

**AKHUWAT**  
FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE, 2004

**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, 2004 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, 2004 and of the results of its operations and its Cash Flow for the year then ended in accordance with International Accounting Standards.

Dated: October 25, 2004  
Lahore

  
  
ALE IMRAN & CO.  
Chartered Accountants

**AKHUWAT**  
**BALANCE SHEET AS AT JUNE 30, 2004**

	<u>Notes</u>	<u>2004</u> Rupees	<u>2003</u> Rupees
<b>FIXED CAPITAL EXPENDITURES</b>			
Operating Fixed Assets <i>(at cost less accumulated depreciation)</i>	3	31,255	-
<b>LONG TERM ASSETS</b>			
Long Term Micro Loans Portfolio	4	57,000	33,000
Long Term Advances	5	481,400	322,000
		538,400	355,000
<b>CURRENT ASSETS</b>			
Short Term Micro Loans portfolio	6	4,986,141	1,423,501
Short Term Advances	7	70,900	5,000
Cash and Bank Balances	8	4,228,636	1,052,861
		9,285,677	2,481,362
<b>TOTAL ASSETS</b>		<b>9,855,332</b>	<b>2,836,362</b>
<b>CURRENT LIABILITIES</b>			
Accrued Expenses and Other Payables		(11,700)	(6,000)
Contingencies & Commitments	9		
<b>NET ASSETS</b>		<b>9,843,632</b>	<b>2,830,362</b>
 <b>PRESENTED BY:</b>			
Capitalization Fund	10	9,843,632	2,830,362

The annexed notes form an integral part of these accounts.



**Executive Director**



**Secretary**

Lahore  
10/25/2004

**AKHUWAT**  
**STATEMENT OF INCOME & EXPENDITURES**  
**FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Notes</u>	<u>2004</u> Rupees	<u>2003</u> Rupees
<b>INCOME</b>			
Grants recognized as Income	11	17,500	96,125
Membership Fee	12	421,900	103,550
Other Income	13	-	1,233
		<b>439,400</b>	<b>200,908</b>
<b>EXPENDITURE</b>			
General and Administration Expenses	14	531,314	166,778
Programme Assistance	15	44,083	44,009
Training Expenses- Staff and Community	16	-	12,514
Seminar, Workshop and Research Expenses	17	-	8,800
Loan Loss Provision		-	53,343
		<b>575,397</b>	<b>285,444</b>
		<b>(135,997)</b>	<b>(84,536)</b>
Financial Charges		-	1,850
Surplus/(Deficit) for the year transferred to Capitalization Fund		<b>(135,997)</b>	<b>(86,386)</b>

The annexed notes form an integral part of these accounts.

**Executive Director**

Lahore  
10/25/2004

**Secretary**

AKHUWAT  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2004

	2004 Rupees	2003 Rupees
<b><u>CASH FLOW FROM OPERATING ACTIVITIES</u></b>		
Surplus(Deficit) before Taxation	(135,997)	(86,386)
Adjustments for non-cash Charges :		
Depreciation for the year	13,184	-
Financial charges	-	1,850
	13,184	1,850
Operating Surplus(Deficit) before working capital changes	(122,813)	(84,536)
<i>(Increase)Decrease in current assets</i>		
Short Term Micro Loans portfolio	(3,562,640)	(653,101)
Short Term Advances	(65,900)	(5,000)
	(3,628,540)	(658,101)
<i>Increase (Decrease) in current Liabilities</i>		
Accrued Expenses and Other Payables	5,700	-
Working Capital Change	(3,745,653)	(742,637)
Net cash inflow/(outflow) from operating activities	(3,745,653)	(742,637)
<b><u>CASH FLOW FROM INVESTING ACTIVITIES</u></b>		
Long Term Micro Loans Portfolio	(24,000)	(7,000)
Fixed capital expenditures	(44,439)	-
Long Term Advances	(159,400)	(217,000)
Net cash/(outflow) from investing activities	(227,839)	(224,000)
<b><u>CASH FLOW FROM FINANCING ACTIVITIES</u></b>		
Grants received	7,149,267	1,826,375
Financial charges paid	-	(1,850)
Net cash inflow/(outflow) from financing activities	7,149,267	1,824,525
Net Increase(Decrease) in cash and cash equivalents	3,175,775	857,888
Cash and cash equivalents at the beginning of year	1,052,861	194,973
Cash and cash equivalents at the end of year	4,228,636	1,052,861

Executive Director

Secretary

**AKHUWAT**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Grants Received</u> Rupees	<u>Surplus/(Deficit) for the year</u> Rupees	<u>Total</u> Rupees
Balance as on June 30, 2002	1,096,373	-	1,096,373
Surplus/(Deficit) for the Year	-	(86,386)	(86,386)
Grants Received During the Year	1,820,375	-	1,820,375
Balance as on June 30, 2003	<u>2,916,748</u>	<u>(86,386)</u>	<u>2,830,362</u>
Surplus/(Deficit) for the Year	-	(135,997)	(135,997)
Grants Received During the Year	7,149,267	-	7,149,267
Balance as on June 30, 2004	<u><u>10,066,015</u></u>	<u><u>(222,383)</u></u>	<u><u>9,843,632</u></u>



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**Executive Director**



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**Secretary**



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

**3 OPERATING FIXED ASSETS**

Following is the detail of operating fixed assets,

DESCRIPTION	COST		Rate %	DEPRECIATION		WDV as on 30-06-04 Rupees
	Balance as on 01-07-03 R u p e e s	Balance as on 30-06-04 R u p e e s		Balance as on 01-07-03 R u p e e s	Charge for the year R u p e e s	
<b>OWNED ASSETS</b>						
Office equipment	-	1,150	10	-	115	1,035
Furniture and Fixtures	-	5,289	10	-	529	4,760
Computers	-	38,000	33	-	12,540	25,460
<b>2004</b>	-	<b>44,439</b>		-	<b>13,184</b>	<b>31,255</b>
<b>2003</b>	-	-		-	-	-

## 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.



**AKHUWAT**  
**NOTES TO THE ACCOUNT**  
**FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Notes</u>	<u>2004</u> Rupees	<u>2003</u> Rupees
<b>4. LONG TERM MICRO LOANS PORTFOLIO- unsecured, considered good</b>			
Educational Loans	4.1	7,000	7,000
Enterprise Loans	4.2	50,000	26,000
		<u>57,000</u>	<u>33,000</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.

4.2 Represents interest free loans given to an enterprise cum training institute in different areas of Pakistan. The institutions will repay the loans within time ranging from 2-3 years.

**5. LONG TERM ADVANCES**

Long Term Advances	5.1	293,000	322,000
Staff Loans	5.2	224,400	-
Less: Current Maturity		(36,000)	-
		<u>481,400</u>	<u>322,000</u>

5.1 Represents advances made to initiate interest free micro credit programmes in different areas of Pakistan.

5.2 Represents long term loans to staff for purchase of motorcycles.

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

Group Loans	6.1	2,408,600	1,248,300
Individual Loans	6.2	2,624,884	228,544
		<u>5,033,484</u>	<u>1,476,844</u>
Less: Provision for Loan Loss	6.3	47,343	53,343
		<u>4,986,141</u>	<u>1,423,501</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.

6.2 This loan is advanced 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.

6.3 During the year no provision was made for non-performing loans.

		<u>2004</u> Rupees	<u>2003</u> Rupees
<b>7. SHORT TERM ADVANCES</b>			
Current Maturity of Staff Loan	7.1	36,000	-
Advance against salary		34,900	5,000
		<u>70,900</u>	<u>5,000</u>

7.1 This represents short term portion of advances given to permanent employees of AKHUWAT to purchase motorcycles under AKHUWAT staff transport policy.

#### **8. CASH AND BANK BALANCES**

Cash in hand		950	1,039,344
Cash at Bank-In current accounts - Local currency		4,227,686	13,517
		<u>4,228,636</u>	<u>1,052,861</u>

#### **9. CONTINGENCIES & COMMITMENTS**

There were no contingencies and commitments as on 30 June 2004 (2003 : NIL).

#### **10. CAPITALIZATION FUND**

Balance at the beginning of the year		2,830,362	1,096,373
Grants received during the year		<u>7,149,267</u>	<u>1,820,375</u>
		9,979,629	2,916,748
Surplus/(Deficit) for the Year		(135,997)	(86,386)
		<u>9,843,632</u>	<u>2,830,362</u>

#### **11. GRANTS RECOGNIZED AS INCOME**

	<u>17,500</u>	<u>96,125</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 Organisation.

#### **12. MEMBERSHIP FEE**

Membership Fee-Non Refundable		<u>421,900</u>	<u>1,035,500</u>
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Represents membership fee deposited by the borrowers to access the loan.

#### **13. OTHER INCOME**

Interest on bank deposits		<u>-</u>	<u>1,233</u>
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		2004 Rupees	2003 Rupees
<b>14. GENERAL ADMINISTRATIVE EXPENSE</b>			
Salaries and Benefits	14.1	394,526 ✓	126,500
Honorarium	14.2	42,500 ✓	1,500
Traveling		23,339 ✓	940
Printing & Stationery		35,695 ✓	36,200
Stationary		9,846 ✓	1,638
Photocopy		684 ✓	-
Communication		1,816 ✓	-
Office Supplies		2,110 ✓	-
Depreciation		13,184 ✓	-
Bank Charges		7,034 ✓	-
Miscellaneous Expenses		580 ✓	-
		<u>531,314</u>	<u>166,778</u>

14.1 This represents salaries of loan officers, Director and Professional staff of Finance, 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>44,083</u>	<u>44,009</u>
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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

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

#### 17. SEMINAR AND WORKSHOP EXPENSES

-	<u>8,800</u>
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Represents expenses for Aftar for AKHUWAT members in Ramzan.

#### 18. 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 a financial loss. The Organization 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.

#### 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

Secretary