

AKHUWAT

FINANCIAL STATEMENTS FOR THE YEAR ENDED

JUNE 30, 2003

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, 2003 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, 2003 and of the results of its operations and its Cash Flow for the year then ended in accordance with International Accounting Standards.

August 18, 2003
Lahore


Ale Imran
ALE IMRAN & CO.
Chartered Accountants

**AKHUWAT
BALANCE SHEET
AS AT JUNE 30, 2003**

	<u>Notes</u>	<u>2003</u> Rupees	<u>2002</u> Rupees
LONG TERM ASSETS			
Long Term Micro Credit Loan Portfolio	3	33,000	26,000
Long Term Advances	4	322,000	105,000
		355,000	131,000
CURRENT ASSETS			
Short Term Micro Credit Loan Portfolio	5	1,423,501	770,400
Short Term Advances	6	5,000	-
Cash and Bank Balances	7	1,052,861	194,973
		2,481,362	965,373
TOTAL ASSETS		2,836,362	1,096,373
CURRENT LIABILITIES			
Accrued Expenses and Other Liabilities	8	21,000	15,000
Contingencies & Commitments	9	-	-
NET ASSETS		2,815,362	1,081,373
 REPRESENTED BY:			
Capitalization Fund	10	2,815,362	1,081,373

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

Executive Director



Secretary

Lahore
18/08/2003

AKHUWAT
STATEMENT OF INCOME & EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

	<u>Notes</u>	<u>2003</u> Rupees	<u>2002</u> Rupees
INCOME			
Grants Recognized as Income	11	96,125	-
Membership Fee	12	103,550	16,800
Other Income	13	1,233	-
		200,908	16,800
EXPENDITURE			
General and Administration Expenses	14	181,778	182,527
Programme Assistance	15	44,009	-
Training Expenses- Staff and Community	16	12,514	-
Seminar, Workshop and Research Expenses	17	8,800	-
Loan Loss Provision		53,343	-
		300,444	182,527
		(99,536)	(165,727)
Financial Charges		1,850	-
Surplus(Deficit) for the year transferred to the Capitalization Fund		<u>(101,386)</u>	<u>(165,727)</u>

The annexed notes form an integral part of these accounts.



Executive Director

Secretary

Lahore
18/08/2003

AKHUWAT
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2003

	<u>Grants Received</u> Rupees	<u>Surplus/(Deficit) for the Year</u> Rupees	<u>Total</u> Rupees
Balance as on June 30, 2001	289,989	(15,889)	274,100
Surplus/(Deficit) for the Year	-	(150,727)	(150,727)
Grants Received During the Year	973,000	-	973,000
Balance as on June 30, 2002	1,262,989	(166,616)	1,096,373
Surplus/(Deficit) for the Year	-	(101,386)	(101,386)
Grants Received During the Year	1,820,375	-	1,820,375
Balance as on June 30, 2003	<u>3,083,363</u>	<u>(268,002)</u>	<u>2,815,361</u>




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

Executive Director

Secretary

AKHUWAT
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2003

	2003	2002
	Rupees	Rupees
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>		
Surplus (Deficit) before Taxation	(101,386)	(165,727)
<i>Adjustments for non-cash items :</i>		
Depreciation	13,184	-
Operating Surplus before working capital changes	(88,202)	(165,727)
<i>(Increase) / Decrease in current assets:</i>		
Short Term Micro Loans Portfolio	(653,101)	(770,400)
Short Term Advances	(5,000)	-
	(658,101)	(770,400)
<i>Increase / (Decrease) in current Liabilities:</i>		
Accrued Expenses and Other Liabilities	21,000	15,000
Working Capital Change	(637,101)	(755,400)
Net cash inflow from operating activities	(725,303)	(921,127)
<u>CASH FLOW FROM INVESTING ACTIVITIES</u>		
Long Term Micro Loans Portfolio	7,000	190,000
Long Term Advances & Security Deposits	217,000	(105,000)
Net cash inflow / (outflow) from investing activities	224,000	85,000
<u>CASH FLOW FROM FINANCING ACTIVITIES</u>		
Grants Received	-	973,000
Net cash inflow / (outflow) from financing activities	-	973,000
Net Increase in Cash and Cash Equivalents	(501,303)	136,873
Cash and Cash Equivalents at the Beginning of Year	194,973	58,100
Cash and Cash Equivalents at the End of Year	(306,330)	194,973
 A. Cash and cash equivalents		
Cash in Hand	13,517	85,078
Cash at Banks	1,039,344	109,895
	1,052,861	194,973



 Executive Director



 Secretary

AKHUWAT
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2003

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 any, is 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.

**AKHUWAT
NOTES TO THE ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Notes</u>	<u>2003</u> Rupees	<u>2002</u> Rupees
3. LONG TERM MICRO LOANS PORTFOLIO			
Secured, considered good			
Educational Loans	4.1	7,000	-
Enterprise Loans	4.2	26,000	26,000
		<u>33,000</u>	<u>26,000</u>

3.1 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.

3.2 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.

4. LONG TERM ADVANCES AND SECURITY DEPOSITS

Long Term Advances to Staff-unsecured, considered good

Motorcycles Loans	5.1	327,000	105,000
Less: Current Maturity		(5,000)	-
		<u>322,000</u>	<u>105,000</u>

4.1 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.

	<u>Notes</u>	<u>2003</u> Rupees	<u>2002</u> Rupees
5. SHORT TERM MICRO LOAN PORTFOLIO			
Unsecured, considered good			
Group Loans	6.1	1,248,300	770,400
Individual Loans	6.2	228,544	-
		1,476,844	770,400
Less: Provision for Loan Loss		(53,343)	-
		<u>1,423,501</u>	<u>770,400</u>

5.1 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 months. These loans are secured against social collateral and loans to individual group members may be extended from Rs. 10,000 to 25,000. Repayment is made in eighteen equal monthly installments.

5.2 This represents loan given to individuals against two personal guarantees. 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.

6. SHORT TERM ADVANCES

Current Maturity of Staff Loan

Miscellaneous Loans	<u>5,000</u>	<u>-</u>
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7. CASH AND BANK BALANCES

Cash in Hand	13,517	85,078
Cash at Bank-Current Accounts	1,039,344	109,895
	<u>1,052,861</u>	<u>194,973</u>

8. ACCRUED EXPENSES & OTHER LIABILITIES

Accrued Expenses & Other Liabilities	<u>21,000</u>	<u>15,000</u>
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	<u>Notes</u>	<u>2003</u> Rupees	<u>2002</u> Rupees
9. CONTINGENCIES & COMMITMENTS		-	-

There were no contingencies and commitments as on June 30, 2003 (2002 : NIL)

10. CAPITALIZATION FUND

Opening Balance		1,096,373	274,100
Grants Received During the Year		1,820,375	973,000
		<u>2,916,748</u>	<u>1,247,100</u>
Surplus/(Deficit) for the Year		(101,386)	(165,727)
		<u>2,815,362</u>	<u>1,081,373</u>

11. GRANTS RECOGNIZED AS INCOME

	<u>96,125</u>	<u>-</u>
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Grants represents funds provided by the Board of Directors of Akhuwat and local philanthropist to meet operational expenses of the Organization.

12. MEMBERSHIP FEE

Membership Fee-Non Refundable	<u>103,550</u>	<u>16,800</u>
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Represents membership fee at the rates ranging from 2 to 5% of the principle amount deposited by the borrowers to access the loan.

13. OTHER INCOME

Interest on bank deposits	<u>1,233</u>	<u>-</u>
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14. GENERAL ADMINISTRATIVE EXPENSE

Salaries and Benefits	15.1	126,500	137,500
Honorarium	15.2	1,500	-
Traveling		940	-
Printing & Stationery		36,200	20,250
Stationary		1,638	4,777
Auditor's Remuneration		15,000	15,000
Miscellaneous Expenses		-	5,000
		<u>181,778</u>	<u>182,527</u>

14.1 This represents salaries of staff. 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.

2003	2002
Rupees	Rupees

15. PROGRAMME ASSISTANCE

Programme Assistance

44,009	-
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Represents expenses incurred on annual function new programme launching's and fee paid for developing Akhuwat's web site.

16. TRAINING EXPENSE- Staff and Community

12,514	-
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Represents community training expenses on Akhuwat's capacity building programmed.

17. SEMINAR AND WORKSHOP EXPENSES

8,800	-
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Represents expenses for Aftar for AKHUWAT members in Ramzan.

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.



Executive Director




Secretary