KPMG Taseer Hadi & Co.
Chartered Accountants

Developments in Literacy

Financial Statements
For the year ended 31 December 2011

KPMG Taseer Hadi & Co.
Chartered Accountants
Sixth Floor, State Life Building No. 5
Jinnah Avenue, Blue Area
Islamabad, Pakistan

Telephone + 92 (51) 282 3558
+ 92 (51) 282 5956
Fax + 92 (51) 282 2671
Internet www.kpmg.com.pk

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF TRSUTEES OF DEVELOPMENTS IN LITERACY

We have audited the annexed balance sheet of Developments in Literacy as at 31 December 2011 and the related income and expenditure statement, statement of comprehensive income, cash flow statement and statement of changes in fund balance 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 trustees 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 financial statements based on our audit.

We conducted our audit in accordance with auditing standards as applicable in Pakistan. 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 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 Developments in Literacy as at 31 December 2011 and of its surplus and cash flow for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Date: 12 June 2012
ISLAMABAD

KPMG Taseer Hadi & Co.

KPMG TASEER HADI & Co.
CHARTERED ACCOUNTANTS
Syed Bakhtiyar Kazmi

Developments in Literacy

Balance Sheet

As at 31 December 2011

	Note	2011 (Rupees)	2010 (Rupees)
NON-CURRENT ASSETS			
Property and equipment	4	**26,818,677**	22,034,853
Intangible asset	5	**349,992**	-
Long term deposits and prepayments	6	**1,033,200**	1,000,667
Total non-current assets		**28,201,869**	23,035,520
CURRENT ASSETS			
Advances - unsecured, considered good	7	**3,596,920**	1,758,550
Short term deposits and prepayments	8	**464,570**	625,307
Short term investment		-	10,399,000
Accrued mark-up		-	531,688
Cash and bank balances	9	**71,602,696**	36,642,426
Total current assets		**75,664,186**	49,956,971
CURRENT LIABILITIES			
Total current liabilities - Accrued and other liabilities	10	**(7,495,846)**	(3,620,240)
Net current assets		**68,168,340**	46,336,731
NET ASSETS		**96,370,209**	69,372,251
NON-CURRENT LIABILITIES			
Deferred grant	11	**27,168,669**	22,034,853
REPRESENTED BY:			
Fund balance - restricted		**64,237,897**	45,891,828
Restricted funds - for flood relief	12	**4,963,643**	1,445,570
		69,201,540	47,337,398
		96,370,209	69,372,251
Commitment	13		

KPMG

The annexed notes from 1 to 22 form an integral part of these financial statements.

Trustee

Trustee

Developments in Literacy

Income and Expenditure Account

For the year ended 31 December 2011

	Notes	2011 (Rupees)	2010 (Rupees)
INCOME			
Transferred from fund balance		**166,022,690**	119,642,973
Deferred grant recognized as income	*11*	**3,409,553**	1,952,784
Restricted funds recognized as income	*12*	**11,924,900**	3,036,930
		181,357,143	124,632,687
EXPENDITURE			
Grants to Partner Organisations	*16*	**54,775,993**	41,569,467
General and administration expenses	*17*	**12,129,068**	10,758,436
Program expenses	*18*	**54,931,062**	33,935,506
Project expenses	*19*	**59,521,020**	38,369,278
		(181,357,143)	(124,632,687)
Excess of income over expenditure		**-**	-

The annexed notes from 1 to 22 form an integral part of these financial statements.

Trustee

Trustee

Developments in Literacy

Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 (Rupees)	2010 (Rupees)
Excess of income over expenditure for the year	-	-
Other comprehensive income for the year	-	-
Total comprehensive income for the year	-	-

The annexed notes from 1 to 22 form an integral part of these financial statements.

Trustee

Trustee

Developments in Literacy

Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 (Rupees)	2010 (Rupees)
CASH FLOW FROM OPERATING ACTIVITIES			
Excess of income over expenditure		-	-
Adjustments:			
- Expenditure during the year		(181,357,143)	(124,632,687)
- Depreciation	4	3,332,545	1,952,783
- Amortization	5	77,008	-
- Interest income	15	(4,488,683)	(2,079,068)
- Restricted grant for flood recognized as income	12	11,924,900	3,036,930
Operating deficit before working capital changes		(170,511,373)	(121,722,042)
Changes in working capital:			
(Increase) / decrease in assets			
- Advances		(1,838,370)	(1,276,854)
- Short term deposits and prepayments		160,737	211,137
- Long term deposits and prepayments		(32,533)	(1,000,667)
Increase / (decrease) in liabilities			
- Creditors and other payables		3,875,606	(1,215,589)
Net increase / (decrease) in working capital		2,165,440	(3,281,973)
Interest received during the year		5,020,371	1,547,380
Net cash used in operating activities		(163,325,562)	(123,456,635)
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure - donated assets		(9,468,318)	(12,734,952)
Decrease / (increase) in short term investments		10,399,000	(10,399,000)
Net cash generated from / (used in) investing activities		930,682	(23,133,952)
CASH FLOW FROM FINANCING ACTIVITIES			
Increase in restricted funds		3,518,073	1,445,570
Funds received during the year		193,837,077	165,746,601
Net cash generated from financing activities		197,355,150	167,192,171
Net increase in cash and cash equivalents		34,960,270	20,601,584
Cash and cash equivalents at beginning of the year		36,642,426	16,040,842
Cash and cash equivalents at end of the year	9	71,602,696	36,642,426

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

Trustee

Trustee

Developments in Literacy
Statement of Changes in Fund Balance
For the year ended 31 December 2011

	Note	Rupees
Balance as at 1 January 2010		12,523,152
Fund received during the year	*14*	162,908,155
Other income	*15*	2,838,446
		165,746,601
Transferred to income and expenditure account		(119,642,973)
Transfer to deferred grant on purchase of property and equipment	*11 & 4*	(12,734,952)
Balance as at 31 December 2010		45,891,828
Balance as at 1 January 2011		**45,891,828**
Fund received during the year	*14*	**187,938,762**
Transferred from restricted funds	*12*	**911,207**
Other income	*15*	**4,987,108**
		193,837,077
Transferred to income and expenditure account		**(166,022,690)**
Transfer to deferred grant on purchase of property and equipment	*11 & 4*	**(9,216,318)**
Transfer to deferred grant on purchase of intangible asset	*11 & 5*	**(252,000)**
Balance as at 31 December 2011		**64,237,897**

Kamma

The annexed notes from 1 to 22 form an integral part of these financial statements.

Trustee

Trustee

Developments in Literacy
Notes to the Financial Statements
For the year ended 31 December 2011

1. THE SOCIETY AND ITS OPERATIONS

Developments in Literacy ("the Society") is a non-profit organization. The Society was established in February 1997 by expatriate Pakistanis in the United States of America and was registered in Pakistan in 2000 under the Societies Registration Act, 1860.

The basic aim of the Society is to promote literacy among children who have no access to education and to encourage and facilitate the improvement and use of educational resources in literacy development in Pakistan. The Society does this by running its own schools and supporting the existing setup of primary schools, mainly in the rural areas with the focus on enrolling girls, since they have fewer opportunities for education in comparison to boys.

The principal office of the Society is situated at House number 423, Street 1, F-11/1, Islamabad.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984.

2.2 Basis of measurement

These financial statements have been prepared under historical cost convention.

2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is also the Society's functional currency. All financial information presented in Pak Rupees has been rounded off to the nearest Rupee.

2.4 Significant accounting estimates

The preparation of financial statements in conformity with the approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are discussed in the ensuing paragraphs.

2.4.1 Property and equipment

The Society reviews the useful lives and residual value of property and equipment on a regular basis. Any change in estimates in future years might affect the carrying amounts of the respective items of property and equipments with a corresponding effect on the depreciation charge and impairment, if any.

2.4.2 Provisions

The Society reviews the carrying amount of liabilities on a regular basis and appropriate amount of provision is made as and when necessary.

2.4.3 Impairment

The carrying amount of the Society's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Property and equipment

These are stated at cost less accumulated depreciation and impairment loss, if any, except for free hold land which is carried at cost less impairment less, if any. Cost of an item of fixed assets comprises purchase price, import duties and other costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the management.

Depreciation is calculated on the reducing balance method and charged to income and expenditure account to write off the depreciable amount of an asset over its estimated useful life at the percentages specified in note 4 except for leasehold land on which depreciation is charged on straight line basis.

The cost of replacing a part of item of fixed asset is recognized in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Society and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the servicing of the fixed assets are recognized in profit and loss as incurred.

Gains and losses on disposal are included in income currently.

3.2 Deferred grant

Grants related to plant and equipment are accounted for by setting up the grant as deferred grant. This is recognized as income on a systematic basis over the useful life of the related assets.

3.3 Taxation

The Society is registered as not for profit organization under section 2(36) the Income Tax Ordinance, 2001, hence is exempt from tax.

3.4 Income recognition

Grants
Grants are recognized as income over the periods necessary to match with the related costs on a systematic basis.

Interest income
Interest income is recognized on a time proportion basis using the applicable interest rate.

3.5 Provisions

A provision is recognized in the financial statements when the Society has a legal or constructive obligation as a result of past events 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 obligation.

3.6 Foreign currency transactions

Transactions in foreign currencies are accounted for in Pak rupees at the rate of exchange ruling on the date of transactions. All monetary assets and liabilities in foreign currencies are translated into Pak rupees at the rate of exchange prevailing on the balance sheet date. Exchange gain / loss is charged to current year's income.

3.7 Financial assets and liabilities

Financial assets and financial liabilities are recognized when the Society becomes a party to contractual provisions of the instrument. These are initially measured at the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value and amortized cost, whichever is applicable. The Society derecognizes financial assets and liabilities when it ceases to be a party to such contractual provisions of the instruments.

3.8 Off-setting of financial assets and liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet, if the Society has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3.9 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balances with banks.

3.10 Operating lease

Rentals payable under operating leases are charged to profit and loss account on a straight line basis over the term of the relevant lease.

3.11 Loans and receivables

Investments with fixed or determinable payments, which cannot be classified as held to maturity, are classified as loans and receivables. These are initially measured at the fair value of consideration given and at subsequent reporting dates, measured at amortized cost.

3.12 Restricted funds

Funds received as grants for specific purposes are classified as restricted funds with separate accounting records being maintained for each and every account. Restricted fund is transferred to income to the extent of expenditures incurred out of these funds in a particular accounting year.

3.13 Impairment

Financial assets

A financial asset is assessed at each balance sheet date to determine whether there is any objective evidence that it is impaired. A financial assets is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of estimated cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in income and expenditure account. All impairment losses are recognized in income and expenditure account.

Non-financial assets

The carrying amount of the Society's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated in order to determine the extent of impairment loss, if any. Impairment losses are recognized as expense in the income and expenditure account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

3.14 Approved accounting standards which are not yet effective

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning as mentioned there against are either not relevant to the Society's current operations or are not expected to have significant impact on the Society's financial statements other than certain additional disclosures:

- Amendments to IAS 12 - deferred tax on investment property (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Society.

- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Society.

- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Society.

- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendments have no impact on financial statements of the Society.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Society.

- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) - (effective for annual periods beginning on or after 1 July 2011). The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognized in their entirety; and financial assets that are derecognized in their entirety but for which the entity retains continuing involvement. The amendments have no impact on financial statements of the Society.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. This amendment may result in certain additional disclosures and presentational changes without any impact on the results of operations.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement. This amendment may result in certain additional disclosures and presentational changes without any impact on the results of operations.

- IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after 1 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Society.

4. PROPERTY AND EQUIPMENT

	Freehold land	Leasehold land	Buildings	Vehicles	Furniture and fixtures	Office equipment	Computers	Work in progress	Total
				(Note 4.2)				*(Note 4.1)*	
				Rupees					Rupees
Cost									
As at 1 January 2010	4,795,990	1,377,000	2,311,936	2,604,425	535,818	1,241,038	1,193,991	-	14,060,198
Additions during the year	-	2,048,050	6,431,012	583,390	-	-	416,500	3,256,000	12,734,952
As at 31 December 2010	4,795,990	3,425,050	8,742,948	3,187,815	535,818	1,241,038	1,610,491	3,256,000	26,795,150
Additions during the year	1,580,800	451,650	6,253,629	-	8,200	132,539	789,500	-	9,216,318
Transfers *(Note 5)*	-	-	3,081,000	-	-	-	-	(3,256,000)	(175,000)
Adjustment *(Note 4.2)*	-	-	-	(1,488,460)	-	-		-	(1,488,460)
As at 31 December 2011	**6,376,790**	**3,876,700**	**18,077,577**	**1,699,355**	**544,018**	**1,373,577**	**2,399,991**	-	**34,348,008**
Depreciation									
As at 1 January 2010	-	-	369,833	1,090,283	124,763	505,576	717,058	-	2,807,513
Charge for the year	-	29,105	673,817	587,056	53,582	248,208	361,016	-	1,952,784
As at 31 December 2010	-	29,105	1,043,650	1,677,339	178,345	753,784	1,078,074	-	4,760,297
Charge for the year	-	36,163	2,586,348	367,536	35,956	102,711	203,831	-	3,332,545
Adjustment for disposal	-	-	-	(563,511)	-	-	-	-	(563,511)
As at 31 December 2011	-	**65,268**	**3,629,998**	**1,481,364**	**214,301**	**856,495**	**1,281,905**	-	**7,529,331**
Written down value as at:									
- 31 December 2011	**6,376,790**	**3,811,432**	**14,447,579**	**217,991**	**329,717**	**517,082**	**1,118,086**	-	**26,818,677**
- 31 December 2010	4,795,990	3,395,945	7,699,298	1,510,476	357,473	487,254	532,417	3,256,000	22,034,853
Depreciation rates (%)		**1%**	**20%**	**20%**	**10%**	**20%**	**30%**		

	Note	2011 (Rupees)	2010 (Rupees)
4.1 Work in progress			
Construction work in progress		-	3,081,000
Advance for computer software		-	175,000
		-	3,256,000

4.2 Adjustment represents return of donated vehicle to US Embassy during the year.

4.3 Depreciation charge for the year has been allocated as follows:

	Note	2011 (Rupees)	2010 (Rupees)
Administration expenses	*17*	499,882	292,918
Program expenses	*18*	2,832,663	1,659,866
		3,332,545	1,952,784

5. INTANGIBLE ASSET

	Note	2011 (Rupees)	2010 (Rupees)
Computer software			
Addition during the year		252,000	-
Transfer from capital work in process	*4*	175,000	-
Amortization charge for the year	*17*	(77,008)	-
		349,992	-
Amortization rate (%)		20%	-

Developments in Literacy
Notes to the Financial Statements
For the year ended 31 December 2011

6. LONG TERM DEPOSITS AND PREPAYMENTS

	Note	2011 (Rupees)	2010 (Rupees)
Prepaid rent		**949,200**	900,000
Security deposits		**100,000**	-
Prepaid subscription fee		**66,667**	250,000
Less: Current portion of prepaid rent classified as current assets	*8*	**(82,667)**	(149,333)
		1,033,200	1,000,667

7. ADVANCES - unsecured, considered good

	Note	2011 (Rupees)	2010 (Rupees)
Advance to projects:			
- Naz Old Boys Welfare Association		**488,269**	1,254,273
- Cooperation for Advancement, Rehabilitation and Education		**-**	113,972
- Indus Resource Centre		**26,952**	363,181
		515,221	1,731,426
Advances for expenses		**18,000**	18,050
Mobilization advance	*7.1*	**2,491,221**	-
Other advances		**572,478**	9,074
		3,596,920	1,758,550

7.1 This represents advances paid for construction of community schools at Baga Sheikhan and Guff in Rawalpindi. Upon completion of construction, this advance will be recognised as program expense.

8. SHORT TERM DEPOSITS AND PREPAYMENTS

	Note	2011 (Rupees)	2010 (Rupees)
Security deposits		**179,000**	239,000
Prepayments		**202,903**	236,974
Current portion of long term prepaid rent	*6*	**82,667**	149,333
		464,570	625,307

9. CASH AND BANK BALANCES

	Note	2011 (Rupees)	2010 (Rupees)
Cash in hand		**29,501**	15,199
Cash at bank in current accounts			
- Local currency		**1,351,420**	1,478,127
- Foreign currency		**138,243**	132,243
		1,489,663	1,610,370
Cash at bank in saving accounts	*9.1*	**70,083,532**	35,016,857
		71,602,696	36,642,426

Developments in Literacy
Notes to the Financial Statements
For the year ended 31 December 2011

9.1 These carry mark-up rate between 5.10% per annum to 6% per annum (2010: 5.10% per annum to 6% per annum).

10. ACCRUED AND OTHER LIABILITIES

	Note	2011 (Rupees)	2010 (Rupees)
Payable to projects:			
- Cooperation for Advancement, Rehabilitation and Education		**61,250**	-
- Khewndo Kor		**360,463**	1,018,298
		421,713	1,018,298
Accrued expenses		**820,751**	413,239
Payable against training expenses		**146,420**	595,400
Payable against purchase of property and equipment		**1,299,193**	381,750
Payable against construction expenses		**3,225,901**	137,378
Retention money payable		**444,100**	279,074
Withholding tax payable		**94,006**	130,962
Audit fee payable		**540,000**	450,000
Other payables		**503,762**	214,139
		7,495,846	3,620,240

11. DEFERRED GRANT

	Note	2011 (Rupees)	2010 (Rupees)
Opening balance		**22,034,853**	11,252,684
Add:			
Cost of property and equipment purchased during the year	*4*	**9,216,318**	12,734,952
Cost of intangible asset purchased during the year	*5*	**252,000**	-
		9,468,318	12,734,952
Less:			
Carrying amount of asset returned to donor	*4.2*	**(924,949)**	-
Deferred grant recognised as income during the year		**(3,409,553)**	(1,952,783)
		(4,334,502)	(1,952,783)
		27,168,669	22,034,853

Developments in Literacy
Notes to the Financial Statements
For the year ended 31 December 2011

12. RESTRICTED FUNDS - for flood relief activities

	Development in Literacy USA	Development in Literacy Trust UK	British Pakistani Foundation	2011 - Total	2010 - Total
	(Rupees)	(Rupees)	(Rupees)	(Rupees)	(Rupees)
Opening balance	3,251,380	-	(1,805,810)	1,445,570	-
Funds received during the year	9,372,000	3,185,380	3,796,800	16,354,180	4,482,500
Expenditure during the year *(Note 12.1)*	(7,659,737)	(2,322,373)	(1,942,790)	(11,924,900)	(3,036,930)
	1,712,263	863,007	1,854,010	4,429,280	1,445,570
Transferred to fund balance *(Note 12.2)*	-	(863,007)	(48,200)	(911,207)	-
	4,963,643	-	-	4,963,643	1,445,570

12.1 This represents expenditure incurred for rehabilitation and reconstruction activities carried out in flood effected areas of Jhirk (Thatta, Sindh), Sajawal (Jaffarabad, Balochistan) and Dadu (Khairpur).

12.2 This represents surplus funds transferred to fund balance pursuant to donors' approval dated 28 February 2012.

13. COMMITMENT

The Society is committed to contribute towards future expenditure of schools under Society's management and grants to Partner Organisations.

	2011 (Rupees)	2010 (Rupees)
14. FUNDS RECEIVED DURING THE YEAR		
Related parties		
Developments in Literacy USA	**130,462,873**	105,149,702
Developments in Literacy Trust UK	**4,747,220**	13,043,030
Developments in Literacy Canada	**4,194,022**	1,438,723
Others		
Target International	**2,200,000**	1,737,902
Funds raised in Pakistan - Various donors	**10,473,510**	17,490,156
Pakistan Poverty Alleviation Fund	**8,133,216**	5,269,956
Barclays Bank Plc	**6,820,000**	6,353,324
British Asian Trust	**1,713,125**	3,262,500
United Nations Women Guild Geneva	**533,555**	384,990
Abraaj Capital	**5,437,450**	-
Vitol Charitable Trust	**2,430,810**	-
Engro Foundation	**2,950,000**	-
Farheen Farhad and Ruqsana Farhad	**4,795,000**	-
Amjad Ali Khan	**2,500,000**	-
Credit Suisse Group	**-**	1,218,500
Coca Cola Export Corporation Pakistan	**-**	1,128,000
Developments in Literacy Singapore	**-**	1,751,036
Pepsi Cola International (Private) Limited	**-**	2,000,000
Other donors	**547,981**	2,680,336
	187,938,762	162,908,155

15. OTHER INCOME

	2011 (Rupees)	2010 (Rupees)
Interest income	**4,488,683**	2,079,068
Profit on short term investment	**401,783**	531,688
Exchange gain	**5,972**	2,133
Other income	**90,670**	225,557
	4,987,108	2,838,446

16. GRANTS TO PARTNER ORGANISATIONS

	2011 (Rupees)	2010 (Rupees)
Cooperation for Advancement, Rehabilitation and Education	**6,537,867**	5,343,587
Indus Resource Centre	**16,061,029**	11,485,795
Khwendo Kor	**8,208,214**	6,983,021
Naz Old Boys Welfare Association	**23,968,883**	16,358,423
Society for Community Support for Primary Education in Baluchistan	**-**	1,398,641
	54,775,993	41,569,467

16.1 Project utilized this grant under the following heads of account:

2011	Management	Program	Operating	Total
Cooperation for Advancement, Rehabilitation and Education	1,006,774	5,234,474	296,619	6,537,867
Indus Resource Centre	1,614,987	13,481,935	964,107	16,061,029
Khwendo Kor	1,946,943	5,273,666	987,605	8,208,214
Naz Old Boys Welfare Association	2,375,235	20,307,415	1,286,233	23,968,883
Society for Community Support for Primary Education in Baluchistan	-	-	-	-
	6,943,939	44,297,490	3,534,564	54,775,993
2010				
Cooperation for Advancement, Rehabilitation and Education	740,266	4,337,749	265,572	5,343,587
Indus Resource Centre	1,302,865	9,354,915	828,015	11,485,795
Khwendo Kor	1,491,668	4,617,241	874,112	6,983,021
Naz Old Boys Welfare Association	1,670,808	13,821,774	865,841	16,358,423
Society for Community Support for Primary Education in Baluchistan	-	1,398,641	-	1,398,641
	5,205,607	33,530,320	2,833,540	41,569,467

17. GENERAL AND ADMINISTRATION EXPENSES

	Note	2011 (Rupees)	2010 (Rupees)
Salaries and other benefits		5,680,156	3,003,853
Printing and stationary		33,216	61,100
Vehicle running expenses		146,503	42,003
Communication and postage		116,930	77,354
Office repairs		67,296	11,428
Vehicle insurance		19,782	24,688
Office rent and utilities		475,411	461,183
Office supplies		78,170	73,567
Bank charges		123,256	71,010
Audit fee		450,000	400,000
Fund raising expenses	*17.1*	3,849,154	6,166,580
Depreciation	*4.3*	499,882	292,917
Amortization	*5*	77,008	-
Legal and professional charges		177,000	-
Resourcing and recruitment expenses		228,763	-
Miscellaneous		106,541	72,755
		12,129,068	10,758,436

17.1 This represents expenses incurred on various fund raising events carried out during the year.

	Note	2011 (Rupees)	2010 (Rupees)
18. PROGRAM EXPENSES			
Salaries and other benefits		**15,609,780**	11,426,644
Printing and stationary		**99,644**	183,300
Vehicle running expenses		**439,506**	126,008
Communication and postage		**350,785**	232,059
Office repairs		**201,889**	34,283
Office rent and utilities		**1,426,232**	1,541,945
Vehicle insurance		**59,346**	74,063
Monitoring and evaluation expenses		**1,556,890**	2,346,954
Depreciation	*4.3*	**2,832,663**	1,659,866
Office supplies		**234,510**	220,703
Curriculum development		**3,478,447**	3,536,369
Training expenses		**11,241,679**	6,601,948
Bank charges		**369,766**	213,031
Flood relief expenses	*12*	**11,924,900**	3,036,930
Capacity building expenses		**1,165,071**	1,326,424
Library establishment		**1,818,348**	-
Computer laboratory		**1,355,783**	-
Education college		**716,201**	-
Health and hygiene		-	88,462
Tele taleem expenses		-	1,218,253
Miscellaneous		**49,622**	68,264
		54,931,062	33,935,506

	Note	2011 (Rupees)	2010 (Rupees)
19. PROJECT EXPENSES			
Islamabad Capital Territory Schools	*19.1*	**8,257,253**	11,339,825
Orangi Schools	*19.2*	**16,264,699**	12,725,117
Kala Shah Kaku School	*19.3*	**3,562,948**	339,606
Mansehra Community School Project	*19.4*	**8,481,920**	1,729,364
Rawalpindi Rural School Program	*19.5*	**22,954,200**	12,235,366
		59,521,020	38,369,278

	Note	2011 (Rupees)	2010 (Rupees)
19.1 Islamabad Capital Territory Schools			
Salaries and other benefits		**3,827,590**	2,776,590
Direct project expenses	*19.6*	**2,981,964**	8,476,415
Library establishment		**152,943**	-
Computer laboratory		**1,229,225**	-
Others		**65,531**	86,820
		8,257,253	11,339,825
19.2 Orangi Schools			
Salaries and other benefits		**9,383,710**	9,204,019
Direct project expenses	*19.6*	**5,102,676**	3,040,861
Library establishment		**699,305**	-
Computer laboratory		**865,525**	-
Others		**213,483**	480,237
		16,264,699	12,725,117
19.3 Kala Shah Kaku School			
Salaries and other benefits		**397,923**	208,040
Direct project expenses	*19.6*	**2,890,919**	131,566
Library establishment		**33,666**	-
Computer laboratory		**240,440**	-
		3,562,948	339,606
19.4 Mansehra Community School Project			
Salaries and other benefits		**1,643,901**	1,403,430
Direct project expenses	*19.6*	**6,729,985**	322,154
Library establishment		**96,974**	-
Others		**11,060**	3,780
		8,481,920	1,729,364
19.5 Rawalpindi Rural School Program			
Salaries and other benefits		**9,895,532**	8,876,172
Direct project expenses	*19.6*	**11,665,313**	3,231,120
Library establishment		**535,576**	-
Computer laboratory		**771,465**	-
Others		**86,314**	128,074
		22,954,200	12,235,366

19.6 These represent various expenses incurred on schools directly run by the Society. These include expenses incurred on account of civil works on school buildings, books, note books, furniture, scholarships, one laptop per child campaign and other school running expenses.

20. FINANCIAL INSTRUMENTS

The Society has exposures to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Trustees has overall responsibility for the establishment and oversight of the Society's risk management framework. The Board is also responsible for developing and monitoring the Society's risk management policies.

The Society's risk management policies are established to identify and analyze the risks faced by the Society, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Society's activities. The Society, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Trustees oversees how management monitors compliance with the Society's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Society.

20.1 Credit risk

Credit risk is the risk of financial loss to the Society if a counterparty to a financial instrument fails to meet its contractual obligations. The Society's credit risk is primarily attributable to impairment security deposits and balances at banks. The Society believes that it is not exposed to major concentration of credit risk as the exposure is spread over a number of counter parties which are mainly banks with reasonable high credit ratings. The carrying amount of financial assets represents the maximum credit exposure at the reporting date as follows:

	2011	2010
	(Rupees)	(Rupees)
Deposits	**279,000**	239,000
Bank balances	**71,573,195**	36,627,227
Short term investment	-	10,399,000
Accrued mark-up	-	531,688
	71,852,195	47,796,915

kpmg

Geographically there is no concentration of credit risk. As at the year end the Company's most significant financial asset represents amount placed with a Bank from whom Rs. 70.70 million (2010: Rs. 45.13 million) was receivable. Based on past experience, the management believes that no impairment allowance is necessary in respect of its financial assets.

20.2 Liquidity risk

Liquidity risk is the risk that the Society will not be able to meet its financial obligations as they fall due. The Society's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Society's reputation. The Society uses different methods which assists it in monitoring cash flow requirements and optimizing its cash return on investments. Typically the Society ensures that it has sufficient cash on demand to meet expected operational expenses for a reasonable period, including the servicing of financial obligation; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities:

2011	**Carrying amount**	**Contractual cash flows**	**Within one year**	**Over one year**
		Rupees		
Accrued and other liabilities	7,401,840	(7,401,840)	(7,401,840)	-
	7,401,840	(7,401,840)	(7,401,840)	-
2010				
Accrued and other liabilities	3,489,278	(3,489,278)	(3,489,278)	-
	3,489,278	(3,489,278)	(3,489,278)	-

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

20.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Society incurs financial liabilities to manage its market risk. All such activities are carried out with the approval of the Board. The Society is not significantly exposed to market risk.

a) Currency risk

The Society is not significantly exposed to currency risk.

b) Interest rate risk

The interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure arises from investment and PLS accounts with banks. The Society has no interest bearing financial liabilities. At the balance sheet date the interest rate risk profile of the Society's interest bearing financial instruments is:

	Carrying amount	
	2011	2010
	(Rupees)	(Rupees)
Fixed rate instruments		
Short term investments	-	10,399,000
Variable rate instruments		
Financial assets	**70,083,532**	35,016,857

Fair value sensitivity analysis for fixed rate instruments

The Society does not hold any fixed rate financial assets at fair value through profit and loss. Therefore a change in interest rate at reporting date would not affect income and expenditure account of the Society.

Cash flow sensitivity analysis for variable rate instruments

As the Society receives significant portion of interest income in the year in which it is earned so its financial statements are not sensitive to any change in the interest rate.

20.4 Fair value hierarchy

The carrying value of financial assets and liabilities reflected in financial statements approximate their fair values. Accordingly fair value hierarchy disclosure is not relevant to the Society.

20.5 Determination of fair values

A number of the Society's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods:

Non - derivative financial assets

The fair value of non-derivative financial assets is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

However since these assets and liabilities are due to be settled within one year, the fair value is approximate to their carrying values.

21. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of Developments in Literacy USA, UK, Canada, all affiliates of the Developments in Literacy, trustees, key management personnel and entities over which the trustees are able to exercise significant influence. Transactions and balances with related parties other than already disclosed in these financial statements are as follows:

	2011	2010
	(Rupees)	(Rupees)
Remuneration of key management personnel	**2,259,032**	1,980,000

22. DATE OF APPROVAL

These financial statements were approved by the Board of Trustees of the Society in their meeting held on 12 JUN 2012.

Trustee

Trustee