These financial statements are a special purpose financial statements of the Operations of the Hospital managed by TIH (the Project). These financial statements have been prepared for the internal use of the management of TIH and for submission to GoS, as required under the agreement.

These special purpose financial statements have been prepared under the historical cost convention in accordance with the requirements of Accounting and Financial Reporting Standards for Small-Sized Entities (SSEs) issued by the Institute of Chartered Accountants of Pakistan.

### 2.2 Functional and presentation currency

These special purpose financial statements are presented in Pakistan Rupees which is the functional currency of TIH.

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with the above requirements require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Project's accounting policies.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Hospital makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

### 3.1 Operating assets and intangible assets

The Hospital reviews appropriateness of the rate of depreciation / amortization, useful life and residual values used for recording the depreciation / amortization on an annual basis. Further, where applicable, an estimate of recoverable amount of assets is also made for possible impairment on an annual basis.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these special purpose financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### 4.1 Property, plant and equipment

These are stated at cost less accumulated depreciation and impairment, if any, except for capital work in progress. Capital work in progress is stated at historical cost less impairment, if any.

Capital work-in-progress consists of expenditure incurred and advances made in respect of tangible and intangible assets in the course of their construction and installation. Transfers are made to relevant operating asset category as and when assets are available for use.

Depreciation on an asset is charged to income using the straight-line method whereby the cost of an asset is written off over its estimated useful life at the rates stated in note 4.1 to the special purpose financial statements. Depreciation on additions is charged from the month in which the asset is put to use and no depreciation is charged in the month of disposal.

Assets received as donation in kind are initially recognized at fair value and subsequently carried at the determined fair value recognized less accumulated depreciation and impairment, if any.

Gains and losses on disposal or retirement of assets are recognized in income and expenditure account currently.

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

Subsequent costs are included in the assets' carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Hospital and the cost of the item can be measured reliably. Maintenance and normal repairs are charged to income and expenditure account as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired.

### 4.2 Intangible assets - Computer software

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Hospital and the cost of the asset can also be measured reliably.

Generally, costs associated with maintaining computer software programmes are recognized as an expense as incurred. However, costs that are directly associated with identifiable software and have probable economic benefits exceeding the cost beyond one year, are recognized as an intangible asset. Direct costs include the purchase cost of software and related employee and other overhead costs.

Expenditure which enhances or extends the performance of computer software beyond its original specification and useful life is recognized as a capital improvement and added to the original cost of the software.

Computer software cost treated as intangible assets are amortized from the date the software is put to use on straight-line basis over a period of 5 years. The carrying amount of the intangible assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount.

### 4.3 Inventories

Inventories comprise medicines, consumables and general supplies such as surgical supplies, stationery, grocery items, etc. These are carried at cost, determined on first in first out (FIFO) basis. Cost comprises the purchase cost and other related costs incurred in bringing the inventories to their present location and condition. Donated inventories are carried at a valuation equivalent to the cost, which would have been incurred in bringing such inventories to their present location and condition had these inventories been purchased.

### 4.4 Stores and spares

These are valued at cost determined using the first in first out (FIFO) method. Stores and spares are regularly reviewed for impairment and adequate provision is made for obsolete and slow moving items.

### 4.5 Cash and cash equivalents

Cash and cash equivalent for the purpose of cash flow statement comprises of cash in hand and balances with banks in current, deposit and saving accounts.

### 4.6 Donations and grants

Donations and grants are accounted for on receipt basis. Donations in kind are recognized at fair value determined at the time when the donations are received.

### 4.7 Restricted funds

Zakat and donations contributed by the donors for general purposes/operations are initially recognized under 'Restricted Fund' upon receipt.

Donations and grants restricted in its use by the donors are utilized for the purpose specified and are classified accordingly as 'Restricted Fund'. Any income from investments made from such restricted donations and grants are also credited directly to the 'Restricted Fund'.

### 4.8 Trade and other payables

Trade and other payables are recognized initially at fair value of the consideration to be paid in the future for goods and services received, and are subsequently measured at amortized cost using the effective interest method.

These are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, these are presented as non-current liabilities.

### 4.9 Fair value of financial instruments

The carrying values of all financial instruments reflected in the financial statements approximate their fair values.

### 4.10 Foreign currency transactions and translation

Transactions in foreign currencies are translated into Pakistan Rupees using exchange rates prevailing at the dates of transactions. Foreign exchange gains or losses resulting from settlement of transactions and from translation at year end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognized in the income and expenditure account.

### 4.11 Revenue recognition

The 'Restricted Fund' is adjusted for the operating expenditure incurred during the year for running the operations of the Hospital.

Donation for capital assets is classified as deferred capital grant in the balance sheet. A portion of deferred capital grant is released to income, equivalent to the depreciation, amortization and write-off during the year on related capital items.

Income on bank deposits and short term investment is recognized on accrual basis.

## 5. PROPERTY, PLANT AND EQUIPMENT

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| | Rupees | |
| Operating assets - note 5.1 | 36,178,122 | 4,367,891 |
| Capital work-in-progress - note 5.2 | 13,035,920 | 14,849,345 |
| | 49,214,042 | 19,217,236 |

### 5.1 Operating assets

| | Building | Plant, Machinery & Equipment | Computers, Printers and Network Cabling | Furniture and Fixtures | Vehicles | Total |
|---|---|---|---|---|---|---|
| | | | Rupees | | | |
| **For the period January 01, 2016 to June 30, 2016** | | | | | | |
| Opening net book value | - | - | - | - | - | - |
| Additions | - | 372,800 | - | 354,500 | 3,774,000 | 4,501,300 |
| Depreciation charge | - | (7,272) | - | (4,530) | (121,607) | (133,409) |
| **Closing net book value** | - | 365,528 | - | 349,970 | 3,652,393 | 4,367,891 |
| **As at June 30, 2016** | | | | | | |
| Cost | - | 372,800 | - | 354,500 | 3,774,000 | 4,501,300 |
| Accumulated depreciation | - | (7,272) | - | (4,530) | (121,607) | (133,409) |
| Net book value as on June 30, 2016 | - | 365,528 | - | 349,970 | 3,652,393 | 4,367,891 |
| **For the year ended June 30, 2017** | | | | | | |
| Opening net book value | - | 365,528 | - | 349,970 | 3,652,393 | 4,367,891 |
| Additions including transfers - note 5.2 | 11,555,244 | 13,842,867 | 12,013,669 | 511,488 | - | 37,923,268 |
| Depreciation charge | (397,580) | (1,571,153) | (3,285,309) | (93,712) | (765,283) | (6,113,037) |
| **Closing net book value** | 11,157,664 | 12,637,242 | 8,728,360 | 767,746 | 2,887,110 | 36,178,122 |
| **As at June 30, 2017** | | | | | | |
| Cost | 11,555,244 | 14,215,667 | 12,013,669 | 865,988 | 3,774,000 | 42,424,568 |
| Accumulated depreciation | (397,580) | (1,578,425) | (3,285,309) | (98,242) | (886,890) | (6,246,446) |
| **Net book value as on June 30, 2017** | 11,157,664 | 12,637,242 | 8,728,360 | 767,746 | 2,887,110 | 36,178,122 |
| **Annual rate of depreciation** | 10% | 20% | 33% | 20% | 20% | |

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| | ---------------Rupees--------------- | |

## 5.2 Capital work-in-progress

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Balance at beginning of the year / period | 14,849,345 | - |
| Add: Additions during the year / period | 13,009,793 | 14,849,345 |
| Less: Transfers to operating assets - note 5.1 | (14,823,218) | - |
| Balance at end of the year / period | **13,035,920** | **14,849,345** |

## 6. INTANGIBLE ASSET
### - Computer Software

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Balance at beginning of the year / period | 498,167 | - |
| Add: Additions at cost | 593,250 | 525,000 |
| Less: Amortization charge for the year / period - note 6.1 | (176,330) | (26,833) |
| **Balance at end of the year / period** | 915,087 | 498,167 |
| Cost | 1,118,250 | 525,000 |
| Less: Accumulated amortization | (203,163) | (26,833) |
| **Net book value** | 915,087 | 498,167 |

**6.1** The cost is being amortized over a period of five years.

## 7. INVENTORIES

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Medicines | 37,740,738 | 8,471,728 |
| Foods supplies, stationery and tools | 1,370,821 | 2,465,551 |
| | 39,111,559 | 10,937,279 |

## 8. ADVANCES, PREPAYMENTS AND OTHER RECIEVABLES

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Advances to suppliers and others | 3,624,270 | 418,140 |
| Prepayments | 929,976 | 171,000 |
| Other receivables | 6,954 | - |
| | 4,561,200 | 589,140 |

## 9. RECIEVABLE FROM / (PAYABLE TO) THE INDUS HOSPITAL

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Balance at beginning of the year / period | 60,385,738 | - |
| Add: Funds received from Government of Sindh | 126,697,000 | 121,532,000 |
| Add: Funds received from others | 3,012,513 | 307,312 |
| Less: Payments made for capital expenditure and operations of the Hospital | (336,273,516) | (61,453,574) |
| Balance at end of the year / period | (146,178,265) | 60,385,738 |

## 10. RESTRICTED FUND

| | June 30, 2017 | | | June 30, 2016 | | |
|---|---|---|---|---|---|---|
| | Zakat | Donations | Total | Zakat | Donations | Total |
| | ---Rupees--- | | | ---Rupees--- | | |
| Balance at beginning of the year / period | - | 68,096,268 | 68,096,268 | - | - | - |
| Add: | | | | | | |
| Donation received from Government of Sindh | - | 126,697,000 | 126,697,000 | - | 121,532,000 | 121,532,000 |
| Donation in kind for operations | - | 1,975,290 | 1,975,290 | - | 71,204 | 71,204 |
| Zakat / Donations from others | 1,106,000 | 361,364 | 1,467,364 | - | 160,240 | 160,240 |
| Bank profit on funds received during the year | - | 1,545,149 | 1,545,149 | - | 147,072 | 147,072 |
| | 1,106,000 | 130,578,803 | 131,684,803 | - | 121,910,516 | 121,910,516 |
| Less: | | | | | | |
| Value of services rendered to patients - note 13 | - | (321,822,631) | (321,822,631) | - | (35,752,028) | (35,752,028) |
| Funds transfer from restricted funds to deferred capital grant - note 11 | - | (38,516,518) | (38,516,518) | - | (18,062,220) | (18,062,220) |
| **Balance at end of the year / period** | 1,106,000 | (161,664,078) | (160,558,078) | - | 68,096,268 | 68,096,268 |

**10.1** The negative balance represents excess of value of services rendered to patients as compared to available balance in the Restricted Fund. However, the Government of Sindh has transferred donation to the Hospital amounting to Rs. 204,792,833 subsequent to year end.

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| | --------------Rupees-------------- | |
| **11. DEFERRED CAPITAL GRANT** | | |
| Balance at beginning of the year / period | 17,901,978 | - |
| Add: Funds transfer from Restricted Funds for capital expenditure - note 10 | 38,516,518 | 18,062,220 |
| Less: Deferred capital grants released - note 13 | (6,289,367) | (160,242) |
| Balance at end of the year / period | 50,129,129 | 17,901,978 |
| **12. TRADE AND OTHER PAYABLES** | | |
| Creditors | 55,270,677 | 4,928,399 |
| Accrued liabilities | 991,263 | 652,085 |
| Other payables | 1,834,484 | 48,830 |
| | 58,096,424 | 5,629,314 |

| | June 30, 2017 | January 1, 2016 to June 30, 2016 |
|---|---|---|
| | --------------Rupees-------------- | |
| **13. INCOME** | | |
| Value of services rendered to patients financed through Restricted Funds - note 10 | 321,822,631 | 35,752,028 |
| Deferred capital grant released - note 11 | 6,289,367 | 160,242 |
| | 328,111,998 | 35,912,270 |
| **14. MEDICINES AND OTHER SUPPLIES CONSUMED** | | |
| Opening inventory | 10,937,279 | - |
| Add: Purchases | 172,141,358 | 20,783,145 |
| Closing inventory - note 7 | (39,111,559) | (10,937,279) |
| | 143,967,078 | 9,845,866 |

| **15. NUMBER OF EMPLOYEES** | 2017 | 2016 |
|---|---|---|
| Average number of employees during the year / period | 349 | 134 |
| Number of employees as at June 30 | 400 | 209 |

## 16. DATE OF AUTHORIZATION FOR ISSUE

These special purpose financial statement were approved and authorized for issue on ____________ by the Board of Directors of The Indus Hospital.

Chief Executive Officer　　　　　　　　　　Director

OPERATIONS OF MANAWA HOSPITAL, LAHORE
(MANAGED BY THE INDUS HOSPITAL)

SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD APRIL 29, 2017 TO JUNE 30, 2017

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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors of The Indus Hospital.

## Opinion

We have audited the accompanying special purpose financial statements of the 'Operations of Manawa Hospital, Lahore managed by The Indus Hospital' (the Project), which comprises of the balance sheet as at June 30, 2017 and the related income and expenditure account and cash flow statement for the period April 29, 2017 to June 30, 2017 and a summary of significant accounting policies and other explanatory information.

In our opinion, the special purpose financial statements of the Project present fairly, in all material respects, the financial position of the Project as at June 30, 2017 and its surplus and its cash flows for the period April 29, 2017 to June 30, 2017, in accordance with the basis of preparation as stated in note 2.1 to the special purpose financial statements.

## Basis for Opinion

We conducted our audit in accordance with approved auditing standards as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Project in accordance with the ethical requirements that are relevant to our audit of the financial statements in Pakistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to note 2.1 to the special purpose financial statements, which describes the basis of accounting and the use of the financial statements. As a result these special purpose financial statements may not be suitable for another purpose. Our report is intended solely for the internal use of the management of The Indus Hospital and Recep Tayyip Erdogan Hospital Trust and for submission to the Government of Punjab.

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

The management of The Indus Hospital is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with the basis of preparation stated in note 2.1 to the special purpose financial statements, and for such internal control as management of The Indus Hospital determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved auditing standards as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the auditing standards as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Project's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Chartered Accountants**
**Karachi**
**Date: January 3, 2018**

**Engagement Partner: Waqas A. Sheikh**

OPERATIONS OF MANAWA HOSPITAL, LAHORE
(MANAGED BY THE INDUS HOSPITAL)
BALANCE SHEET AS AT JUNE 30, 2017

| | Note | June 30, 2017<br>--------Rupees-------- |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Advances to suppliers and others | | 12,397,506 |
| Receivable from The Indus Hospital | 4 | 183,685,902 |
| **Total Assets** | | 196,083,408 |
| **FUNDS** | | |
| Restricted Fund | 5 | 195,554,649 |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Trade and other payables | 6 | 528,759 |
| **Total Funds and Liabilities** | | 196,083,408 |
| **Contingencies and Commitments** | | - |

The annexed notes 1 to 8 form an integral part of these financial statements.

**Chief Executive Officer**

**Director**

OPERATIONS OF MANAWA HOSPITAL, LAHORE
(MANAGED BY THE INDUS HOSPITAL)
INCOME AND EXPENDITURE ACCOUNT
FOR THE PERIOD APRIL 29, 2017 TO JUNE 30, 2017

| | April 29, 2017 to June 30, 2017 |
|---|---|
| | --------Rupees-------- |
| Income | |
| Value of services rendered to patients financed through restricted fund | 4,445,351 |
| **Expenditure** | |
| Salaries, wages and other benefits | 2,308,747 |
| Security services | 225,940 |
| Travelling and transportation | 351,636 |
| Advertising and marketing | 1,313,914 |
| Printing, stationery and courier | 35,620 |
| Auditor's remuneration | 190,000 |
| Other expenses | 19,494 |
| | 4,445,351 |
| **Surplus for the period** | - |

The annexed notes 1 to 8 form an integral part of these financial statements.

**Chief Executive Officer**

**Director**

OPERATIONS OF MANAWA HOSPITAL, LAHORE
(MANAGED BY THE INDUS HOSPITAL)
STATEMENT OF CASH FLOWS
FOR THE PERIOD APRIL 29, 2017 TO JUNE 30, 2017

| | April 29, 2017 to June 30, 2017 |
|---|---|
| | --------Rupees-------- |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Surplus for the period | - |
| Adjustments for: | |
| Value of services rendered to patients financed through restricted fund | (4,445,351) |
| | (4,445,351) |
| **Working capital changes** | |
| Increase in current assets: | |
| Advances to suppliers and others | (12,397,506) |
| Receivable from The Indus Hospital | (183,685,902) |
| | (196,083,408) |
| Increase in current liabilities: | |
| Trade and other payables | 528,759 |
| | (195,554,649) |
| **Net cash utilized in operating activities** | (200,000,000) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | |
| Donations received during the period | 200,000,000 |
| Net increase in cash and cash equivalents | - |
| Cash and cash equivalents at beginning of the period | - |
| Cash and cash equivalents at end of the period | - |

The annexed notes 1 to 8 form an integral part of these financial statements.

**Chief Executive Officer** **Director**

OPERATIONS OF MANAWA HOSPITAL, LAHORE
(MANAGED BY THE INDUS HOSPITAL)
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD APRIL 29, 2017 TO JUNE 30, 2017

## 1. GENERAL INFORMATION

1.1 Manawa Hospital, Lahore (the Hospital) has been constructed by the Government of Punjab, at GT Road, Manawa, Lahore, for treatment of diseases / ailments, particularly for the poor and deserving people on free of cost basis.

1.2 A tri-party agreement was entered between Recep Tayyip Erdogan Hospital Trust (RTEHT), Government of Punjab, Health Department (GoPb) and the District Government, Lahore on April 29, 2017, whereby, the parties have agreed as follows:

- The District Government shall deliver, handover and transfer complete control of the Hospital to the RTEHT;
- District Government will transfer the usufruct of the existing land and the Hospital as well as the additional land required for the expansion projects to the RTEHT, however, ownership will remain with the District Government;
- GoPb shall be responsible to ensure the completion of all legal and legislative requirements for the transfer of 100% annual running funds according to the annual operational and capex budget approved by the Board of the Trust; and
- GoPb and District Government shall pay 100% of recurrent annual running cost of the Hospital.
- GoPb and Dictrict Government shall not interfere in the decisions of the RTEHT and the RTEHT will work independently in all decisions.

1.3 Further, a separate agreement was entered into between RTEHT and The Indus Hospital (TIH) on April 29, 2017, whereby, RTEHT handed over complete control and operations of the Hospital to TIH. As per the agreement, TIH will be responsible for the entire operations and the management of the Hospital to provide free of cost services to the patients.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

These financial statements are a special purpose financial statements of the operations of the Hospital (the Project), as managed by TIH. These financial statements have been prepared for the internal use of the management of TIH and RTEHT, and for submission to GoPb.

These are the first financial statements of the Project, therefore, there are no corresponding figures in these financial statements. These financial statements have been prepared from April 29, 2017, the commencement date of management of operations of the Hospital, by TIH.

These special purpose financial statements have been prepared under the historical cost convention in accordance with the requirements of Accounting and Financial Reporting Standards for Small-Sized Entities (SSEs) issued by the Institute of Chartered Accountants of Pakistan.

### 2.2 Functional and presentation currency

These special purpose financial statements are presented in Pakistan Rupees which is the functional currency of TIH.

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these special purpose financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### 3.1 Property, plant and equipment

These are stated at cost less accumulated depreciation and impairment, if any, except for capital work in progress. Capital work in progress is stated at historical cost less impairment, if any.

Capital work-in-progress consists of expenditure incurred and advances made in respect of tangible and intangible assets in the course of their construction and installation. Transfers are made to relevant operating asset category as and when assets are available for use.

Depreciation on an asset is charged to income using the straight-line method whereby the cost of an asset is written off over its estimated useful life. Depreciation on additions is charged from the month in which the asset is put to use and no depreciation is charged in the month of disposal.

Assets received as donation in kind are initially recognized at fair value and subsequently carried at the determined fair value recognized less accumulated depreciation and impairment, if any.

Gains and losses on disposal or retirement of assets are recognized in income and expenditure account.

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

Subsequent costs are included in the assets' carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Hospital and the cost of the item can be measured reliably. Maintenance and normal repairs are charged to income and expenditure account as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired.

### 3.2 Intangible assets

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Hospital and the cost of the asset can also be measured reliably.

Generally, costs associated with maintaining computer software programmes are recognized as an expense as incurred. However, costs that are directly associated with identifiable software and have probable economic benefits exceeding the cost beyond one year, are recognized as an intangible asset. Direct costs include the purchase cost of software and related employee and other overhead costs.

Expenditure which enhances or extends the performance of computer software beyond its original specification and useful life is recognized as a capital improvement and added to the original cost of the software.

Computer software cost treated as intangible assets are amortized from the date the software is put to use on straight-line basis over a period of 5 years. The carrying amount of the intangible assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount.

### 3.3 Inventories

Inventories comprise medicines, consumables and general supplies such as surgical supplies, stationery, grocery items, etc. These are carried at cost, determined on first in first out (FIFO) basis. Cost comprises the purchase cost and other related costs incurred in bringing the inventories to their present location and condition. Donated inventories are carried at a valuation equivalent to the cost, which would have been incurred in bringing such inventories to their present location and condition had these inventories been purchased.

### 3.4 Stores and spares

These are valued at cost determined using the first in first out (FIFO) method. Stores and spares are regularly reviewed for impairment and adequate provision is made for obsolete and slow moving items.

### 3.5 Cash and cash equivalents

Cash and cash equivalent for the purpose of cash flow statement comprises of cash in hand and balances with banks in current, deposit and saving accounts.

### 3.6 Donations and grants

Donations and grants are accounted for on receipt basis. Donations in kind are recognized at fair value determined at the time when the donations are received.

### 3.7 Restricted funds

Zakat and donations contributed by the donors for operations of the Hospital are initially recognized under 'Restricted Fund' upon receipt.

Donations and grants restricted in its use by the donors are utilized for the purpose specified and are classified accordingly as 'Restricted Fund'. Any income from investments made from such restricted donations and grants are also credited directly to the 'Restricted Fund'.

### 3.8 Trade and other payables

Trade and other payables are recognized initially at fair value of the consideration to be paid in the future for goods and services received, and are subsequently measured at amortized cost using the effective interest method.

These are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, these are presented as non-current liabilities.

### 3.9 Provident fund

A contributory provident has been constituted by TIH for all permanent employees hired for the Project. Equal monthly contributions are made both by TIH and the employees to the Fund at the rate of 10 percent of basic salary.

### 3.10 Fair value of financial instruments

The carrying values of all financial instruments reflected in the financial statements approximate their fair values.

### 3.11 Foreign currency transactions and translation

Transactions in foreign currencies are translated into Pakistan Rupees using exchange rates prevailing at the dates of transactions. Foreign exchange gains or losses resulting from settlement of transactions and from translation at year end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognized in the income and expenditure account.

### 3.12 Revenue recognition

- The 'Restricted Fund' is adjusted for the operating expenditure incurred during the period for running the operations of the Hospital.

- Donations for capital assets is classified as deferred capital grant in the balance sheet. A portion of deferred capital grant is released to income, equivalent to the depreciation, amortization and write-off during the period on related capital items.

- Income on bank deposits and short term investment is recognized on accrual basis.

| | June 30, 2017 |
|---|---|
| | ----------Rupees---------- |

**4. RECEIVABLE FROM THE INDUS HOSPITAL**

| | |
|---|---|
| Balance at beginning of the period | - |
| Add: Funds received from RTEHT - note 5 | 200,000,000 |
| Less: Expenditure incurred for operations of the Hospital | (16,314,098) |
| Balance at end of the period | 183,685,902 |

**5. RESTRICTED FUND**

| | |
|---|---|
| Balance at beginning of the period | - |
| Add: Donations received from RTEHT - note 4 | 200,000,000 |
| Less: Value of services rendered to patients | (4,445,351) |
| Balance at end of the period | 195,554,649 |

**6. TRADE AND OTHER PAYABLES**

| | |
|---|---|
| Creditors | 338,759 |
| Accrued liabilities | 190,000 |
| | 528,759 |

**7. NUMBER OF EMPLOYEES**

| | 2017 |
|---|---|
| Average number of employees during the period | 18 |
| Number of employees as at June 30 | 24 |

**8. DATE OF AUTHORIZATION FOR ISSUE**

These special purpose financial statements were approved and authorized for issue on November 30, 2017 by the Board of Directors of The Indus Hospital.

CHIEF EXECUTIVE OFFICER

DIRECTOR

# OPERATIONS OF MULTAN INSTITUTE OF KIDNEY DISEASES
# (MANAGED BY THE INDUS HOSPITAL)

## SPECIAL PURPOSE FINANCIAL STATEMENTS

## FOR THE PERIOD APRIL 29, 2017
## TO JUNE 30, 2017

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A·F·FERGUSON&Co.

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of The Indus Hospital.

### Opinion

We have audited the accompanying special purpose financial statements of the 'Operations of Multan Institute of Kidney Diseases managed by The Indus Hospital' (the Project), which comprises of the balance sheet as at June 30, 2017 and the related income and expenditure account and cash flow statement for the period April 29, 2017 to June 30, 2017 and a summary of significant accounting policies and other explanatory information.

In our opinion, the special purpose financial statements of the Project present fairly, in all material respects, the financial position of the Project as at June 30, 2017 and its surplus and its cash flows for the period April 29, 2017 to June 30, 2017, in accordance with the basis of preparation as stated in note 2.1 to the special purpose financial statements.

### Basis for Opinion

We conducted our audit in accordance with approved auditing standards as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Project in accordance with the ethical requirements that are relevant to our audit of the financial statements in Pakistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to note 2.1 to the special purpose financial statements, which describes the basis of accounting and the use of the financial statements. As a result these special purpose financial statements may not be suitable for another purpose. Our report is intended solely for the internal use of the management of The Indus Hospital and Recep Tayyip Erdogan Hospital Trust and for submission to the Government of Punjab.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

The management of The Indus Hospital is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with the basis of preparation stated in note 2.1 to the special purpose financial statements, and for such internal control as management of The Indus Hospital determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved auditing standards as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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A·F·FERGUSON&Co.

As part of an audit in accordance with the auditing standards as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Project's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Chartered Accountants**
**Karachi**
**Date: January 3, 2018**

**Engagement Partner: Waqas A. Sheikh**

OPERATIONS OF MULTAN INSTITUTE OF KIDNEY DISEASES
(MANAGED BY THE INDUS HOSPITAL)
BALANCE SHEET AS AT JUNE 30, 2017

| | Note | June 30, 2017 |
|---|---|---|
| | | ----Rupees---- |
| **ASSETS** | | |
| **Current Assets** | | |
| Advances to suppliers and others | | 5,605,981 |
| Receivable from The Indus Hospital | 4 | 213,967,717 |
| **Total Assets** | | 219,573,698 |
| **FUNDS** | | |
| Restricted Fund | 5 | 7,948,234 |
| Deferred Capital Grant | 6 | 211,125,835 |
| | | 219,074,069 |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Trade and other payables | 7 | 499,629 |
| **Total Funds and Liabilities** | | 219,573,698 |
| **Contingencies and Commitments** | | - |

The annexed notes 1 to 9 form an integral part of these financial statements.

**Chief Executive Officer** **Director**

OPERATIONS OF MULTAN INSTITUTE OF KIDNEY DISEASES
(MANAGED BY THE INDUS HOSPITAL)
INCOME AND EXPENDITURE ACCOUNT
FOR THE PERIOD APRIL 29, 2017 TO JUNE 30, 2017

| | April 29, 2017 to June 30, 2017 -------Rupees------- |
|---|---|
| **Income** | |
| Value of services rendered to patients financed through restricted fund | 2,051,766 |
| **Expenditure** | |
| Salaries, wages and other benefits | 772,493 |
| Security services | 61,712 |
| Travelling and transportation | 666,473 |
| Repairs and maintenance | 150,000 |
| Communication charges | 18,800 |
| Advertising and marketing | 148,739 |
| Printing, stationery and courier | 14,419 |
| Auditor's remuneration | 190,000 |
| Other expenses | 29,130 |
| | 2,051,766 |
| **Surplus for the period** | - |

The annexed notes 1 to 9 form an integral part of these financial statements.

Chief Executive Officer

Director

OPERATIONS OF MULTAN INSTITUTE OF KIDNEY DISEASES
(MANAGED BY THE INDUS HOSPITAL)
STATEMENT OF CASH FLOWS
FOR THE PERIOD APRIL 29, 2017 TO JUNE 30, 2017

| | | |
|---|---|---|
| | | April 29, 2017 to June 30, 2017 |
| | | ---------Rupees--------- |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Surplus for the period | | - |
| Adjustments for: | | |
| Value of services rendered to patients financed through restricted fund | | (2,051,766) |
| **Working capital changes** | | |
| Increase in current assets: | | |
| Advances to suppliers and others | (5,605,981) | |
| Receivable from The Indus Hospital | (213,967,717) | |
| | (219,573,698) | |
| Increase in current liabilities: | | |
| Trade and other payables | 499,629 | |
| | | (219,074,069) |
| **Net cash utilized in operating activities** | | (221,125,835) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Donations received during the period | | 221,125,835 |
| Net increase in cash and cash equivalents | | - |
| Cash and cash equivalents at beginning of the period | | - |
| Cash and cash equivalents at end of the period | | - |

The annexed notes 1 to 9 form an integral part of these financial statements.

**Chief Executive Officer** | **Director**

OPERATIONS OF MULTAN INSTITUTE OF KIDNEY DISEASES
(MANAGED BY THE INDUS HOSPITAL)
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE PERIOD APRIL 29, 2017 TO JUNE 30, 2017

## 1. GENERAL INFORMATION

1.1 Multan Institute of Kidney Diseases (the Institute) is a specialized hospital established for high quality acute, swing care outpatient services related to kidney transplant, dialysis and other related diseases. The Institute is located at Multan Muzaffargarh Road, Nazirpur, Multan.

1.2 A tri-party agreement was entered between Recep Tayyip Erdogan Hospital Trust (RTEHT), Government of Punjab, Health Department (GoPb) and the District Government, Lahore on April 29, 2017, whereby, the parties have agreed as follows:

- The District Government shall deliver, handover and transfer complete control of the Institute to the RTEHT;
- The District Government shall transfer the usufruct of the existing land and the Institute as well as the additional land required for the expansions project to the RTEHT, however, ownership will remain with the District Government;
- GoPb shall be responsible to ensure the completion of all legal and legislative requirements for the transfer of 100% annual running funds according to the annual operational and capex budget approved by the Board of the RTEHT;
- GoPb and District Government shall pay 100% of recurrent annual running cost of the Institute; and
- GoPb and District Government shall not interfere in the decisions of the RTEHT and the RTEHT will work independently in all decisions.

1.3 Further, a separate agreement was entered into between RTEHT and The Indus Hospital (TIH) on April 29, 2017, whereby, RTEHT handed over complete control and operations of the Institute to TIH. As per the agreement, TIH will be responsible for the entire operations and the management of the Institute to provide free of cost services to the patients.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

These financial statements are a special purpose financial statements of the operations of the Institute (the Project), as managed by TIH. These financial statements have been prepared for the internal use of the management of TIH and RTEHT, and for submission to GoPb.

These are the first financial statements of the Project, therefore, there are no corresponding figures in these financial statements. These financial statements have been prepared from April 29, 2017, i.e. the date of commencement of the management of operations of the Institute by TIH.

These special purpose financial statements have been prepared under the historical cost convention in accordance with the requirements of Accounting and Financial Reporting Standards for Small-Sized Entities (SSEs) issued by the Institute of Chartered Accountants of Pakistan.

### 2.2 Functional and presentation currency

These special purpose financial statements are presented in Pakistan Rupees which is the functional currency of TIH.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these special purpose financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### 3.1 Property, plant and equipment

These are stated at cost less accumulated depreciation and impairment, if any, except for capital work in progress. Capital work in progress is stated at historical cost less impairment, if any.

Capital work-in-progress consists of expenditure incurred and advances made in respect of tangible and intangible assets in the course of their construction and installation. Transfers are made to relevant operating asset category as and when assets are available for use.

Depreciation on an asset is charged to income using the straight-line method whereby the cost of an asset is written off over its estimated useful life. Depreciation on additions is charged from the month in which the asset is put to use and no depreciation is charged in the month of disposal.

Assets received as donation in kind are initially recognized at fair value and subsequently carried at the determined fair value recognized less accumulated depreciation and impairment, if any.

Gains and losses on disposal or retirement of assets are recognized in income and expenditure account.

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

Subsequent costs are included in the assets' carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Institute and the cost of the item can be measured reliably. Maintenance and normal repairs are charged to income and expenditure account as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired.

### 3.2 Intangible assets

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Institute and the cost of the asset can also be measured reliably.

Generally, costs associated with maintaining computer software programmes are recognized as an expense as incurred. However, costs that are directly associated with identifiable software and have probable economic benefits exceeding the cost beyond one year, are recognized as an intangible asset. Direct costs include the purchase cost of software and related employee and other overhead costs.

Expenditure which enhances or extends the performance of computer software beyond its original specification and useful life is recognized as a capital improvement and added to the original cost of the software.

Computer software cost treated as intangible assets are amortized from the date the software is put to use on straight-line basis over a period of 5 years. The carrying amount of the intangible assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount.

### 3.3 Inventories

Inventories comprise medicines, consumables and general supplies such as surgical supplies, stationery, grocery items, etc. These are carried at cost, determined on first in first out (FIFO) basis. Cost comprises the purchase cost and other related costs incurred in bringing the inventories to their present location and condition. Donated inventories are carried at a valuation equivalent to the cost, which would have been incurred in bringing such inventories to their present location and condition had these inventories been purchased.

### 3.4 Stores and spares

These are valued at cost determined using the first in first out (FIFO) method. Stores and spares are regularly reviewed for impairment and adequate provision is made for obsolete and slow moving items.

### 3.5 Cash and cash equivalents

Cash and cash equivalent for the purpose of cash flow statement comprises of cash in hand and balances with banks in current, deposit and saving accounts.

### 3.6 Donations and grants

Donations and grants are accounted for on receipt basis. Donations in kind are recognized at fair value determined at the time when the donations are received.

### 3.7 Restricted funds

Zakat and donations contributed by the donors for operations of the Institute are initially recognized under 'Restricted Fund' upon receipt.

Donations and grants restricted in its use by the donors are utilized for the purpose specified and are classified accordingly as 'Restricted Fund'. Any income from investments made from such restricted donations and grants are also credited directly to the 'Restricted Fund'.

### 3.8 Trade and other payables

Trade and other payables are recognized initially at fair value of the consideration to be paid in the future for goods and services received, and are subsequently measured at amortized cost using the effective interest method.

These are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, these are presented as non-current liabilities.

### 3.9 Provident fund

A contributory provident fund has been constituted by TIH for all permanent employees hired for the Project. Equal monthly contributions are made both by TIH and the employees to the Fund at the rate of 10 percent of basic salary.

### 3.10 Fair value of financial instruments

The carrying values of all financial instruments reflected in the financial statements approximate their fair values.

### 3.11 Foreign currency transactions and translation

Transactions in foreign currencies are translated into Pakistan Rupees using exchange rates prevailing at the dates of transactions. Foreign exchange gains or losses resulting from settlement of transactions and from translation at year end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognized in the income and expenditure account.

### 3.12 Revenue recognition

- The 'Restricted Fund' is adjusted for the operating expenditure incurred during the period for running the operations of the Institute.

- Donations for capital assets is classified as deferred capital grant in the balance sheet. A portion of deferred capital grant is released to income, equivalent to the depreciation, amortization and write-off during the period on related capital items.

- Income on bank deposits and short term investment is recognized on accrual basis.

| | June 30, 2017 |
|---|---|
| | ---------Rupees-------- |

## 4. RECEIVABLE FROM THE INDUS HOSPITAL

| | |
|---|---|
| Balance at beginning of the period | - |
| Add: Funds received from RTEHT - notes 5 & 6 | 221,125,835 |
| Less: Capital expenditure and expenditure incurred for operations of the Institute | (7,158,118) |
| | 213,967,717 |

## 5. RESTRICTED FUND

| | |
|---|---|
| Balance at beginning of the period | - |
| Add: Donations received from RTEHT - note 4 | 10,000,000 |
| Less: Value of services rendered to patients | (2,051,766) |
| Balance at end of the period | 7,948,234 |

## 6. DEFERRED CAPITAL GRANT

| | |
|---|---|
| Balance at beginning of the period | - |
| Add: Donations received from RTEHT for capital expenditure - note 4 | 211,125,835 |
| Balance at end of the period | 211,125,835 |

## 7. TRADE AND OTHER PAYABLES

| | |
|---|---|
| Creditors | 309,629 |
| Accrued liabilities | 190,000 |
| | 499,629 |

## 8. NUMBER OF EMPLOYEES

| | 2017 |
|---|---|
| Average number of employees during the period | 29 |
| Number of employees as at June 30 | 29 |

## 9. DATE OF AUTHORIZATION FOR ISSUE

These special purpose financial statement were approved and authorized for issue on November 30, 2017 by the Board of Directors of The Indus Hospital.

CHIEF EXECUTIVE OFFICER

DIRECTOR