

**AKHUWAT**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED  
JUNE 30, 2005**

**ALE IMRAN & CO.  
Chartered Accountants**

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

We have audited the accompanying Balance Sheet of **AKHUWAT** as at June 30, 2005 and the related Statements of Income and Expenditures and Cash flow Statement & Statement of changes in Equity 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 Organization'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. Our responsibility is to express an opinion on these financial 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 financial 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.

In our opinion, the financial statements give a true and fair view of the financial position of the Organization as at June 30, 2005 and of the results of its operations and its Cash Flow for the year then ended in accordance with International Accounting Standards.

Dated: October 03, 2005  
Lahore



A handwritten signature in blue ink, appearing to read "Ale Imran".

**ALE IMRAN & CO.**  
Chartered Accountants

**AKHUWAT  
BALANCE SHEET  
AS AT JUNE 30, 2005**

	<u>Note</u>	<u>2005</u> Rupees	<u>2004</u> Rupees
<b>FIXED CAPITAL EXPENDITURES</b>			
<b>Operating Fixed Assets</b> <i>(at cost less accumulated depreciation)</i>	3	62,469	31,255
<b>LONG TERM ASSETS</b>			
Long Term Micro Loans Portfolio	4	350,000	350,000
Long Term Advances & Security Deposits	5	340,977	188,400
		690,977	538,400
<b>CURRENT ASSETS</b>			
Short Term Micro Loans portfolio	6	17,700,490	4,933,841
Short Term Advances	7	134,000	70,900
Cash and Bank Balances	8	2,653,019	4,228,636
		20,487,509	9,233,377
<b>TOTAL ASSETS</b>		<b>21,240,955</b>	<b>9,803,032</b>
<b>CURRENT LIABILITIES</b>			
Accrued Expenses and Other Liabilities	9	688,634	1,700
Contingencies & Commitments	10		
<b>NET ASSETS</b>		<b>20,552,321</b>	<b>9,801,332</b>
<b>REPRESENTED BY:</b>			
Capitalization Fund	11	20,552,321	9,801,332

The annexed notes form an integral part of these accounts.



**Executive Director**

Lahore  
October 03, 2005




**Secretary**

**AKHUWAT**  
**STATEMENT OF INCOME & EXPENDITURES**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Notes</u>	<u>2005</u> Rupees	<u>2004</u> Rupees
<b>INCOME</b>			
Grants Recognized as Income	12	-	17,500
Membership Fee	13	1,755,918	369,600
		<b>1,755,918</b>	<b>387,100</b>
<b>EXPENDITURE</b>			
General and Administrative Expenses	14	1,731,552	521,314
Programme Assistance	15	136,855	44,083
Seminar, Workshop and Research Expenses	16	34,268	-
Loan Loss Provision		89,185	-
		<b>1,991,860</b>	<b>565,397</b>
		<b>(235,942)</b>	<b>(178,297)</b>
 <b>Surplus/(Deficit) for the year transferred to Capitalization Fund</b>		<b>(235,942)</b>	<b>(178,297)</b>

-The annexed Notes form an integral part of these accounts.

**Executive Director**

**Secretary**



**AKHUWAT**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Grants Received</u> Rupees	<u>Surplus/(Deficit) for the year</u> Rupees	<u>Total</u> Rupees
Balance as on June 30, 2003	3,083,364	(253,002)	2,830,362
Surplus/(Deficit) for the Year		(178,297)	(178,297)
Grants Received During the Year	7,149,267	-	7,149,267
Balance as on June 30, 2004	10,232,631	(431,299)	9,801,332
Surplus/(Deficit) for the Year		(235,942)	(235,942)
Grants Received During the Year	10,986,931	-	10,986,931
Balance as on June 30, 2005	<u>21,219,562</u>	<u>(667,241)</u>	<u>20,552,321</u>

**Executive Director**



**Secretary**

**AKHUWAT**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	2005 Rupees	2004 Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Surplus before Taxation	(235,942)	7,013,270
Adjustments for non-cash Charges :		
Depreciation	15,658	13,184
	-	-
	15,658	13,184
<b>Operating Surplus before working capital changes</b>	<b>(220,284)</b>	<b>7,026,454</b>
<i>(Increase) in current assets</i>		
Shor term Micro Credit Loan Portfolio Unsecured	(12,749,520)	(3,562,640)
Short Term Advances	(63,100)	(65,900)
	(12,812,620)	(3,628,540)
<i>Increase in current Liabilities</i>		
Accrued expenses and other liabilities	686,934	5,700
Working Capital Change	(12,345,970)	3,403,614
<b>Net cash inflow from operating activities</b>	<b>(12,345,970)</b>	<b>3,403,614</b>
<b><u>CASH FLOW FROM INVESTING ACTIVITIES</u></b>		
Long term Micro Credit Loan Portfolio Unsecured	-	(24,000)
Fixed capital expenditures	(46,872)	(44,439)
Long Term Advances	(152,577)	(159,400)
<b>Net cash(outflow) from investing activities</b>	<b>(199,449)</b>	<b>(227,839)</b>
<b><u>CASH FLOW FROM FINANCING ACTIVITIES</u></b>		
Grants received	10,987,168	-
Financial charges paid	(17,366)	-
<b>Net cash inflow/(outflow) from financing activities</b>	<b>10,969,802</b>	<b>-</b>
Net Increase in cash and cash equivalents	(1,575,617)	3,175,775
Cash and cash equivalents at the beginning of year	4,228,636	1,052,861
Cash and cash equivalents at the end of year	<b>2,653,019</b>	<b>4,228,636</b>
<b>A. Cash and cash equivalents</b>		
Cash in Hand	47,158	950
Cash at Banks	2605861	4,227,686
	<b>2,653,019</b>	<b>4,228,636</b>

**AKHUWAT  
NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**1- THE ORGANIZATION AND ITS OPERATIONS**

AKHUWAT is working in Pakistan Since 2001 and got the certificate of registration on May 13, 2003 under the Societies Registration Act, XXI of 1860.

The organization was established to provide interest free micro credit and to launch ancillary programs of various short and long term nature. The organization is principally engaged to carry on the following objectives.

- Organizing women, in particular, and men in general into socially viable community groups, called Self Help Groups (SHGs).
- Providing Interest free micro credit finance services to the poor women through SGHs and to individuals.
- Capacity building through interest free credit enhancement to poor in urban slums with a view to make them self reliant.
- Creating avenues for self-employment and broadening scope of opportunities available to the poor.
- Identifying people/organizations desirous of planning and executing such programs elsewhere and providing them with necessary support and resources.

**2- SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Accounting Convention**

The accounts are prepared under the historical cost convention.

**2.2 Basis of Preparation**

These accounts have been prepared in accordance with the requirements of Companies Ordinance, 1984 and applicable accounting standards issued by the International Accounting Standards Committee (IASC) by the interpretation issued by the Standard Interpretation Committee of the IASC as applicable in Pakistan.

**2.3 Operating Fixed Assets**

These include fixed assets purchased for Akhuwat, furniture of the administration department, office equipment and computers held at Akhuwat office.

Fixed assets are stated at cost less depreciation. Depreciation is calculated using Diminishing Balance method. Full year depreciation is charged on assets acquired during the year while no depreciation is charged on deletions made during the year.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and replacements are capitalized and assets retired, if any, are kept as standby.

Gain or loss on disposal of operating fixed assets, if included in current income

**2.4 Loan Loss Provision**

As a matter of prudence, This provision has been taken 0.5% of total outstanding balance of short term micro loan portfolios on year ended is made.

**AKHUWAT**  
**SCHEDULE OF OPERATING FIXED ASSETS**

**3 OPERATING FIXED ASSETS**

Following is the detail of operating fixed assets,

DESCRIPTION	COST			Rate %	DEPRECIATION			WDV as 30-06-05 Rupees
	Balance as on 01-07-04	Additions/ Transfers/ Deletion)	Balance as on 30-06-05		Balance as on 07-04	Charge for the year	Balance as on 30-06-05	
<b>OWNED ASSETS</b>								
Office Equipment	1,150	2,015	3,165	10	115	305	420	2
Furniture and Fixtures	5,289	36,207	41,496	10	529	4,097	4,626	36
Computers	38,000	8,650	46,650	33	12,540	11,256	23,796	22
	<b>2005</b>	<b>44,439</b>	<b>46,872</b>		<b>13,184</b>	<b>15,658</b>	<b>28,842</b>	<b>62</b>
	<b>2004</b>	<b>-</b>	<b>44,439</b>		<b>-</b>	<b>13,184</b>	<b>13,184</b>	<b>31</b>



**AKHUWAT**  
**NOTES TO THE ACCOUNT**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	Notes	2005 Rupees	2004 Rupees
<b>4. LONG TERM MICRO LOANS PORTFOLIO- secured, considered good</b>			
Educational Loans	4.1	7,000	7,000
Enterprise Loans	4.2	343,000	343,000
		<u>350,000</u>	<u>350,000</u>

4.1 These are long term interest free micro loans given to needy students to meet their educational expenses. Borrowers will repay the loan after completing their education and getting the job. These loans are secured against the personal guarantee of the borrowers.

4.2 Represents interest free loans given to an enterprise cum training institute in different areas of Pakistan. The institutions will repay the loan within time ranging from 2-3 years. These loans are secured against the personal guarantee of the borrower and one of the directors of Akhuwat.

**5. LONG TERM ADVANCES AND SECURITY DEPOSITS**

Long Term Advances to Staff-unsecured, considered good

Motorcycles Loans	5.1	244,200	224,400
Miscellaneous Loans	5.2	205,777	34,900
		449,977	259,300
Less: Current Maturity		(134,000)	(70,900)
		<u>315,977</u>	<u>188,400</u>
Long Term security deposits		25,000	-
		<u>340,977</u>	<u>188,400</u>

5.1 This represents long term loans to staff for purchase of motorcycles. This amount is payable in equal installments over the period of 6 to 7 years by way of equal installments ranging from Rs.750 to 1500 per month.

5.2 This represents long term loans given to permanent employees of AKHUWAT. This amount is payable in unequal installments over the period of more than one year.

**6. SHORT TERM MICRO LOANS PORTFOLIO- unsecured, considered good**

Group Loans	6.1	5,065,300	2,356,300
Individual Loans	6.2	12,771,718	2,624,884
		<u>17,837,018</u>	<u>4,981,184</u>
Less: Provision for Loan Loss	6.3	(136,528)	(47,343)
		<u>17,700,490</u>	<u>4,933,841</u>

6.1 Represents micro credit, interest free loans given to female entrepreneurs for productive/income generating on social collateral i.e. all member of group are responsible for repayment of loan. Membership fee for each loan is 5% of principle amount. Repayment period of each loan is ten month. These loans are secured against social collateral and loans to individual group members may be extended from Rs. 10,000 to 25,000. Repayments is made in eighteen equal monthly instalments.

6.2 This represents loan's given to individuals against two personal guaranteees. Membership fee for each loan is 5% of principle amount with the exemption of loans equal or less than Rs. 3000. Repayment period of each loan is ten months.

	<u>2005</u> Rupees	<u>2004</u> Rupees
<b>7. SHORT TERM ADVANCES</b>		
Current Maturity of Long Term Advances To Staff		
Motorcycles Loans	48,000	36,000
Miscellaneous Loans	86,000	34,900
	<u>134,000</u>	<u>70,900</u>
	<u>134,000</u>	<u>70,900</u>
<b>8. CASH AND BANK BALANCES</b>		
Cash in Hand	47,158	950
Cash at Bank-In current accounts	2,605,861	4,227,686
	<u>2,653,019</u>	<u>4,228,636</u>
	<u>2,653,019</u>	<u>4,228,636</u>
<b>9. ACCRUED EXPENSES &amp; OTHER LIABILITIES</b>		
Accrued Expenses	206,080	1,700
Other Liabilities	482,554	-
	<u>688,634</u>	<u>1,700</u>
	<u>688,634</u>	<u>1,700</u>
<b>10. CONTINGENCIES &amp; COMMITMENTS</b>		
There were no contingencies and commitments as on June 30, 2005 (2004 : NIL).		
<b>11. CAPITALIZATION FUND</b>		
Opening Balance	9,801,332	2,830,362
Grants received during the year	10,986,931	7,149,267
	<u>20,788,263</u>	<u>9,979,629</u>
Surplus/(Deficit) for the Year	(235,942)	(178,297)
	<u>20,552,321</u>	<u>9,801,332</u>
	<u>20,552,321</u>	<u>9,801,332</u>
<b>12. GRANTS RECOGNIZED AS INCOME</b>		
	<u>-</u>	<u>17,500</u>
	<u>-</u>	<u>17,500</u>
Grants represents funds provided by the Board of Directors of Akhuwat and local philanthropist to meet operational expenses of the Organization.		
<b>13. MEMBERSHIP FEE</b>		
Membership Fee-Non Refundable	1,755,918	369,600
	<u>1,755,918</u>	<u>369,600</u>
	<u>1,755,918</u>	<u>369,600</u>

Represents membership fee at the rates ranging from 2 to 5% of the principle amount deposited by the borrowers to access the loan.

	Note	2005 Rupees	2004 Rupees
<b>14. GENERAL AND ADMINISTRATIVE EXPENSE</b>			
Salaries and Benefits	14.1	1,040,546	384,526
Honorarium	14.2	224,970	42,500
Traveling		178,252	23,339
Printing		56,425	36,275
Stationary		53,469	9,846
Photocopy		5,327	684
Communication		21,892	1,816
Office Supplies		39,422	2,110
Depreciation		15,658	13,184
Bank Charges	3	17,366	7,034
Auditor's Remuneration		20,000	30,000
Utilities		17,545	-
Repair and Maintenance		41,000	-
Rent		1,680	580
Miscellaneous		<u>1,731,552</u>	<u>621,314</u>

14.1 This represents salaries of staffs. Director and administration staff, Internal Audit, Social Mobilization and information technology department are working on voluntary basis and nothing has been paid to them during the year.

14.2 Represents honorarium/bonus paid to loan officers on achieving monthly recovery targets before the settlement date.

#### 15. PROGRAMME ASSISTANCE

Programme Assistance	<u>136,865</u>	<u>44,083</u>
Represents expenses incurred on annual function new programme launching's and fee paid for developing Akhuwat's web site.		

#### 16. SEMINAR, WORKSHOP AND RESEARCH EXPENSES

	<u>34,268</u>	<u>-</u>
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#### 17. LOAN LOSS PROVISION

	<u>89,185</u>	<u>-</u>
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#### 18. CONCENTRATION OF CREDIT RISK

The Organization seeks to manage the credit risk by attempting to diversify the lending activities to avoid undue concentration of risks with micro-credit customers in specific locations or activities. The organization controls this risk through credit appraisals, assessing the credit-worthiness of customers by making groups obtaining guarantees of reputable/known persons of locality where individual/group loan are disbursed requiring voluntary savings from borrowers.

#### 19. INTEREST RATE RISK

All borrowings of the Organization are on Nil interest rate so the interest rate risk is considered to be Nil.

#### 20. GENERAL

- Figures have been rounded off to the nearest rupee.
- Corresponding figures have been rearranged and reclassified, where, necessary, for the purpose of comparison.



Executive Director

Lahore  
October 03, 2005





Secretary