

UNITUS

Audited Financial Statements

September 30, 2003

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*Clark Nuber is a
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Report Of Independent Auditor

*Board of Directors
Unitus
Redmond, Washington*

We have audited the statement of financial position of Unitus as of September 30, 2003, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Unitus as of September 30, 2003, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Clark Nuber P.S.

Certified Public Accountants
December 19, 2003

UNITUS

Statement of Financial Position
September 30, 2003

Assets

Cash	\$ 863,293
Pledges receivable, current (Notes 2 and 3)	1,491,950
Prepaid expenses	<u>5,061</u>
Total Current Assets	2,360,304
Fixed Assets:	
Office equipment	21,801
Accumulated depreciation	<u>(6,352)</u>
Total Fixed Assets, Net	15,449
Pledges receivable, noncurrent (Notes 2 and 3)	<u>379,658</u>
Total Assets	<u>\$ 2,755,411</u>

Liabilities and Net Assets

Accounts payable	\$ 17,689
Accrued expenses	17,827
Related party note payable (Note 3)	<u>100,000</u>
Total Current Liabilities	135,516
Commitments and Contingencies (Notes 4, 5, and 8)	
Net Assets:	
Unrestricted	836,953
Temporarily restricted	<u>1,782,942</u>
Total Net Assets	<u>2,619,895</u>
Total Liabilities and Net Assets	<u>\$ 2,755,411</u>

See accompanying notes to financial statements.

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*Statement Of Unrestricted Revenues and Expenses
For The Year Ended September 30, 2003*

Change in Unrestricted Net Assets

Support and Revenue:

Contributions	\$ 1,451,524
In-kind contributions (Note 9)	63,790
Special events	6,234
Interest	3,989
	<hr/>
	1,525,537
Satisfaction of time restrictions	<hr/>
	34,333

Total Support and Revenue

1,559,870

Program Expenses:

SKS India	244,781
Pro Mujer Mexico	137,691
Other	154,746
	<hr/>
Total program services	537,218

Supporting Services:

Management and general	374,679
Fundraising	272,579
	<hr/>
Total supporting services	647,258

Total Expenses

1,184,476

Increase in Unrestricted Net Assets

\$ 375,394

See accompanying notes to financial statements.

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***Statement Of Changes in Net Assets
For The Year Ended September 30, 2003***

Unrestricted Net Assets:	
Total unrestricted support and revenue	\$ 1,525,537
Net assets released from restrictions	34,333
Total unrestricted expenses	<u>(1,184,476)</u>
Increase in unrestricted net assets	375,394
Temporarily Restricted Net Assets:	
Contributions	1,359,450
Net assets released from restrictions	<u>(34,333)</u>
Increase in temporarily restricted net assets	<u>1,325,117</u>
Total Change in Net Assets	1,700,511
Net assets, beginning of year	<u>919,384</u>
Net Assets, End of Year	<u><u>\$ 2,619,895</u></u>

See accompanying notes to financial statements.

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Statement Of Cash Flow
For The Year Ended September 30, 2003

Cash Flows from Operating Activities:	
Change in net assets	\$ 1,700,511
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Non-cash items included in change in net assets	
Depreciation	7,608
Loss on disposal of assets	5,195
(Increase) Decrease in current assets:	
Trade receivables	200,000
Pledges receivable	(1,313,783)
Prepaid expenses	(2,740)
Increase (Decrease) in current liabilities:	
Accounts payable	(1,969)
Accrued liabilities	9,277
	<hr/>
Total adjustments	(1,096,412)
Net Cash Provided by Operating Activities	604,099
Cash Flows from Investing Activities:	
Cash proceeds from sale of equipment	6,342
Cash paid for equipment	(11,929)
	<hr/>
Net Cash Used in Investing Activities	(5,587)
Cash Flows from Financing Activities:	
Proceeds from notes payable	100,000
	<hr/>
Net Cash Provided by Financing Activities	100,000
Net change in cash	698,512
Cash, beginning of year	164,781
	<hr/>
Cash, End of Year	\$ 863,293

See accompanying notes to financial statements.

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**Statement Of Functional Expenses
For The Year Ended September 30, 2003**

	Program Services			Total Program Services	Management and General		Fundraising	Total
	SKS India	Pro Mujer Mexico	Other		General	Fundraising		
Salaries, payroll taxes, and employee benefits	\$ 80,966	\$ 67,906	\$ 90,086	\$238,958	\$ 228,829	\$ 145,880	\$ 613,667	
Professional fees	27,732	9,177	4,538	41,447	41,568	52,926	135,941	
Travel	43,156	9,349	18,760	71,265	17,869	40,592	129,726	
Grants	50,000	38,383		88,383			88,383	
In-kind professional fees	16,018		16,272	32,290	7,560	5,040	32,290	
In-kind rent	9,450	3,780	5,670	18,900	29,685	1,218	31,500	
Printing and reproduction	1,859	65	137	2,061	2,818	6,136	32,964	
Telephone	3,362	4,805	3,795	11,962	6,312	6,871	20,916	
Supplies	3,388	1,593	1,703	6,684	5,523	3,840	19,867	
Training	24		7,090	7,114	1,431	2,153	16,477	
Miscellaneous	3,749	10	3,882	7,641	6,734	2,042	11,225	
Dues/subscriptions/publications	395	613	583	1,591	5,916	39	10,367	
Donor cultivation	1,167	502	665	2,334	2,591	771	5,955	
Equipment repairs					5,195		5,696	
Loss on disposal of asset					1,453	1,422	5,195	
Small equipment purchases	1,135	448	299	1,882	1,359	1,069	4,757	
Insurance	913	475	437	1,825	633	1,929	4,253	
Postage	602	218	224	1,044	468	292	3,606	
Other occupancy costs	595	238	357	1,190	426	296	1,950	
Payroll service	241	129	113	483	701	63	1,205	
Volunteer and donor appreciation	29	135	135	164			928	
Depreciation	244,781	137,691	154,746	537,218	367,071	272,579	1,176,868	
					7,608		7,608	
Total Expenses	\$244,781	\$ 137,691	\$154,746	\$537,218	\$ 374,679	\$ 272,579	\$ 1,184,476	

See accompanying notes to financial statements.

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Notes To Financial Statements September 30, 2003

Note 1 - Description Of The Organization And Summary Of Significant Accounting Policies

Unitus is a nonprofit organization helping microfinance institutions worldwide reach more people living in poverty. In late 2001 and 2002, Unitus developed and implemented a unique business model that greatly accelerates the growth of the highest potential microfinance institutions. This accelerated growth increases the number of poor people whose lives can be improved by access to financial products. The time covered in this audit should be considered a start-up period, during which Unitus built its own infrastructure and systems to support future program growth. As a result, the ratio of administrative expense to program is much higher than it is expected to be in future years. During this time, Unitus benefited from operating grants from a related party Foundation (Note 6) for the purpose of growing the organization as efficiently as possible.

Using significant capital investments and active involvement in capacity building, Unitus plans to fund and work with many organizations to accomplish this goal.

As of September 30, 2003, Unitus was working with:

Pro Mujer, Mexico (PMM) - PMM is a Mexican microfinance organization located in the town of Tula, state of Hidalgo, México. PMM began lending operations in April 2002 and by September 2003 had 4,437 clients. PMM offers loans in Mexican pesos that range in amount from US\$120 – 450 with maturities ranging between 4 to 6 months. They also facilitate group savings that are held by a third party bank. In addition to loans, PMM offers pre-credit loan and empowerment training. Unitus has disbursed \$213,383 to date in capacity building funds and has lent and recovered a total of US\$200,000 in on-lending funds. The loan was repaid prior to maturity because cheaper funding sources were available in Mexico.

Swayam Krishi Sangam (SKS), India - SKS is an Indian microfinance organization with its head office located in the city Hyderabad, state of Andhra Pradesh, India. SKS began operations in June 1998 and by September 2003 had 22,210 clients. SKS offers loans in Indian rupees that range in amount between US\$50 – 500, with maturities ranging from 4 to 12 months. They also facilitate group savings. Unitus has disbursed \$50,000 in capacity building grant funds to SKS and entered into a one year loan guarantee (see Note 8).

The significant accounting policies are:

Basis of Presentation - Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Unitus and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of Unitus or the passage of time. Temporarily restricted net assets at September 30, 2003 in the amount of \$1,871,608 were subject to time restrictions.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. It is Unitus' policy to recognize restricted contributions in the unrestricted net asset class if the restrictions have been met in the same year.

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Notes To Financial Statements September 30, 2003

Note 1 - Continued

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Unitus considers all highly liquid investments with maturities of three months or less to be cash equivalents. At times, cash deposits with banks may exceed available federally insured limits.

Receivables - Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements. There is currently no allowance provided as management believes all amounts are collectible.

Equipment - Equipment is stated at cost if purchased and estimated fair value if donated. Equipment is depreciated on the straight-line method over the estimated useful lives of the assets, which range from 3 - 5 years.

Unitus capitalizes expenditures greater than \$1,000 that materially increase the asset lives and charges ordinary maintenance and repairs to operations as incurred. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income.

Contributions - Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Contributions with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

Donated Services - Donated services are reflected as contributions at their estimated fair market values at the date of receipt if they require specialized skills which would need to be purchased if they were not donated or if they create or enhance nonfinancial assets.

Donations In-Kind - Material gifts-in-kind items used in Unitus' program (such as supplies, free rent, equipment, etc.) are recorded at fair market value at the time received.

Fundraising Revenue - It is Unitus' policy to record revenues and sponsorships related to special events as fundraising revenue. All other contributions received at special events are reflected in contribution revenue.

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Notes To Financial Statements
September 30, 2003

Note 1 - Continued

Functional Expenses - The costs of providing the various programs and other activities have been summarized in the statements of activities, and changes in net assets on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Unitus applies expenses either directly to respective programs or allocates expenses based on direct salary costs for each program.

Federal Income Tax - The IRS has determined that Unitus is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Note 2 - Pledges Receivable

Included in pledges receivable are the following unconditional promises to give at September 30, 2003:

Amounts due in:	
Less than one year	\$ 1,491,950
One to five years	<u>405,000</u>
Total Gross Pledges Receivable	1,896,950
Less: Unamortized discount to present value (6%)	<u>25,342</u>
Net Pledges Receivable	<u>\$ 1,871,608</u>

Note 3 - Related Party Transactions

The financial statements as of and for the year ended September 30, 2003 include \$1,259,450 of receivables and \$2,407,930 of contributions from a foundation controlled by the chairman of the board. The foundation (Crystal Springs Foundation) also donated office space to Unitus during the year valued at \$31,500 (Note 9).

The Statement of Financial Position as of September 30, 2003 includes \$377,500 of pledges receivable from two board members of Unitus.

Unitus has an uncollateralized \$100,000 note with 1.21% annual interest payable to Crystal Springs Foundation as of September 30, 2003. Under the terms of the agreement, the note and accrued interest are payable in full in June 2004. Subsequent to year-end this amount was paid in full.

A board member of Unitus has executed an agreement with Unitus to allow it to borrow up to \$1,000,000 on a line of credit. As of September 30, 2003 Unitus had not borrowed against this line of credit. The line of credit must be repaid by September 30, 2005 and shall accrue interest on any outstanding balances at a rate equal to the Lender's line of credit with Mellon Bank, based on the broker call rate.

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Notes To Financial Statements September 30, 2003

Note 4 - Leases

In August 2003, Unitus entered into a lease agreement with Collins Investments LLC for the rent of office space. Unitus leases the facility and land under a three-year lease expiring April 2006 with payments of \$1,950 per month.

In May 2003, Unitus entered into a lease agreement for the rent of office equipment. The lease expires in August 2006 and requires a monthly payment of \$161.

Future minimum lease payments under all non-cancelable leases at September 30, 2003, are as follows:

2004	\$ 25,332
2005	25,332
2006	<u>15,421</u>
	<u>\$ 66,085</u>

Rental expenses for 2003 totaled \$2,594.

Note 5 - Retirement Plan

Unitus has a 403(b) retirement plan for the exclusive benefit of its employees. Under the plan, Unitus will match up to three percent of the compensation of eligible employees and an additional three percent to those employees who have made salary reduction contributions to the plan. Participants may elect to make additional contributions in excess of the three percent within the limitations set forth in the plan. Unitus' expense for the year ended December 31, 2003 was \$27,725.

Note 6 - Concentrations

Unitus received contributions from a related party Foundation (Note 3) of \$2,407,930 for the year ended September 30, 2003. The contributions comprise 97% of the total revenues for the year ended September 30, 2003.

Note 7 - Investment In SKS Microfinance Pvt. Ltd

In August 2003, Unitus entered into an agreement with SKS Microfinance Pvt. Limited to purchase equity in the amount of \$350,000. Unitus anticipates owning 50% or less of the equity in SKS Microfinance Pvt. Limited.

As of September 30, 2003 Unitus had not transferred money or purchased any shares in SKS Microfinance Pvt. Limited. The terms of the equity purchase are being revisited due to restrictions imposed on all foreign businesses operating in India. The term sheet signed in August does not reflect the actual deal, which is currently undergoing restructuring.

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Notes To Financial Statements September 30, 2003

Note 8 - Contingencies

Unitus has entered into a contract with Pro Women Inc., a Washington D.C. corporation, which is the parent of Pro Mujer, Mexico (PMM). Unitus has made available to them a \$1,500,000 line of credit which was anticipated to be drawn down over a five year period. As of September 30, 2003 there were no outstanding borrowings on the line of credit.

Unitus has made available to PMM a conditional grant in the amount of \$375,000, payable over a three year period. As of September 30, 2003, \$213,383 of the conditional grant has been paid to PMM. The remaining grant is not included in these financial statements because it is conditional on certain performance requirements that have not yet been met.

In August 2003, Unitus entered into an agreement to be contingently liable for \$4,000,000 through a stand-by letter of credit in connection with the investment in SKS Microfinance Pvt. Limited (Note 7). This stand-by letter of credit provides needed collateral to allow SKS to access a line of credit at another bank. The terms of this one year guarantee include a 2% loan origination fee payable by Unitus. As of September 30, 2003, a total of \$550,000 had been drawn on this line of credit by SKS. SKS will repay this balance no later than August 2004, the expiration date of the agreement.

In connection with the agreement entered into with SKS Microfinance Pvt. Limited, Unitus also made available to them a conditional grant in the amount of \$90,000. As of September 30, 2003, \$50,000 of the conditional grant had been paid to SKS.

In August 2001, Unitus provided a \$100,000 signing bonus to its executive director. Within the first 10 years of employment with Unitus, should the executive director be terminated at any time "for cause", the full amount of the signing bonus will be due and payable immediately. If the individual leaves Unitus for any other reason prior to the 10-year anniversary, the signing bonus will be due and payable on a pro-rated basis with one tenth forgiven for each full year of employment completed. Because this gain contingency is contingent upon unknown and unpredictable circumstances, and the likelihood of Unitus collecting this money is low, it is not shown on the Statement of Financial Position.

Note 9 - In-Kind Contributions

Unitus received the following in-kind contributions for the year ended September 30, 2003:

Legal services	\$	32,290
Rent (Note 3)		<u>31,500</u>
	\$	<u>63,790</u>