

AKHUWAT

**FINANCIAL STATEMENTS FOR THE YEAR ENDED
JUNE 30, 2006**

**ALE IMRAN & CO.
Chartered Accountants**

ALE IMRAN & CO.

Chartered Accountants

AUDITORS' REPORT TO THE BOARD OF DIRECTORS

We have audited the accompanying Balance Sheet of AKHUWAT (the Organization) as at June 30, 2006 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, 2006 and of the results of its operations and its Cash Flow for the year then ended in accordance with International Accounting Standards.

August 15, 2006
Lahore


ALE IMRAN & CO.
Chartered Accountants





AKHUWAT
BALANCE SHEET AS AT JUNE 30, 2006

	<u>Notes</u>	<u>2006</u> Rupees	<u>2005</u> Rupees
FIXED CAPITAL EXPENDITURES			
Operating Fixed Assets <i>(at cost less accumulated depreciation)</i>	3	154,887	62,469
LONG TERM ASSETS			
Long Term Micro Loans Portfolio	4	310,050	350,000
Long Term Advances	5	825,876	340,977
		1,135,926	690,977
CURRENT ASSETS			
Short Term Micro Loans portfolio	6	37,693,882	17,700,490
Current Maturity of Long Term Loans Portfolio	7	246,760	134,000
Short Term Advances	8	105,892	-
Cash and Bank Balances	9	9,608,450	2,653,019
		47,654,984	20,487,509
TOTAL ASSETS		48,945,797	21,240,955
CURRENT LIABILITIES			
Accrued Expenses & Other Liabilities	10	(884,426)	(688,634)
Contingencies & Commitments	11	-	-
NET ASSETS		48,061,371	20,552,321
REPRESENTED BY:			
Capitalization Fund	12	48,061,371	20,552,321

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



Executive Director



Secretary

Lahore
August 15, 2006

AKHUWAT
STATEMENT OF INCOME & EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Notes</u>	<u>2006</u> Rupees	<u>2005</u> Rupees
INCOME			
Grants Recognized as Income	13	440,299	-
Membership Fee	14	3,397,768	1,755,918
Other Income	15	86,889	-
		3,924,956	1,755,918
EXPENDITURES			
General and Administrative Expenses	16	4,425,507	1,726,486
Financial Charges		52,835	17,366
Programme Assistance	17	97,520	136,855
Seminar, Workshop and Research Expenses	18	-	34,268
Loan Loss Provision	19	189,470	89,185
		4,765,332	2,004,160
Excess of Expenditure over income transferred to Capitalization Fund		<u>(840,376)</u>	<u>(248,242)</u>

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



Executive Director

Lahore
August 15, 2006



Secretary

**AKHUWAT
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>2006</u> Rupees	<u>2005</u> Rupees
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>		
Surplus (Deficit) before Taxation	(840,376)	(248,242)
Adjustments for non-cash Charges :		
Depreciation for the year	37,797	15,658
	37,797	15,658
Operating Surplus/(Deficit) before working capital changes	(802,579)	(232,584)
<i>(Increase) Decrease in current assets</i>		
Short Term Micro Loans portfolio	(19,993,392)	(12,714,349)
Short Term Advances	(218,652)	63,100
	(20,212,044)	(12,777,449)
<i>Increase (Decrease) in current Liabilities</i>		
Accrued Expenses and Other Liabilities	195,792	646,934
Working Capital Change	(20,818,831)	(12,363,099)
Net cash inflow/(outflow) from operating activities	(20,818,831)	(12,363,099)
<u>CASH FLOW FROM INVESTING ACTIVITIES</u>		
Long Term Micro Loans Portfolio	39,950	-
Fixed capital expenditures	(130,215)	(46,872)
Long Term Advances & Security Deposits	(484,899)	(152,577)
Net cash(outflow) from investing activities	(575,164)	(199,449)
<u>CASH FLOW FROM FINANCING ACTIVITIES</u>		
Grants received	28,349,426	10,986,931
Net cash inflow/(outflow) from financing activities	28,349,426	10,986,931
Net Increase/(Decrease) in cash and cash equivalents	6,955,431	(1,575,617)
Cash and cash equivalents at the beginning of year	2,653,019	4,228,636
Cash and cash equivalents at the end of year	9,608,450	2,653,019
A. Cash and cash equivalents		
Cash in Hand	53,344	47,158
Cash at Banks	9,555,106	2,605,861
	9,608,450	2,653,019

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, 2006

	<u>Grants Received</u> Rupees	<u>Surplus/(Deficit) for the year</u> Rupees	<u>Total</u> Rupees
Balance as on June 30, 2004	10,232,631	(418,999)	9,813,632
Surplus/(Deficit) for the Year	-	(248,242)	(248,242)
Grants Received During the Year	10,986,931	-	10,986,931
Balance as on June 30, 2005	21,219,562	(667,241)	20,552,321
Surplus/(Deficit) for the Year	-	(840,376)	(840,376)
Grants Received During the Year	28,349,426	-	28,349,426
Balance as on June 30, 2006	49,568,988	(1,507,617)	48,061,371

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

Executive Director

Secretary

AKHUWAT
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2006

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 SHGs 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 conducting operational activities and includes furniture of the administration department, office equipment and computers held at Akhuwat offices and branches.

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 Income & Expenditure Accounts 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 any, is included in current income.

2.4 Loan Loss Provision

As a matter of prudence, this provision at the rate of 0.5% of the total outstanding balance of short term micro loans portfolio on year end is made.

AKHUWAT
SCHEDULE OF OPERATING FIXED ASSETS

J OPERATING FIXED ASSETS

Following is the detail of operating fixed assets as on June 30, 2006.

DESCRIPTION	COST		Rate %	DEPRECIATION		WDV as on 30-06-06 Rupees	
	Balance as on 01-07-05	Additions/Transfers/ (Deletion)		Balance as on 30-06-06	Balance as on 01-07-05		Charge for the Year
OWNED ASSETS							
Office Equipment	3,165	25,200	10	430	2,795	3,215	25.1
Furniture and Fixtures	41,496	47,315	10	4,636	8,419	13,045	75.7
Computers	46,650	57,700	33	23,706	26,583	50,379	53.5
2006	91,311	130,215		28,842	37,797	66,639	154.8
2005	44,439	46,872		13,184	15,658	28,842	62.4

Note: Akhuwat is the only registered organization that doesn't have car, jeep or any other transport.

Amir

AKHUWAT
NOTES TO THE ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Notes</u>	<u>2006</u> Rupees	<u>2005</u> Rupees
4. LONG TERM MICRO LOANS PORTFOLIO- secured, considered good			
Educational Loans	4.1	7,000	7,000
Enterprise Loans	4.2	303,050	343,000
		<u>310,050</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 enterprise cum training institutes in different areas of Pakistan. The institutions will repay the loans within time ranging from 2-3 years. These loans are secured against the personal guarantee of the borrower and one of the directors of Akhuwa

5. LONG TERM ADVANCES AND SECURITY DEPOSITS

Long Term Advances to Staff-unsecured, considered good

- Motorcycles Loans
- Miscellaneous Loans

5.1	524,350	244,200
5.2	298,286	205,777
	822,636	449,977

Less: Current Maturity

(246,760)	(134,000)
<u>575,876</u>	<u>315,977</u>

Long Term security deposits

250,000	25,000
<u>825,876</u>	<u>340,977</u>

5.1 This represents long term loans to staff for purchase of motorcycles. This amount is payable in equal instalments over the period of 6 to 7 years by way of equal instalments ranging from Rs.750 to 1000 per month.

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

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

Group Loans

6.1	7,807,750	5,065,300
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Individual Loans

6.2	30,177,597	12,771,718
	<u>37,985,347</u>	<u>17,837,018</u>

Less: Loan Loss Provision

(291,465)	(136,528)
<u>37,693,882</u>	<u>17,700,490</u>

6.1 Represents micro credit, interest free loans given to female entrepreneurs for productive/income generating activities 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. These loans are secured against social collateral and loans to individual group members may be extended from Rs. 10,000 to 25,000. Maximum repayment period is 18 months.

6.2 This represents loans given to individuals for productive / income generating activities against two personal guarantees. Membership fee for each loan is 5% of principle amount with the exemption of loans less than or equal to Rs. 3000. Maximum repayment period is 18 months.

	<u>2006</u>	<u>2005</u>
	Rupees	Rupees
15. OTHER INCOME		
Other Income	<u>86,889</u>	<u>-</u>

Represents the income generated from investments or other income generating activities for meeting operational expenses.

16. GENERAL & ADMINISTRATIVE EXPENSES

Salaries and Benefits	16.1	2,951,155	1,040,546
Honorarium	16.2	291,340	224,970
Travelling		394,915	188,552
Printing		113,822	56,425
Stationary		72,670	53,469
Photocopy		22,350	5,327
Communication		78,194	21,892
Office Supplies		82,014	39,422
Depreciation	3	37,797	15,658
Audit Fee		30,000	20,000
Utilities		27,598	-
Repair and Maintenance		23,770	17,545
Rent		197,200	41,000
Staff training		32,500	-
Earthquake relief expenses		61,675	-
Miscellaneous		8,507	1,680
		<u>4,425,507</u>	<u>1,726,486</u>

16.1 This represents salaries of 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.

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

17. PROGRAMME ASSISTANCE

Programme Assistance	<u>97,520</u>	<u>136,855</u>
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Represents expenses incurred on annual function new programme launching's and fee paid for developing Akhuwat's web site.

18. SEMINAR WORKSHOP & RESEARCH EXPENSES

Seminar, Workshop & Research Expenses	<u>-</u>	<u>34,268</u>
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19. LOAN LOSS PROVISION

Loan Loss Provision	<u>189,470</u>	<u>89,185</u>
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20. CONCENTRATION OF CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Organization (Akhuwat) is exposed to credit-related losses in the event of non-payment by micro-credit loan.

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.

Amir

	<u>2006</u> Rupees	<u>2005</u> Rupees
7. CURRENT MATURITY OF LONG TERM LOANS PORTFOLIO		
Current Maturity of Long Term Advances To Staff		
- Motorcycles Loans	117,000	48,000
- Miscellaneous Loans	129,760	86,000
	<u>246,760</u>	<u>134,000</u>
8. SHORT TERM ADVANCES		
Advance to supplier	100,000	-
Advance Tax	5,892	-
	<u>105,892</u>	<u>-</u>
9. CASH AND BANK BALANCES		
Cash in Hand	53,344	47,158
Cash at Bank-In current accounts - Local currency	9,555,106	2,605,861
	<u>9,608,450</u>	<u>2,653,019</u>
10. ACCRUED EXPENSES & OTHER LIABILITIES		
Accrued Expenses	30,000	206,080
Other Liabilities	854,426	482,554
	<u>884,426</u>	<u>688,634</u>
11. CONTINGENCIES & COMMITMENTS		
There were no contingencies and commitments as on June 30, 2006 (2005 : NIL).		
12. CAPITALIZATION FUND		
Opening Balance	20,552,321	9,813,632
Grants received during the year	<u>28,349,426</u>	<u>10,986,931</u>
	48,901,747	20,800,563
Excess of Expenditure over income for the year	(840,376)	(248,242)
	<u>48,061,371</u>	<u>20,552,321</u>
13. GRANTS RECOGNIZED AS INCOME		
	<u>440,299</u>	<u>-</u>
Grants represents funds provided by the Board of Directors of Akhuwat and local philanthropist to meet operational expenses of the Organization		
14. MEMBERSHIP FEE		
Membership Fee-Non Refundable	<u>3,397,768</u>	<u>1,755,918</u>

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

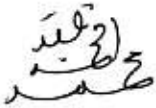
Amir

21. INTEREST RATE RISK

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

22. GENERAL

-Figures have been rounded off to the nearest rupee.



Executive Director

Lahore
August 15, 2005



Secretary