



DEVELOPMENT ACTION FOR MOBILIZATION AND  
EMANCIPATION

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008

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#### AUDITORS' REPORT TO THE GENERAL BODY

We have audited the annexed balance sheet of the **Development Action for Mobilization and Emancipation** - as at **31 December 2008**, and the related income and expenditure account and cash flow statement together with the notes forming part thereof (here-in-after referred to as the "financial statements" ) for the year then ended.

It is the responsibility of the management of the division to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the approved accounting standards as applicable in Pakistan. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. 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 the **Development Action for Mobilization and Emancipation** - as at **31 December 2008** and of its surplus and its cash flows for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Lahore: 11 April 2009

  
Chartered Accountants

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION  
BALANCE SHEET AS AT 31 DECEMBER 2008

| ASSETS                                      | Notes | 2008<br>Rupees     | 2007<br>Rupees     |
|---|-------|--------------------|--------------------|
| <b>Current assets</b>                       |       |                    |                    |
| Cash and bank balances                      | 5     | 71,654,262         | 72,354,322         |
| Short term investments                      | 6     | 40,801,370         | 15,000,000         |
| Micro credit loan portfolio                 | 7     | 317,924,465        | 242,642,647        |
| Advances, prepayments and other receivables | 8     | 6,662,775          | 6,102,240          |
| <b>Total current assets</b>                 |       | <b>437,042,872</b> | <b>336,099,209</b> |
| <b>Non-current assets</b>                   |       |                    |                    |
| Operating fixed assets                      | 9     | 21,943,056         | 18,854,187         |
| Security deposits                           |       | 315,000            | 287,000            |
| <b>Total non-current assets</b>             |       | <b>22,258,056</b>  | <b>19,141,187</b>  |
| <b>Total assets</b>                         |       | <b>459,300,928</b> | <b>355,240,396</b> |
| <b>LIABILITIES</b>                          |       |                    |                    |
| <b>Current liabilities</b>                  |       |                    |                    |
| Creditors, accrued and other liabilities    | 10    | 809,956            | 3,815,262          |
| Current portion of long term loans          | 11    | 286,902,817        | 265,726,255        |
| <b>Total current liabilities</b>            |       | <b>287,712,773</b> | <b>269,541,517</b> |
| <b>Non-current liabilities</b>              |       |                    |                    |
| Long term loans                             | 11    | 106,776,666        | 30,908,475         |
| Deferred grants                             | 12    | 2,956,076          | 9,507,103          |
| <b>Total non-current liabilities</b>        |       | <b>109,732,742</b> | <b>40,415,578</b>  |
| <b>Total liabilities</b>                    |       | <b>397,445,515</b> | <b>309,957,095</b> |
| <b>NET ASSETS</b>                           |       | <b>61,855,413</b>  | <b>45,283,301</b>  |
| <b>REPRESENTED BY:</b>                      |       |                    |                    |
| General fund                                | 13    | 59,322,349         | 42,750,237         |
| Donated fund                                | 14    | 1,000,000          | 1,000,000          |
| Reserves                                    | 15    | 1,533,064          | 1,533,064          |
|   |       | <b>61,855,413</b>  | <b>45,283,301</b>  |
| <b>CONTINGENCIES AND COMMITMENTS</b>        | 16    |                    |                    |

The annexed notes from 1 to 21 form an integral part of these financial statements.

  
EXECUTIVE DIRECTOR

  
TREASURER

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION  
INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2008

|  | Notes | 2008<br>Rupees    | 2007<br>Rupees    |
|--|-------|-------------------|-------------------|
| <b>Operating Income</b>                              |       |                   |                   |
| <b>Micro-finance program</b>                         |       |                   |                   |
| Service charges on micro credit loans                |       | 79,475,256        | 65,446,859        |
| Loan processing fees                                 |       | 8,968,480         | 7,572,460         |
| Profit on bank deposits and investments              |       | 8,430,647         | 5,364,873         |
|  |       | 96,874,383        | 78,384,192        |
| Financial charges                                    |       | 29,345,858        | 18,634,377        |
| Net financial margin                                 |       | 67,528,525        | 59,749,815        |
| Provision against non-performing loans - net         | 7.2   | 1,421,007         | 5,023,731         |
| Operating income after provision                     |       | 66,107,518        | 54,726,084        |
| <b>Social sector program</b>                         |       |                   |                   |
| Income from Health Centers                           |       | 211,609           | 117,762           |
| Membership fees and other income                     |       | -                 | 11,000            |
| Donations  |       | -                 | 118,000           |
|  |       | 211,609           | 246,762           |
|  |       | 66,319,127        | 54,972,846        |
| <b>Expenditure</b>                                   |       |                   |                   |
| <b>Micro-finance program</b>                         |       |                   |                   |
| Salaries, wages, stipends and other benefits         |       | 36,131,432        | 32,092,954        |
| General and administrative expenses                  | 17.1  | 16,308,045        | 14,936,619        |
| Training expenses                                    |       | 2,420,650         | 1,426,740         |
|  |       | 54,860,127        | 48,456,313        |
| <b>Social sector program</b>                         |       |                   |                   |
| Salaries, wages, stipends and other benefits         |       | 4,234,448         | 6,567,057         |
| General and administrative expenses                  | 17.2  | 1,215,942         | 2,020,123         |
| Training expenses                                    |       | 136,067           | 270,293           |
|  |       | 5,586,457         | 8,857,473         |
|  |       | 60,446,584        | 57,313,786        |
| Net operating surplus/ (deficit)                     |       | 5,872,543         | (2,340,940)       |
| Deferred grants amortized / utilized during the year |       |                   |                   |
| - relating to fixed assets                           | 12.1  | 909,577           | 707,800           |
| - relating to capacity building                      | 12.2  | 9,789,992         | 21,776,470        |
|  |       | 10,699,569        | 22,484,270        |
| <b>Net Surplus for the year</b>                      |       | <b>16,572,112</b> | <b>20,143,330</b> |

The annexed notes from 1 to 21 form an integral part of these financial statements.

  
EXECUTIVE DIRECTOR

  
TREASURER

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION  
 CASH FLOW STATEMENT  
 FOR THE YEAR ENDED 31 DECEMBER 2008

|   | Notes | 2008<br>Rupees      | 2007<br>Rupees      |
|---|-------|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                         |       |                     |                     |
| Net surplus for the year  |       | 16,572,112          | 20,143,330          |
| Adjustments for non cash items :                                    |       |                     |                     |
| Depreciation  | 9.2   | 3,295,451           | 3,092,790           |
| Amortization of deferred grants:                                    |       |                     |                     |
| - relating to fixed assets  | 12.1  | (909,577)           | (707,800)           |
| - relating to capacity building                                     | 12.2  | (9,789,992)         | (21,776,470)        |
| Financial charges   |       | 29,345,858          | 19,442,463          |
| Provision against non-performing loans                              | 7.2   | 1,421,007           | 5,023,731           |
|   |       | <u>23,362,747</u>   | <u>5,074,714</u>    |
| Operating surplus before working capital changes                    |       | 39,934,859          | 25,218,044          |
| (Increase) / decrease in :  |       |                     |                     |
| Advances, prepayments and other receivables                         |       | (560,535)           | (2,705,442)         |
| Micro credit loan portfolio   |       | (76,702,825)        | (85,224,079)        |
| Security deposits   |       | (28,000)            | 15,000              |
| (Decrease) / increase in creditors, accrued and other liabilities   |       | (587,006)           | 638,754             |
|   |       | <u>(77,878,366)</u> | <u>(87,275,767)</u> |
| Operating deficit after working capital changes                     |       | (37,943,507)        | (62,057,723)        |
| Financial charges paid  |       | (31,764,158)        | (17,024,163)        |
| Net cash used in operations   |       | <u>(69,707,665)</u> | <u>(79,081,886)</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                         |       |                     |                     |
| Net cash used in investing activities - (Fixed capital expenditure) |       | (6,384,320)         | (8,114,676)         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                         |       |                     |                     |
| Grants received during the year                                     |       |                     |                     |
| - relating to fixed assets  |       | 241,500             | 2,503,900           |
| - relating to capacity building                                     |       | 3,907,042           | 18,845,981          |
| Net proceeds from long term loans                                   |       | 97,044,753          | 90,395,666          |
| Net cash flows from financing activities                            |       | 101,193,295         | 111,745,547         |
| Increase in cash and cash equivalents                               |       | 25,101,310          | 24,549,035          |
| Cash and cash equivalents at the beginning of the year              |       | 87,354,322          | 62,805,287          |
| Cash and cash equivalents at the end of the year                    |       | <u>112,455,632</u>  | <u>87,354,322</u>   |

The annexed notes from 1 to 21 form an integral part of these financial statements.

  
 EXECUTIVE DIRECTOR

  
 TREASURER

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION  
 STATEMENT OF CHANGES IN FUND  
 FOR THE YEAR ENDED 31 DECEMBER 2008

|  | General<br>Funds | Donated<br>Funds | Reserves  | Total      |
|--|------------------|------------------|-----------|------------|
|  | -----Rupees----- |                  |           |            |
| Balance as at 01 January 2007                | 22,606,907       | 1,000,000        | 1,533,064 | 25,139,971 |
| Transfer from income and expenditure account | 20,143,330       | -                | -         | 20,143,330 |
| Balance as at 31 December 2007               | 42,750,237       | 1,000,000        | 1,533,064 | 45,283,301 |
| Transfer from income and expenditure account | 16,572,112       | -                | -         | 16,572,112 |
| Balance as at 31 December 2008               | 59,322,349       | 1,000,000        | 1,533,064 | 61,855,413 |

The annexed notes from 1 to 21 form an integral part of these financial statements.

  
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 TREASURER

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008

1. STATUS AND NATURE OF THE BUSINESS

- 1.1 Development Action For Mobilization and Emancipation (DAMEN) was registered in May 1992 as a non profit organization under the Societies Registration Act XXI of 1860. DAMEN has 20 field offices within vicinity of Lahore, Kasur and Sheikhpura District.
- 1.2 The principal activity of DAMEN is to provide cost effective micro finance services to poor women in order to enhance their economic role. DAMEN is also taking part in financial and operational support for provision of primary education and basic health facilities through community based schools and health centers in rural areas in vicinity of Lahore, Kasur and Sheikhpura District. In addition to these functions, DAMEN also provides non financial services in the form of trainings both to its clients and staff.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and reporting framework recommended by Pakistan Poverty Alleviation Fund ( PPAF ).

3. BASIS OF PREPARATION

These accounts have been prepared under the historical cost convention

4. SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For purpose of cash flow statement, cash and cash equivalents include 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 and short term borrowings.

4.2 Operating fixed assets

Operating fixed assets except freehold land are stated at cost less accumulated depreciation and impairment loss. Freehold land is stated at cost less impairment loss.

Depreciation on all operating fixed assets is charged to income on straight-line method so as to write off the historical cost of assets over estimated useful life at rates specified in Note 9.

Full month's depreciation is charged on additions while no depreciation is charged in the month of disposals during the year. Impairment loss or its reversal, if any, is charged to income. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

The gain or loss on disposal or retirement of an asset is recognized as an income or expense.

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4.3 Borrowings

All borrowings are recorded when the proceeds are received. Finance charges are accounted for on accrual basis and are included in creditors and accrued and other liabilities to the extent of the amount payable as on balance sheet date.

4.4 Income recognition

4.4.1 Service charges and income on loan portfolio are accounted for on accrual basis and collected with loan installments. These are calculated by using declining interest method at the rate of 0.90/day/1,000 rupees on outstanding loan balance.

4.4.2 Documentation and loan processing fee collected from micro credit loan customer is recognized on receipt basis. The fee is charged at the rate of 2% of the loan amount .

4.4.3 Income from health center is recognized on receipt basis.

4.4.4 Donations in kind are recognized at fair market value as and when donated items are received.

4.4.5 Return on investments is recognized on accrual basis.

4.5 Recognition of grants

Funds provided by donors to subsidize operating and administrative expenses are recognized as grant income as per term of agreement with donors.

Funds utilized for acquiring fixed assets are taken to deferred grant and amortized over the useful life of the assets.

Grants related to capacity building are taken to deferred grant and amortized as actual expenses incurred on account of capacity building.

Grants utilized for financing of lending operations are recognized as donated funds.

4.6 Micro credit loan portfolio

These are stated net of provision for non-performing advances, if any. The outstanding principal of the loans, payments against which are overdue by over 30 days is classified as non-performing.

4.6.1 General provision

General provision is made @ 2 % of the net outstanding loan balances after netting of specific provision.

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#### 4.6.2 Specific provision

In addition to general provision, specific provision for potential loan losses is made for all non-performing loans as follows:

| Category                                    | Loans in arrears/<br>Installment over due  | Percentage of<br>out standing principal |
|---|--|---|
| Other Assets Especially Mentioned<br>(OAEM) | Loans in arrears (installment<br>overdue) for 30 days or more but<br>less than 90 days.  | -                                       |
| Substandard:                                | Loans in arrears (installment<br>overdue) for 90 days or more but<br>less than 180 days. | 20%                                     |
| Doubtful:                                   | Loans in arrears (installment<br>overdue) for 180 days or more<br>but less than 365 days | 50%                                     |
| Loss:                                       | Loans in arrears (installment<br>overdue) for 365 days or more.                          | 100%                                    |

#### 4.6.3 Write-Off

All non-performing loans are written off after 365 days from the expiry of loan term. However, the Society, continues its efforts for recovery of the written-off loans.

#### 4.7 Foreign currency translations

All monetary assets and liabilities in foreign currencies are translated into rupees at exchange rate prevailing at the balance sheet date. Transactions in foreign currencies are translated into rupees at the spot rates. All non monetary items are translated into rupees at exchange rates prevailing on dates of transactions or on dates when fair values are determined.

Exchange difference are included in income currently.

#### 4.8 Short term investments

These are stated at cost.

#### 4.9 Employees retirement benefits

The Society operates a recognized provident fund for all its permanent employees. Equal monthly contributions are made to the fund both by the Society and the employees at the rate of 10 percent of the basic salary. Obligation for contributions to defined contribution plan is recognized as an expense in the profit and loss account as and when incurred.

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4.10 Taxation

The Society income is exempt from tax under the provisions of Income Tax Ordinance 2001, hence no provision has been made for the current and prior periods in these financial statements.

4.11 Provisions

Provisions are recognized when, and only when, the Society has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.12 Financial instruments

Financial assets and financial liabilities are recognized when the Society becomes a party to contractual provisions of the instrument and de-recognized when the Society loses control of contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged, cancelled or expired.

4.13 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported on the balance sheet if the Society has a legal enforceable right to setoff the recognized amounts and intends either to settle on net basis or realize the asset and settle the liabilities simultaneously.

4.14 Cost allocation

Common costs relating to financial (micro finance) and non-financial (social sector) services is allocated on proportionate basis according to share percentage of program's direct cost to total cost. DAMEN is subsidizing the non financial sector for meeting the programme costs.

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| 5. CASH AND BANK BALANCES            | Notes | 2008<br>Rupees | 2007<br>Rupees |
|--------------------------------------|-------|----------------|----------------|
| Cash in hand                         |       | 29,335         | 168,422        |
| Cash with banks                      |       |                |                |
| In current accounts - local currency |       | 49,969,769     | 36,163,766     |
| In deposit accounts                  |       |                |                |
| - local currency                     |       | 21,423,317     | 35,822,299     |
| - foreign currency                   |       | 231,841        | 199,835        |
|                                      |       | 21,655,158     | 36,022,134     |
|                                      |       | 71,654,262     | 72,354,322     |
| 6. SHORT TERM INVESTMENTS            |       |                |                |
| Term deposits                        | (6.1) | 40,801,370     | 15,000,000     |
|                                      |       | 40,801,370     | 15,000,000     |

6.1 This represents term deposit receipts (TDRs) which earn profit at the rate of 9-13 % per annum (2007: 9%).

| 7. MICRO CREDIT LOAN PORTFOLIO             | Notes | 2008    |             | 2007    |             |
|--|-------|---------|-------------|---------|-------------|
|  |       | Numbers | Rupees      | Numbers | Rupees      |
| Considered good                            |       | 36,417  | 322,843,204 | 31,592  | 245,240,843 |
| Considered doubtful (non-performing) (7.1) | (7.1) | 480     | 2,539,657   | 1,031   | 5,187,392   |
|  |       | 36,897  | 325,382,861 | 32,623  | 250,428,235 |
| Less: Specific provision                   | (7.2) |         | 970,142     |         | 2,833,696   |
| General provision                          | (7.2) |         | 6,488,254   |         | 4,951,892   |
|  |       |         | 7,458,396   |         | 7,785,588   |
|  |       |         | 317,924,465 |         | 242,642,647 |

All the loans are secured by way of social guarantees.

#### 7.1 Particulars of non-performing loans

Micro credit loan portfolio includes Rs. 2,539,657 (2007: Rs. 5,187,392) which, as detailed below, have been placed under non-performing status:

| Classification | Amount outstanding | Percentage | Provision required | Provision held |
|----------------|--------------------|------------|--------------------|----------------|
|                | Rupees             |            | Rupees             |                |
| OAEM           | 891,207            | -          | -                  | -              |
| Sub-standard   | 551,080            | 20%        | 110,216            | 110,216        |
| Doubtful       | 474,888            | 50%        | 237,444            | 237,444        |
| Loss           | 622,482            | 100%       | 622,482            | 622,482        |
|                | 2,539,657          |            | 970,142            | 970,142        |

#### 7.2 Movement of provision against non performing loan is as under:

|                                      | Note  | 2008        |           |             |
|--------------------------------------|-------|-------------|-----------|-------------|
|                                      |       | Rupees      |           |             |
|                                      |       | Specific    | General   | Total       |
| Opening balance                      |       | 2,833,696   | 4,951,892 | 7,785,588   |
| (Reversal)/charge for the year (net) | (7.3) | (115,355)   | 1,536,362 | 1,421,007   |
| Amounts written off                  |       | (1,748,199) | -         | (1,748,199) |
| Closing balance                      |       | 970,142     | 6,488,254 | 7,458,396   |
|                                      |       | 2007        |           |             |
|                                      |       | Rupees      |           |             |
|                                      |       | Specific    | General   | Total       |
| Opening balance                      |       | 3,574,473   | 3,315,150 | 6,889,623   |
| Charge for the year                  | (7.3) | 3,386,989   | 1,636,742 | 5,023,731   |
| Amounts written off                  |       | (4,127,766) | -         | (4,127,766) |
| Closing balance                      |       | 2,833,696   | 4,951,892 | 7,785,588   |

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|  | 2008<br>Rupees | 2007<br>Rupees |
|--|----------------|----------------|
| <b>7.3 Particulars of amount written off</b> |                |                |
| Against provision                            | 1,748,199      | (4,127,766)    |

This represents non performing loans overdue for more than 365 days.

#### 7.4 Portfolio by segment

| Loan type:               |                    |                    |
|--------------------------|--------------------|--------------------|
| Trade and business       | 156,402,221        | 116,157,140        |
| Tailoring center         | 65,144,353         | 52,536,069         |
| Livestock                | 52,416,852         | 36,747,633         |
| Handcraft and embroidery | 51,419,435         | 44,987,393         |
|                          | <u>325,382,861</u> | <u>250,428,235</u> |

#### 7.5 Portfolio quality report

The organization's main measure of loan delinquency is an aged portfolio-at-risk ratio. Loans are separated into classes depending on the number of days they are over-due. For each class of loan, the aged portfolio-at-risk ratio is calculated by dividing the outstanding principal balance of such class by outstanding principal balance of the gross loan portfolio.

Loans are considered overdue if any payment has fallen due and remained unpaid for more than 30 days. The number of days of delay is based on the difference between reporting date (cut off date) and the calculation of fully paid installments subtracted from scheduled installments, multiply by the repayment cycle (30 days) and adding the resulting days in the date of disbursement of loan.

|                                | 2008               |             | 2007               |             |
|--------------------------------|--------------------|-------------|--------------------|-------------|
|                                | Rupees             | Percentage  | Rupees             | Percentage  |
| Loan portfolio                 |                    |             |                    |             |
| Current and up to 30 days late | 322,843,204        | 99.2%       | 245,240,843        | 97.9%       |
| 31 - 60 days late              | 587,639            | 0.2%        | 474,323            | 0.2%        |
| 61 - 90 days late              | 303,568            | 0.1%        | 336,775            | 0.1%        |
| More than 90 days late         | 1,648,450          | 0.5%        | 4,376,294          | 1.7%        |
|                                | <u>325,382,861</u> | <u>100%</u> | <u>250,428,235</u> | <u>100%</u> |

The organization does not allow rescheduling or restructuring of loans. During the year, no loans were rescheduled or restructured.

During the year, loans were disbursed relating to single project with tenures from 12 months to 18 months, in accordance with needs of the borrowers. Loan repayments are scheduled on monthly installments based on repayment terms.

#### 7.6 Current Recovery Ratio

Current recovery ratios are calculated and reported on monthly basis. The numerator of this ratio is total cash payments of principal received during the reporting period. The denominator is the total loans falling due during the period along with the payments in arrears at the start of the period. Penalty interest is not included in the numerator or the denominator of the ratio. Loan delinquency is measured using the Non Performing Loans ratio.

| Period       | Current recovery ratio in %age |           |
|--------------|--------------------------------|-----------|
|              | 2008                           | 2007      |
| 1st Quarter  | 100                            | 88        |
| 2nd Quarter  | 99                             | 91        |
| 3rd Quarter  | 97                             | 97        |
| 4th Quarter  | 100                            | 97        |
| For the year | <u>99</u>                      | <u>93</u> |

Annual loss rate (Loans written off during the year divided by average loan portfolio outstanding) comes to 0.66% (2007: 1.03%) for the year.

|   | 2008<br>Rupees   | 2007<br>Rupees   |
|---|------------------|------------------|
| <b>8. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES</b> |                  |                  |
| Accrued service charges on micro credit loans         | 5,019,728        | 4,778,898        |
| Advances to staff                                     | 963              | -                |
| Advance tax   | 610,102          | 608,582          |
| Accrued income on bank deposits and investments       | 598,301          | 566,305          |
| Prepayments   | 322,671          | 3,000            |
| Other receivables                                     | 111,010          | 145,455          |
|   | <u>6,662,775</u> | <u>6,102,240</u> |

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION

9. OPERATING FIXED ASSETS

| DESCRIPTION           | 2008                  |                           |                        |                       |                  |                        | Rate %            |
|-----------------------|-----------------------|---------------------------|------------------------|-----------------------|------------------|------------------------|-------------------|
|                       | COST                  |                           |                        | DEPRECIATION          |                  |                        |                   |
|                       | As at 01 January 2008 | Additions during the year | As at 31 December 2008 | As at 01 January 2008 | For the year     | As at 31 December 2008 |                   |
| Land (9.1)            | 5,866,200             | 4,887,500                 | 10,753,700             | -                     | -                | 10,753,700             | -                 |
| Building              | 3,656,121             | -                         | 3,656,121              | 649,374               | 182,805          | 832,179                | 5                 |
| Vehicles              | 6,969,068             | -                         | 6,969,068              | 3,146,726             | 1,159,950        | 4,306,676              | 20                |
| Computer equipment    | 4,167,857             | 498,836                   | 4,666,693              | 3,141,034             | 827,378          | 3,968,412              | 33                |
| Furniture and fixture | 3,597,538             | 135,100                   | 3,732,638              | 722,238               | 366,725          | 1,088,963              | 10                |
| Office equipment      | 3,325,264             | 862,884                   | 4,188,148              | 1,068,489             | 758,593          | 1,827,082              | 20                |
|                       | <u>27,582,048</u>     | <u>6,384,320</u>          | <u>33,966,368</u>      | <u>8,727,861</u>      | <u>3,295,451</u> | <u>12,023,312</u>      | <u>21,943,056</u> |

Rupees-----

9.1 Land purchased during the year is in process of transfer of title in society's name.

| DESCRIPTION           | 2007                        |                                 |                     |                    | DEPRECIATION     | As at<br>31 December<br>2007 | BOOK<br>VALUE<br>AS AT<br>31 DECEMBER<br>2007 | Rate<br>% |                    |
|-----------------------|-----------------------------|---------------------------------|---------------------|--------------------|------------------|------------------------------|---|-----------|--------------------|
|                       | COST                        |                                 | As at               |                    |                  |                              |   |           | For<br>the<br>year |
|                       | As at<br>01 January<br>2007 | Additions<br>during<br>the year | 31 December<br>2007 | 01 January<br>2007 |                  |                              |   |           |                    |
| Land                  | 2,000,000                   | 3,866,200                       | 5,866,200           | -                  | -                | 5,866,200                    | -   |           |                    |
| Building              | 3,179,761                   | 476,360                         | 3,656,121           | 476,964            | 172,410          | 3,006,747                    | 5   |           |                    |
| Vehicles              | 5,839,033                   | 1,130,035                       | 6,969,068           | 1,958,218          | 1,188,508        | 3,822,342                    | 20  |           |                    |
| Computer equipment    | 4,022,282                   | 145,575                         | 4,167,857           | 2,073,855          | 1,067,179        | 1,026,823                    | 33  |           |                    |
| Furniture and fixture | 2,469,182                   | 1,128,356                       | 3,597,538           | 419,816            | 302,422          | 2,875,300                    | 10  |           |                    |
| Office equipment      | 1,957,164                   | 1,368,100                       | 3,325,264           | 706,218            | 362,271          | 2,256,775                    | 20  |           |                    |
|                       | <u>19,467,422</u>           | <u>8,114,626</u>                | <u>27,582,048</u>   | <u>5,635,071</u>   | <u>3,092,790</u> | <u>8,727,861</u>             | <u>18,854,187</u>                             |           |                    |

9.2 The depreciation charge for the year has been allocated as follows:

|                       | 2008             | 2007             |
|-----------------------|------------------|------------------|
|                       | Rupees           | Rupees           |
| Microfinance program  | (17.1)           | 2,806,811        |
| Social sector program | (17.2)           | 285,979          |
|                       | <u>3,295,451</u> | <u>3,092,790</u> |

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION

|   | Note   | 2008<br>Rupees     | 2007<br>Rupees     |
|---|--------|--------------------|--------------------|
| <b>10. CREDITORS, ACCRUED AND OTHER LIABILITIES</b> |        |                    |                    |
| Creditors   |        | 3,000              | 491,530            |
| Accrued expenses                                    |        | 797,821            | 876,061            |
| Financial charges payable                           |        | -                  | 2,418,300          |
| Withholding tax deducted at source                  |        | 9,135              | 29,371             |
|   |        | <u>809,956</u>     | <u>3,815,262</u>   |
| <b>11. LONG TERM LOANS</b>                          |        |                    |                    |
| Opening balance                                     |        | 296,634,730        | 206,239,064        |
| Additions during the year                           |        | 466,640,000        | 359,415,000        |
|   |        | <u>763,274,730</u> | <u>565,654,064</u> |
| Repayments during the year                          |        | 369,595,247        | 269,019,334        |
|   | (11.1) | <u>393,679,483</u> | <u>296,634,730</u> |
| Less: Current maturity                              |        | 286,902,817        | 265,726,255        |
| Closing balance                                     |        | <u>106,776,666</u> | <u>30,908,475</u>  |

11.1 These loans have been obtained from "Pakistan Poverty Alleviation Fund" (PPAF) at annual service charge of 8% (2007: 6% -8%) per annum. These are used for on-lending to micro credit loans to clients. The loan is secured against micro credit sub loans created/ financed from the proceeds of the loans. PPAF maintains a first charge on all sub loans, assets and capital items created out of PPAF financing agreement for capacity building until full repayment of principal, service charges and other monies due and payable to PPAF.

11.2 The quarterly balances of loans outstanding at each quarter end are as follows:

|                 | 1st quarter        | 2nd quarter        | 3rd quarter        | 4th quarter        |
|-----------------|--------------------|--------------------|--------------------|--------------------|
| <b>2008</b>     | ----- Rupees ----- |                    |                    |                    |
| Opening balance | 296,634,730        | 301,350,319        | 302,869,423        | 306,947,531        |
| Additions       | 89,175,000         | 89,910,000         | 100,000,000        | 187,555,000        |
| Repayments      | 84,459,411         | 88,390,896         | 95,921,892         | 100,823,048        |
| Closing balance | <u>301,350,319</u> | <u>302,869,423</u> | <u>306,947,531</u> | <u>393,679,483</u> |
| <b>2007</b>     | <u>211,403,209</u> | <u>232,719,019</u> | <u>251,056,871</u> | <u>296,634,730</u> |

**12. DEFERRED GRANTS**

|  |        |                  |                  |
|--|--------|------------------|------------------|
| Grants related to fixed assets               | (12.1) | 3,648,303        | 3,642,748        |
| Capacity building grants                     | (12.2) | (1,393,710)      | 4,489,240        |
| Grants related to fixed assets (un-utilized) |        | 701,483          | 1,375,115        |
|  |        | <u>2,956,076</u> | <u>9,507,103</u> |

**12.1 Grants related to fixed assets**

|                                   |                  |                  |
|-----------------------------------|------------------|------------------|
| Opening balance                   | 3,642,748        | 3,221,763        |
| Funds capitalized during the year | 915,132          | 1,128,785        |
|                                   | <u>4,557,880</u> | <u>4,350,548</u> |
| Less: Amortization                | 909,577          | 707,800          |
|                                   | <u>3,648,303</u> | <u>3,642,748</u> |

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION

12.2 Capacity building grants

|                                       |                    |                   |
|---------------------------------------|--------------------|-------------------|
| Opening balance                       | 4,489,240          | 7,419,729         |
| Grants received during the year       | 3,907,042          | 18,845,981        |
|                                       | <u>8,396,282</u>   | <u>26,265,710</u> |
| Less: Grants utilized during the year | 9,789,992          | 21,776,470        |
|                                       | <u>(1,393,710)</u> | <u>4,489,240</u>  |

13. GENERAL FUND

|                      |                   |                   |
|----------------------|-------------------|-------------------|
| Opening balance      | 42,750,237        | 22,606,907        |
| Surplus for the year | 16,572,112        | 20,143,330        |
|                      | <u>59,322,349</u> | <u>42,750,237</u> |

14. DONATED FUND

This represents funds received from Trust for Voluntary Organization against financing of lending operations.

|                          | Note | 2008<br>Rupees   | 2007<br>Rupees   |
|--------------------------|------|------------------|------------------|
| 15. RESERVES             |      |                  |                  |
| Health centre ( Shahpur) |      | 37,185           | 37,185           |
| Health centre ( Chung)   |      | 15,761           | 15,761           |
| Education reserves       |      | 269,400          | 269,400          |
| Bonus reserves           |      | 1,063,968        | 1,063,968        |
| Bad debts reserves       |      | 146,750          | 146,750          |
|                          |      | <u>1,533,064</u> | <u>1,533,064</u> |

16. CONTINGENCIES AND COMMITMENTS

Contingencies as on balance sheet date were Rs. Nil (2007: Rs. Nil).

Capital commitments as on balance sheet date were Rs. Nil (2007: Rs. Nil).

17. GENERAL AND ADMINISTRATIVE EXPENSES

|                       |        |                   |                   |
|-----------------------|--------|-------------------|-------------------|
| Microfinance program  | (17.1) | 16,308,045        | 14,936,619        |
| Social Sector program | (17.2) | 1,215,942         | 2,020,123         |
|                       |        | <u>17,523,987</u> | <u>16,956,742</u> |

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION

|                                   |       | 2008              | 2007              |
|-----------------------------------|-------|-------------------|-------------------|
|                                   | Note  | Rupees            | Rupees            |
| <b>17.1 Microfinance program</b>  |       |                   |                   |
| Rent, rates and taxes             |       | 1,636,826         | 1,505,282         |
| Electricity, water and gas        |       | 1,296,814         | 1,061,090         |
| Repair and maintenance            |       | 1,521,207         | 1,024,418         |
| Vehicle running and maintenance   |       | 1,749,887         | 1,419,291         |
| Communications                    |       | 994,179           | 852,691           |
| Legal and professional            |       | 554,503           | 215,611           |
| Fee and subscription              |       | 202,758           | 98,175            |
| Printing and stationary           |       | 1,205,181         | 1,013,974         |
| Office supplies                   |       | 1,006,844         | 909,620           |
| Traveling and conveyance          |       | 1,180,374         | 1,049,822         |
| Bank charges                      |       | 523,055           | 716,067           |
| Audit fee                         |       | 191,250           | 148,750           |
| Insurance                         |       | 1,244,651         | 2,109,859         |
| Depreciation                      | (9.2) | 2,998,388         | 2,806,811         |
| Other expenses                    |       | 2,128             | 5,158             |
|                                   |       | <u>16,308,045</u> | <u>14,936,619</u> |
| <b>17.2 Social Sector program</b> |       |                   |                   |
| Rent, rates and taxes             |       | 242,115           | 328,214           |
| Electricity, water and gas        |       | 68,253            | 123,910           |
| Repair and maintenance            |       | 137,765           | 216,303           |
| Vehicle running and maintenance   |       | 92,099            | 184,637           |
| Communications                    |       | 52,325            | 109,147           |
| Legal and professional            |       | 29,184            | 38,043            |
| Fee and subscription              |       | 27,155            | 17,325            |
| Printing and stationary           |       | 63,431            | 124,874           |
| Office supplies                   |       | 31,140            | 109,598           |
| Traveling and conveyance          |       | 62,125            | 120,341           |
| Bank charges                      |       | 27,529            | 92,019            |
| Audit fee                         |       | 33,750            | 26,250            |
| Insurance                         |       | 51,896            | 242,570           |
| Depreciation                      | (9.2) | 297,063           | 285,979           |
| Other expenses                    |       | 112               | 913               |
|                                   |       | <u>1,215,942</u>  | <u>2,020,123</u>  |

17.2.1 The society is supporting 100 (2007: 100) home schools and 15 (2007: 15) health centers, average cost for running each home school and health center is Rs. 2,168 (2007: Rs. 5,700) and Rs.16,414 (2007: Rs. 11,200) per month respectively, which are owned by local community women. A major portion of funds are being generated through operations of microfinance program as social sector program provides a platform for social mobilization. Synergy achieved by both programs increases the pace of social and economic development in the operational areas of DAMEN.

18. TAXATION

The society is a "Non-profit Organization" as defined under section 2(36) of the Income Tax Ordinance 2001 and holds an exemption certificate from income tax under section 58(3) of Part I of Second Schedule to the said Ordinance to the Federal Board of Revenue (FBR).

19. NUMBER OF EMPLOYEES

The Society employed 98 loan officers (2007: 99) and 102 other employees (2007: 99) as at the year end.



## 20.2 Financial risk management Objectives

The society's activities expose it to a variety of financial risks including effect of credit and liquidity risk associated with various financial assets and liabilities respectively.

The society finances its operations through donated funds, borrowings and management of working capital.

Taken as a whole, risk arising from society's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments

### a) Credit risk

Credit risk is the risk that a party to the financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The society's credit risk is primarily attributable to its advances and its balances at banks. The risk on liquid funds is limited as the counter parties are banks with high credit ratings. The society has effective loan disbursement and recovery monitoring system which allows it to evaluate borrowers credit worthiness and identify potential problem loans. A provision for potential loan losses is maintained.

### b) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly due to balance in foreign currency. Therefore, the society is not exposed to any such risk.

### c) Interest rate risk

Interest rate risk is the risk that the value of financial instrument will fluctuate due to changes in market interest rate. The society borrows funds at fixed rates and thus it is not exposed to the interest rate risk.

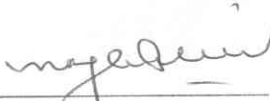
### d) Liquidity risk

Liquidity risk is the risk that the society will encounter difficulty in raising funds to meet its net funding requirement. The society manages such risk by having adequate credit lines in place and maintaining sufficient liquidity at field office level to meet anticipated funding requirements.

## 21. GENERAL

Figures have been rounded off to the nearest rupee.

Corresponding figures have been rearranged, wherever necessary, for the purpose of comparison. However, no significant re-arrangements have been made in these financial statements.

  
EXECUTIVE DIRECTOR

  
TREASURER

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