

UNITUS

Consolidated Financial Statements With
Independent Auditors' Report

December 31, 2006

Table of Contents

Report of Independent Auditors	1
Financial Statements:	
Consolidated Statement of Financial Position	2
Consolidated Statement of Activities and Changes in Net Assets	3
Consolidated Statement of Cash Flows	4
Notes to Consolidated Financial Statements	5 - 16
Supplemental Information:	
Consolidated Statement of Functional Expenses	17

CLARK NUBER

**Certified Public Accountants
& Consultants**

10900 NE 4th Street
Suite 1700
Bellevue WA 98004
T: 425.454.4919
F: 425.454.4620
800.504.8747
clarknuber.com

*Clark Nuber is a
Professional Services Corporation*

Report of Independent Auditors

Board of Directors

Unitus

Redmond, Washington

We have audited the accompanying consolidated statement of financial position of Unitus and Unitus Investment Management (collectively "the Organization") as of December 31, 2006, and the related consolidated statements of activities and changes in net assets, and cash flows 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. The prior year summarized comparative information has been derived from the Organization's December 31, 2005 financial statements and, in our report dated February 3, 2006, we expressed an unqualified opinion on those financial statements.

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.

As more fully described in Note 1, the Organization has two additional subsidiary organizations which are not included in these financial statements. In our opinion, the two additional subsidiaries should be consolidated with Unitus to conform to accounting principles generally accepted in the United States of America. If this consolidation had been done, assets would be increased by \$1,277,424 and liabilities would be increased by \$8,566, resulting in an increase in net assets of \$1,268,858 at December 31, 2006; revenues would be decreased by \$359,254 and expenses would be decreased by \$359,254, resulting in no change in excess of revenue over expenses for the year ending December 31, 2006. The Organization has prepared and published fully consolidated financial statements in addition to these statements, that include all four entities.

In our opinion, except for the effects of not consolidating the additional two subsidiaries described in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2006, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Organization taken as a whole. The supplementary information on page 17 is presented for additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Clark Nuber P S

Certified Public Accountants
June 29, 2007

UNITUS

Consolidated Statement of Financial Position

December 31, 2006

(With Comparative Totals for December 31, 2005)

	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	\$ 897,589	\$ 1,125,199
Accounts receivable	33,430	29,373
Grants receivable, current (Note 4)	480,217	
Pledges receivable, current (Notes 3 and 8)	1,055,000	1,094,254
Related party receivable (Note 5)	663,823	
Prepaid expenses	7,200	9,827
Guarantee fees receivable (Note 12)	64,213	59,016
Note receivable (Note 12)		450,000
Total Current Assets	3,201,472	2,767,669
Fixed Assets:		
Office furniture and equipment	136,725	70,323
Accumulated depreciation	(77,574)	(46,811)
Total Fixed Assets, Net	59,151	23,512
Grants receivable, noncurrent (Note 4)	304,708	
Pledges receivable, noncurrent (Notes 3 and 8)	3,383,550	2,492,955
Investments (Note 6)	6,360,440	4,192,983
Total Assets	\$ 13,309,321	\$ 9,477,119
Liabilities and Net Assets		
Accounts payable	\$ 105,579	\$ 97,395
Accrued expenses	171,573	43,640
Guarantee liability (Note 12)	85,439	52,500
Grants payable (Note 2)	562,935	149,999
Note payable, current (Notes 7 and 8)	1,000,000	250,000
Total Current Liabilities	1,925,526	593,534
Note payable, noncurrent (Notes 7 and 8)	500,000	
Total Liabilities	2,425,526	593,534
Commitments and Contingencies (Notes 9, 10, and 12)		
Net Assets:		
Unrestricted	4,952,070	5,296,376
Temporarily restricted (Note 14)	5,931,725	3,587,209
Total Net Assets	10,883,795	8,883,585
Total Liabilities and Net Assets	\$ 13,309,321	\$ 9,477,119

See accompanying notes to financial statements.

UNITUS

**Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2006
(With Comparative Totals for the Year Ended December 31, 2005)**

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>2006 Total</i>	<i>2005 Total</i>
Support and Revenue:				
Contributions	\$ 951,746	\$ 3,176,561	\$ 4,128,307	\$ 3,936,559
Grants	44,050	1,443,041	1,487,091	
In-kind contributions (Note 13)	123,310		123,310	1,201,722
Investment income (Note 6)	187,607		187,607	39,982
Other earned income (Note 2)	274,541		274,541	90,848
2004 and 2005 reimbursed expenses (Note 8)	154,761		154,761	
	1,736,015	4,619,602	6,355,617	5,269,111
Net assets released from restriction	2,275,086	(2,275,086)		
Total Support and Revenue	4,011,101	2,344,516	6,355,617	5,269,111
Program Expenses	3,140,135		3,140,135	1,974,185
Supporting Services:				
Management and general	815,767		815,767	598,108
Fundraising	399,505		399,505	263,382
Total supporting services	1,215,272		1,215,272	861,490
Total Expenses	4,355,407		4,355,407	2,835,675
Change in Net Assets	(344,306)	2,344,516	2,000,210	2,433,436
Net Assets:				
Beginning of year	5,296,376	3,587,209	8,883,585	6,450,149
End of Year	\$ 4,952,070	\$ 5,931,725	\$ 10,883,795	\$ 8,883,585

See accompanying notes to financial statements.

UNITUS

*Consolidated Statement of Cash Flows
For the Year Ended December 31, 2006
(With Comparative Totals for the Year Ended December 31, 2005)*

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 2,000,210	\$ 2,433,436
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non-cash items included in change in net assets		
Depreciation	30,763	28,051
Assignment of investment in The Dignity Fund		(1,000,000)
Realized loss on investments	9,259	
Unrealized loss on investments	44,226	
Changes in assets and liabilities:		
Accounts receivable	(4,057)	(29,373)
Pledges receivable	(851,341)	1,008,833
Grants receivable	(784,925)	
Related party receivable	(663,823)	
Prepaid expenses	2,627	(6,731)
Accounts payable	8,184	89,787
Accrued liabilities	127,933	34,574
Guarantees	27,742	(14,231)
Grants payable	412,936	(50,001)
Net Cash Provided by Operating Activities	359,734	2,494,345
Cash Flows from Investing Activities:		
Payments from note receivable	450,000	300,000
Distribution to notes receivable		(450,000)
Purchase of investments	(7,504,115)	(4,074,983)
Proceeds from sale of investments	5,380,673	882,000
Capital contribution to Unitus Equity Fund	(97,500)	
Purchase of equipment	(66,402)	(26,180)
Net Cash Used in Investing Activities	(1,837,344)	(3,369,163)
Cash Flows from Financing Activities:		
Payments on related party notes payable		(150,000)
Proceeds from notes payable	1,250,000	250,000
Net Cash Provided by Financing Activities	1,250,000	100,000
Net Change in Cash	(227,610)	(774,818)
Cash, beginning of year	1,125,199	1,900,017
Cash, End of Year	\$ 897,589	\$ 1,125,199
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ -	\$ 17,590

See accompanying notes to financial statements.

UNITUS

Notes to Consolidated Financial Statements

Note 1 - Description of the Organization and Operations

Principles of Consolidation - The consolidated financial statements of Unitus include the accounts of Unitus and of Unitus Investment Management (UIM), collectively referred to as "Unitus." All inter-company transactions have been eliminated.

Unitus is a nonprofit organization dedicated to alleviating global poverty by helping "Microfinance Institutions" (MFIs) worldwide accelerate their ability to reach more people living in poverty. During late 2001 and 2002 Unitus developed and implemented a unique business model that greatly accelerates the growth of the highest potential MFIs. This accelerated growth of MFIs increases the number of poor people whose lives can be improved by access to capital and other financial products.

In December 2004, Unitus formed a private nonprofit corporation, MFI Investments. In October 2005, the name of MFI Investments was changed to Unitus Investment Management (UIM). UIM is organized as a supporting organization as described in the IRS Code Sections 501(c)(3) and 509(a)(3). UIM is wholly controlled by Unitus (Note 8).

In 2006, UIM organized The Unitus Equity Fund, L.P. (UEF), a Cayman Islands exempted limited partnership and is its General Partner. Mauritius Unitus Corporation (MUC), a Republic of Mauritius corporation is a wholly owned subsidiary of Unitus Equity Fund. MUC was formed in order to engage in investment opportunities in India.

UEF's objective is to further charitable purposes by investing in microfinance institutions, predominantly in India and otherwise provide loans or other financial services to the Poor. "The Poor" mean those individuals who are financially impoverished as a result of low income and lack of financial resources. The secondary purpose of UEF is to provide capital appreciation by investing in MFIs located throughout the developing world.

UEF's General Partner (UIM) has a 1% capital interest based on a \$97,500 initial investment, while the Limited Partners of UEF have a 99% interest. The limited partners are not personally liable for any obligations of UEF and have no obligation to make contributions to UEF in excess of their respective capital commitments. The General Partner has complete and exclusive discretion in the management and control of the affairs and business of UEF and its investments.

Under current generally accepted accounting principles (GAAP), UEF and MUC would be required to be consolidated with UIM in order to be presented in conformity with GAAP due to the control that UIM exercises over UEF. Management believes, however, that including UEF and MUC may be confusing to readers of the financial statements since UIM has only a 1% capital interest. Thus management has elected to not include the financial results of UEF and MUC in these financial statements. However, the Organization has prepared and published fully consolidated financial statements in addition to these statements that include all four entities.

UNITUS

Notes to Consolidated Financial Statements

Note 1 - Continued

MFI Partners

Using significant capital investments and active involvement in capacity building, Unitus funds and works with developing MFIs as “partners” (MFI Partners) to accomplish its mission. As of December 31, 2006, Unitus was working with the following MFI Partners:

Activists for Social Alternatives - Grama Vidiyal (ASA-GV), India - ASA-GV began operations in 1986, and launched its microfinance program in 1993; ASA-GV joined in a Unitus partnership in December 2004. Headquartered in Trichy, India, ASA-GV provides microfinance services, including loans with a maximum first loan size of 3,000 Indian rupees (or about \$70 USD) and insurance products. Since launching its microfinance program, ASA-GV has grown to serve more than 77,000 clients. Unitus has provided more than \$105,000 in capacity-building grants. The partnership also includes a \$1 million guarantee facility.

Bandhan, India - Bandhan began its microfinance operations in 2001 and partnered with Unitus in April, 2005. Based in the city of Kolkatta in the state of West Bengal, India, Bandhan offers microcredit loans and loan repayment insurance to over 130,000 poor clients. Bandhan's maximum first loan size is 7,000 Indian Rupees (or about \$160 USD). In 2005, Bandhan maintained a growth rate of over 300%. Unitus has committed \$100,000 in capacity-building grants, and committed to a \$1 million guarantee facility to help accelerate Bandhan's growth.

Bharatha Swamukti Samsthe (BSS), India - BSS began operations in 1999, and entered into partnership with Unitus in December 2004. BSS offers microcredit loans, savings and loan repayment insurance to more than 23,000 poor women in rural villages in India's Karnataka state; their maximum first loan size is 7,000 Indian Rupees (or about \$160 USD). Unitus has committed \$100,000 in capacity-building grants, and committed to a \$1.5 million guarantee facility to accelerate BSS's growth.

Fondo de Inversion Social (FIS), Argentina - FIS was founded in 1999 as the microfinance arm of El Ceibal, an Argentine non-governmental organization offering educational and community development programs in the rural northern province of Santiago del Estero. In 2003 FIS expanded its operations to the urban areas of the greater Buenos Aires region. In 2005 FIS became an independent microfinance institution and is currently the leading microfinance institution in Argentina. FIS entered into partnership with Unitus in February 2006. Unitus has committed \$100,000 in capacity-building grants, and committed to a \$180,000 guarantee facility to accelerate FIS's growth.

Grameen Koota (GK), India - Grameen Koota is based in Bangalore, India and began its microfinance operations in May 1999. GK began partnering with Unitus in April 2005. GK now serves more than 34,000 clients with microcredit loans and insurance products; their maximum first loan size is 7,000 Indian Rupees (or about \$160 USD). Unitus has committed \$100,000 in capacity-building grants, and has committed a \$1 million guarantee facility to help accelerate GK's growth.

Grupo Crediexpress S.A. de C.V. (Credex), Mexico - Credex is a for-profit MFI that was founded in June 2002 in Guadalajara, Mexico. Credex, with 15 branches in seven states in southwestern and central Mexico, targets the working poor who lack access to financial services. Since its inception Credex has disbursed over 30,000 loans and currently serves more than 12,000 active borrowers with a \$5 million loan portfolio. Profitable since 2005, Credex has actively built its presence and brand in Mexico while recruiting a professional, talented team and creating the infrastructure to support future expansion. Credex began its partnership with Unitus in December 2006.

UNITUS

Notes to Consolidated Financial Statements

Note 1 - Continued

Jamii Bora Trust (JBT), Kenya - Jamii Bora is one of Kenya's fastest-growing MFIs, including 89 percent growth in 2003. With headquarters in Nairobi, Kenya, JBT began its partnership with Unitus in July 2004. JBT now serves more than 112,000 clients, and has branches in nearly all major Kenyan cities. In addition to offering micro-credit loans (which have a maximum first loan size of 8,000 Kenya Shillings - or about \$105 USD) to its clients, JBT also offers insurance products and a variety of social services and empowerment opportunities. To date, Unitus has disbursed \$200,000 in capacity-building grants and provided a \$1 million guarantee to JBT to secure a term loan from Stanbic Bank of Kenya. Unitus renewed this guarantee in December 2005. These funds will help JBT reach their goal of serving 500,000 clients by 2009.

Lifebank, Philippines - Dr. Vincent Perlas was managing the Rural Bank of Ma'asin (Lifebank Rural Bank), when he launched Lifebank's first microfinance pilot project in 1995. Lifebank moved to a dedicated microfinance strategy in 2001; they use the tried-and-true ASA-Bangladesh methodology. The focus of Lifebank's staff and board is to actively explore ways to empower poor families, especially those excluded by the rural banking system, and help these families realize economic opportunities by accessing small financial products. Lifebank operates extensively in the central Philippines (the Visayas region) and is expanding to provide microfinance to clients throughout the country, including Luzon and Mindanao. Lifebank began its partnership with Unitus in November 2006. Unitus has committed \$150,000 in capacity-building grants and also provides capacity-building consulting.

MBK Ventura, Indonesia - Founded in 2002 as Ganesha, MBK Ventura provides microcredit loans averaging about \$42 to more than 26,000 micro-entrepreneurs through 15 branches in Indonesia. MBK Ventura focuses on the more than 21 million Indonesian households living on less than 70 cents a day, a segment of the population largely without access to formal capital. MBK Ventura began its partnership with Unitus in December 2006. Unitus has committed \$170,000 in capacity-building grants to help accelerate MBK Ventura's growth.

Pro Mujer Mexico (PMM), Mexico - PMM is a Mexican MFI located in the town of Tula, state of Hidalgo, México. Unitus began its partnership with PMM in March, 2002, and PMM began lending operations in April 2002. By December 2005, thanks in part to the Unitus partnership, PMM had reached more than 12,000 clients. PMM offers micro-credit with a maximum first loan size of 2,000 Mexican pesos (about \$185 USD). They also facilitate group savings that are held by a third party bank. In addition to loans, PMM also offers empowerment trainings for current and potential clients. To date, Unitus has disbursed more than \$375,000 to PMM in capacity-building grants. In December 2005, Unitus provided PMM with a \$450,000 bridge loan. Later that month, Unitus and the Dignity Fund each provided a guarantee of \$500,000 to PMM to secure a \$1 million line of credit provided to PMM by Banamex, one of the largest banks in Mexico. PMM will use this capital to fund additional client loans as they work toward their goal of reaching 16,500 new clients by 2006. The \$500,000 guarantee matured in 2006 and in November of 2006 Unitus provided a new \$400,000 guarantee.

UNITUS

Notes to Consolidated Financial Statements

Note 1 - Continued

Swadhaar FinAccess (Swadhaar), India - Swadhaar FinAccess was founded by Veena Mankar and Haseen Vahanvati. Swadhaar is a new microfinance institution (MFI) focused on providing microfinance services to the urban poor. It is headquartered in Mumbai, India, and commenced operations, with assistance from Friends of Women's World Banking, in Kherwadi, Bandra East, in March 2006. At present, Swadhaar is registered as a non-profit company under Section 25 of the Indian Companies Act of 1956. Swadhaar's mission is: *To make available regular, reliable and efficient financial services to the urban poor in a sustainable and scalable manner, so as to assist the poor in building their own capacity to cross the poverty line and meet aspirations for a better and more secure future.* Swadhaar began its partnership with Unitus in May 2006. Unitus has committed \$117,935 in grants as of December 31, 2006. Unitus has also committed a \$1.5 million guarantee facility to help accelerate Swadhaar's growth.

Swayam Krishi Sangam (SKS), India - SKS is an Indian MFI with its head office located in the city of Hyderabad, state of Andhra Pradesh, India. SKS began operations in June 1998, and began its partnership with Unitus in March 2003. By December 2005, SKS had grown to serve more than 150,000 clients. SKS offers loans in Indian rupees with a maximum first loan size of 10,000 rupees (about \$230 USD). They also facilitate group savings, and recently introduced an insurance product. Unitus has committed \$90,000 in capacity-building grant funds to SKS. In 2003, Unitus provided a \$550,000 guarantee that has since matured, to secure a term loan to SKS by Citibank.

Ujjivan, India - Ujjivan launched the first of its pilot programs in November 2005 in Bangalore. It intends to test its urban microfinance model in Bangalore until March 2007. Bangalore, located in Karnataka, India, has an estimated population of 6.5 million people, of which the urban poor comprise approximately 35 percent, or about 2 million people. The total potential market in Bangalore therefore is estimated to be around 500,000 borrowers. Ujjivan's market size will grow tremendously as it expands into other cities. Ujjivan began its partnership with Unitus in May 2006.

The Dignity Fund, L.P. - In addition to the above MFI Partners, Unitus also works with The Dignity Fund, L.P., an investment vehicle for private investors that provides debt financing to a select group of microfinance institutions serving the entrepreneurial poor. Unitus owns a \$1,000,000 (cost basis) investment in the Class B interest of The Dignity Fund. As of December 31, 2006, this investment represents 18% ownership and is accounted for using the equity method because Unitus can exercise significant influence over the entity (Note 8).

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The accompanying consolidated financial statements of Unitus have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, except for the consolidation of two additional entities as discussed in Note 1.

Basis of Presentation - Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets that are not subject to donor-imposed stipulations are reported as unrestricted 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 are reported as temporarily restricted net assets.

UNITUS

Notes to Consolidated Financial Statements

Note 2 - Continued

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.

Earned Income - Other earned income on the statement of activities consists of revenue recognized upon expirations of guarantee liabilities (Note 12), interest earned on cash and cash equivalents with financial institutions and other miscellaneous earned revenues.

Use of Estimates - In preparing Unitus' financial statements, management is required to make estimates and assumptions that affect the amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the 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.

Concentration of Credit Risk - Unitus invests its cash and cash equivalents with financial institutions in which the balance at each institution usually exceeds federally insured deposit limits. Management has not experienced any losses and believes there is minimal risk associated with these investments. Management performs an ongoing evaluation of the financial institutions to limit its concentration of credit risk exposure.

Receivables - Receivables 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 receivables. Currently there is no allowance provided as management believes all amounts are collectible.

Investments - Investments in readily marketable securities are valued at fair value based on published quotations. Other investments are valued at the lower of cost or fair market value, or the equity method depending on the percentage of ownership and/or control. All gains and losses on investments are reported in the Consolidated Statement of Activities and Changes in Net Assets as increases or decreases to unrestricted net assets since the earnings from these investments are not restricted to any specific use other than to fulfill the general objectives of Unitus.

Equipment - Equipment is recorded at cost if purchased and at estimated fair market value at the date of contribution if donated. Equipment is depreciated on the straight-line method over the estimated useful lives of the assets, which generally ranges from 3 - 5 years. Unitus capitalizes expenditures greater than \$1,000 that materially increase the asset lives. The cost of ordinary maintenance and repairs are charged to expense 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 the Consolidated Statement of Activities and Changes in Net Assets.

UNITUS

Notes to Consolidated Financial Statements

Note 2 - Continued

Contributions - Unrestricted contributions are recorded as contributions and revenue when an unconditional promise to give has been made. Unconditional promises receivable are recognized at the estimated present value of future cash flows using the discount rate that approximates the risk free interest rate, which was 6% at December 31, 2006. Conditional contributions are recognized as revenue when management assesses the likelihood of not meeting the condition is remote.

Grants Payable - Grants payable, which include unconditional promises to give, are recognized as expenses in the period given. Conditional grants payable are recognized as an expense when management assesses the likelihood of the grantee not meeting the condition is remote.

Donated Services and Materials - A substantial number of volunteers, including members of the Board of Directors, have donated significant amounts of time to Unitus. The value of this contributed time does not meet the criteria for recognition under current accounting standards and, accordingly, is not reflected in the accompanying financial statements. However, certain professional services have been donated to Unitus and meet the criteria for recognition and are recorded in the accompanying financial statements. Contributions of materials, supplies, and use of facilities have also been recorded based on market values at the time of contribution.

Special Events - It is Unitus' policy to record net revenues related to donor expeditions plus contributions received at special events as contribution revenue. During the year ended December 31, 2006, special events gross revenue of \$60,426 and related expenses for direct benefits to donors of \$61,439, were included in contributions in the Statement of Activities and Changes in Net Assets.

Functional Expenses - The costs of providing programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Unitus records expenses either directly to respective programs or allocates expenses based on direct salary costs or other appropriate activity for each program.

Federal Income Tax - The IRS has determined that Unitus is exempt from federal income taxes under Sections 501(c)(3) and 509(a)(1) of the Internal Revenue Code. Unitus Investment Management is a registered nonprofit and is applying for exemption from federal income taxes under sections 501(c)(3) and 509(a)(3) of the Internal Revenue Code.

Comparative Totals - The financial information includes certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Unitus's financial statements for the year ended December 31, 2005, from which the summarized information was derived.

Reclassifications - Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation. Such reclassifications had no effect on the change in net assets previously reported.

UNITUS

Notes to Consolidated Financial Statements

Note 3 - Pledges Receivable

Included in pledges receivable are the following unconditional promises to give at December 31:

	<u>2006</u>	<u>2005</u>
Amounts due in:		
Less than one year	\$ 1,055,000	\$ 1,094,254
One to five years	<u>3,880,000</u>	<u>2,786,313</u>
Total Gross Pledges Receivable	4,935,000	3,880,567
Less: Unamortized discount	<u>(496,450)</u>	<u>(293,358)</u>
Net Pledges Receivable	<u>\$ 4,438,550</u>	<u>\$ 3,587,209</u>

In addition, during 2006, a corporation committed to contributing a minimum of \$5,000 per month to Unitus based on performance of the corporation. As of December 31, 2006, \$70,000 has been received from the donor. The original corporation that entered into the promise has been sold, however its original owner continues to honor the promise through his current concern. Because the duration of the commitment was not specified by the donor, a pledge receivable has not been recorded as of December 31, 2006.

In 2006, Unitus also received a conditional pledge from a related party foundation for \$1 million annually starting 2012. However, as there are qualitative and quantitative conditions that must be met, this pledge has not been recorded as of December 31, 2006.

Note 4 - Grants Receivable

In 2006 Unitus was awarded a multi-year grant for research from a foundation. The project has achieved its milestones to date and management is very confident of its success. The grant receivable as of December 31, 2006, reflects a small discount for future payments.

Note 5 - Related Party Receivable

At December 31, 2006, related party receivables reflects the amount due from UEF for organizational and deal costs of \$440,230 and management fees of \$223,593 (Note 8).

UNITUS

Notes to Consolidated Financial Statements

Note 6 - Investments

Investments consist of the following at December 31:

	<u>2006</u>	<u>2005</u>
Certificates of deposit	\$ 3,442,467	\$ 1,338,466
US government securities	1,838,301	1,854,517
Investment in The Unitus Equity Fund (Note 1)	90,749	
Investment in The Dignity Fund L.P. (Note 11)	<u>988,923</u>	<u>1,000,000</u>
Total Investments	<u>\$ 6,360,440</u>	<u>\$ 4,192,983</u>

At December 31, 2006 and 2005, investments in The Unitus Equity Fund and The Dignity Fund are valued using the equity method.

Investment return for assets recorded at fair value for the year ended December 31 was as follows:

	<u>2006</u>	<u>2005</u>
Dividends and interest	\$ 241,092	\$ 58,824
Realized and unrealized gains and losses, net	<u>(53,485)</u>	<u>(18,842)</u>
Total Return on Investments	<u>\$ 187,607</u>	<u>\$ 39,982</u>

Note 7 - Note Payable

In January 2005, Unitus entered into a promissory note agreement with a foundation for \$250,000. In February 2006 the foundation increased the note by \$750,000. The principal amount is due in one installment in January 2007. The note is unsecured and there is no interest due on the principal. However, an in-kind contribution and in-kind interest have been imputed for this note at 6% (Note 13).

In May 2006, Unitus entered into an agreement with a foundation controlled by a board member for an unsecured term loan of \$500,000 to be used to support loan guarantees for Unitus partners. The loan matures May 1, 2009, with interest of 4.5% due on May 1 of each year.

Note 8 - Related Party Transactions

Contributions and Pledges - As of December 31, 2006 and 2005, the financial statements include \$4,750,000 and \$3,750,000 of pledges receivable, respectively, and \$2,007,500 and \$33,675, respectively, of contributions from a foundation controlled by an officer of the board. The foundation also donated office space to Unitus during the years ended December 31, 2006 and 2005 valued at \$42,000 per year (Note 12).

As of December 31, 2005, Unitus also has pledges receivable from another board member of \$9,054. This pledge was collected in 2006.

Note Payable - In 2006, Unitus entered into a \$500,000 term loan with a foundation controlled by a board member. See Note 7 above.

UNITUS

Notes to Consolidated Financial Statements

Note 8 - Continued

The Dignity Fund - Three board members and the Chief Executive Officer of Unitus serve on the board of The Dignity Fund.

Unitus and UIM - Unitus and its subsidiary, UIM, have a Management Services Agreement, for provision of staffing and facilities. For the year ended December 31, 2006, \$211,835 in management services fees and \$303,581 in receivables were eliminated in consolidating entries.

Unitus/UIM and UEF - UEF and UIM executed a management agreement on March 15, 2006. Per the management agreement, UIM provides UEF with management, administrative and operating services as outlined in the Limited Partnership agreement. The management fee is accrued at an annual rate equal to 2.5% of aggregate capital commitments from the initial closing (March 15, 2006) until the expiration of the commitment period. After that point, the management fee is equal to 2% of capital contributions. For the year ended December 31, 2006, UIM recognized \$223,593 of management fee income from UEF.

During 2004 and 2005, Unitus incurred expenses in exploring the feasibility of forming and in setting up UEF. Once UEF was formed in 2006, the UEF Board approved reimbursing Unitus for these expenses totaling \$154,761. This is recognized as revenue in the accompanying Statement of Activities for the year ended December 31, 2006.

At December 31, 2006, UEF accrued organizational related expenses payable to Unitus and UIM totaling \$440,230.

In addition, at December 31, 2006, UIM has a net capital investment of \$90,749 in UEF (Notes 1 and 6).

Note 9 - Leases

Unitus has entered into lease agreements with third parties for office space and office equipment. Future minimum lease payments under all non-cancelable leases are as follows:

<i>For years ending December 31,</i>	
2007	\$ 72,244
2008	29,612
2009	7,980
2010	7,980
2011	<u>665</u>
	<u>\$ 118,481</u>

Rental expense for 2006 totaled \$105,272 (including in-kind - Notes 8 and 13) (2005 - \$67,350).

UNITUS

Notes to Consolidated Financial Statements

Note 10 - 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 years ended December 31, 2006 and 2005 was \$61,038 and \$41,939, respectively.

Note 11 - Concentrations

In 2006 Unitus received contributions of \$2,007,550 from a donor and a grant of \$1,461,372 from a foundation, which comprises 32% and 24%, respectively, of total revenues for the year. At December 31, 2006, 96% of the gross pledges receivable balance before present value discount is due from one donor, and 100% of the grant receivable balance is due from one foundation.

In 2005 Unitus received a cash contribution from one donor of \$2,700,000. Additionally, Unitus also received an in-kind contribution in 2005 of \$1,000,000 from a second donor for his 100% holding of the Class B interest in The Dignity Fund. These two contributions comprise 70% of the total revenues for the year ended December 31, 2005.

Note 12 - Commitments and Contingencies

SKS India (SKS) - In June 2004, Unitus entered into an agreement with SKS to provide a revolving credit facility in the amount of \$550,000. The credit facility guarantees the amount SKS borrowed from a bank in India. Under the terms of the agreement, Unitus would be required to pay the outstanding balance on the line of credit upon demand by the lender. In the event of default, Unitus may declare the entire unpaid principal balance of the agreement due and exercise the right to collect from SKS all sums due. In exchange for the guarantee, Unitus receives an annual fee. This agreement expired in 2005.

Pro Mujer Mexico (PMM) - Unitus has entered into a contract with Pro Mujer, a Washington D.C. corporation, which is the parent of PMM. Unitus has made available to PMM and its parent a \$1,500,000 line of credit and as draws are made promissory notes are issued. As of December 31, 2005, \$450,000 was outstanding on the line of credit. The related promissory note principal and interest at 5.25% were due in January 2006. This credit facility expired in January 2006.

Additionally, Unitus has made available to PMM a \$500,000 standby letter of credit. The credit facility guarantees the amount borrowed from a bank in Mexico. Under the terms of the agreement, Unitus would be required to pay the outstanding balance on the line of credit upon demand by the lender. In the event of default, Unitus may declare the entire unpaid principal balance of the agreement due and exercise the right to collect all sums due from PMM or its parent. In exchange for the guarantee, Unitus receives an annual fee. At December 31, 2006 and 2005, the guarantee fee receivable and the corresponding guarantee liability are \$10,000 and \$10,000, respectively. This agreement expires December 19, 2007.

UNITUS

Notes to Consolidated Financial Statements

Note 12 - Continued

Jamii Bora Trust - In December 2004, Unitus entered into an agreement with Jamii Bora Trust to issue a standby letter of credit through a Kenya bank guaranteeing borrowings up to \$1,000,000. Under the terms of the standby letter of credit, which expires on December 21, 2007, Unitus will be required to pay the outstanding balance drawn on the letter of credit should Jamii Bora Trust not be able to pay its loan. In the event of default under the letter of credit agreement, Unitus will terminate the letter of credit, have access to all financial records of Jamii Bora Trust, and work with Jamii Bora Trust to cure the default. In exchange for the guarantee, Unitus receives an annual fee. As of December 31, 2006, Jamii Bora Trust had borrowed the full amount under the terms of the letter of credit from the Kenya bank and the guarantee fee receivable and corresponding guarantee liability are \$24,548 and \$20,000, respectively.

Activists for Social Alternatives - Grama Vidiyal (ASA-GV) - In November 2006, Unitus entered into an agreement with ASA-GV to issue a standby letter of credit through an Indian bank guaranteeing borrowings up to \$750,000. Under the terms of the standby letter of credit, which expires in May of 2008, Unitus will be required to pay the outstanding balance drawn on the letter of credit should ASA-GV not be able to pay its loan. In the event of default under the letter of credit agreement, Unitus will terminate the letter of credit, have access to all financial records of ASA-GV and work with ASA-GV to cure the default. In exchange for the guarantee, Unitus receives an annual fee. As of December 31, 2006, ASA-GV had borrowed the full amount under the terms of the letter of credit from the Indian bank and the guarantee fee receivable and corresponding guarantee liability are \$22,915 and \$22,915, respectively.

Fondo de Inversion Social (FIS) - In November 2006, Unitus entered into an agreement with FIS to issue a standby letter of credit through an Argentine bank guaranteeing borrowings up to \$180,000. Under the terms of the standby letter of credit, which expires in May 2007, Unitus will be required to pay the outstanding balance drawn on the letter of credit should FIS not be able to pay its loan. In the event of default under the letter of credit agreement, Unitus will terminate the letter of credit, have access to all financial records of FIS, and work with FIS to cure the default. In exchange for the guarantee, Unitus receives an annual fee. As of December 31, 2006, FIS had borrowed the full amount under the terms of the letter of credit from the Argentine Bank and the guarantee fee receivable and corresponding guarantee liability were \$6,750 and \$5,850, respectively.

Note 13 - In-Kind Contributions

Unitus received the following in-kind contributions for the year ended December 31:

	<u>2006</u>	<u>2005</u>
Partnership interest in The Dignity Fund, L.P. (Notes 1 and 11)	\$ -	\$ 1,000,000
Special event goods and services	9,168	
Interest (Note 7)	58,095	17,063
Stock		26,610
Furniture	2,447	735
Professional services	11,600	115,314
Rent (Note 8)	42,000	42,000
	<u>\$ 123,310</u>	<u>\$ 1,201,722</u>

UNITUS

Notes to Consolidated Financial Statements

Note 14 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at December 31:

	<u>2006</u>	<u>2005</u>
Pledges receivable:		
MFI Services – time and purpose restricted	\$ 200,000	\$ -
Other pledges receivable – time restricted	4,238,550	3,587,209
MFI Efficiency Project:		
Grant receivable – time and purpose restricted	784,925	
Purpose restricted	533,250	
India office – purpose restricted	<u>175,000</u>	
	<u>\$ 5,931,725</u>	<u>\$ 3,587,209</u>

Note 15 - Subsequent Events

In March 2007, Unitus acquired 100% of the shares of Unitus Private Advisors Ltd., a for-profit Indian corporation based in Bangalore. The corporation was established in 2005 to be the operating partner of Unitus in Bangalore. Prior to the acquisition, an operating agreement allowed Unitus to reimburse cash expenses incurred by Unitus Private Advisors. The valuation for the acquisition was determined by a combination of fair market value and equity basis as proscribed by Indian law and certified by independent accountants. The two organizations will be treated as separate legal entities, but will be consolidated for financial reporting.

In March 2007, Unitus entered into an agreement with MBK Ventura to provide an operating loan. Unitus risk-participated the entire principal to Micro Credit Enterprises, meaning that Micro Credit Enterprises is assuming the default risk on the loan, and Unitus has accepted and in turn hedged the currency risk. The hedge is constructed to eliminate the currency risk on the principal. The loan may be renewed for up to three years.

In April 2007, the Calvert Foundation agreed to provide Unitus with a \$1 million loan at a favorable rate to support program activity. Unitus intends to draw as necessary and use the proceeds to provide debt facilities to its partners.

SUPPLEMENTAL INFORMATION

UNITUS

Consolidated Statement of Functional Expenses

For the Year Ended December 31, 2006

(With Comparative Totals for the Year Ended December 31, 2005)

	<i>Program Services</i>	<i>Management and General</i>	<i>Fundraising</i>	<i>2006 Total</i>	<i>2005 Total</i>
Salaries, payroll taxes, and benefits	\$ 1,474,897	\$ 448,908	\$ 225,891	\$ 2,149,696	\$ 1,244,953
Professional fees	242,838	117,607	6,479	366,924	481,020
Partner grants and support	751,063			751,063	365,908
Travel	269,481	19,857	31,677	321,015	274,649
Printing and reproduction	25,921	21,038	47,106	94,065	111,496
Occupancy	66,677	51,975	18,124	136,776	109,367
Telephone	41,069	23,577	7,209	71,855	52,021
Supplies and shipping	16,703	13,160	4,769	34,632	38,648
Other	126,572	107,955	36,951	271,478	65,997
Financial expense	110,456		16,685	127,141	63,565
	<u>3,125,677</u>	<u>804,077</u>	<u>394,891</u>	<u>4,324,645</u>	<u>2,807,624</u>
Depreciation expense	<u>14,458</u>	<u>11,690</u>	<u>4,614</u>	<u>30,762</u>	<u>28,051</u>
Total Expenses	<u>\$ 3,140,135</u>	<u>\$ 815,767</u>	<u>\$ 399,505</u>	<u>\$ 4,355,407</u>	<u>\$ 2,835,675</u>

See auditors' report.

