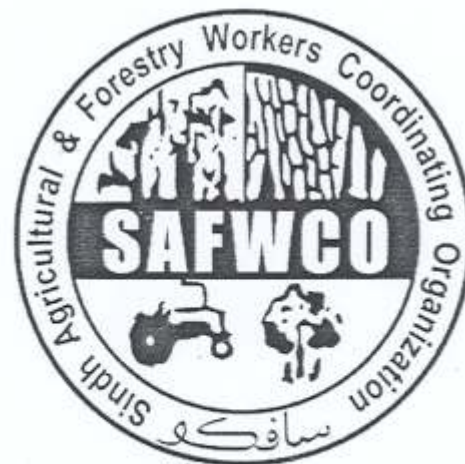


Financial Statements and Auditor's Report
Sindh Agricultural & Forestry Workers
Coordinating Organization –
Credit Enterprise Development
For the year ended June 30, 2009



Anjum Asim Shahid Rahman
Chartered Accountants



**FINANCIAL STATEMENTS AND AUDITOR'S REPORT
SINDH AGRICULTURAL & FORESTRY WORKERS
COORDINATING ORGANIZATION –
CREDIT ENTERPRISE DEVELOPMENT
FOR THE YEAR ENDED JUNE 30, 2009**

Contents

1. Auditor's Report
2. Financial Statements

AUDITOR'S REPORT TO THE BOARD OF GOVERNORS

We have audited the annexed consolidated balance sheet of **Sindh Agricultural & Forestry Workers Coordinating Organization – Credit Enterprise Development** (the Organization) as at June 30, 2009 and the related consolidated income and expenditure account, consolidated cash flow statement and consolidated statement of changes in retained surplus together with the notes forming part thereof (here-in-after referred to as the financial statements) for the year ended June 30, 2009.

It is the responsibility of the Board of Governors 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.

Except as discussed in the following paragraph, 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 from 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 and after due verification we report that:

- 1) The Organization has not made accrual for service charges income on micro credit loans outstanding at the year end. Owing to the nature of CED's records, we were unable to satisfy ourselves as to the amount of accrual by other audit procedures.
- 2) The Organization has not made accrual amounting to Rs. 3,030,743 for markup expense on PPAF loan outstanding at the year end.


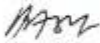
Except for the matters stated in above paragraphs, in our opinion the financial statements present fairly in all material respects the financial position of CED as at June 30, 2009 and of its surplus for the year then ended, in accordance with the approved accounting standards as applicable in Pakistan.

Anjum Asim Shahid Rahman

Without qualifying our opinion we draw attention to the fact that as mentioned in note 14 to the financial statements the Organization has not made any provision for current taxation, as management is confident that the tax exemption certificate will be granted in compliance with relevant clause of 2nd Schedule to the Income Tax Ordinance, 2001.

The financial statements for the year ended June 30, 2008 were audited by another firm of Chartered Accountants whose report dated March 20, 2009 expressed an unqualified opinion thereon.

Date: 19 DEC 2009
Karachi


Anjum Asim Shahid Rahman
Chartered Accountants


**SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISES DEVELOPMENT SECTOR
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2009**

	Note	2009	2008
		----- Rupees -----	
ASSETS			
Current assets			
Cash and bank balances	4	11,535,290	24,162,293
Micro credit loans to customers - net	5	205,830,923	137,497,318
Grant receivable from PPAF		9,203,692	3,676,935
Advances, deposits and prepayments	6	3,969,671	4,004,047
		<u>230,539,576</u>	<u>169,340,593</u>
Non-current assets			
Fixed assets-tangible	7	14,517,405	11,991,203
Fixed assets-intangible	8	211,000	316,500
		<u>14,728,405</u>	<u>12,307,703</u>
		<u>245,267,981</u>	<u>181,648,296</u>
LIABILITIES			
Current liabilities			
Loan from PPAF	9	176,473,680	125,659,033
Emergency Fund	10	4,492,025	2,130,526
Accrued and other liabilities	11	5,051,889	5,895,782
Deferred grant for operations	12	585,641	3,643,645
		<u>186,603,235</u>	<u>137,328,986</u>
Non-current liabilities			
Deferred grant for fixed assets	13	7,429,073	4,912,336
Accumulated surplus		51,235,673	39,406,974
		<u>245,267,981</u>	<u>181,648,296</u>
Contingency	14		

The following amounts are completely tied to microfinance services:

- Assets: Micro credit loans to customers - net
- Liabilities: Loan from PPAF

The annexed notes from 1 to 25 form an integral part of these financial statements.


 Chief Executive Officer


 Manager Finance & Administration

**SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISES DEVELOPMENT SECTOR
CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2009**

	Note	2009 ----- Rupees -----	2008
INCOME			
Service charges earned	15	51,571,497	33,578,792
Service charges expense	16	(9,133,819)	(7,484,707)
Net service charges income		42,437,678	26,094,085
Charge to loan loss reserve	5.3	(2,620,751)	(1,432,547)
Loans directly written off	5.3	(3,043,870)	(1,046,739)
Net service charges income after provision		36,773,057	23,614,799
Other income	17	1,204,784	1,283,822
		37,977,841	24,898,621
EXPENDITURE			
General and administrative expenses	18	39,268,401	30,102,050
Community training expenses		2,922,287	6,004,765
Other expenses	19	2,948,146	2,307,976
		45,138,834	38,414,791
Net operating deficit		(7,160,993)	(13,516,170)
Grant income	20	18,989,692	22,194,390
Net surplus for the year		11,828,699	8,678,220

The annexed notes from 1 to 25 form an integral part of these financial statements.


Chief Executive Officer


Manager Finance & Administration

**SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISES DEVELOPMENT SECTOR
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2009**

Note	2009	2008
	----- Rupees -----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net surplus for the year	11,828,699	8,678,220
<i>Adjustment for:</i>		
Depreciation	1,733,248	1,415,897
Amortization	105,500	105,500
Charge to loan loss reserve	2,620,751	1,432,547
Loans directly written off	3,043,870	1,046,739
Service charges	9,133,819	7,484,707
	<u>28,465,887</u>	<u>20,163,610</u>
(Increase) / decrease in operating assets		
Micro credit loans to customers - net	(73,998,226)	(28,588,328)
Grant receivable from PPAF	(5,526,757)	(3,472,399)
Advances, deposits and prepayments	34,376	504,539
	<u>(79,490,607)</u>	<u>(31,556,188)</u>
Increase / (decrease) in operating liabilities		
Emergency Fund	2,361,499	1,411,115
Accrued and other liabilities	(843,893)	5,490,730
Deferred grant for operations	(3,058,004)	1,963,617
	<u>(1,540,398)</u>	<u>8,865,462</u>
Service charges paid	(9,133,819)	(7,484,707)
Net cash used in operating activities	<u>(61,698,937)</u>	<u>(10,011,823)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets-tangible	(4,259,450)	(4,391,650)
Purchase of fixed assets-intangible	-	(422,000)
Deferred grant for fixed assets	2,516,737	(652,310)
Net cash (used in) / from investing activities	<u>(1,742,713)</u>	<u>(5,465,960)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan from PPAF	50,814,647	26,511,033
Net cash from financing activities	<u>50,814,647</u>	<u>26,511,033</u>
Net decrease in cash and cash equivalents	(12,627,003)	11,033,250
Cash and cash equivalents at beginning of year	24,162,293	13,129,043
Cash and cash equivalents at end of year	<u>11,535,290</u>	<u>24,162,293</u>

The annexed notes from 1 to 25 form an integral part of these financial statements.


Chief Executive Officer


Manager Finance & Administration

**SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISES DEVELOPMENT SECTOR
CONSOLIDATED STATEMENT OF CHANGES IN RETAINED SURPLUS
FOR THE YEAR ENDED JUNE 30, 2009**

	Rupees
Balance as at June 30, 2007	30,728,754
Net surplus for the year	8,678,220
Balance as at June 30, 2008	<u>39,406,974</u>
Net surplus for the year	11,828,699
Balance as at June 30, 2009	<u><u>51,235,673</u></u>

The annexed notes from 1 to 25 form an integral part of these financial statements.



Chief Executive Officer



Manager Finance & Administration

**SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISES DEVELOPMENT SECTOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

1. STATUS AND NATURE OF OPERATIONS

Sindh Agricultural and Forestry Workers Coordinating Organization (SAFWCO) is a not-for-profit organization, registered on May 30, 1993 under the certificate of registration of Societies Act. XXI of 1860. The registered office of SAFWCO is situated at Shahdadpur, Sindh. It is currently working in 3 districts of Sindh. It is engaged in activities compatible with the objectives of Pakistan Poverty Alleviation Fund (PPAF) and deals with projects/programmes for helping the poor, landless and asset less in order to enable them to gain access to resources for their productive self-employment, to encourage them to undertake activities of income generation and poverty alleviation and for enhancing their quality of life.

Credit & Enterprises Development Sector is a segment of SAFWCO which started its operations in 2000 and is engaged in programs for poverty alleviation through capacity building of SAFWCO and the communities and through providing micro credits to groups and individuals for income generating activities. The operations are primarily funded through microfinance loans and grants received from PPAF.

SAFWCO has 15 branches (June 2008: 15 branches) in operations as at June 30, 2009 and employs 152 (June 2008: 152) staff and consultants.

1.1 Basis of consolidation

These consolidated financial statements include the financial statements of following projects and funds:

PPAF Capacity Building I
PPAF Capacity Building II
PPAF Capacity Building III
PPAF Capacity Building IV
PPAF EDF Capacity Building
PPAF MIOP Capacity Building
PPAF MIOP Capacity Building I
PPAF Micro Credit Account
PPAF MIOP Micro Credit Account
PPAF EDF Micro Credit Account
TUP Project
Emergency Fund Account
Revolving Fund Account
SAFWCO-CED Fund Account

The assets, liabilities, income and expenses of projects and funds have been consolidated on a line by line basis. Material intra-fund/project balances and transactions have been eliminated.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, and in compliance with disclosure guidelines for financial reporting by Microfinance Institutions which are voluntary norms recommended by a group of sponsors, including the donors who make up the Consultative Group to Assist the Poor (CGAP) and the members of the Small Enterprise Education and Promotion network (SEEP).

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**SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISES DEVELOPMENT SECTOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009**

2.2 Standards, amendments and interpretations effective during the year but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after July 1, 2008 but are not relevant to the SAFWCO's operations:

	Effective date (accounting periods beginning on or after)
IFRS 7 - Financial Instruments: Disclosures	April 28, 2008
IAS 29 - Financial Reporting in Hyperinflationary Economies	April 28, 2008
IFRIC 13 - Customer Loyalty Programmes	July 01, 2008
IFRIC 14 - IAS 19 The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction	January 01, 2008

2.3 Standards, interpretations and amendments to published approved accounting standards that are not yet effective and not relevant for the SAFWCO's operations:

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation.

	Effective date (accounting periods beginning on or after)
IAS 1 - Presentation of Financial Statements (Revised)	January 01, 2009
IAS 23 - Borrowing Costs (Revised)	January 01, 2009
IAS 27 - Consolidated and Separate Financial Statements (Amended)	July 01, 2009
IAS 32 - Financial Instruments: Presentation (Amended)	January 01, 2009
IAS 39 - Financial Instruments: Recognition and Measurement (Amended)	July 01, 2009
IFRS 2 - Share Based Payment (Amended)	January 01, 2010
IFRS 3 - Business Combinations (Revised)	July 01, 2009
IFRS 7 - Improving disclosures about Financial Instruments (Amended)	January 01, 2009
IFRS 8 - Operating Segments	January 01, 2009
IFRS 9 - Financial Instruments	January 01, 2013
IFRIC 15 - Agreement for the Construction of Real Estate	January 01, 2009
IFRIC 16 - Hedge of Net Investment in a Foreign Operation	October 01, 2008
IFRIC 17 - Distributions of Non-Cash Assets to Owners	July 01, 2009
IFRIC 18 - Transfers of Assets from Customers	July 01, 2009

2.4 Basis of measurement

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

2.5 Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenditures. 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

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**SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISES DEVELOPMENT SECTOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009**

of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are provision against micro credit loans to customers, useful lives and impairment of tangible and intangible fixed assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Cash and cash equivalents

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

3.2 Micro credit loans to customers

Loans are stated net of loan loss reserve and loans written off directly through income and expenditure account. Loan loss reserve is created on amounts overdue for 30 days or above as per the following time based criteria:

Description	Reserve (Percentage of outstanding balance)
31 – 90 days overdue loans	10%
91 – 180 days overdue loans	25%
181 – 365 days overdue loans	50%
Above 365 days overdue loans	100%

Direct write offs can be made for loan disbursed at least two years before the date of financial statements.

3.3 Advances, prepayments and other receivables

Advances, prepayments and other receivables are carried in the balance sheet at cost, which is the fair value of the consideration to be settled in the future for goods and services to be received.

3.4 Fixed assets

Tangible

Property, plant and equipment including all additions are stated at cost less accumulated depreciation and impairment loss, if any. Depreciation is charged to income by applying the reducing balance method systematically on monthly basis at the rates specified in note 9. Depreciation is charged from the month in which an asset is available for use while no depreciation is charged from the month in which the asset is disposed off.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to

**SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISES DEVELOPMENT SECTOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009**

SAFWCO and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in profit and loss account during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of fixed asset, if any, are taken to income and expenditure account.

Intangible

Intangible assets are stated at cost less accumulated amortization. Amortization is charged to income applying the straight line method.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful life of 4 years.

3.5 Grants

Deferred grant for operations

SAFWCO records grants and donations for operations in the income statement below the net surplus / deficit from operations. Grants and donations for periods beyond the current operating period are recorded under liabilities as deferred grant revenue.

Deferred grant for fixed assets

Grants for fixed assets are recorded as deferred revenue in the balance sheet and an amount equal to the period's depreciation is transferred to income over the useful life of the assets acquired.

3.6 Income recognition

Service charges on micro credit loans is recognised in the income and expenditure account using the effective interest rate method. Due but unpaid service charges are accrued on overdue loans for period up to 30 days. After 30 days, overdue loans are classified as non-performing and further accrual of unpaid service charges ceases. Accrued service charges on non-performing loans is reversed.

Income on bank accounts is recognized on receipt basis.

3.7 Expenses

Service charges related to the long term loan payable to PPAF is charged to income and expenditure account as and when incurred.



**SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISES DEVELOPMENT SECTOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009**

3.8 Provisions

Provisions are recognized when there is legal or constructive obligations as a result of past events, it is probable that an out flow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amounts can be made.

3.9 Offsetting

Financial assets and financial liabilities are only set-off and the net amount is reported in the financial statements when there is a legally enforceable right to set-off and SAFWCO intends to settle either on a net basis or realize the assets and settle the liabilities simultaneously.

3.10 Related party transactions

SAFWCO related parties comprise of other projects, key management personnel and other related entities. All transactions and balances with related parties are disclosed in these financial statements.

3.11 Compensated absences

SAFWCO recognised cost of compensated absences when earned by the eligible staff.

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SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISES DEVELOPMENT SECTOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009

	2009	2008
	----- Rupees -----	
4. CASH AND BANK BALANCES		
Cash in hand	1,022,965	1,041,655
Cash at banks		
Current Accounts	2,568,884	11,942,954
PLS accounts	7,943,441	11,177,684
	10,512,325	23,120,638
	<u>11,535,290</u>	<u>24,162,293</u>

5. MICRO CREDIT LOANS TO CUSTOMERS - NET

	Note	2009		2008	
		Number	Rupees	Number	Rupees
Regular loans		21,877	204,549,330	16,575	138,241,318
Overdue loans		1,553	8,378,761	1,468	3,360,808
Gross portfolio		<u>23,430</u>	<u>212,928,091</u>	<u>18,043</u>	<u>141,602,126</u>
Loan loss reserve	5.2		(2,637,970)		(1,432,547)
Loans written off	5.3		(4,459,198)		(2,672,261)
Net portfolio			<u>205,830,923</u>		<u>137,497,318</u>

5.1 Overdue loans have been classified in the following categories:

Classification	2009			
	Amount outstanding Rupees	Provision required %	Provision required Rupees	Provision held Rupees
1-30 days overdue	-	0%	-	-
31-60 days overdue	207,627	10%	20,773	20,773
61-90 days overdue	138,418	10%	13,842	13,842
91-180 days overdue	257,954	25%	64,489	64,489
181-365 days overdue	1,553,397	50%	776,699	776,699
Above 365 days overdue	6,221,365	100%	6,221,365	6,221,365
	<u>8,378,761</u>		<u>7,097,168</u>	<u>7,097,168</u>

Classification	2008			
	Amount outstanding Rupees	Provision required %	Provision required Rupees	Provision held Rupees
1-30 days overdue	-	0%	-	-
31-60 days overdue	95,575	10%	9,557	9,557
61-90 days overdue	535,022	10%	53,502	53,502
91-180 days overdue	408,339	25%	102,085	102,085
181-365 days overdue	2,108,938	50%	1,054,469	1,054,469
Above 365 days overdue	212,934	100%	212,934	212,934
	<u>3,360,808</u>		<u>1,432,547</u>	<u>1,432,547</u>

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**SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISES DEVELOPMENT SECTOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009**

	2009	2008
	----- Rupees -----	
5.2 Loan loss reserve		
Opening balance	1,432,547	1,625,522
Charge for loan loss reserve for the year	2,620,751	1,432,547
Amount written off	(1,415,328)	(1,625,522)
Closing balance	2,637,970	1,432,547
5.3 Loans written off		
Write off from provision	1,415,328	1,625,522
Direct write off	3,043,870	1,046,739
	4,459,198	2,672,261
5.4 Charge to Income and Expenditure account		
Charge to loan loss reserve	2,620,751	1,432,547
Loans directly written off	3,043,870	1,046,739
	5,664,621	2,479,286

5.5 Portfolio Quality Report

SAFWCO's main measure of loan delinquency is an aged portfolio-at-risk ratio. Loans are separated into classes depending upon the number of days overdue. For each such class of loan, the outstanding principal balance of such loan is divided by the outstanding principal balance of the gross portfolio before deducting provision for loan losses.

	2009		2008	
	Rupees	Portfolio at Risk	Rupees	Portfolio at Risk
Regular	204,549,330	-	138,241,318	-
1-30 days overdue	-	0.00%	-	0.00%
31-60 days overdue	207,627	0.10%	95,575	0.07%
61-90 days overdue	138,418	0.07%	535,022	0.38%
91-180 days overdue	257,954	0.12%	408,339	0.29%
181-365 days overdue	1,553,397	0.73%	2,108,938	1.49%
Above 365 days overdue	6,221,365	2.92%	212,934	0.15%
	212,928,091	3.94%	141,602,126	2.38%

SAFWCO does not allow rescheduling or restructuring of loans and during the year no loans were rescheduled or restructured.

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SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISES DEVELOPMENT SECTOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009

During the year micro credit loans were disbursed relating to following products. Each product has same terms, conditions and service charge rates as follows:

Product	Average Term Range (in months)	Interest Rate (per annum)
Agriculture loan	6	20% flat
Regular monthly loan	3-12	20% flat
Buffalo purchasing loan	12	20% flat
Festival loan	12	20% flat
Eid ul Azha loan	3	20% flat
Half installment loan	6-12	20% flat

5.6 Current Recovery Ratio

Current recovery ratios are calculated and reported on a quarterly 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.

Period	2009	2008
1st Quarter	93.01%	92.96%
2nd Quarter	93.07%	93.89%
3rd Quarter	93.13%	92.76%
4th Quarter		93.32%
	<u>98.06%</u>	<u>98.11%</u>

The loans are repaid in 1 year on average computed on the basis of a sample of tenure of loans disbursed during the year.

Under these circumstances, a current recovery ratio of 98.06% (2008:98.11%) for one year loans is approximately equivalent to an Annual Loss Rate (ALR) of 3.88% (2008: 3.78%).

5.7 Loans to employees

Loans outstanding from employees are amounting to Rs.555,000 as at June 30, 2009.

6. ADVANCES, DEPOSITS AND PREPAYMENTS

	2009	2008
	----- Rupees -----	
Prepayments	-	2,109,226
Advances to staff	3,599,671	1,574,821
Security deposit	370,000	320,000
	<u>3,969,671</u>	<u>4,004,047</u>

Signature

SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
 CREDIT & ENTERPRISES DEVELOPMENT SECTOR
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 FOR THE YEAR ENDED JUNE 30, 2009

7. FIXED ASSETS - TANGIBLE

2009	Cost			Depreciation			Written down value as at June 30, 2009	Depreciation rate per annum
	As at July 01, 2008	Additions during the year	As at June 30, 2009	As at July 01, 2008	Charge for the year	As at June 30, 2009		
Rupees								
Freehold land	4,454,200	-	4,454,200	-	-	-	4,454,200	0%
Land and building	2,150,000	-	2,150,000	495,575	82,721	578,296	1,571,704	5%
Furniture and fixtures	1,566,800	262,250	1,829,050	426,915	126,943	553,858	1,275,192	10%
Computers	2,617,250	128,950	2,746,200	1,524,659	376,126	1,900,785	845,415	33%
Electrical equipment	1,068,490	44,700	1,113,190	612,932	96,100	709,032	404,158	20%
Motor vehicles	4,923,959	3,371,000	8,294,959	2,679,217	816,465	3,495,682	4,799,277	20%
Motor bikes	1,553,450	452,550	2,006,000	603,648	234,893	838,541	1,167,459	20%
	<u>18,334,149</u>	<u>4,259,450</u>	<u>22,593,599</u>	<u>3,832,659</u>	<u>1,733,248</u>	<u>8,076,194</u>	<u>14,517,405</u>	

2008	Cost			Depreciation			Written down value as at June 30, 2008	Depreciation rate per annum
	As at July 01, 2007	Additions during the year	As at June 30, 2008	As at July 01, 2007	Charge for the year	As at June 30, 2008		
Rupees								
Freehold land	915,000	3,539,200	4,454,200	-	-	-	4,454,200	0%
Land and building	2,150,000	-	2,150,000	408,500	87,075	495,575	1,654,425	5%
Furniture and fixtures	1,526,400	40,400	1,566,800	304,375	122,540	426,915	1,139,885	10%
Computers	2,138,450	478,800	2,617,250	1,194,013	330,646	1,524,659	1,092,591	33%
Electrical equipment	1,056,190	12,300	1,068,490	499,158	113,774	612,932	455,558	20%
Motor vehicles	4,923,959	-	4,923,959	2,118,032	561,185	2,679,217	2,244,742	20%
Motor bikes	1,232,500	320,950	1,553,450	402,971	200,677	603,648	949,802	20%
	<u>13,942,499</u>	<u>4,391,650</u>	<u>18,334,149</u>	<u>3,266,486</u>	<u>1,415,897</u>	<u>3,832,659</u>	<u>11,991,203</u>	

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	Note	2009	2008
		----- Rupees -----	
8. FIXED ASSET - INTANGIBLE			
Opening Balance		316,500	-
Addition during the year		-	422,000
Amortization for the year		(105,500)	(105,500)
Closing balance		<u>211,000</u>	<u>316,500</u>
9. LOAN FROM PPAF			
Opening Balance		125,659,033	99,148,000
Received during the year		261,040,000	202,440,000
		<u>386,699,033</u>	<u>301,588,000</u>
Principal repayment during the year		(210,225,353)	(175,928,967)
Closing balance		<u>176,473,680</u>	<u>125,659,033</u>
9.1	The loan carries service charges at the rate of 8% per annum on daily product basis. Upon expiry of the agreement it will be roll forward for another term for which maturity and other conditions such as pricing will be set by PPAF. The said loan is payable on quarterly basis. The loan is secured by hypothecation of outstanding loan portfolio, and first charge on all assets/capital items created out of financing agreement for capacity building.		
10. EMERGENCY FUND			
Opening Balance		2,130,526	719,411
Income for the year		3,262,100	2,023,905
		<u>5,392,626</u>	<u>2,743,316</u>
Expenditure		(900,601)	(612,790)
Closing balance		<u>4,492,025</u>	<u>2,130,526</u>
10.1	It represents 1% fee received from borrower at the time of loan disbursement. In the case of death of the borrower the fee is utilized to settle outstanding balance of loan.		
11. ACCRUED AND OTHER LIABILITIES			
Payable to other projects - net	11.1	3,928,738	4,074,401
Accrued liabilities		1,123,151 ✓	1,821,381
		<u>5,051,889</u>	<u>5,895,782</u>

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**SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009**

	2009	2008
	----- Rupees -----	
11.1 Payable to other projects - net		
Owed to		
SAFWCO Endowment Account	224,646	224,646
Branches	171,869	482,476
SAFWCO-HID	4,430,398	5,568,701
	<u>4,826,913</u>	<u>6,275,823</u>
Owed by		
UNICEF project	-	69,836
RFM	400,882	870,882
Social Development Account	330,905	1,036,894
Community Physical Infrastructure	-	59,960
Staff Saving	110,000	110,000
Staff Salary Account	-	3,850
Catholic Relief Services Program	-	50,000
Others	56,388	-
	<u>898,175</u>	<u>2,201,422</u>
	<u>3,928,738</u>	<u>4,074,401</u>

12. DEFERRED GRANT FOR OPERATIONS

Opening Balance	3,643,645	1,680,028
Received during the year	14,487,825	23,016,997
	<u>18,131,470</u>	<u>24,697,025</u>
Released to income to the extent of current expenditure	(17,545,829)	(21,053,380)
Closing balance	<u>585,641</u>	<u>3,643,645</u>

13. DEFERRED GRANT FOR FIXED ASSETS

Opening Balance	4,912,336	5,564,646
Net capital expenditure	3,960,600	488,700
	<u>8,872,936</u>	<u>6,053,346</u>
Deferred capital grant released to the extent of depreciation	(1,443,863)	(1,141,010)
Closing balance	<u>7,429,073</u>	<u>4,912,336</u>

14. CONTINGENCY

The management has applied for the tax exemption certificate, the process of which is still under process. Till the time exemption certificate is issued, it is expected that department may tax the surpluses / income for the year. However, no provision has been made in these financial statements, as management expect favorable outcome in this regard.

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SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
CREDIT & ENTERPRISES DEVELOPMENT SECTOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009

		2009	2008
		----- Rupees -----	
15. SERVICE CHARGES EARNED			
Service charges on micro credit loans to customers		45,059,287	29,554,482
Loan processing fees		6,512,210	4,024,310
		<u>51,571,497</u>	<u>33,578,792</u>
16. SERVICE CHARGES EXPENSE			
Interest expense is recognised on the loan balance payable to PPAF at the rate of 8% per annum in accordance with provisions of the loan agreement referred to in note 9.1.			
17. OTHER INCOME			
Donation		500,000	1,150,000
Bank Profit		691,554	28,870
Miscellaneous income		13,230	104,952
		<u>1,204,784</u>	<u>1,283,822</u>
18. GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries and other benefits		23,653,772	18,273,984
Vehicle operating expenses		3,236,499	2,419,629
Training expenses		2,683,405	2,695,348
Office rent and utilities		1,994,056	1,729,672
Depreciation expense		1,718,590	1,415,897
Bank charges		1,090,104	467,052
Traveling and conveyance		857,497	1,035,033
Office supplies and equipment		724,237	483,900
Printing and publication		723,324	589,324
Stationary		704,740	406,789
Audit expenses		584,917	20,000
MIS Software		595,000	-
Amortization		105,500	105,500
Legal advisor fees		-	30,000
Annual membership fees		-	66,000
Study grant		10,000	15,900
Miscellaneous		586,760	348,022
		<u>39,268,401</u>	<u>30,102,050</u>
19. OTHER EXPENSES			
Targeting Ultra Poor Project	18.1	2,948,146	807,646
Institutional Development	18.2	-	1,500,330
		<u>2,948,146</u>	<u>2,307,976</u>

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SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009

	2009	2008
	----- Rupees -----	
19.1 Targeting Ultra Poor Project		
Grants for Capital Investment	948,676	-
Salaries expenses	852,000	399,000
Subsistence allowance	290,000	-
Office rent & utilities	261,110	154,290
Fuel & maintenance	240,560	141,165
Training allowance for trainees	97,800	-
Food charges	97,800	-
Management and logistics	53,400	89,880
Traveling and transportation	34,600	-
Printing and stationeries	23,350	22,550
Bank charges	14,862	761
Depreciation	14,658	-
Training material cost	13,500	-
Miscellaneous	5,830	-
	<u>2,948,146</u>	<u>807,646</u>

This expenditure was incurred on pilot project undertaken by SAFWCO for Targeting Ultra poor project funded by CGAP/PPAF.

19.2 Institutional Development

Consultancy charges	-	1,500,000
Bank charges	-	330
	<u>-</u>	<u>1,500,330</u>

This represents funds provided by the 'Financial Sector Strengthening Programme' (a programme of Swiss Agency for Development and Cooperation-SDC). The fund was utilized for institutional development such as business plan development, branding credit projects, establishing and documenting policies and manuals, in-house staff training on policy manuals and product marketing etc.

20. GRANT INCOME

For operations	17,545,829	21,053,380
For fixed assets	1,443,863	1,141,010
	<u>18,989,692</u>	<u>22,194,390</u>

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**SINDH AGRICULTURAL & FORESTRY WORKERS COORDINATING ORGANIZATION
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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21. REMUNERATION TO KEY MANAGEMENT PERSONNEL

	Chief Executive Officer	General Manager
	2008	
	----- Rupees -----	
Managerial remuneration	356,620	325,000
Other benefits	56,620	35,000
	<u>413,240</u>	<u>360,000</u>

22. RELATED PARTY TRANSACTIONS

SAFWCO-CED has related party relationship with its key management personnel, including their associates, projects and SAFWCO. Transactions between the organization and its related parties are carried out under normal course of business.

Detail of payable to other projects is given in note 11 to these financial statements. There are no transactions with key management personnel other than under their terms of employment. Remuneration to key management personnel is disclosed in note 21 to these financial statements.

23. RISK MANAGEMENT

SAFWCO's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. SAFWCO's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the SAFWCO's financial performance.

SAFWCO's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. SAFWCO regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

23.1 Credit risk

SAFWCO takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for SAFWCO by failing to discharge an obligation. Credit risk is the most important risk for the SAFWCO's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans into the SAFWCO's asset portfolio. The credit risk management and control are controlled through the credit policies of the SAFWCO which are updated regularly.

23.1.1 Risk limit control and mitigation policy

SAFWCO manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups.

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SAFWCO structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or programmes. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposure to credit risk is also managed through analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations at the time of loan appraisal for initial and subsequent loans.

23.1.2 Impairment and provisioning policies

The management assess the existence of impairment, based on the accounting policy mentioned in note 3.2.

23.1.3 Maximum exposure to credit risk

Credit risk exposures relating to on-balance sheet assets are as follows:

	2009	2008
	----- Rupees -----	
Cash at bank	10,512,325	23,120,638
Micro credit loans to customers - net	205,830,923	137,497,318
Advances to staff	3,599,671	1,574,821
	<u>219,942,919</u>	<u>162,192,777</u>

23.1.4 Loans to customers are summarised as follows:

Neither past due nor impaired	204,549,330	138,241,318
Past due and impaired	8,378,761	3,360,808
Gross portfolio	<u>212,928,091</u>	<u>141,602,126</u>
Loan loss reserve	(2,637,970)	(1,432,547)
Loans written off	(4,459,198)	(2,672,261)
Net portfolio	<u>205,830,923</u>	<u>137,497,318</u>

23.1.5 Concentration of credit risk by class of business

SAFWCO's major credit risk arises from micro credit loans to customers, which is divided into following classes of business:

	2009		2008	
	Rupees	Percentage	Rupees	Percentage
Agriculture	53,136,523	25	18,060,883	13
Livestock	87,864,621	41	59,739,842	42
Retailing	40,810,640	19	41,678,960	29
Handicrafts	5,939,786	3	6,946,493	5
Others	25,176,521	12	15,175,948	11
Gross portfolio	<u>212,928,091</u>	<u>100</u>	<u>141,602,126</u>	<u>100</u>

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23.1.6 Concentration of credit risk by geographical location

SAFWCO's major credit risk arises from micro credit loans to customers, which is divided into following geographical locations:

	2009		2008	
	Rupees	Percentage	Rupees	Percentage
Rural Branch Shahdadpur	30,434,567	14	21,108,472	15
Urban Branch Shahdadpur	16,124,671	8	14,669,961	10
Khipro Branch Shahdadpur	17,185,029	8	9,197,663	6
Tando Adam Branch	17,488,260	8	14,966,612	11
Jhol Branch	19,250,017	9	14,525,239	10
Bhit Shah Branch	14,843,824	7	10,763,192	8
Nawabshah Branch	13,590,503	6	11,487,012	8
Sakrand Branch	14,555,608	7	11,727,414	8
Matyari Branch	13,079,010	6	9,418,839	7
Sanghar Branch	12,441,406	6	8,608,376	6
EDF Unit	5,119,599	2	5,548,449	4
Shahpur Chakar Settlement Branch	9,299,273	4	1,633,159	1
Sinjhoro Settlement Branch	11,058,114	5	2,248,061	2
Udero Lal Settlement Branch	9,980,193	5	2,074,417	1
Nasarpur Settlement Branch	8,478,017	5	3,625,260	3
Gross portfolio	212,928,091	100	141,602,126	100

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23.2 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks comprises of currency risk, interest rate risk and other price risk.

SAPWCO is not exposed to significant market risk.

23.2.1 Interest rate sensitive financial assets and liabilities

	Effective yield/ interest rate	Interest / mark up bearing				Non interest / mark up bearing				Total	
		Maturity upto one year	Maturity upto five year	Maturity over five year	Sub total	Maturity upto one year	Maturity upto five year	Maturity over five year	Sub total	June 30, 2009	June 30, 2008
----- Rupees in '000 -----											
Financial assets											
Cash and bank balances	5%	7,943,441	-	-	7,943,441	3,591,849	-	-	3,591,849	11,535,290	24,162,293
Micro credit loans to customers	20%	205,830,923	-	-	205,830,923	-	-	-	-	205,830,923	137,497,318
Grant receivable from PPAF	-	-	-	-	-	9,203,692	-	-	9,203,692	9,203,692	3,676,935
Advances, deposits and prepayments	-	-	-	-	-	3,969,671	-	-	3,969,671	3,969,671	1,894,821
		<u>213,774,364</u>	<u>-</u>	<u>-</u>	<u>213,774,364</u>	<u>16,765,212</u>	<u>-</u>	<u>-</u>	<u>16,765,212</u>	<u>230,539,576</u>	<u>167,231,367</u>
Financial liabilities											
Loan from PPAF	8%	176,473,680	-	-	176,473,680	-	-	-	-	176,473,680	125,659,033
Accrued and other liabilities	-	-	-	-	-	5,051,889	-	-	5,051,889	5,051,889	5,895,782
		<u>176,473,680</u>	<u>-</u>	<u>-</u>	<u>176,473,680</u>	<u>5,051,889</u>	<u>-</u>	<u>-</u>	<u>5,051,889</u>	<u>181,525,569</u>	<u>131,554,815</u>
		<u>37,300,684</u>	<u>-</u>	<u>-</u>	<u>37,300,684</u>	<u>11,713,323</u>	<u>-</u>	<u>-</u>	<u>11,713,323</u>	<u>49,014,007</u>	<u>35,676,552</u>

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23.3 Liquidity risk

Liquidity risk is the risk that SAFWCO is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

SAFWCO has a strong financial support from PPAF and has balances with SAFWCO for maintaining sufficient liquidity and to meet anticipated funding requirements. Change in the government monetary policy and market expectations of interest rate are all important factors that can adversely affect SAFWCO's key funding source. Efficient and accurate planning plays a critical role in liquidity management. Management performs a critical review of expected cash inflows/out flows which allow SAFWCO to take timely decisions based on the future requirements.

23.3.1 Maturities of assets and liabilities

	2009					
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year upto five years	Over five years
	Rupees in '000					
Assets						
Cash and bank balances	11,535,290	1,022,965	-	10,512,325	-	-
Micro credit loans to customers - net	205,830,923	-	-	205,830,923	-	-
Grant receivable from PPAF	9,203,692	-	-	9,203,692	-	-
Advances, deposits and prepayments	3,969,671	-	-	3,969,671	-	-
Fixed assets-tangible	14,517,405	-	-	-	7,216,309	7,301,096
Fixed assets-intangible	211,000	-	-	-	211,000	-
	245,267,981	1,022,965	-	229,516,611	7,427,309	7,301,096
Liabilities						
Loan from PPAF	176,473,680	-	-	176,473,680	-	-
Emergency Fund	4,492,025	-	-	4,492,025	-	-
Accrued and other liabilities	5,051,889	-	-	5,051,889	-	-
Deferred grant for operations	585,641	-	-	585,641	-	-
Deferred grant for fixed assets	7,429,073	-	-	-	7,429,073	-
	194,032,308	-	-	186,603,235	7,429,073	-
Net assets	<u>51,235,673</u>	<u>1,022,965</u>	<u>-</u>	<u>42,913,376</u>	<u>(1,764)</u>	<u>7,301,096</u>
Accumulated surplus	<u>51,235,673</u>					

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	2008					
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year upto five years	Over five years
	Rupees in '000					
Assets						
Cash and bank balances	24,162,293	1,041,655	-	23,120,638	-	-
Micro credit loans to customers - net	137,497,318	-	-	137,497,318	-	-
Grant receivable from PPAF	3,676,935	-	-	3,676,935	-	-
Advances, deposits and prepayments	4,004,047	-	-	4,004,047	-	-
Fixed assets-tangible	11,991,203	-	-	-	4,742,693	7,248,510
Fixed assets-intangible	316,500	-	-	-	316,500	-
	<u>181,648,296</u>	<u>1,041,655</u>	<u>-</u>	<u>168,298,938</u>	<u>5,059,193</u>	<u>7,248,510</u>
Liabilities						
Loan from PPAF	125,659,033	-	-	125,659,033	-	-
Emergency Fund	2,130,526	-	-	2,130,526	-	-
Accrued and other liabilities	5,895,782	-	-	5,895,782	-	-
Deferred grant for operations	3,643,645	-	-	3,643,645	-	-
Deferred grant for fixed assets	4,912,336	-	-	-	4,912,336	-
	<u>142,241,322</u>	<u>-</u>	<u>-</u>	<u>137,328,986</u>	<u>4,912,336</u>	<u>-</u>
Net assets	<u>39,406,974</u>	<u>1,041,655</u>	<u>-</u>	<u>30,969,952</u>	<u>146,857</u>	<u>7,248,510</u>
Accumulated surplus	<u>39,406,974</u>					

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23.4 Capital risk management

SAFWCO's objectives when managing capital risks are to safeguard SAFWCO's ability to continue as a going concern in order to provide financial services to the world's lowest-income entrepreneurs.

Gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'accumulated surplus' as shown in the consolidated balance sheet plus net debt.

The gearing ratio as at June 30, 2009 is 76% (2008: 72%) and is calculated is as follows:

	2009	2008
	----- Rupees -----	
Total borrowings	176,473,680	125,659,033
Cash and cash equivalents	(11,535,290)	(24,162,293)
Net debt	<u>164,938,390</u>	<u>101,496,740</u>
Accumulated surplus	48,204,930	39,406,974
Total capital	<u><u>213,143,320</u></u>	<u><u>140,903,714</u></u>
Gearing ratio	77%	72%


24. APPROVAL OF FINANCIAL STATEMENTS

These financial statements have been authorised on 19 DEC 2009 by the Board of Governors of SAFWCO-CED.

25. GENERAL

Figures have been rounded off to the nearest rupee.


Chief Executive Officer


Manager Finance & Administration