***UNITUS***

Consolidated Financial Statements with
Independent Auditors' Report

December 31, 2008

***Table of Contents***

CLARK NUBER

10900 NE 4th Street
Suite 1700
Bellevue WA 98004
tel 425 454 4919
fax 425 454 4620
800 504 8747
clarknuber.com

Certified Public
Accountants
and Consultants

***Independent Auditors' Report***

***Board of Directors***
***Unitus***
***Seattle, Washington***

We have audited the accompanying consolidated statement of financial position of Unitus, Unitus Investment Management, and Unitus Advisors Private Ltd. (collectively "the Organization") as of December 31, 2008, 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, 2007 consolidated financial statements and, in our report dated May 27, 2008, we expressed an unqualified opinion on those consolidated 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 consolidated 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 $14,325,050 and liabilities would be increased by $57,110, resulting in an increase in net assets of $14,267,940 at December 31, 2008; revenues would be decreased by $423,153 and expenses would be increased by $178,847, resulting in $602,000 deficit of revenue under expenses for the year ended December 31, 2008. The Organization has prepared and published fully consolidated financial statements in addition to these statements that include all five entities.

In our opinion, except for the effects of not consolidating the additional two subsidiaries described in the previous paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2008, 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 consolidated 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 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Clark Nuber P S

Certified Public Accountants
May 13, 2009

*UNITUS*

## *Consolidated Statement of Financial Position*
### *December 31, 2008*
### *(With Comparative Totals for December 31, 2007)*

| | 2008 | 2007 as Adjusted (see Note 17) |
|---|---|---|
| ***Assets*** | | |
| Cash and cash equivalents | $ 3,040,361 | $ 2,369,363 |
| Short-term investments | 1,000,000 | |
| Accounts receivable | 61,781 | 35,488 |
| Pledges receivable, current (Notes 4 and 10) | 1,695,687 | 2,137,938 |
| Grants receivable, current (Note 5) | 390,564 | 322,991 |
| Related party receivable (Note 10) | 291,115 | 725,575 |
| Other receivables | 761,016 | |
| Prepaid expenses | 134,765 | 358,181 |
| Guarantee fees receivable (Note 14) | 81,925 | 87,731 |
| **Total Current Assets** | **7,457,214** | **6,037,267** |
| Pledges receivable, noncurrent (Notes 4 and 10) | 2,810,774 | 3,768,121 |
| Property and equipment (Note 6) | 361,887 | 132,418 |
| Long-term investments (Note 7) | 10,750,185 | 5,138,360 |
| **Total Assets** | **$ 21,380,060** | **$ 15,076,166** |
| ***Liabilities and Net Assets*** | | |
| Accounts payable | $ 117,595 | $ 176,526 |
| Accrued expenses | 337,187 | 569,688 |
| Guarantee liability (Note 14) | 127,125 | 163,854 |
| Grants payable | 969,556 | 773,399 |
| Refundable advances, current (Note 5) | 3,000,000 | |
| Notes payable, current (Notes 9 and 10) | 2,000,000 | 1,000,000 |
| **Total Current Liabilities** | **6,551,463** | **2,683,467** |
| Refundable advances, noncurrent (Note 5) | 3,750,000 | |
| Notes payable, noncurrent (Notes 9 and 10) | 1,000,000 | 1,250,000 |
| **Total Liabilities** | **11,301,463** | **3,933,467** |
| **Commitments and Contingencies (Notes 11, 13, and 14)** | | |
| **Net Assets:** | | |
| Unrestricted | 3,793,938 | 4,772,209 |
| Temporarily restricted (Note 16) | 6,284,659 | 6,370,490 |
| **Total Net Assets** | **10,078,597** | **11,142,699** |
| **Total Liabilities and Net Assets** | **$ 21,380,060** | **$ 15,076,166** |

*See accompanying notes to financial statements.*

*UNITUS*

***Consolidated Statement of Activities and Changes in Net Assets***
***For the Year Ended December 31, 2008***
***(With Comparative Totals for the Year Ended December 31, 2007)***

| | *Unrestricted* | *Temporarily Restricted* | *2008 Total* | *2007 Total as Adjusted (see Note 17)* |
|---|---|---|---|---|
| **Support and Revenue:** | | | | |
| Contributions and grants | $ 3,736,738 | $ 2,819,572 | $ 6,556,310 | $ 6,174,595 |
| In-kind contributions (Note 15) | 765,517 | | 765,517 | 195,325 |
| Investment income (Note 7) | 205,192 | | 205,192 | 258,467 |
| Other earned income (Note 2) | 805,941 | | 805,941 | 1,068,974 |
| | 5,513,388 | 2,819,572 | 8,332,960 | 7,697,361 |
| Net assets released from restriction | 2,905,403 | (2,905,403) | | |
| **Total Support and Revenue** | **8,418,791** | **(85,831)** | **8,332,960** | **7,697,361** |
| **Expenses:** | | | | |
| Program expenses | 7,028,854 | | 7,028,854 | 5,600,426 |
| Supporting Services: | | | | |
| Management and general | 1,418,627 | | 1,418,627 | 1,113,573 |
| Fundraising | 949,581 | | 949,581 | 724,458 |
| Total supporting services | 2,368,208 | | 2,368,208 | 1,838,031 |
| **Total Expenses** | **9,397,062** | | **9,397,062** | **7,438,457** |
| **Change in Net Assets** | **(978,271)** | **(85,831)** | **(1,064,102)** | **258,904** |
| **Net Assets:** | | | | |
| Beginning of year | 4,772,209 | 6,370,490 | 11,142,699 | 10,883,795 |
| **End of Year** | **$ 3,793,938** | **$ 6,284,659** | **$ 10,078,597** | **$ 11,142,699** |

*See accompanying notes to financial statements.*

*UNITUS*

***Consolidated Statement of Cash Flows***
***For the Year Ended December 31, 2008***
***(With Comparative Totals for the Year Ended December 31, 2007)***

| | *2008* | *2007 Total as Adjusted (see Note 17)* |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Change in net assets | $ (1,064,102) | $ 258,904 |
| Adjustments to reconcile change in net assets | | |
| to net cash provided by operating activities: | | |
| Non-cash items included in change in net assets | | |
| Depreciation | 160,062 | 65,992 |
| Realized loss on investments | 14,679 | 8,888 |
| Unrealized (gain) on investments | (16,485) | (9,431) |
| (Gain) loss on sale of fixed assets | (1,430) | 268 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (26,293) | (2,058) |
| Pledges receivable | 1,399,598 | (1,467,509) |
| Grants receivable | (67,573) | 461,934 |
| Related party receivable | 434,460 | (61,752) |
| Other receivables | (761,016) | |
| Prepaid expenses | 223,416 | (311,334) |
| Accounts payable | (58,931) | 70,947 |
| Accrued liabilities | (232,501) | 333,148 |
| Refundable advances | 6,750,000 | |
| Guarantees | (30,923) | 54,897 |
| Grants payable | 196,157 | 210,464 |
| **Net Cash Provided/(Used) by Operating Activities** | **6,919,118** | **(386,642)** |
| **Cash Flows from Investing Activities:** | | |
| Cash paid to acquire Unitus Advisors Private Ltd (Note 3) | | (13,211) |
| Cash received from acquisition of Unitus Advisors Private Ltd (Note 3) | | 21,051 |
| Purchase of investments | (18,585,559) | (2,160,052) |
| Proceeds from sale of investments | 12,010,662 | 3,413,958 |
| Capital contribution to Unitus Equity Fund | (35,122) | (31,283) |
| Purchase of equipment | (392,529) | (123,353) |
| Proceeds from sale of fixed assets | 4,428 | 1,306 |
| **Net Cash (Used)/Provided in Investing Activities** | **(6,998,120)** | **1,108,416** |
| **Cash Flows from Financing Activities:** | | |
| Proceeds from notes payable | 750,000 | 750,000 |
| **Net Cash Provided by Financing Activities** | **750,000** | **750,000** |
| **Net Change in Cash** | **670,998** | **1,471,774** |
| Cash, beginning of year | 2,369,363 | 897,589 |
| **Cash, End of Year** | **$ 3,040,361** | **$ 2,369,363** |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Interest paid | $ 88,316 | $ 39,045 |
| Non-cash Investing Activities: | | |
| Unitus Advisors Private Ltd assets acquired (Note 3) | | $ 57,127 |
| Unitus Advisors Private Ltd liabilities assumed (Note 3) | | $ 64,967 |

*See accompanying notes to financial statements.*

## *Note 1 - Description of the Organization and Operations*

**Principles of Consolidation -** The consolidated financial statements of Unitus include the accounts of Unitus, Unitus Investment Management (UIM), and Unitus Advisors Private Limited (UAPL), and are collectively referred to as “Unitus.” All inter-company transactions have been eliminated.

Unitus, an international nonprofit organization, fights global poverty by accelerating the growth of microfinance—small loans and other financial tools for self-empowerment—where it is needed most. Unitus seeks out and partners with young, high-potential microfinance institutions (small banking organizations that serve the poor, often called MFIs), helping them build capacity, attract capital, and unite with its network to achieve rapid, sustainable growth. In just seven years, Unitus has helped its partners serve more than seven million families throughout India and Southeast Asia, East Africa, Mexico, and South America (unaudited).

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.

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 primary objective is to further charitable purposes by investing in MFIs that provide loans or other financial services to 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, 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, Unitus has prepared and published fully consolidated financial statements in addition to these statements that include all four entities.

In March 2007, Unitus purchased 100% ownership of Unitus Advisors Private Limited (UAPL), a for profit corporation located in Bangalore, India (Note 3). The transaction was accounted for using the purchase method of accounting.

## *Note 1 - Continued*

**MFI Partners (Unaudited)**

Unitus' model for accelerating the growth of microfinance focuses on seeking out and partnering with young, high-potential microfinance institutions (MFIs), helping them build capacity, attract capital, and unite with its network to achieve rapid, sustainable growth. As of December 31, 2008, Unitus was working with 23 MFI Partners, including:

**Adhikar: Bhubaneshwar, Orissa, India -** Founded in 1991, Adhikar began aggressively focusing on its microfinance activities in 2004, offering a Grameen-based loan methodology for micro-entrepreneurs and a remittance facility for migrant workers. Since partnering with Unitus in April 2007, Adhikar has increased the number of clients it serves by nearly 300% (as of 12/31/08).

**Ajiwika: Deoghar, Jharkhand, India -** Focused on reaching one of India's poorest regions where over 80% of potential clients are underserved, Ajiwika offers a wide range of products including microenterprise and agriculture loans. Ajiwika began microfinance operations in July 2005; after partnering with Unitus in January 2008, it has expanded the number of clients served by over 500% (as of 12/31/08).

**Institute of Integrated Resource Management (IIRM): Tezpur, Assam, India -** IIRM, a non-governmental organization, is focused on offering microfinance loans to India's underserved north-east region. It currently offers a diverse range of loan products including crop loans, income-generating loans, education loans, and micro-insurance products.

**Mimo: Dehradun, Uttarakhand, India -** Mimo has seven branches throughout the semi-urban region surrounding New Delhi, where 42% of the population lives below the poverty line. Though currently focused on offering a standard loan product, Mimo is looking into innovative models of expanding their services to include savings, housing loans, and remittances. Since becoming a Unitus partner in January 2008, Mimo has expanded the number of clients served from 10,000 to over 70,000 clients.

**Samhita Community Development Services (Samhita) - Rewa, Madhya Pradesh, India -** Samhita focuses on serving the Madhya Pradesh state in central India, one of the poorest and hardest to serve areas in India, where 37% of the population resides below the poverty line. Since beginning its partnership with Unitus in February 2008, Samhita has expanded to reach over 18,000 clients through 20 different branches.

**Tujijenge Tanzania: Dar es Salaam, Tanzania, Africa -** Tujijenge, meaning "let's build ourselves" in Swahili, was founded in April 2006 by a team of highly experienced microfinance professionals. Unitus is helping Tujijenge catalyze its already impressive growth rate, and help expand the number of clients served in the urban and semi-urban regions of Dar es Salaam.

| **Additional MFI Partners** | **Country** | **Partnership Date** |
|---|---|---|
| Activists for Social Alternatives - Grama Vidiyal (ASA-GV) | India | April 2005 |
| AMK | Cambodia | May 2008 |
| Bandhan | India | April 2005 |
| Bharatha Swamukti Samsthe (BSS) | India | December 2004 |
| Equitas | India | November 2007 |
| Fondo de Inversion Social (FIS) | Argentina | February 2006 |
| Grameen Koota (GK) | India | April 2005 |
| Grupo Crediexpress S.A. de C.V. (Credex) | Mexico | December 2006 |
| Instituto Finsol SA – Brazil (Finsol Brazil) | Brazil | November 2007 |

## *Note 1 - Continued*

| Additional MFI Partners (continued) | Country | Partnership Date |
|---|---|---|
| Jamii Bora Trust (JBT) | Kenya | July 2004 |
| Lifebank | Philippines | November 2006 |
| Pt. Mitra Bisnis Keluarga Ventura (MBK Ventura) | Indonesia | December 2006 |
| MokshaYug Access (MYA) | India | August 2007 |
| Pro Mujer Mexico | Mexico | March 2002 |
| Swadhaar FinAccess (Swadhaar) | India | May 2006 |
| Swayam Krishi Sangam (SKS) | India | March 2003 |
| Ujjivan | India | May 2006 |

## *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.

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 14), management fee income earned under the agreement with UEF (Note 10) 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 on these investments to date. Management performs an ongoing evaluation of the financial institutions to limit its concentration of credit risk exposure.

## *Note 2 - Continued*

**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.

**Investments -** Investments in readily marketable securities are valued at fair value based on published quotations. Other investments, which are not readily marketable, are carried at lower of cost or fair value as estimated by Unitus. All gains and losses on investments are reported in the Consolidated Statement of Activities and Changes in Net Assets 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 three to five 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.

**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 a risk-adjusted discount rate. Conditional contributions are recognized as revenue when management assesses the likelihood of not meeting the condition is remote. Cash received from conditional contributions is recorded as refundable advances until conditions are met.

**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.

**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.

## *Note 2 - Continued*

**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 exempt from federal income taxes under Section 501(c)(3) and 509(a)(3) of the Internal Revenue Code. UAPL is a for profit corporation, subject to taxation in India.

**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' financial statements for the year ended December 31, 2007, from which the summarized information was derived.

**Reclassifications -** Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation. Such reclassifications had no effect on the change in net assets previously reported.

**Recent Accounting Pronouncements -** In 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year. FIN 48-3 permits nonpublic enterprises to defer the effective date of FIN 48 until fiscal years beginning after December 15, 2008. Unitus management has elected to defer the implementation of FIN 48 and is evaluating the impact of FIN 48 to its financial statements. Until FIN 48 is implemented, Unitus will continue following the guidance in SFAS No. 5, *Accounting for Contingencies*, in accounting for any uncertain tax positions.

## *Note 3 - Foreign Operations*

In March 2007, Unitus acquired 100% of the shares of Unitus Advisors Private Ltd., a for-profit corporation based in Bangalore, India for $13,211. UAPL 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 UAPL. 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 are treated as separate legal entities, but are consolidated for financial reporting.

Operations outside the United States are subject to risks inherent in operating under different legal systems and various political and economic environments. Among the risks are changes in existing tax laws, possible limitations on foreign investment and income repatriation, government price or foreign exchange controls, and restrictions on currency exchange.

## *Note 4 - Pledges Receivable*

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

| | *2008* | *2007* |
|---|---|---|
| Amounts due in: | | |
| Less than one year | $ 1,695,687 | $ 2,137,938 |
| One to five years | 3,128,017 | 4,074,117 |
| **Total Gross Pledges Receivable** | **4,823,704** | **6,212,055** |
| Less: Unamortized discount to present value | (177,748) | (298,142) |
| Less: Allowance for uncollectible pledges | (139,495) | (7,854) |
| **Net Pledges Receivable** | **$ 4,506,461** | **$ 5,906,059** |

## *Note 5 - Grants Receivable*

In 2008, Unitus was awarded a multi-year grant of $647,174 from a foundation for work with a specified partner. The project has achieved its milestones to date and management is very confident of its success. The remaining grant receivable of $340,564, as of December 31, 2008, is expected to be collected during 2009 and 2010. Additionally, in December 2008, Unitus was awarded a $50,000 grant that was subsequently paid in January 2009.

In 2008, Unitus was awarded a $9,000,000 multi-year grant with conditions from a foundation. The full amount of the grant was received in 2008 and a portion of it was recognized as grant revenue upon receipt. The unrecognized portion is accounted for as a refundable advance, totaling $6,750,000 at December 31, 2008, and is expected to be recognized in 2009 and 2010 as management assesses that conditions in place will be met.

## *Note 6 - Property and Equipment*

Property and equipment at December 31 consist of the following:

| | *2008* | *2007* |
|---|---|---|
| Furniture and equipment | $ 561,918 | $ 323,527 |
| Leasehold improvements | 81,859 | |
| **Total Property and Equipment** | **643,777** | **323,527** |
| Less: Accumulated depreciation | (281,890) | (191,109) |
| **Net Total Property and Equipment** | **$ 361,887** | **$ 132,418** |

## *Note 7 - Investments*

Investments consist of the following at December 31:

| | 2008 | 2007 as Adjusted |
|---|---|---|
| Certificates of deposit | $ 1,597,484 | $ 1,563,035 |
| US government securities | 9,022,327 | 2,472,796 |
| Investment in The Unitus Equity Fund, L.P. | 142,647 | 113,606 |
| Investment in The Dignity Fund, L.P. | 987,727 | 988,923 |
| Total investments | 11,750,185 | 5,138,360 |
| Less short-term investments | (1,000,000) | |
| **Long-term Investments** | **$10,750,185** | **$ 5,138,360** |

**The Unitus Equity Fund, L.P. -** The Unitus Equity Fund, L.P. was organized by Unitus Investment Management with the primary and secondary objectives to further charitable purposes by investing in microfinance institutions and to provide capital appreciation to investors, respectively. UIM is the general partner and owns a $145,690 (cost basis) investment in UEF. As of December 31, 2008, this investment represents 1.00% ownership and is accounted for using the equity method.

**The Dignity Fund, L.P. -** The Dignity Fund, L.P. is 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, 2008, this investment represents 15.76% ownership and is accounted for using the equity method.

Investment return for the year ended December 31 was as follows:

| | 2008 | 2007 as Adjusted |
|---|---|---|
| Dividends and interest | $ 203,386 | $ 257,924 |
| Realized and unrealized gains and losses, net | 1,806 | 543 |
| **Total Return on Investments** | **$ 205,192** | **$ 258,467** |

## *Note 8 - Fair Value Measurements*

**Valuation Techniques -** FASB Financial Accounting Standard 157 (FAS 157) provides a consistent model for determining fair value measures for financial assets and liabilities. FAS 157 identifies three levels of inputs that are available for measuring fair value. Financial assets and liabilities valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

## *Note 8 - Continued*

**Fair Values Measured on a Recurring Basis -** Fair values of assets and liabilities measured on a recurring basis at December 31, 2008 were as follows:

| | *Fair Value Measurements at December 31, 2008* | | | |
|---|---|---|---|---|
| | *Quoted Prices In Active Markets for Identical Assets (Level 1)* | *Significant Other Observable Inputs (Level 2)* | *Significant Unobservable Inputs (Level 3)* | *Total* |
| Certificates of deposit | $ 1,597,484 | $ - | $ - | $ 1,597,484 |
| US government securities | | 9,022,327 | | 9,022,327 |
| | **$ 1,597,484** | **$ 9,022,327** | **$ -** | **$10,619,811** |

## *Note 9 - Notes Payable*

In January 2008, Unitus entered into a promissory note agreement with a foundation for $1,000,000. The principal amount is due in one installment in January 2009. Subsequent to December 31, 2008, a new loan agreement was signed with the foundation to extend the due date of the $1,000,000 loan to January 31, 2010. 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 15).

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.

In April 2007, the Calvert Foundation (Calvert) provided Unitus with a $1,000,000 loan to support program activity. Unitus may draw as necessary and use the proceeds to provide debt facilities to its partners. The balance outstanding at December 31, 2008 was $1,000,000. The interest rate on the loan is at 4.5% for the first 365 days and is then set by Calvert at a rate not higher than the two-year Treasury note rate. The loan is due in April 2010.

In December 2007, Calvert provided Unitus with a $250,000 loan to support program activity. The interest rate on the loan is at 5.5% for the first 365 days and is then set by Calvert at a rate not higher than the two-year Treasury note rate. The loan is due in July 2009.

In January 2008, Calvert provided Unitus with a $250,000 loan to support program activity. The interest rate on the loan is at 5.5% for the first 365 days and is then set by Calvert at a rate not higher than the two-year Treasury note rate. The loan is due in July 2009.

Principal payments on notes payable for the years ending December 31 are as follows:

| | |
|---|---|
| 2009 | $ 2,000,000 |
| 2010 | 1,000,000 |
| | **$ 3,000,000** |

## *Note 10 - Related Party Transactions*

**Contributions and Pledges -** As of December 31, 2008 and 2007, the financial statements include $3,750,000 and $4,700,500 of pledges receivable, respectively, of contributions from a foundation controlled by a member of the board. During the year ended December 31, 2007, Unitus received $1,000,000 of contributions from this foundation.

As of December 31, 2008, Unitus also has pledges receivable from other board members totaling $290,000.

**Note Payable -** In 2006, Unitus entered into a $500,000 term loan with a foundation controlled by a board member (Note 9).

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

**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 years ended December 31, 2008 and 2007, UIM recognized $585,375 and $901,267 of management fee income from UEF, respectively. At December 31, 2008 and 2007, related party receivables reflect amounts due from UEF for management fees and certain organizational and deal costs totaling $291,115 and $725,575, respectively.

In addition, at December 31, 2008 and 2007, UIM has a net capital investment of $142,647 and $113,606 in UEF, respectively (Notes 1 and 7).

## *Note 11 - Leases*

Unitus has entered into lease agreements with third parties for office space and office equipment. Additionally, UAPL has entered into two lease agreements with third parties for office space in Bangalore, India.

Future minimum lease payments under all non-cancelable leases are as follows:

| | *Unitus* | *UAPL* |
|---|---|---|
| *For years ending December 31,* | | |
| 2009 | $ 341,232 | $ 93,028 |
| 2010 | 352,453 | 34,799 |
| 2011 | 363,674 | |
| 2012 | 374,895 | |
| 2013 | 142,096 | |
| | **$ 1,574,350** | **$ 127,827** |

Rental expense for 2008 and 2007 totaled $391,668 and $189,064, respectively.

## *Note 12 - Retirement Plan*

Unitus has a 403(b) retirement plan for the exclusive benefit of its employees. Under the plan, Unitus will match up to 3% of the compensation of eligible employees and an additional 3% to those employees who have made salary reduction contributions to the plan. Participants may elect to make additional contributions in excess of the 3% within the limitations set forth in the plan. Unitus' expense for the years ended December 31, 2008 and 2007 was $147,579 and $121,986, respectively.

## *Note 13 - Concentrations*

In 2008, Unitus received contributions of $2,250,000 and $1,000,000 from two foundations, which comprise 33% and 15%, respectively, of total revenues for the year. At December 31, 2008, 79% of the gross pledges receivable balance before present value discount is due from one donor, and 87% of the grant receivable balance is due from one foundation.

In 2007 Unitus received a contribution of $1,000,000 from a donor, which comprised 13% of total revenues for the year ended December 31, 2007.

## *Note 14 - Commitments and Contingencies*

**Pro Mujer Mexico (PMM) -** Unitus has entered into a contract with Pro Mujer, a Washington D.C. not-for-profit corporation, which is the parent of PMM. Unitus has made available to PMM a standby letter of credit for $200,000 for November 2007 through May 2009. The credit facility guarantees the amount borrowed from a bank in Mexico. In exchange for the guarantee, Unitus receives an annual fee.

**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 through June 2009 borrowings up to $1,000,000. In exchange for the guarantee, Unitus receives an annual fee.

**Adhikar -** In December 2007, Unitus entered into an agreement with Adhikar to issue a standby letter of credit for $250,000 which expires in June 2009. The credit facility guarantees the amount borrowed from an Indian bank. In exchange for the guarantee, Unitus receives an annual fee.

**IIRM -** In December 2007, Unitus entered into an agreement with IIRM to issue a standby letter of credit for $550,000 which expires in September 2009. The credit facility guarantees the amount borrowed from an Indian bank. In exchange for the guarantee, Unitus receives an annual fee.

**Swadhaar -** In November 2008, Unitus entered into an agreement with Swadhaar to issue a standby letter of credit for $105,000 which expires in July 2009. The credit facility guarantees the amount borrowed from an Indian bank. In exchange for the guarantee, Unitus receives an annual fee.

**Ajiwika -** In April 2008, Unitus entered into an agreement with Ajiwika to issue a standby letter of credit through April 2010 guaranteeing borrowing up to $200,000. The credit facility guarantees the amount borrowed from an Indian bank. In exchange for the guarantee, Unitus receives an annual fee.

**Mimo -** In October 2008, Unitus entered into an agreement with Mimo to issue a standby letter of credit through April 2010 guaranteeing borrowing up to $1,000,000. The credit facility guarantees the amount borrowed from an Indian bank. In exchange for the guarantee, Unitus receives an annual fee.

## *Note 14 - Continued*

In the event of default by a MFI partner, who has a guarantee described above, Unitus will be required to pay the outstanding balance. It is not possible to evaluate the potential liability, if any, due to any potential default at this time. However, Unitus closely monitors and works with these partners to reduce the risk of default.

## *Note 15 - In-Kind Contributions*

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

| | *2008* | *2007* |
|---|---|---|
| Interest (Note 9) | $ 53,396 | $ 60,396 |
| Special event goods and services | 56,213 | 15,622 |
| Professional services | 646,318 | 51,743 |
| Software and books | 648 | 16,030 |
| Other | 8,942 | |
| Rent | | 51,534 |
| | **$ 765,517** | **$ 195,325** |

Professional services include legal and training for program, administration and fundraising activities.

## *Note 16 - Temporarily Restricted Net Assets*

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

| | *2008* | *2007* |
|---|---|---|
| Pledges receivable: | | |
| MFI Services – time and purpose restricted | $ 1,283,591 | $ 433,673 |
| MFI Efficiency Project – purpose restricted | 302,898 | |
| Other pledges receivable – time restricted | 4,282,260 | 5,151,892 |
| MFI Efficiency Project: | | |
| Grant receivable – time and purpose restricted | 415,910 | 784,925 |
| | **$ 6,284,659** | **$ 6,370,490** |

## *Note 17 - Change in Accounting Principle*

During 2008, Unitus elected to change its method of valuing its investments with no readily determinable fair value (other investments) to lower of cost or fair value, or equity method, when required by generally accepted accounting principles. In the prior year, other investments were reported at fair value as estimated by management. The new method of accounting for other investments was adopted as Unitus has determined it to be a more reliable and conservative method of accounting. As a result, Unitus' investment in UEF is now reported using the equity method, rather than at fair value. Comparative financial statements for the year ended December 31, 2007 have been adjusted to apply the new method retrospectively. The change in accounting principle decreased the following items in the 2007 financial statements by $44,333:

## *Note 17 - Continued*

Consolidated Statement of Financial Position
    Investments
    Unrestricted net assets

Consolidated Statement of Activities and Changes in Net Assets
    Investment income
    Change in unrestricted net assets

Consolidated Statement of Cash Flows
    Unrealized gains on investments

## *Note 18 - Subsequent Events*

Subsequent to December 31, 2008, UIM and Elevar, a for-profit company, entered into a submanagement agreement for the provision of management and consulting services with respect to the business and affairs of UEF. These services were previously provided by Unitus. Under the agreement, the day-to-day management of UEF, including acting as UEF's advisor, finding, analyzing, and arranging financing of prospective investments, monitoring such investments, and helping to realize values, will be conducted by the for-profit company. Notwithstanding the above, UEF's Investment Committee, on behalf of UIM, shall continue to have the exclusive power and authority to select investment opportunities and make investment-related decisions for and on behalf of the UEF. UIM shall continue to have the exclusive power to make allocation and distribution decisions for and on it's and UEF's behalf.

In addition, there was a 50% transfer of the ownership of Unitus Capital, a for-profit company, to UIM subsequent to year-end.

***SUPPLEMENTAL INFORMATION***

***Consolidated Statement of Functional Expenses***
***For the Year Ended December 31, 2008***
***(With Comparative Totals for the Year Ended December 31, 2007)***

| | *Program Services* | *Management and General* | *Fundraising* | *2008 Total* | *2007 Total as Adjusted (see Note 17)* |
|---|---|---|---|---|---|
| Salaries, payroll taxes, and benefits | $ 2,922,084 | $ 765,949 | $ 656,251 | $ 4,344,284 | $ 3,821,688 |
| Professional fees | 954,695 | 55,340 | 26,918 | 1,036,953 | 975,453 |
| Partner grants and support | 1,183,385 | | | 1,183,385 | 774,283 |
| Travel | 805,813 | 88,226 | 45,811 | 939,850 | 810,728 |
| Printing and reproduction | 11,030 | 49,047 | 2,309 | 62,386 | 107,204 |
| Occupancy | 274,757 | 92,462 | 56,149 | 423,368 | 221,167 |
| Telephone | 187,797 | 34,873 | 29,032 | 251,702 | 159,840 |
| Supplies and shipping | 38,515 | 15,172 | 5,967 | 59,654 | 46,837 |
| Other | 206,455 | 276,894 | 82,516 | 565,865 | 247,759 |
| Financial expense | 330,525 | 11,973 | 27,055 | 369,553 | 207,506 |
| | 6,915,056 | 1,389,936 | 932,008 | 9,237,000 | 7,372,465 |
| Depreciation | 113,798 | 28,691 | 17,573 | 160,062 | 65,992 |
| **Total Expenses** | **$ 7,028,854** | **$ 1,418,627** | **$ 949,581** | **$ 9,397,062** | **$ 7,438,457** |

*See auditors' report.*