

AKHUWAT

**FINANCIAL STATEMENTS FOR THE
YEAR ENDED JUNE 30, 2009**

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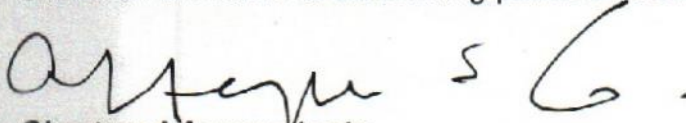
AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Akhuwat (the Organization) as at June 30, 2009 and the related statement of income and expenditure account, statement of changes in funds and statement of cash flow together with the notes forming part thereof (hereinafter referred to as the "financial statements") for the year then ended.

It is the responsibility of the management to establish and maintain a sound system of internal control and prepare and present the financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 used and significant estimates made by the management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly in all material respects the financial position of Akhuwat as at June 30, 2009 and of its deficit and cash flow for the year then ended on the basis of accounting policies described in note 4 to the financial statements.


Chartered Accountants

Engagement Partner: Imran Farooq Mian

Lahore, July 09, 2010

AKHUWAT

BALANCE SHEET AS AT JUNE 30, 2009

	Note	2009 Rupees	2008 Rupees
Assets			
Current assets			
Advances and other receivables	5	1,669,394	1,436,096
Micro loans portfolio	6	92,228,068	59,263,752
Cash and bank	7	12,240,282	7,453,245
		106,137,744	68,153,093
Non-current assets			
Operating fixed assets	8	4,003,352	3,754,296
Long term advances and security deposits	9	3,361,869	2,336,200
Long term portion of micro loans portfolio	10	3,723,194	10,308,797
		11,088,415	16,399,293
		117,226,159	84,552,386
Liabilities			
Current liabilities			
Creditors, accrued and other liabilities	11	341,539	1,057,023
Provident fund payable		1,185,761	664,008
		1,527,300	1,721,031
Non-current liabilities			
Loan for credit pool		500,000	500,000
		2,027,300	2,221,031
		115,198,859	82,331,355
REPRESENTED BY			
Donated funds			
General fund		125,375,255	88,704,872
Takaful fund		(12,082,187)	(6,794,617)
Rehabilitation fund		878,784	421,100
		1,027,007	-
		115,198,859	82,331,355
Contingencies and commitments	12	115,198,859	82,331,355

The annexed notes 1 to 19 form an integral part of these financial statements.


Executive Director


Secretary

AKHUWAT

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009		2008			
		Microfinance Operations Rupees	Akhuwat Health Services Rupees	Total Rupees	Microfinance Operations Rupees	Akhuwat Health Services Rupees	Total Rupees
Income							
Processing fee	13	8,826,478	-	8,826,478	9,163,261	-	9,163,261
Other income	14	2,227,796	-	2,227,796	1,585,636	-	-
Income from AHS Clinic	15	-	79,200	79,200	-	-	1,585,636
		11,054,274	79,200	11,133,474	10,748,897	-	10,748,897
Expenditure							
General and administrative expenses	16	13,797,835	505,506	14,303,341	10,304,364	-	10,304,364
Programme assistance		1,625,104	12,600	1,637,704	550,163	-	550,163
Loan loss provision expense	6.5	419,859	-	419,859	2,270,681	-	2,270,681
Franchisee loans directly written off	17	293,000	-	293,000	-	-	-
Death claims written off against Takaful		265,195	-	265,195	332,900	-	332,900
Funeral charges paid from Takaful		120,000	-	120,000	-	-	-
Advances written off		242,046	-	242,046	-	-	-
		16,763,039	518,106	17,281,145	13,458,108	-	13,458,108
Deficit for the year		(5,708,765)	(438,906)	(6,147,671)	(2,709,211)	-	(2,709,211)

The annexed notes 1 to 19 form an integral part of these financial statements.


Executive Director


Secretary

AKHUWAT

STATEMENT OF CHANGES IN FUNDS FOR THE YEAR ENDED JUNE 30, 2009

	Donated funds Rupees	General fund Rupees	Takaful fund Rupees	Rehabilitation fund Rupees	Total Rupees
Balance as at July 1, 2007	67,289,995	(4,418,306)	-	-	62,871,689
Deficit for the year	-	(2,709,211)	-	-	(2,709,211)
Donations received during the year	21,414,877	-	754,000	-	22,168,877
Death claims realized during the year transferred from Takaful fund to general fund	-	332,900	(332,900)	-	-
Balance as at June 30, 2008	88,704,872	(6,794,617)	421,100	-	82,331,355
Excess of assets over liabilities of microfinance operations of Decent Welfare Trust acquired during the year	1,332,046	-	-	-	1,332,046
Deficit for the year	-	(5,708,765)	(438,906)	-	(6,147,671)
Donations received during the year	35,338,337	-	1,281,785	1,000,000	37,620,122
Income from Rehabilitation fund	-	-	-	63,007	63,007
Expenses paid out of Rehabilitation fund	-	36,000	-	(36,000)	-
Death claims realized during the year transferred from Takaful fund to general fund	-	385,195	(385,195)	-	-
Balance as at June 30, 2009	125,375,255	(12,082,187)	878,784	1,027,007	115,198,859

The annexed notes 1 to 19 form an integral part of these financial statements.


Executive Director


Secretary

AKHUWAT

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2009

Note	2009 Rupees	2008 Rupees
Cash flow from operating activities		
Deficit for the year	(6,147,671)	(2,709,211)
Adjustments for non cash items:		
Depreciation on operating fixed assets	294,745	191,665
Loss on fixed assets disposed off	405	30,981
Profit received on bank deposits	(318,844)	(189,982)
Provision for loan loss	419,859	2,270,681
Franchisee loans directly written off	293,000	-
Advances written off	242,046	-
Donations received in kind	(94,200)	-
	837,011	2,303,345
	(5,310,660)	(405,866)
Effect on cash flow due to working capital changes		
(Increase) in loan portfolio	(27,091,572)	(21,645,167)
(Increase) in advances	(313,621)	(2,135,727)
(Decrease) / increase in creditors, accrued and other liabilities	(715,484)	331,973
Increase in provident fund payable	521,753	378,031
	(27,598,924)	(23,070,890)
Net cash used in operating activities	(32,909,584)	(23,476,756)
Cash flow from investing activities		
Fixed capital expenditure	(450,606)	(308,400)
Proceeds from sale of fixed assets	600	-
Profit received on bank deposits	381,851	189,982
Net cash used in investing activities	(68,155)	(118,418)
Cash flow from financing activities		
Donations received	37,620,122	22,168,877
Cash received from Decent Welfare Trust	144,654	-
Net cash from financing activities	37,764,776	22,168,877
Net Increase/(decrease) in cash and cash equivalents	4,787,037	(1,426,297)
Cash and cash equivalent at the beginning of the year	7,453,245	8,879,542
Cash and cash equivalents at the end of the year	12,240,282	7,453,245

The annexed notes 1 to 19 form an integral part of these financial statements.


Executive Director


Secretary

AKHUWAT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

1. Legal status and nature of business

Akhuwat (the Organization) was registered in Pakistan on May 13, 2003 as a society, under the Societies Registration Act, 1860. It has a total of seventeen branches, across the province of Punjab.

The Organization was established to provide interest-free micro-credit and to launch ancillary programmes 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.

-Providing interest free micro credit finance services to the poor women through Self Help Groups and the Individuals.

-Capacity building through interest free credit enhancement to the poor in urban areas 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 programmes elsewhere and providing them with necessary support and resources.

-From November 1, 2008 the Organization has also opened a clinic, under the umbrella of Akhuwat Health Services (AHS), aimed at providing subsidized health services to the poor.

The Organization is managing four funds, out of these donated and general fund are used for providing microfinance as well as operational expenses of the Organization, at the discretion of Board of Directors. Takaful fund is only used for writing off loans of deceased borrowers, providing them funeral charges and for Akhuwat Health Services expenses, whereas Rehabilitation fund is used only for stipends to hiers of victims of suicide bomb attacks.

Under the terms of a contract for loan to Decent Welfare Trust, Gujrat, the Organization has taken over the microfinance operation of the Trust as at April 30, 2009. Details of assets and liabilities acquired as at that date are given below:

Assets	Rupees
Short term advances	11,342
Micro loans portfolio	2,376,000
Cash and bank	144,654
	2,531,996
Liabilities	
Creditors, accrued and other liabilities	1,199,950
Net assets acquired	1,332,046

2. Basis of Preparation

These financial statements have been prepared in accordance with generally accepted accounting principles as applicable in Pakistan.

3. Basis of measurement

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying its accounting policies. Estimates and judgments are continually evaluated and are based on historical experience including expectations of future events that are believed to be reasonable under the circumstances.

4. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 Operating fixed assets

Operating fixed assets are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is carried at cost less any identified impairment loss. Depreciation on all operating fixed assets is charged to profit on reducing balance method so as to write off the historical cost of an asset over its estimated life at the rates referred to in note 8 to the financial statements.

The asset's residual value and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant.

Depreciation on addition to operating fixed assets is for the whole year in the year it is acquired or capitalized, while no depreciation is charged for the year in which the asset is disposed off.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Organization and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

Gain or loss on disposal of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

4.2 Loan loss provision

As a matter of prudence, a provision is made at the rate of 1% of the total outstanding balance of individual loans portfolio on year end. Individual loan outstanding for more than 90 days after its expiry is written off.

4.3 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

4.4 Creditors, accrued and other liabilities

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Organization.

4.5 Staff retirement benefits

The Organization operates an unapproved defined contribution provident fund scheme for its permanent employees, who opt for the scheme. Monthly deductions are made from the salaries of the employees at the rate of 10 % of basic salary. The Organization recognizes an equal charge in the income of the Organization. The accumulated amount has been recognized as a liability in the balance sheet.

4.6 Recognition of grants and donations

Grants received for providing loans are directly recognized in the donated fund. Other funds provided by the donor to subsidize operating and administrative expenses are recognized directly as income, in the period of receipt.

4.7 Taxation

The Organization has been granted exemption from tax by the Commissioner of Income Tax under clause 58 Part I of the Second Schedule of the Income Tax Ordinance, 2001.

4.8 Revenue recognition

Processing fee for micro credit loans collected from members is recognized on receipt basis.

Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

		2009 Rupees	2008 Rupees
5. Advances and other receivables			
Advance tax		504,616	288,547
Advances for website development		199,920	-
Other advances		123,653	78,726
Advances to staff			
- Motorcycle loans - unsecured	5.1	814,850	890,860
- Housing loans - unsecured	5.2	2,601,264	1,751,000
- Miscellaneous loans - unsecured	5.3	681,960	705,658
		4,098,074	3,347,518
Less: Long term portion of advances to staff	9	(3,256,869)	(2,278,695)
		<u>841,205</u>	<u>1,068,823</u>
		<u>1,669,394</u>	<u>1,436,096</u>

5.1 These represent long term loans to employees for purchase of motorcycles. This amount is payable over a period of 3 to 7 years by way of equal installments ranging from Rs 750 to Rs 1,000 per month.

5.2 Housing loans are provided to employees for purchase of house in a housing scheme, construction of house and repair and maintenance of an existing house.

5.3 This represents long term loans given to permanent employees of Akhuwat for personal use. This amount is payable in unequal installments over a period of more than one year.

		2009 Rupees	2008 Rupees
6. Micro loans portfolio - unsecured considered good			
Educational loans	6.1	248,250	135,250
Franchisee loans	6.2	1,684,000	1,813,000
Individual loans	6.3	94,968,699	67,486,923
Group loans	6.4	-	820,450
		96,900,949	70,255,623
Less: Loan loss provision	6.5	(949,687)	(683,074)
		<u>95,951,262</u>	<u>69,572,549</u>
Less: Long term portion	10	(3,723,194)	(10,308,797)
		<u>92,228,068</u>	<u>59,263,752</u>

6.1 These are long term interest-free micro loans given to needy students to meet their educational expenses.

6.2 This represents interest-free loans given to enterprise cum training institutes in different areas of Pakistan as part of the Organization's franchise programme developed to promote its objectives through partner organizations. Though these loans are treated as Qarz-e-Hasana with repayment terms of 1.5 years to 5 years; however, some of these loans do not have a specific repayment term. Details of franchisee loans are as follows:

		2009 Rupees	2008 Rupees
Franchisee organizations			
Muqadar		-	101,000
Seep		-	96,000
Katti Program	6.2.1	-	78,000
Village Mid Ranjha	6.2.1	-	18,000
Decent Welfare		-	350,000
Muslim Aid		240,000	240,000
ECI (Private) Limited		300,000	300,000
Kawish Welfare Trust		864,000	330,000
Help Line		80,000	100,000
Sojhro		200,000	200,000
		<u>1,684,000</u>	<u>1,813,000</u>

6.2.1 These franchisee organizations are related to the Organization by virtue of common directorship.

6.3 This represents loans given to individuals for productive / income generating activities against a personal guarantee. Upto March 31, 2010, a membership fee of 5.5% and insurance fee of 1% of the principal amount was received up front. Loans less than or equal to Rs 4,000 were exempt from processing fee. From April 1, 2009, the Organization has discontinued charging the membership fee from branches situated in Lahore and Rawalpindi district and for other branches from July 1, 2009. Instead, the Organization now charges Rs 100 as fee for the application form and encourages its borrowers to contribute voluntarily out of their own savings / income towards Community Donation Programme boxes provided at the time of disbursement of loans voluntarily. These loans have a repayment term ranging from 3 months to 5 years.

Included in these loans is an amount of Rs 85,964 representing loans given to the employees of the Organization on similar terms as to other borrowers.

6.4 This type of loan was discontinued from July 1, 2008 onwards.

	2009 Rupees	2008 Rupees
6.5 Loan loss provision		
Balance as at July 1	683,074	506,430
Charge for the year	419,859	2,270,681
	<u>1,102,933</u>	<u>2,777,111</u>
Written off against Individual loans	(153,246)	(2,094,037)
Balance as at June 30	<u>949,687</u>	<u>683,074</u>

7. Cash and bank

At bank			
In current accounts		7,578,212	6,723,049
In saving accounts	7.1	3,509,640	-
In deposit accounts	7.1	1,000,000	500,000
		12,087,852	7,223,049
In hand		152,430	230,196
		<u>12,240,282</u>	<u>7,453,245</u>

7.1 Effective interest rate on these deposits ranges from 5.02% to 11.72%.

Operating fixed assets:

	Cost as at July 1, 2008 Rupees	Additions/ (Deletions) Rupees	Cost as at June 30, 2009 Rupees	Accumulated depreciation as at July 1, 2008 Rupees	Depreciation charge / (deletions) for the year Rupees	Accumulated depreciation as at June 30, 2009 Rupees	Book Value as at June 30, 2009 Rupees	Depreciation rate %
Freehold land	2,590,000	-	2,590,000	-	-	-	2,590,000	Nil
Building on freehold land	935,000	-	935,000	177,650	75,735	253,385	681,615	10
Computer equipment	250,700	437,658 (1,500)	686,858	148,409	177,821 (495)	325,825	361,033	33
Furniture & fixtures	284,946	64,284	349,230	61,648	28,757	90,405	258,825	10
Office equipment	94,936	42,864	137,800	13,489	12,432	25,921	111,879	10
Rupees - 2009	4,155,582	544,806 (1,500)	4,698,888	401,286	294,745 (495)	695,536	4,003,352	
Freehold land	2,590,000	-	2,590,000	-	-	-	2,590,000	Nil
Building on freehold land	935,000	-	935,000	93,500	84,150	177,650	757,350	10
Computer equipment	188,600	64,400 (2,300)	250,700	95,992	53,775 (1,268)	148,499	102,201	33
Furniture & fixtures	117,596	184,260 (16,910)	284,946	23,500	42,731 (4,583)	61,648	223,298	10
Office equipment	59,146	59,740 (23,950)	94,936	8,808	11,009 (6,328)	13,489	81,447	10
Rupees - 2008	3,890,342	308,400 (43,160)	4,155,582	221,800	191,665 (12,179)	401,286	3,754,296	

		2009 Rupees	2008 Rupees
9. Long term advances and security deposits			
Long term advances to staff - considered good			
- Motor cycle loans		533,850	559,520
- Housing loans		2,349,264	1,511,000
- Miscellaneous loans		373,755	208,175
	5	3,256,869	2,278,695
Long term security deposits		105,000	57,505
		<u>3,361,869</u>	<u>2,336,200</u>

10. Long term portion of micro loans portfolio

Educational loans		239,250	129,250
Franchisee loans		1,304,000	1,513,000
Individual loans		2,179,944	8,666,547
	6	<u>3,723,194</u>	<u>10,308,797</u>

11. Creditors, accrued and other liabilities

Accrued expenses		249,447	313,279
Other liabilities		92,092	743,744
		<u>341,539</u>	<u>1,057,023</u>

12. Contingencies and commitments

Nil (2008 : Nil)

13. Processing fee

This represents membership fee at 5.5% and insurance fee at 1% of the principal amount, charged up front, upto March 31, 2010, from the borrowers of individual loans. Loans less than or equal to Rs 4,000 were exempt from processing fee. From April 1, 2009, the Organization has discontinued charging the membership fee from branches situated in Lahore and Rawalpindi district and for other branches from July 1, 2009. Instead, the Organization now charges Rs 100 as fee for the application form and encourages its borrowers to contribute voluntarily out of their own savings / income towards Community Donation Programme boxes provided at the time of disbursement of loans. These loans have a repayment term ranging from 3 months to 5 years.

		2009 Rupees	2008 Rupees
14. Other income			
Profit on bank deposits		318,844	189,982
Sale of books and compact disks		15,050	85,650
Income from hide collection		92,370	134,057
Sale of application forms	14.1	682,500	-
Miscellaneous		1,119,032	1,175,947
		<u>2,227,796</u>	<u>1,585,636</u>

14.1 This represents income collected from the issuance of application forms to prospective borrowers. Amount collected per application form issued for Lahore and Rawalpindi Branches is Rs 20 (upto March 31, 2009) and Rs 100 (from April 1, 2009). For branches other than Lahore and Rawalpindi, fee is Rs 20 per form throughout the year.

15. Income from Akhuwat Health Service Clinic

This represents the income received from tokens given to patients at Akhuwat Health Service Clinic. No charges are taken from the staff members; however, Rs 10 per token is charged from the borrowers and Rs 20 from the other patients.

2009

2008

16. General and administrative expenses

	Microfinance Operations Rupees	Akhuwat Health Services Rupees	Total Rupees	Microfinance Operations Rupees	Akhuwat Health Services Rupees	Total Rupees
Salaries, wages and other benefits	9,272,995	320,750	9,593,745	7,374,359	-	7,374,359
Contribution to provident fund	318,075	-	318,075	219,790	-	219,790
Traveling and conveyance	1,108,597	2,250	1,110,847	919,894	-	919,894
Printing and photocopy	355,478	-	355,478	329,253	-	329,253
Stationery	83,210	1,734	84,944	122,110	-	122,110
Communication	64,210	-	64,210	23,153	-	23,153
Office supplies	60,484	11,056	71,540	73,216	-	73,216
Consultancy charges	148,032	-	148,032	-	-	-
Fee and subscription	8,200	-	8,200	70,225	-	70,225
Bank charges	151,374	-	151,374	112,329	-	112,329
Depreciation	294,745	-	294,745	179,485	-	179,485
Audit	100,000	-	100,000	50,000	-	50,000
Utilities	142,924	7,517	150,441	137,773	-	137,773
Repair and maintenance	142,176	15,686	157,862	111,176	-	111,176
Rent	366,070	112,000	478,070	292,600	-	292,600
Staff training	33,645	-	33,645	52,216	-	52,216
Donations to IDPs	1,012,150	-	1,012,150	-	-	-
Rehabilitation expense	36,000	-	36,000	-	-	-
Miscellaneous	99,470	34,513	133,983	236,785	-	236,785

13,797,835

505,506

14,303,341

10,304,364

10,304,364

2009
Rupees

2008
Rupees

17. Franchisee loans directly written off during the year

Muqadar	101,000	-
Seep	96,000	-
Katti Program	78,000	-
Village Mid Ranjha	18,000	-
	<u>293,000</u>	<u>-</u>

18. Date of authorization for issue

These financial statements were authorized for issue on July 09, 2010 by the board of directors of the Organization.

19. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison. However, no significant re arrangements have been made.



Executive Director



Secretary