

BRAC

(registered in Bangladesh Under the Societies Registration Act, 1860)

AUDITED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2013



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Building a better
working world

S F AHMED & CO.
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT TO THE GOVERNING BODY OF BRAC

Report on the Financial Statements

We have audited the financial statements of BRAC (registered in Bangladesh as a society under the Societies Registration Act, 1860 and operating as a non-government development organisation), which comprise the balance sheet as at 31 December 2013 and the statement of income and expenditure, statement of changes in net assets and statement of cash flows for the year ended 31 December 2013, and a summary of significant accounting policies and other explanatory information, as set out on pages 1 to 35.

Governing Body of BRAC's responsibility for the financial statements

The Governing Body of BRAC is responsible for the preparation of financial statements so as to give a true and fair view in accordance with the accounting policies as summarised in Note 2 to the financial statements. The Governing Body of BRAC is also responsible for such internal control as the Governing Body determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

This report is made solely to the Governing Body of BRAC in accordance with Clause 37 of the Rules and Regulation of BRAC and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

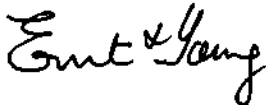
INDEPENDENT AUDITORS' REPORT TO THE GOVERNING BODY OF BRAC
(Contd.)

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

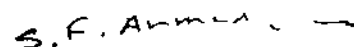
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of BRAC as at 31 December 2013 and of its financial performance and cash flows for the year ended 31 December 2013 in accordance with the accounting policies summarised in Note 2 to the financial statements.



Ernst & Young
Chartered Accountants
Kuala Lumpur, Malaysia




S.F. Ahmed & Co
Chartered Accountants
Dhaka, Bangladesh


March 13, 2014


BRAC
(Registered in Bangladesh under the Societies Registration Act, 1860)
Balance Sheet
as at 31 December 2013

Notes	2013 Taka	2012 Taka
ASSETS		
Cash and bank balances	3 16,000,082,561	16,049,453,079
Advances, deposits and prepayments	4 2,759,742,135	2,222,130,860
Inventories	5 3,633,398,684	3,054,105,958
Grants and accounts receivable	6 1,648,357,818	1,309,451,932
Microfinance loans	7 67,013,205,289	56,297,005,220
Motorcycle loans	8 739,565,719	602,663,398
Investments in securities and others	9 237,350,000	232,100,000
Investments in related undertakings	10 9,626,307,409	8,098,697,120
Property, plant and equipment	11 10,625,485,462	9,916,899,837
TOTAL ASSETS	112,283,495,077	97,782,507,404
LIABILITIES AND NET ASSETS		
Liabilities:		
Liabilities for expenses and materials	12 5,882,838,350	4,788,834,426
Bank overdrafts	13 3,694,856,519	5,006,636,222
Term loans	14 15,402,000,309	12,940,746,146
Members' savings deposits	15 29,034,851,689	24,907,281,663
Grants received in advance account	16 8,061,468,930	8,697,918,904
Deferred income	17 272,431,158	250,895,452
Other long term liabilities	18 9,879,776,479	8,216,392,565
Provision for taxation	1,046,941,030	840,941,030
Total Liabilities	73,275,164,464	65,649,646,408
Net Assets:		
Unrestricted	37,976,777,730	31,200,446,939
Temporarily restricted	1,031,552,883	932,414,057
	39,008,330,613	32,132,860,996
TOTAL LIABILITIES AND NET ASSETS	112,283,495,077	97,782,507,404

The annexed notes form an integral part of these statements.


Chairperson, Governing Body
BRAC
Dhaka, March 13, 2014



Chief Financial Officer
BRAC


Executive Director
BRAC

BRAC
(Registered in Bangladesh under the Societies Registration Act, 1860)
Statement of Income and Expenditure
for the year ended 31 December 2013

	Notes	Unrestricted Taka	Temporarily Restricted Taka	Total 2013 Taka
Income				
Donor grants	19	49,177,006	16,679,497,940	16,728,674,946
Revenue from:				
- Income Generating Projects	20	8,065,228,858	-	8,065,228,858
- Program Support Enterprises		4,300,606,387	-	4,300,606,387
Service charges on microfinance loans		17,802,363,604	-	17,802,363,604
Interest on bank accounts and fixed deposits	21	1,032,202,094	137,732,347	1,169,934,441
Investment income	22	419,026,368	-	419,026,368
Other income	23	488,282,627	13,998,545	502,281,172
Income from House Property		100,732,324	-	100,732,324
Total income		32,257,619,268	16,831,228,832	49,088,848,100
Expenditure				
Income Generating Projects		7,153,738,687	-	7,153,738,687
Program Support Enterprises		4,013,429,845	-	4,013,429,845
House property related expenses		74,452,205	-	74,452,205
Education Programme		187,470,309	6,887,804,854	7,075,275,163
Ultra Poor Programme		-	2,391,244,399	2,391,244,399
Community Empowerment Programme		4,544,115	336,463,722	341,007,837
Human Rights and Legal Aids Services		-	195,568,393	195,568,393
Policy Advocacy		-	86,040,129	86,040,129
Health Programme		134,724,016	4,323,868,916	4,458,592,932
Water, Sanitation and Hygiene Programme		-	1,535,677,979	1,535,677,979
Gender, Justice and Diversity		-	209,703,788	209,703,788
Micro Finance Programme		12,815,333,779	-	12,815,333,779
Agriculture and Food Security		-	527,051,524	527,051,524
Other Development Projects		430,840,586	238,666,302	669,506,888
Grants	24	984,488,882	-	984,488,882
Total expenditure		25,799,022,424	16,732,090,006	42,531,112,430
Surplus of income over expenditure before taxation		6,458,596,844	99,138,826	6,557,735,670
Taxation	25	(206,000,000)	-	(206,000,000)
Net surplus for the year		6,252,596,844	99,138,826	6,351,735,670

The annexed notes form an integral part of these statements.



Chairperson, Governing Body
BRAC
Dhaka, March 13, 2014



Chief Financial Officer
BRAC



Executive Director
BRAC

BRAC
(Registered in Bangladesh under the Societies Registration Act, 1860)
Statement of Income and Expenditure
for the year ended 31 December 2012

	Notes	Unrestricted Taka	Temporarily Restricted Taka	Total 2012 Taka
Income				
Donor grants	19	4,524,208	11,847,794,069	11,852,318,277
Revenue from:				
- Income Generating Projects	20	7,861,356,580	-	7,861,356,580
- Program Support Enterprises		4,124,249,679	-	4,124,249,679
Service charge on microfinance loans		14,774,933,599	-	14,774,933,599
Interest on bank accounts and fixed deposits	21	1,137,822,692	140,633,921	1,278,456,613
Investment income	22	126,946,311	-	126,946,311
Other income	23	535,221,235	15,144,461	550,365,696
Income from House Property		100,720,809	-	100,720,809
Total income		28,665,775,113	12,003,572,451	40,669,347,564
Expenditure				
Income Generating Projects		6,988,350,392	-	6,988,350,392
Program Support Enterprises		3,638,907,643	-	3,638,907,643
House Property related expenses		93,188,884	-	93,188,884
Education Programme		191,083,781	4,086,273,202	4,277,356,983
Ultra Poor Programme		-	2,045,763,985	2,045,763,985
Community Empowerment Programme		2,912,978	214,314,062	217,227,040
Human Rights and Legal Aids Services		-	195,539,238	195,539,238
Policy Advocacy		-	39,777,955	39,777,955
Health Programme		170,093,323	3,540,177,955	3,710,271,278
Water, Sanitation and Hygiene Programme		-	1,339,321,154	1,339,321,154
Gender, Justice and Diversity		-	138,151,582	138,151,582
Micro Finance Programme		11,714,555,867	-	11,714,555,867
Agriculture and Food Security		10,089,482	254,204,740	264,294,222
Other Development Projects		264,275,126	76,551,208	340,826,334
Total expenditure		23,073,457,476	11,930,075,081	35,003,532,557
Surplus of income over expenditure before taxation		5,592,317,637	73,497,370	5,665,815,007
Taxation	25	(200,000,000)	-	(200,000,000)
Net surplus for the year		5,392,317,637	73,497,370	5,465,815,007

The annexed notes form an integral part of these statements.

BRAC
(Registered in Bangladesh under the Societies Registration Act, 1860)
Statement of Changes in Net Assets
for the year ended 31 December 2013

	Net Assets		Total Net Assets
	Unrestricted	Temporarily Restricted	
	Taka	Taka	
At 1 January 2012	25,679,805,212	858,916,687	26,538,721,899
Net surplus for the year	5,392,317,637	73,497,370	5,465,815,007
Share of non operating changes in net assets in related undertakings	128,324,090	-	128,324,090
At 31 December 2012	<u>31,200,446,939</u>	<u>932,414,057</u>	<u>32,132,860,996</u>
At 1 January 2013	31,200,446,939	932,414,057	32,132,860,996
Net surplus for the year	6,252,596,844	99,138,826	6,351,735,670
Share of non operating changes in net assets in related undertakings	523,733,947	-	523,733,947
At 31 December 2013	<u>37,976,777,730</u>	<u>1,031,552,883</u>	<u>39,008,330,613</u>

The annexed notes form an integral part of these statements.

BRAC
(Registered in Bangladesh under the Societies Registration Act, 1860)
Statement of Cash Flows
for the year ended 31 December 2013

Note	2013 Taka	2012 Taka
Cash flows from operating activities:		
Surplus of income over expenditure before taxation	6,557,735,670	5,665,815,007
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Loan loss provision	7 2,322,988,477	1,709,585,836
Depreciation	11 632,161,760	603,213,042
Gain on disposal of property, plant and equipment	23 (8,279,958)	(36,232,317)
Grants to BRAC University	440,951,132	-
Share of results in related undertakings	22 (428,026,368)	(144,346,311)
Donor grants - amortisation of investment in property, plant and equipment	19 (101,839,234)	(43,943,518)
Interest on fixed deposits and bank accounts	21 (1,169,934,441)	(1,278,456,613)
Adjustments for other accounts:		
Increase in service charge outstanding on microfinance loans	(446,162,234)	(172,340,060)
(Increase)/decrease in inventories	(579,292,726)	55,576,831
(Increase)/decrease in advances, deposits and prepayments	(537,611,275)	35,450,047
Increase in accounts receivable, net	(353,330,307)	(119,876,764)
(Increase)/decrease in motorcycle loans	(136,902,321)	140,898,619
Increase in liabilities for expenses and materials	1,094,003,924	742,139,234
Increase in deferred income	123,374,940	77,881,438
Net cash provided by operating activities	7,409,837,039	7,235,364,471
Cash flows from investing activities:		
Increase in microfinance loans	(12,593,026,312)	(9,435,204,881)
Decrease/(increase) in fixed deposits pledged with financial institutions	2,316,665,292	(57,747,354)
Increase in investments in related undertakings	(632,199,038)	(447,274,178)
Interest received on fixed deposits and bank accounts	1,169,934,441	1,278,456,613
Purchase of property, plant and equipment	(1,786,706,906)	(2,836,261,904)
Proceeds from disposal of property, plant and equipment	13,288,347	190,997,941
Dividends received from related undertakings	56,349,064	21,056,190
(Realisation of)/investment in securities and others	(5,250,000)	2,900,000
Net cash used in investing activities	(11,460,945,112)	(11,283,077,573)

BRAC
(Registered in Bangladesh under the Societies Registration Act, 1860)
Statement of Cash Flows
for the year ended 31 December 2013

Notes	2013 Taka	2012 Taka
Cash flows from financing activities:		
Grants received during the year	16,128,185,099	15,153,784,471
Grants utilised during the year for:		
- operational expenditure & micro-finance	(16,626,835,712)	(11,808,374,759)
- investment in property, plant and equipment	(91,449,273)	(74,623,438)
- motorcycle replacement funds	(31,925,667)	(3,258,000)
Increase/(decrease) in term loans	2,461,254,163	1,775,122,578
Increase in members savings deposits	4,127,570,026	2,542,914,394
Increase in other long term liabilities	1,663,383,914	1,841,927,560
Net cash provided by financing activities	<u>7,630,182,550</u>	<u>9,427,492,806</u>
Net increase/(decrease) in cash and cash equivalents	3,579,074,477	5,379,779,704
Cash and cash equivalents, beginning of the year	<u>7,761,294,247</u>	<u>2,381,514,543</u>
Cash and cash equivalents, end of the year	<u>3.3 11,340,368,724</u>	<u>7,761,294,247</u>

The annexed notes form an integral part of these statements.

BRAC
(Registered in Bangladesh under the Societies Registration Act, 1860)
Notes to Financial Statements
for the year ended 31 December 2013

1 Introduction:

BRAC, a development organization, was formed in 1972 under the Societies Registration Act 1860. Although it was first set up to resettle refugees in post-war Bangladesh, BRAC later redesigned its strategies in accordance with its philosophy of poverty alleviation and empowerment of the poor. At present, BRAC has a large number of development programs that cover the areas of health, education, credit, employment and training for the poor people of Bangladesh. BRAC carries out licensed banking activities through the BRAC Bank Ltd. and also earns from various income generating projects such as Aarong Rural Craft Centre, BRAC Printers and Printing Pack, BRAC Dairy and Food Project, BRAC Tea Estates, and various programme support enterprises such as poultry farms, feed mills, seed mills and prawn hatcheries.

2 Summary of Significant Accounting Policies:

BRAC prepares its financial statements on a going concern basis, under the historical cost convention, except for investments in shares in listed companies classified within investment in securities and others, which are stated at fair value. BRAC generally follows the accrual basis of accounting or a modified form thereof for key income and expenditure items.

The significant accounting policies, which have been materially consistent over the years, as applied and followed in the preparation and presentation of these financial statements are summarized below:

2.1 Basis of preparation of financial statements

BRAC maintains its books of account and records on a programme or project-wise basis. The Head Office maintains records of all treasury, investment and management functions. All cash balances, including those held for programmes, are held by the Head Office and transferred to programmes as required. Balances between projects are eliminated upon combination for the purposes of presentation of the financial statements.

These financial statements include the financial statements of BRAC and, on an equity accounted basis, those of the related undertakings set out in Note 10 in which BRAC has equity interests through which it exercises control or significant influence. As stated in Note 2.5, BRAC, being a society under the Societies Registration Act, 1860, is not subject to any requirement to prepare consolidated financial statements.

In contrast to the ownership of equity interest in related undertakings, BRAC also extends gratuitous grants or provides donor liaison assistance to certain organisations that, in some instances may bear names with resemblance to BRAC, viz BRAC University, BRAC International Holdings B.V, Stichting BRAC International, BRAC Afghanistan, BRAC Sri Lanka, BRAC Tanzania, BRAC Uganda, BRAC Southern Sudan, BRAC Pakistan, BRAC Liberia and BRAC Sierra Leone. However, no equity is held in these entities, and BRAC's financial statements therefore do not include the financial information of these entities.

BRAC's accounting records and financial statements are maintained and presented in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and internal reporting into funds established according to their nature and purposes based on the existence or absence of donor-imposed restrictions.

2 Summary of Significant Accounting Policies (contd.) :

2.1 Basis of preparation of financial statements (contd.)

In the combined financial statements, funds have been classified within either of two net asset categories - temporarily restricted and unrestricted. Accordingly, the net assets of BRAC and changes therein are classified and reported as follows:

- **Temporarily restricted net assets** - Net assets subject to donor-imposed restrictions that permit BRAC to use or expend the assets as specified. The restrictions are satisfied either by the passage of time and/or by actions of BRAC. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, any balances of temporarily restricted net assets are either returned to donors in accordance with donor agreements or utilized consequent to donor and management agreements on a temporarily restricted or unrestricted basis.

In cases where restrictions expire, it is BRAC's policy to effect the reclassification of assets from temporarily restricted net assets to unrestricted net assets via transfers within the balance sheet.

- **Unrestricted net assets** - Net assets that are not subject to any donor-imposed restrictions or which arise from internally funded activities. This category of net assets include amongst others, amounts designated by BRAC for income generating activities, programme support enterprises, micro-financing activities and self-financing social development activities.

2.2 Reporting period

These financial statements has been prepared for the period from 1 January 2013 to 31 December 2013.

2.3 Functional and presentation currency

These financial statements are presented in Bangladesh Taka, which is BRAC's functional currency. Except as indicated, the figures have been rounded off to the nearest Taka.

2.4 Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

2.5 Non-consolidation

BRAC, being a society registered under the Societies Registration Act, 1860 is not subject to any requirement on the preparation of consolidated financial statements. Accordingly, BRAC's investments in related undertakings wherein the effective equity interests are more than 50% are accounted for by the equity method as explained in Note 2.14, together with related undertakings in which BRAC has significant influence and/or where effective equity interests are between 20% and 50%.

2 Summary of Significant Accounting Policies (contd.) :

2.6 Donor grants

Income from donor grants is recognized when conditions on which they depend have been met. Substantially, BRAC's donor grants are for the funding of projects and programmes, and for these grants, income is recognized to equate to expenditure incurred on projects and programmes. For donor grants which involve funding for property, plant and equipment, grant income is recognized as the amount equivalent to depreciation expenses charged on the fixed assets concerned. For donor grants provided to purchase motorcycles for specific projects, income is recognized over the estimated useful life of the motorcycles.

All donor grants received are initially recorded as liabilities in Grants Received in Advance Account. For grants utilized to purchase fixed assets and motorcycles, the donor grants are transferred to deferred income accounts whilst for grants utilized to reimburse programme-related expenditure, the amounts are recognized as income. Donor grants received in-kind, through the provision of gifts and/or services, are recorded at fair value (excluding situations when BRAC may receive emergency supplies for onward distribution in the event of a disaster which are not recorded as grants). Income recognition of such grants follows that of cash-based donor grants and would thus depend on whether the grants are to be utilized for the purchase of fixed assets or expended as programme-related expenditure.

Grant income is classified as temporarily restricted or unrestricted depending upon the existence of donor-imposed restrictions. For completed or phased out projects and programmes, any unutilized amounts are dealt with in accordance with subsequent donor and management agreements.

For ongoing projects and programmes, any expenditure yet to be funded but for which funding has been agreed at the end of the reporting period is recognized as grant receivable.

2.7 Revenue recognition

Income generating projects

Income generating projects comprise Aarong Rural Craft Centre, BRAC Printers and Printing Pack and BRAC Dairy and Food Project.

Programme support enterprises

Programme support enterprises mainly comprising poultry farms, feed mills, seed mills, fish and prawn hatcheries, horticulture nurseries, chilling centres, broiler rearing and meat marketing, salt production and marketing recycle paper production and health product related activities.

Revenue from the sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, discount and VAT. Revenue is recognised at the time when significant risks and rewards of ownership have been transferred to the buyer and recovery of consideration is probable. Transfer of risks and rewards occur, when the goods are delivered to the distributor/customers along with dispatch documents and invoices.

Service charge on microfinance loans

Service charges on microfinance loans are recognized on an accrual basis as income. The recognition of service charge ceases when a loan is transferred to non-interest bearing loan as described in Note 2.12. Service charge is included in income thereafter only when it is realized. Loans are returned to the accrual basis only when the full amount of the outstanding arrears of loans received and future collectability is reasonably assured.

Interest on bank accounts, fixed deposits, bonds

Interest income is recognised on an accrual basis.

House property income

House property income is recognised on an accrual basis whether cash is received or not.

Other income

Other income is recognized when BRAC's right to receive such income has been reasonably determined.

2 Summary of Significant Accounting Policies (contd.) :

2.8 Expenses

Programme related expenses arise from goods and services being distributed to beneficiaries in accordance with the programme objectives and activities. BRAC's Head Office overhead expenses are allocated to various projects and programmes at a range of 7% to 10% of their costs, based on agreement with donors or management's judgement.

2.9 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if all the following conditions are met:

- a) It is probable that future economic benefits will flow to BRAC
- b) the cost of the item can be measured reliably and exceeds Tk. 2,000
- c) it is expected to be used for more than 3 years

Subsequent to recognition, plant and equipment and furniture and fixtures are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively.

Freehold land has an unlimited useful life and therefore is not depreciated. Depreciation is provided for on a straight-line basis over the estimated useful lives of the assets at the following annual rates which are consistent with the prior year:

<u>Item</u>	<u>Annual Depreciation Rate (%)</u>
Buildings	4 - 10
Furniture & Fixtures	10 - 20
Equipment	15 - 33.3
Computer	20 - 33.3
Vehicles	20
Bicycles	20
Machinery	20
Deep tube wells and tanks	20
Hatcheries	20
Motorcycles	20
Camp/ Poultry/ Livestock sheds	20
Crates/ Mannequins/ Samples	33.3

Assets under construction included in plant and equipment are not depreciated as these assets are not yet available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the statement of income and expenditure in the year the asset is derecognized.

2 Summary of Significant Accounting Policies (contd.) :

2.10 Microfinance loans

BRAC's activities include providing microfinance loans to members without collateral, on a service charge basis under various programmes. Loans are inclusive of service charge and are stated net of provision for loan losses.

2.11 Provision for loan losses

Management regularly assesses the adequacy of the loan loss provision based on the age of the loan portfolio and calculates the required provision for loan losses based on the loan classification and following the provisioning methodology which is shown below .

<u>Loan Classification</u>	<u>Days in Arrears</u>	<u>Provision Required</u>
Standard	Current (no arrears)	2%
Watch list	1 - 30	5%
Substandard	31 - 180	25%
Doubtful	181 - 350	75%
Loss	Over 350	100%

2.12 Loans written off

Loans within their maturity period are classified as "Current loans". Loans which remain outstanding after one month of their maturity period are considered as "Late loans". Late loans which remain unpaid after one year are classified as "Non-Interest Bearing Loans" (NIBL). The total amount of NIBL, which are considered bad and have no possibility of recovery, is referred to the Governing Body of BRAC for approval of write off, generally within one year from the date when a loan is transferred to NIBL. Generally loans are written off twice a year i.e. July and December. Any collections realised from loans previously written off are credited to the statement of income and expenditure.

2.13 Provision for liabilities

Provisions for liabilities are recognised when BRAC has a present 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 of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

2.14 Investment in related undertakings

Related undertakings refer to separately-established undertakings in which BRAC has significant influence and /or effective equity interests of more than 20%. Details of these undertakings are disclosed in Note 10.

BRAC's investments in these undertakings are accounted for by the equity method whereby the investments are initially recorded at cost and subsequently adjusted to reflect BRAC's share of results for each period added to or deducted from the respective investment costs, from the dates of their acquisition and to the dates of their disposal. On disposal, gains or losses representing the difference between the proceeds on disposal and the carrying value of the undertakings at the date of disposal are recognised in the statement of income and expenditure. Gains or losses on dilution of interest in related undertakings, representing the difference in BRAC's share of net assets before and after the dilution concerned is also recognised in the statement of income and expenditure. Any changes in the net assets in the related undertakings other than by the effect of operating results are directly accounted for as a separate item in the statement of net assets with corresponding increase/ decrease in the investment. Provision is also made for any impairment if the carrying amount of an investment exceeds its recoverable amount.

2 Summary of Significant Accounting Policies (contd.) :

2.15 Investment in securities and others

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments in shares of listed companies are subsequently measured at fair value, with unrealized gains or losses recognized in the statement of income and expenditure. Fair value is generally determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date, adjusted for transaction costs necessary to realize the asset.

Other long-term investments which are intended to be held to maturity, such as debentures and private debt securities, are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortized cost, apart from the amortization process which is dealt with through the statement of income and expenditure, any gain or loss is recognized in the statement of income and expenditure when the investment is disposed of or suffers a permanent diminution in value.

2.16 Accounts receivable

Accounts receivable arise principally from BRAC's income generating activities and programme support enterprises, and are stated net of provision for doubtful debts. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date. Bad debts are written off when identified.

2.17 Inventories

Retail inventories are stated at cost based on selling price less average mark-up, and other inventories are stated at cost. Cost is determined using the weighted average basis. The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Provision is made for obsolete or slow moving items, to reduce their carrying amounts to net realizable value.

2.18 Motorcycle replacement fund

Applicable donor funds are utilized for providing motorcycles to project or programme staff and these funds are held in a replacement fund. The cost of providing motorcycles to staff is recovered through monthly salary deductions. Donor funds received and utilized for the purchase of motorcycles are amortized to the statement of income and expenditure over a period of five years, being the average estimated useful life of the motorcycles.

2.19 Self-insurance fund

BRAC has created a self-insurance fund to cover the risks of cyclone and fire on its properties and motorcycles. This self-insurance fund is based on estimates by the Governing Body, and as from 2001, by reference to external actuarial valuations. It is held as a provision within 'Other long term liabilities', as depicted in Note 18, and is not externally funded.

BRAC also sets aside monthly amounts equivalent to 1% of the basic salary of employees, to constitute the group self-insurance fund. This fund is to cover liabilities arising out of death and other permanent injuries suffered by the employees. The terms of employment provide for payment in the event of death or permanent injury, of amounts ranging from 12 months' equivalent of basic salary in the first year of employment, to 50 months' equivalent of basic salary in the 10th year of employment onwards. The self-insurance fund for employees is held as a provision, also within 'Other long term liabilities' and is not externally funded. It is based on estimates by the Governing Body, and as from 2001, by reference to external actuarial valuations.

The extent of future liabilities requiring current provisions, and the rate of provisions required in the immediate following financial periods have been determined based on actuarial valuations carried out in 2011 in respect of the funds, and are disclosed in Note 18 to the financial statements. It is BRAC's policy to carry out actuarial reviews at least every three years to assess the adequacy of the provisions in respect of the fund.

2 Summary of Significant Accounting Policies (contd.) :

2.20 Employee gratuity and redundancy fund

BRAC makes provisions for an Employee Gratuity and Redundancy fund, on the basis of two months' basic salary for each completed year's service for each permanent employee (based on basic salary of the last month). The fund is held as a provision within 'Other long term liabilities', as depicted in Note 18, and is not externally funded. Gratuity is to be disbursed upon retirement of employees whilst redundancy disbursements are to be made as a one-time termination benefit in the event of cessation of service from BRAC on grounds of redundancy.

The extent of future liabilities requiring current provisions, and the rate of provisions required in the immediate following financial periods have been determined based on actuarial valuation carried out in 2011, and are disclosed in Note 18 to the financial statements. It is BRAC's policy to carry out actuarial reviews at least every three years to assess the adequacy of the provision in respect of the fund.

2.21 Employee provident fund

BRAC makes contributions to a recognised contributory provident fund for its eligible employees which is operated by a Board of Trustees. The contribution by BRAC is 10% of the basic salary of each confirmed employee and this is equivalent to the contribution by each eligible employee. Contributions to this fund are recognised as an expense in the period in which the employee services are performed.

2.22 Foreign currencies

Foreign currency transactions are converted into equivalent Taka at the ruling exchange rates on the respective dates of such transactions.

Monetary assets and liabilities denominated in foreign currencies as at 31 December 2013 have been converted into Taka at the exchange rates prevailing at that date.

The resulting exchange translation gains and/ or losses are recognised in the statement of income and expenditure.

The principal exchange rates used for each respective unit of foreign currency ruling at the balance sheet date are as follows:

	Dec. 2013 Taka	Dec. 2012 Taka
United States Dollars	77.20	79.40
Euro	105.38	103.13
Great Britain Pound	125.18	128.17
Australian Dollars	67.51	81.55

BRAC's foreign currency denominated assets and liabilities are disclosed in Note 26.

2.23 Taxation

Income tax liabilities for the current period are measured at the amount expected to be paid to the taxation authorities in accordance with the Income Tax Ordinance, 1984 (Amended) for activities by which BRAC generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.