

AKHUWAT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

ARSHAD & CO.
Chartered Accountant



Chartered Accountant

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Chartered Accountant

AUDITORS' REPORT TO THE BOARD OF DIRECTORS

We have audited the accompanying Balance Sheet of AKHUWAT (the Organization) as at June 30, 2007 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, 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, to 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 financial 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 testing 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, 2007 and of the results of its operations and its Cash Flow for the year then ended in accordance with International Accounting Standards.

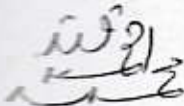


ARSHAD & CO.
Chartered Accountant.

AKHUWAT
BALANCE SHEET AS AT JUNE 30, 2007

	<u>Notes</u>	<u>2007</u> Rupees	<u>2006</u> Rupees
FIXED CAPITAL EXPENDITURES			
Operating Fixed Assets (at cost less accumulated depreciation)	3	3,668,542	154,887
LONG TERM ASSETS			
Long Term Micro Loans Portfolio	4	310,050	310,050
Long Term Advances & Security Deposits ✓	5	888,805	825,876
		<u>1,198,855</u>	<u>1,135,926</u>
CURRENT ASSETS			
Short Term Micro Loans Portfolio	6	50,136,563	37,693,887
Short Term Advances	7	141,390	105,892
Current Maturity of Long Term Loans & Advances	8	294,855	246,760
Cash & Bank Balances	9	8,390,644	9,608,450
		<u>58,963,452</u>	<u>47,654,984</u>
TOTAL ASSETS		<u>63,830,849</u>	<u>48,945,797</u>
CURRENT LIABILITIES			
Accrued Expenses & Other Liabilities	10	(959,160)	(884,426)
Contingencies & Commitments	11		
NET ASSETS		<u>62,871,689</u>	<u>48,061,371</u>
REPRESENTED BY:			
Capitalization Fund	12	<u>62,871,689</u>	<u>48,061,371</u>

The annexed notes form an integral part of these accounts.



Executive Director



Secretary

Lahore
August 15, 2007



AKHUWAT
STATEMENT OF INCOME & EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007

	Notes	2007 Rupees	2006 Rupees
INCOME			
Grants Recognized as Income	13	-	440,299
Membership Fee	14	4,942,398	3,397,768
Other Income	15	420,520	86,889
		5,362,918	3,924,956
EXPENDITURES			
General and Administrative Expenses	16	6,920,242	4,478,342
Programme Assistance	17	846,935	97,520
Loan Loss Provision	18	506,430	189,470
		8,273,607	4,765,332
Excess of Expenditure over Income Transferred to Capitalization Fund		(2,910,689)	(840,376)

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


Executive Director

- Lahore
 August 15, 2007

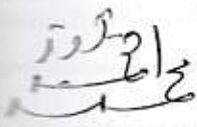

Secretary



AKHUWAT
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Grants Received</u> Rupees	<u>Deficit for the year</u> Rupees	<u>Total</u> Rupees
Balance as on June 30, 2005	21,219,562	(567,241)	20,552,321
Expenditure over income for the year	-	(840,376)	(840,376)
Grants Received During the Year	28,349,426	-	28,349,426
Balance as on June 30, 2006	<u>49,568,988</u>	<u>(1,507,617)</u>	<u>48,061,371</u>
Expenditure over income for the year	-	(2,910,689)	(2,910,689)
Grants Received During the Year	17,721,007	-	17,721,007
Balance as on June 30, 2007	<u>67,289,995</u>	<u>(4,418,306)</u>	<u>62,871,689</u>

Notes form an integral part of these accounts.


 Executive Director

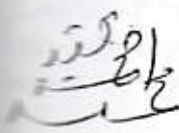

 Secretary



ARSHAD & CO.
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2007

	2007 Rupees	2006 Rupees
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>		
Profit before taxation	(2,910,689)	(840,376)
Adjustments for non-cash Charges :		
Depreciation for the Year	155,161	37,797
Operating Surplus/(Deficit) before Working Capital Changes	(2,755,528)	(802,579)
Change in current Assets		
Short Term Micro Loans Portfolio	(12,442,681)	(19,993,392)
Short Term Advances	(35,498)	(218,652)
Change in Current Liabilities	(12,478,179)	(20,212,044)
Accrued Expenses & Other Liabilities	(74,734)	195,792
Working Capital Changes	(12,403,445)	(20,818,831)
Cash (outflow) from Operating Activities	(15,207,069)	(20,818,831)
<u>CASH FLOW FROM INVESTING ACTIVITIES</u>		
Long Term Micro Loans Portfolio	-	39,950
Long Term Advances & Security Deposits	(62,929)	(484,899)
Fixed Capital Expenditures	(3,668,816)	(130,215)
Cash outflow from Investing Activities	(3,731,744)	(575,164)
<u>CASH FLOW FROM FINANCING ACTIVITIES</u>		
Grants Received During The Year	17,721,007	28,349,426
Cash Inflow/(Outflow) From Financing Activities	17,721,007	28,349,426
Increase/(Decrease) in Cash & Cash Equivalents	(1,217,806)	6,955,431
Cash Equivalents at the Beginning of Year	9,608,450	2,653,019
Cash Equivalents at the End of the Year	8,390,644	9,608,450
Cash & Cash Equivalents		
Cash in Hand	240,717	53,344
Cash at Banks	8,149,927	9,555,106
	8,390,644	9,608,450

Notes form an integral part of these accounts.


 Executive Director


 Secretary



AKHUWAT
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2007

ORGANIZATION & 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.

SIGNIFICANT ACCOUNTING POLICIES

1. Accounting Convention

The accounts are prepared under the historical cost convention.

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.

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.

4. Loan Loss Provision

As a matter of prudence, this provision at the rate of 1% of the total outstanding balance of short term micro loans portfolio on year end is made.



AKHUWAT
SCHEDULE OF OPERATING FIXED ASSETS

3 OPERATING FIXED ASSETS

Following is the detail of operating fixed assets as on June 30, 2007,

DESCRIPTION	COST			Rate %	DEPRECIATION			WDV as on 30-06-07
	Balance as on 01-07-06	Additions/ (Deletion)	Balance as on 30-06-07		Balance as on 01-07-06	Charge for the year	Balance as on 30-06-07	
	R u p e e s				R u p e e s			Rupees
OWNED ASSETS								
Freehold Land	-	2,590,000	2,590,000	-	-	-	-	2,590,000
Building on Freehold Land	-	935,000	935,000	10	-	93,500	93,500	841,500
Office Equipment	28,365	30,781	59,146	10	3,215	5,593	8,808	50,338
Furniture & Fixtures	88,811	28,785	117,596	10	13,045	10,455	23,500	94,096
Computers	104,350	84,250	188,600	33	50,379	45,613	95,992	92,608
	2007	221,526	3,668,816		66,639	155,161	221,800	3,668,542
	2006	91,311	130,215		28,842	37,797	66,639	154,007



The certificate of group and companies for repayment of loan membership fee for each year is 0% of production amount. These loans are secured.

**AKHUWAT
NOTES TO THE ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2007**

	Notes	2007 Rupees	2006 Rupees
4. LONG TERM MICRO LOANS PORTFOLIO- Secured-Considered Good			
Educational Loans	4.1	7,000 ✓	7,000
Enterprise Loans	4.2	303,050 ✓	303,050
		<u>310,050</u>	<u>310,050</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 Akhuwat.

5. LONG TERM ADVANCES & SECURITY DEPOSITS

Long Term Advances to Staff-Unsecured-Considered Good

- Motorcycles Loans	5.1	510,450	524,350
- Miscellaneous Loans	5.2	424,210	298,286
		934,660	822,636
Less: Current Maturity		(294,855)	(248,760)
		<u>639,805</u>	<u>575,876</u>
Long Term Security Deposits		249,000	250,000
		<u>888,805</u>	<u>825,876</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	4,594,537	7,807,750
Individual Loans	6.2	48,048,456	30,177,597
		<u>50,642,993</u>	<u>37,985,347</u>
Less: Loan Loss Provision		(506,430)	(291,465)
		<u>50,136,563</u>	<u>37,693,882</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.



	2007 Rupees	2006 Rupees
SHORT TERM ADVANCES		
Advance to Supplier		100,000
Advance Tax	141,390	5,892
	<u>141,390</u>	<u>105,892</u>

NEAR MATURITY OF LONG TERM LOANS & ADVANCES

Current Maturity of Long Term Micro Loan Portfolio		
Current Maturity of Long Term Advances To Staff		
Motorcycles Loans	138,000	117,000
Miscellaneous Loans	156,855	129,760
	294,855	246,760
	<u>294,855</u>	<u>246,760</u>

CASH & BANK BALANCES

Cash on Hand	240,717	53,344
Current Bank-In Current Accounts - Local Currency	8,149,927	9,555,106
	<u>8,390,644</u>	<u>9,608,450</u>

ACCUMULATED EXPENSES & OTHER LIABILITIES

Accumulated Expenses	49,450	30,000
Other Liabilities	909,710	854,426
	<u>(959,160)</u>	<u>884,426</u>

CONTINGENCIES & COMMITMENTS

There were no contingencies & commitments as on June 30, 2007 (2006 : NIL).

RESERVE FUND

Opening Balance	48,061,371	20,552,321
Grants Received During the Year	17,721,007	28,349,426
	65,782,378	48,901,747
Excess of Expenditure Over Income	(2,910,689)	(840,376)
	<u>62,871,689</u>	<u>48,061,371</u>

GRANTS RECOGNIZED AS INCOME

Grants Recognized as Income	440,299
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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.



	2007 Rupees	2006 Rupees
14. MEMBERSHIP FEE		
Membership Fee-Non Refundable	4,942,398	3,397,768

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

15. OTHER INCOME		
Other Income	420,520	86,889

This represents the funds received from collection boxes, hide sales and receipt from other campaigns & activities for meeting operational expenses.

16. GENERAL & ADMINISTRATIVE EXPENSES

Salaries & Benefits	4,713,795	2,951,155
Honorarium (Note: 16.1)	192,680	291,340
Travelling & Conveyance	442,321	394,915
Printing	289,998	113,822
Stationary	114,623	72,670
Photocopy	9,101	22,350
Communication	86,296	78,194
Office Supplies	99,094	82,014
Consultancy Charges	134,251	-
Fee & Subscription	130,000	-
Bank Charges	160,510	52,835
Depreciation (Note : 3)	155,161	37,797
Auditor's Remuneration	54,600	30,000
Utilities	58,904	27,598
Repair & Maintenance	50,489	23,770
Rent	190,440	197,200
Staff Training	12,180	32,500
Earthquake Relief Expenses	-	61,675
Miscellaneous	25,799	8,507
	<u>6,920,242</u>	<u>4,478,342</u>

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

17. PROGRAMME ASSISTANCE

Programme Assistance	846,935	97,520
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Represents expenses incurred on annual function new programme launching's and fee paid for developing Akhuwat's web site.

18. LOAN LOSS PROVISION

Loan Loss Provision	506,430	189,470
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19. 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 (Akhwat) 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.

20. INTEREST RATE RISK

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

21. GENERAL

-Figures have been rounded off to the nearest rupee.



Executive Director

Lahore
August 15, 2007


Secretary