

**OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

Consolidated Financial Statements

December 31, 2006

(with comparative totals for 2005)

(With Independent Auditors' Report Thereon)

# **OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

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**KPMG LLP**  
303 East Wacker Drive  
Chicago, IL 60601-5212

## **Independent Auditors' Report**

The Board of Directors  
Opportunity International, Inc.:

We have audited the accompanying consolidated statement of financial position of Opportunity International, Inc. and affiliates (Opportunity) as of December 31, 2006, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended. These consolidated financial statements are the responsibility of Opportunity's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of certain consolidated and nonsubsidiary investee companies, which statements reflect total assets constituting 12% and total revenues constituting 13% of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those consolidated and nonsubsidiary investee companies, is based solely on the report of the other auditors. The prior year summarized comparative information has been derived from Opportunity's 2005 consolidated financial statements, and in our report dated September 21, 2006, we expressed an unqualified opinion on those 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Opportunity's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Opportunity International, Inc. and affiliates as of December 31, 2006, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

September 19, 2007

**OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

Consolidated Statement of Financial Position

December 31, 2006  
(with comparative totals for 2005)

Assets	2006				2005
	Charitable funds	Banking funds	Eliminations	Total	
Cash and cash equivalents	\$ 2,147,939	107,149,009	89,974	109,386,922	33,036,387
Restricted cash and investments:					
Cornerstone Fund	5,109,569	—	—	5,109,569	4,363,049
Loan Guarantee Fund	11,594,657	—	—	11,594,657	9,141,719
Other	10,531,513	—	—	10,531,513	382,896
Pledges receivable, net (note 3)	10,414,654	—	—	10,414,654	5,383,055
Investments, at fair value (note 4)	11,613,023	—	—	11,613,023	732,240
Notes receivable, net (note 5)	5,338,439	—	(3,014,230)	2,324,209	2,660,544
Loans receivable, net (note 6)	—	144,457,205	—	144,457,205	61,215,659
Other receivables	2,012,876	—	13,957	2,026,833	1,672,433
Donor-advised assets	390,098	—	—	390,098	319,519
Prepaid expenses	316,609	6,525,584	24,344	6,866,537	1,615,120
Investment in microfinance institutions (note 4)	2,421,284	—	(225,318)	2,195,966	3,320,005
Building, furniture, and equipment, net (note 2)	109,829	10,984,774	108,288	11,202,891	4,241,200
Total assets	<u>\$ 62,000,490</u>	<u>269,116,572</u>	<u>(3,002,985)</u>	<u>328,114,077</u>	<u>128,083,826</u>
<b>Liabilities and Net Assets</b>					
Accounts payable and accrued liabilities	\$ 2,765,920	7,085,394	(138,927)	9,712,387	3,311,388
Notes payable (note 8)	22,050,000	48,938,915	(2,953,775)	68,035,140	37,558,689
Deferred revenue	79,520	1,214,020	—	1,293,540	1,242,224
Deposits from customers (note 7)	—	158,580,350	—	158,580,350	31,785,935
Total liabilities	<u>24,895,440</u>	<u>215,818,679</u>	<u>(3,092,702)</u>	<u>237,621,417</u>	<u>73,898,236</u>
Minority interest	—	9,158,819	(46)	9,158,773	4,037,527
Commitments and contingencies (notes 8, 9, and 10)					
Net assets (note 2):					
Unrestricted	9,631,561	44,139,074	89,763	53,860,398	34,141,493
Temporarily restricted	22,243,908	—	—	22,243,908	11,283,789
Permanently restricted	5,229,581	—	—	5,229,581	4,722,781
Total net assets	<u>37,105,050</u>	<u>44,139,074</u>	<u>89,763</u>	<u>81,333,887</u>	<u>50,148,063</u>
Total liabilities and net assets	<u>\$ 62,000,490</u>	<u>269,116,572</u>	<u>(3,002,985)</u>	<u>328,114,077</u>	<u>128,083,826</u>

See accompanying notes to consolidated financial statements.

**OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

Consolidated Statement of Activities

Year ended December 31, 2006  
(with comparative totals for 2005)

		<b>2006</b>						
		<b>Unrestricted</b>			<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>	<b>2005 Total</b>
	<b>Charitable funds</b>	<b>Banking funds</b>	<b>Eliminations</b>	<b>Total</b>				
Operating activities:								
Charitable support, gains, and losses:								
Private contributions	\$ 12,022,158	—	—	12,022,158	29,246,135	506,800	41,775,093	24,308,469
Government grants	2,556,976	—	—	2,556,976	—	—	2,556,976	5,914,400
Other	170,363	—	(140,991)	29,372	—	—	29,372	14,294
Gain on investments, net (note 4)	1,228,281	—	—	1,228,281	—	—	1,228,281	234,592
Net assets released from restrictions (note 2)	18,286,016	—	—	18,286,016	(18,286,016)	—	—	—
Total charitable support, gains, and losses	34,263,794	—	(140,991)	34,122,803	10,960,119	506,800	45,589,722	30,471,755
Banking revenue:								
Loan interest income	—	28,609,546	—	28,609,546	—	—	28,609,546	12,697,633
Other fees and income	—	5,850,801	—	5,850,801	—	—	5,850,801	1,983,442
Total support and revenue	34,263,794	34,460,347	(140,991)	68,583,150	10,960,119	506,800	80,050,069	45,152,830
Expenses:								
Charitable expenses:								
Program services:								
Grants for revolving loans	602,353	—	—	602,353	—	—	602,353	3,316,077
Grants for partner lending operations and training	4,266,747	—	83,228	4,349,975	—	—	4,349,975	1,082,577
Development of partner organizations	8,478,681	—	31,791	8,510,472	—	—	8,510,472	6,266,310
Total program services	13,347,781	—	115,019	13,462,800	—	—	13,462,800	10,664,964
Supporting services:								
Fundraising	6,106,580	—	—	6,106,580	—	—	6,106,580	4,455,200
Management and general	1,687,208	—	—	1,687,208	—	—	1,687,208	1,705,860
Total supporting services	7,793,788	—	—	7,793,788	—	—	7,793,788	6,161,060
Total charitable expenses	21,141,569	—	115,019	21,256,588	—	—	21,256,588	16,826,024
Banking expenses:								
Interest	—	5,544,643	(21,250)	5,523,393	—	—	5,523,393	1,891,389
Provision for loan losses	—	2,074,602	—	2,074,602	—	—	2,074,602	1,089,837
Operating expenses	—	24,273,625	(131,750)	24,141,875	—	—	24,141,875	8,824,201
Total banking expenses	—	31,892,870	(153,000)	31,739,870	—	—	31,739,870	11,805,427
Total expenses	21,141,569	31,892,870	(37,981)	52,996,458	—	—	52,996,458	28,631,451
Increase in net assets from operating activities	13,122,225	2,567,477	(103,010)	15,586,692	10,960,119	506,800	27,053,611	16,521,379
Nonoperating activities:								
Foreign currency translation gain/(loss)	—	4,188,911	109,545	4,298,456	—	—	4,298,456	(2,740,507)
Minority interest in net income of consolidated subsidiaries	—	(166,243)	—	(166,243)	—	—	(166,243)	(326,661)
Increase (decrease) in net assets for nonoperating activities	—	4,022,668	109,545	4,132,213	—	—	4,132,213	(3,067,168)
Investment in banking activities	(10,995,129)	10,995,129	—	—	—	—	—	—
Total increase in net assets	2,127,096	17,585,274	6,535	19,718,905	10,960,119	506,800	31,185,824	13,454,211
Net assets:								
Beginning of year	7,504,465	26,553,800	83,228	34,141,493	11,283,789	4,722,781	50,148,063	36,693,852
End of year	\$ 9,631,561	44,139,074	89,763	53,860,398	22,243,908	5,229,581	81,333,887	50,148,063

See accompanying notes to consolidated financial statements.

# OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

## Consolidated Statement of Cash Flows

Year ended December 31, 2006  
(with comparative amounts for 2005)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Increase in net assets	\$ 31,185,824	13,454,211
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,887,564	801,760
Realized (gain) loss on investments	(197,934)	19,934
Unrealized (gain) loss on investments	(66,955)	248,910
Foreign currency translation (gain) loss	(4,287,806)	3,240,081
Equity in (earnings) loss of investment in microfinance institutions	2,564	(14,150)
Minority interest in gain of consolidated subsidiaries	166,243	338,295
Provision for loan losses	2,074,602	1,089,837
Contribution of stock	(10,772,300)	—
Changes in assets and liabilities:		
Pledges and other receivables	(5,456,578)	(1,028,843)
Prepaid expenses	(5,251,417)	(589,425)
Accounts payable and accrued liabilities	6,400,999	437,569
Deferred revenue	51,317	(491,137)
Minority interest	4,955,002	—
Net cash provided by operating activities	<u>20,691,125</u>	<u>17,507,042</u>
Cash flows from investing activities:		
Loan origination and principal collections, net	(85,316,148)	(20,435,054)
Purchase of investments in unconsolidated affiliates	(1,026,706)	—
Cash received from minority investors	903,688	—
Cash paid for subsidiaries, net of cash acquired	(228,626)	—
Purchase of investments	(3,407,376)	(1,738,213)
Sale of investments	3,563,782	633,714
Purchase of restricted cash and investments	(19,799,133)	(9,219,229)
Sale of restricted cash and investments	6,451,058	—
Purchase of building, furniture, and equipment	(8,849,255)	(1,592,254)
Receipt of principal payments on notes receivable	200,000	—
Issuance of notes receivable	(812,459)	(457,491)
Net cash used in investing activities	<u>(108,321,175)</u>	<u>(32,808,527)</u>
Cash flows from financing activities:		
Proceeds from notes payable	40,163,460	19,301,238
Principal payments of notes payable	(9,687,009)	(4,531,394)
Deposits from customers	126,794,415	23,339,983
Net cash provided by financing activities	<u>157,270,866</u>	<u>38,109,827</u>
Effect of exchange rate changes on cash	<u>6,709,719</u>	<u>(1,099,618)</u>
Net increase in cash and cash equivalents	76,350,535	21,708,724
Cash and cash equivalents at beginning of year	33,036,387	11,327,663
Cash and cash equivalents at end of year	<u>\$ 109,386,922</u>	<u>33,036,387</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 5,932,794	2,092,670
Supplemental disclosures of noncash investing and financing transactions :		
Conversion of minority interest to majority interest	\$ 2,150,745	—
Conversion of notes receivable into investment in subsidiary	1,639,469	627,260

See accompanying notes to consolidated financial statements.

**OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

Consolidated Statement of Functional Expenses

Year ended December 31, 2006  
(with comparative totals for 2005)

		2006							
		Charitable funds							
		Program services	Fundraising	Management and general	Total	Banking funds	Eliminations	Total	2005 Total
Grants for Opportunity International Network (note 1)	\$	3,927,423	—	—	3,927,423	—	—	3,927,423	3,527,008
Grants for partner organizations for operations		4,151,728	—	—	4,151,728	—	115,019	4,266,747	3,072,784
Grants to partner organizations for loan funds		602,353	—	—	602,353	—	—	602,353	1,325,870
Salaries and benefits		1,231,963	4,015,241	719,408	5,966,612	11,620,420	—	17,587,032	9,455,855
Provision for loan loss		—	—	—	—	2,074,602	—	2,074,602	1,089,837
Rent and utilities		—	12,853	240,407	253,260	2,097,912	—	2,351,172	1,392,430
Travel and hosting		218,871	922,042	200,257	1,341,170	885,307	—	2,226,477	1,725,473
Professional fees		1,945,051	614,916	110,118	2,670,085	1,604,328	—	4,274,413	2,322,935
Miscellaneous expense		30,193	111,014	6,271	147,478	3,454,802	(131,750)	3,470,530	546,625
Interest expense		283,237	—	91,790	375,027	5,544,643	(21,250)	5,898,420	2,140,720
Telephone		15,969	65,095	34,533	115,597	588,915	—	704,512	302,506
Foreign exchange (gain) loss		—	—	—	—	832,000	—	832,000	(343,003)
Depreciation expense		1,301	—	29,953	31,254	1,856,310	—	1,887,564	801,760
Board meetings and conferences		1,680	72,936	62,901	137,517	—	—	137,517	90,052
Printing and copying		33,802	14,845	1,639	50,286	123,413	—	173,699	30,851
Supplies and office equipment		84,681	66,623	123,793	275,097	430,806	—	705,903	257,111
Income tax expense		—	—	—	—	289,236	—	289,236	183,749
Postage and shipping		3,191	43,747	18,132	65,070	120,285	—	185,355	43,916
Training		3,191	55,479	37,358	96,028	2,458	—	98,486	69,031
Promotional materials		430,227	111,718	—	541,945	12,286	—	554,231	488,355
Donor-advised grant expense		296,500	—	—	296,500	—	—	296,500	—
Insurance		86,420	71	10,648	97,139	355,147	—	452,286	107,586
Total expenses	\$	13,347,781	6,106,580	1,687,208	21,141,569	31,892,870	(37,981)	52,996,458	28,631,451

See accompanying notes to consolidated financial statements.

## OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

December 31, 2006  
(with comparative totals for 2005)

#### (1) Organization

Opportunity International, Inc., d/b/a/ Opportunity International – US, (Opportunity) is a tax-exempt, publicly supported Christian-based corporation, whose purpose is to create employment and improve income for the poor by assisting in the establishment of small and micro businesses in developing countries. Opportunity's programs are financed through direct solicitation of funds from individuals, corporations, foundations, churches, and government grants.

Opportunity fulfills its mission through nongovernmental organization partners in developing countries. A partner organization is an implementer of microenterprise development within the Opportunity network. Funds are disbursed to partner organizations to capitalize various local commercial start-up ventures and to fund their own operations. While partner organizations are critical in assisting Opportunity to achieve its purpose, they are not legally affiliated with Opportunity (with the exception of the 10 microfinance institutions that incorporated as for-profit microfinance institutions, as discussed below), and accordingly, their accounts are not included in these consolidated financial statements.

Similarly, entities within the Opportunity support network, including Opportunity International – Australia; Opportunity International – U.K.; Opportunity International – Germany; and Opportunity International – Canada, raise funds in their respective countries and operate independently of Opportunity. Their accounts are not included in these consolidated financial statements.

Effective January 1, 1998, all affiliated partner organizations of Opportunity signed a membership agreement formalizing the Opportunity International Network (Network). The Network was established to coordinate a common strategy among all partners, to develop an accreditation process for participating partners, and to manage standardization and quality throughout the Network member organizations. The Network operates a service organization that provides training, consulting, and other services to member organizations. The Network Services Organization accounts are not included in these financial statements.

Opportunity provides a portion of the funding for the Network's operations, along with providing accounting and management services. These services are considered Opportunity's dues for Network membership. Total costs incurred by Opportunity, included in development of partner organizations on the consolidated statements of activities, related to the Network are \$3,927,423 for the year ended December 31, 2006 and \$3,527,008 for the year ended December 31, 2005.

Program services expense in the accompanying charitable activities section of the statements of activities includes grants made to the Network Services Organization and disbursements for program services made to its partner organizations. The partner organizations are not required to pay these grants back to Opportunity. Program services are as follows:

- a. Grants for revolving loans – amounts disbursed to partner organizations, which, in turn, provide small commercial loans to borrowers/entrepreneurs.
- b. Grants for partner lending operations and training – amounts disbursed to partner organizations for their operating costs, as well as management and business training and technical assistance to the borrower/entrepreneur.

## OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

December 31, 2006  
(with comparative totals for 2005)

- c. Development of partner organizations – amounts expended by Opportunity and Opportunity's Network Services Divisions to support partner organization growth and maturation.

Effective June 19, 2000, Opportunity incorporated Opportunity Transformation Investments (OTI), which is intended to invest in and hold ownership positions in microfinance institutions as they convert from nongovernmental organizations to commercial microfinance lending institutions. OTI's board of directors is controlled by Opportunity. Accordingly, OTI and its majority-owned banks have been consolidated in these financial statements. If a majority interest is acquired in more than one transaction at different dates, cost is determined separately for the percentage of ownership interest in net assets acquired at the date of each transaction. All interentity transactions have been eliminated in consolidation. The acquired interests in the 10 microfinance organizations are as follows:

- i) In April 2002, Opportunity Bank A.D., Podgorica (Opportunity Bank Montenegro) was capitalized with an initial investment of \$2,658,000, of which OTI invested \$1,993,500 to acquire 75% of all outstanding shares of common stock of Opportunity Bank Montenegro. The results of operations of Opportunity Bank Montenegro are included in the consolidated financial statements of OTI beginning on April 24, 2002. On December 27, 2002, 3,000 shares of preferred stock were purchased by OTI for an amount of \$2,880,682. These shares are nonvoting and noncumulative. The shares are entitled to dividends prior to any dividends being paid on any outstanding common stock. OTI purchased an additional 750 shares of common stock during 2004 in order to maintain its 75% ownership position.
- ii) In May 2002, OTI completed the acquisition of Partneri Shquiptar ne Mikrokredi Sh.A. (PShM Albania) for \$1,564,700. The acquisition, which was recorded under the purchase method of accounting, involved the purchase of 53% of all outstanding shares of common stock of PShM Albania. In January 2004, OTI was gifted 19,258 shares of stock from a fellow stockholder, Opportunity Microcredit Fund (OMF), its U.K. counterpart, which resulted in OTI owning 99.5% of PShM Albania. During 2005, OTI made additional investments in PShM amounting to \$688,939, increasing its ownership position to 99.6%.
- iii) In July 2002, Opportunity International Stock Savings Bank, Novi Sad (Opportunity Bank Serbia) was capitalized with an initial investment of \$1,100,000 from OTI to acquire all outstanding shares of common stock of Opportunity Bank Serbia. In December 2002, additional common stock was sold for \$1,000,000, of which an investment was made by OTI in the amount of \$200,000. This resulted in OTI's ownership percentage increasing to 62% at December 31, 2002. In December 2003, OTI made an additional investment in Opportunity Bank Serbia, increasing its ownership percentage to 77%. During 2005, OTI made a \$2.4 million investment in Opportunity Bank Serbia, bringing its ownership percentage up to 93.6%. OTI made an additional investment of \$5.7 million in December 2005. In 2006, in compliance with the National Bank of Serbia's (NBS) new law recognizing only banks, Opportunity Bank Serbia was dissolved and Opportunity Bank a.d. Novi Sad became its legal successor of all Opportunity Bank Serbia's rights and obligations. On February 7, 2007, NBS issued the permanent banking license to Opportunity Bank a.d. Novi Sad.
- iv) In February 2003, Oportunidad Microfinanzas sa de cv (Oportunidad Mexico) was capitalized with an initial investment of \$4,558 for 99% ownership in Oportunidad Mexico by OTI; Opportunity

## OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

December 31, 2006

(with comparative totals for 2005)

owns the other 1%. Subsequently, OTI made an additional investment of \$353,067 in December 2003. OTI made an additional investment of \$625,000 during 2004, bringing its total investment up to almost \$1 million or 99%. During 2005, OTI advanced funds to Opportunidade Mexico in exchange for a note receivable, which was converted to equity in 2006. In 2006, OTI advanced \$1,102,917, which will be converted to equity in 2007.

- v) In February 2005, Banco Oportunidade de Mocambique, SARL (Banco Oportunidade Mozambique) was capitalized with an initial investment of \$1,220,900 for 58.7% ownership in Banco Oportunidade Mozambique. The results of operations of Banco Oportunidade Mozambique were included in the consolidated financial statements of OTI beginning on February 16, 2005. During 2006, OTI made an additional investment of \$839,142 in Banco Oportunidade Mozambique.
- vi) As of December 31, 2005, OTI had an investment of \$1,139,725 or 35.1% of Opportunity International-Sinapi Aba Savings & Loan OISASL in Ghana (Opportunity-SASL). In May 2006, OTI made an additional investment of \$1,082,332 in Opportunity-SASL, increasing its percentage of ownership to 44.9%. In July 2006, OTI made another investment of \$933,268, which included the conversion of notes receivable of \$323,753 in Opportunity-SASL, further increasing its percentage of ownership to 59.6%, making OTI the majority shareholder. The results of operations of Opportunity-SASL are included in the consolidated financial statements of OTI starting in the year 2006.
- vii) As of December 31, 2005, OTI had a net investment of \$1,011,020 in Opportunity International Bank Malawi (Opportunity Bank Malawi). During 2006, OTI made investments totaling \$1,567,087 in Opportunity Bank Malawi through conversion of notes receivable to equity and additional cash payments, increasing its ownership to 53.7%. The results of Opportunity Bank Malawi are included in the consolidated financial statements starting in the year 2006.
- viii) In June 2006, OTI made an initial investment of \$178,336 in Opportunity International Bank Rwanda, s.a. (Opportunity Bank Rwanda) for which it received 961 shares or 96.6% of the ownership of Opportunity Bank Rwanda. Opportunity International – Deutschland and the officers and directors own the other shares. In July 2006, OTI was gifted equity totaling \$249,975 from Opportunity – Canada. In September 2006, OTI made an additional investment of \$2,450,000, which increased its ownership percentage to 99.8%. The financial statements of Opportunity Bank Rwanda are included in the consolidated financial statements of OTI in 2006, even though operations have not started as of December 31, 2006.
- ix) In March 2006, OTI made an initial capital investment of \$15, along with an \$800,000 loan convertible to equity, in Opportunity Finance (Proprietary) Limited, South Africa (Opportunity Finance). OTI owns 100% of Opportunity Finance. OTI lent an additional \$466,000 to Opportunity Finance that is convertible to equity. The financial statements of Opportunity Finance are included in the 2006 consolidated financial statements.
- x) In July 2006, OTI acquired specific assets of Wedco Enterprises Development Ltd for \$700,000. A new entity was formed in Kenya, Opportunity International-Wedco Limited (Opportunity-Wedco).

## OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

December 31, 2006  
(with comparative totals for 2005)

OTI owns 51% and Wedco Enterprises owns 49% of the new financial institution. The results of Opportunity–Wedco are included in the consolidated financial statements of OTI in 2006.

The Opportunity Loan Guarantee Fund I, LLC (the Fund) was established on January 11, 2005 for the purpose of supporting microfinance institutions in developing countries to increase the availability of loans and related microfinance services to the poor by establishing and operating the fund to provide collateral support or similar means to enable microfinance institutions to borrow or otherwise acquire funds and to provide direct loans; and to engage in any and all activities desirable, necessary, or incidental to the foregoing, or other activities intended to support microfinance institutions. Opportunity is the sole member of the Loan Guarantee Fund.

The Microfinance Insurance Agency, LLC (MIA) was established on November 4, 2005 for the purpose of providing the poor with access to affordable insurance products. MIA offers products such as life, property and health insurance. Opportunity is the sole member of the Microfinance Insurance Agency.

#### (2) Summary of Significant Accounting Policies

##### *Basis of Presentation*

Opportunity's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles.

***Charitable Activities*** – this category reports Opportunity's fund-raising activities performed in the United States.

In order to ensure the observance of limitations and restrictions placed on the use of available resources, Opportunity maintains its accounts in accordance with the principles and practices of fund accounting. This is the procedure by which resources are classified into funds established according to their nature and purpose. For external reporting purposes, however, Opportunity's consolidated financial statements have been prepared to focus on the organization as a whole and to present balances and transactions classified in accordance with the existence or absence of donor-imposed restrictions.

# **OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

## Notes to Consolidated Financial Statements

December 31, 2006  
(with comparative totals for 2005)

Net assets and related activity are classified as unrestricted, temporarily restricted, and permanently restricted activities as follows:

***Unrestricted*** – net assets that are not subject to donor-imposed restrictions. Unrestricted net assets consist of the following as of December 31, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
Opportunity International – United States	\$ 11,039,814	8,906,183
Opportunity Bank Serbia capital and accumulated earnings	11,820,068	9,406,462
Opportunity Bank Montenegro capital and accumulated earnings	11,286,129	7,908,270
PShM Albania capital and accumulated earnings	9,165,197	6,791,814
Opportunidad Mexico capital and accumulated earnings	35,079	(157,803)
Banco Oportunidade Mozambique capital and accumulated earnings	1,858,033	1,286,567
Opportunity Bank Malawi capital and accumulated earnings	1,956,344	—
Opportunity Bank Rwanda capital and accumulated earnings	2,948,200	—
Opportunity–Wedco capital and accumulated earnings	(205,661)	—
Opportunity–SASL capital and accumulated earnings	3,579,690	—
Opportunity Finance capital and accumulated earnings	377,505	—
Total	\$ <u>53,860,398</u>	<u>34,141,493</u>

***Temporarily Restricted*** – net assets that are subject to donor-imposed restrictions that will be met either by actions of Opportunity or the passage of time. Temporarily restricted net assets are available for the following purposes or periods as of December 31, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
For periods after December 31	\$ 15,358,148	4,322,664
Programs in Africa	5,918,524	5,901,179
Programs in Latin America and Mexico	117,567	787,311
Programs in Indonesia	655,438	145,751
Programs in India	—	33,683
Programs in the Philippines	22,000	—
Other programs	172,231	93,201
Total	\$ <u>22,243,908</u>	<u>11,283,789</u>

# OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

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Net assets were released from donor restrictions during the years ended December 31, 2006 and 2005 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors as follows:

	<b>2006</b>	<b>2005</b>
Collection of pledged amounts	\$ 373,524	1,101,626
Programs in Africa	12,615,337	4,850,823
Programs in the Philippines	—	1,167,658
Programs in Latin America	1,994,495	1,385,773
Programs in Indonesia	445,681	250,225
Programs in India	35,688	37,135
Other programs	2,821,291	2,449,206
Total	\$ 18,286,016	11,242,446

***Permanently Restricted*** – net assets that are subject to donor-imposed restrictions to be maintained permanently by Opportunity. Generally, donors of these assets permit Opportunity to use all or part of the income earned on related investments for general or specific purposes. As of December 31, 2006 and 2005, permanently restricted net assets primarily consist of the Cornerstone Fund, which was instituted in 2002 as a means of providing collateral for the existing lines of credit. There is also an endowment fund, from which any interest earned will support designated program services.

***Banking Activities*** – this category reports the consolidated results of the commercial banks in which OTI has investments of greater than 50%. Assets and liabilities of foreign investments are translated at year-end exchange rates, with the related translation adjustments reported as a change in unrestricted net assets. Income statement accounts are translated at the average exchange rate during the period. Nonmonetary assets and liabilities are translated at historical exchange rates. Minority investors own portions of the nine microfinance institutions that OTI has majority interest in: Opportunity Bank Montenegro, PShM Albania, Opportunity Bank Serbia, Oportunidad Mexico, Banco Oportunidade Mozambique, Opportunity – SASL, Opportunity Bank Malawi, Opportunity Bank Rwanda, and Opportunity – Wedco. The outside investors' shares are shown in Opportunity's consolidated financial statements as minority interest.

### ***Revenue and Expense***

Revenue is reported as an increase 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 law.

Private gifts, including unconditional pledges, are recognized in the period received. Conditional pledges are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with

## **OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

### **Notes to Consolidated Financial Statements**

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donor-imposed restrictions, if any, on the contributions. An allowance for doubtful pledges receivable is provided based upon management's judgment considering such factors as prior collection history, type of contribution, and nature of fundraising activity. Contributions received with donor-imposed restrictions are reported as revenue of the unrestricted net asset class if those restrictions are met within the same year as received. Donor-restricted contributions received and whose restrictions were met within the same year were \$12,856,927 and \$8,150,965 in 2006 and 2005, respectively.

Revenue from governmental grant agreements is recognized as it is earned through expenditure in accordance with the agreement. Revenue from governmental grant agreements to operate and maintain loan portfolios over an extended period of time under specific conditions is recognized on a straight-line basis over the grant period until the conditions are fulfilled. Amounts received in advance of expenditure are recorded as deferred revenue until recognized over the grant period.

The consolidated results of the banks presented in the accompanying consolidated financial statements recognize fee and commission income for the services provided by each bank. Fee and commission income is recognized when the related service is performed. Loan fees are offset by the costs of originating such loans.

Opportunity records in-kind support for contributed equipment and contributed professional services. Contributed equipment and services are recorded at fair value. Opportunity recorded \$182,664 and \$322,170 as contribution revenue in the accompanying consolidated statements of activities and the corresponding amount was included as equipment and services in the accompanying consolidated statements of financial position for 2006 and 2005, respectively.

#### ***Financial Instruments***

The notes and loans receivable and the loans payable in the accompanying consolidated financial statements are generated by the charitable activities of Opportunity. The terms of these instruments are not commensurate with current market terms in a commercial environment. As such, management believes that due to the nature of these financial instruments, the book value approximates fair value.

#### ***Accrued Interest Receivable on Loans***

Interest is accrued on loans when earned. Accrual of interest is ceased on loans when interest is more than six months delinquent. Interest accrued at the date a loan is placed on nonaccrual status is reversed and charged against income. Fee and commission income are recognized when earned.

#### ***Allowance for Loan Losses***

Allowances have been established for probable loan losses. The provisions for losses charged to operations are based on management's judgment of current economic conditions, the value of the underlying collateral, and the credit risk of the loan portfolio. Management believes that these allowances are adequate for loan losses inherent in the loan portfolio. While management uses available information to recognize losses on loans, future additions to the allowances may be necessary based on changes in economic conditions.

## **OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

### **Notes to Consolidated Financial Statements**

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A loan is considered impaired when it is probable that all principal and interest amounts due will not be collected in accordance with the loan's contractual terms. Impairment is recognized by allocating a portion of the allowance for loan losses to such a loan to the extent that the recorded investment of an impaired loan exceeds its value. A loan's value is based on the loan's underlying collateral or the calculated present value of projected cash flows discounted at the contractual interest rate. Allocations on impaired loans are considered in relation to the overall adequacy of the allowance for loan losses and adjustments are made to the provision for loan losses as deemed necessary.

The recorded investment in impaired loans is periodically adjusted to reflect cash payments, revised estimates of future cash flows, and increases in the present value of expected future cash flows due to the passage of time. Cash payments representing interest income are reported as such. Other cash payments are reported as reductions in recorded investment. Increases or decreases due to changes in estimates of future payments and the passage of time are considered in relation to the overall adequacy of the allowance for loan losses.

#### ***Allocation of Expenses***

Opportunity considers Network Services expenses as a component of its program expense. The amounts relate to dues paid to the Network, which, in turn, support the Network partners and the Opportunity program objectives. Certain costs are paid by Opportunity on behalf of the Network as part of Opportunity's annual dues and are included in program grant expense.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash and highly liquid, short-term investments.

#### ***Restricted Cash and Investments***

Restricted cash and investments at December 31, 2006 and 2005 consisted of permanently restricted funds received for the Cornerstone Fund and the Endowment Fund, and temporarily restricted investments of the Loan Guarantee Fund. On November 22, 2006, The Bill and Melinda Gates Foundation (Gates Foundation) lent OTI \$10,000,000 for expansion of its investments in microfinance institutions in Africa. Pending release of these funds for investments, the funds remain in a segregated, interest-bearing account. All interest earned on funds, but not yet sent to microfinance institutions, is remitted quarterly to the Gates Foundation.

#### ***Investments***

Investments in securities are reported at fair value based on quoted market prices for publicly traded securities and estimates provided by investment managers for nonmarketable investments in certain closely held companies. Donated investments are recorded at fair value at the date of the gift and based on Opportunity's investment policy are generally liquidated within 30 days.

#### ***Investments in Microfinance Institutions***

Investments in microfinance institutions in which OTI holds less than 50% are recorded using the equity method of accounting. Accordingly, the initial investment is increased or decreased by Opportunity's proportionate share of income or loss.

## **OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

### **Notes to Consolidated Financial Statements**

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#### ***Building, Furniture, and Equipment***

Building, furniture, and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful lives, ranging from 3 to 50 years. Accumulated depreciation on building, furniture, and equipment was approximately \$3,468,000 and \$1,524,300 at December 31, 2006 and 2005, respectively.

#### ***Income Taxes***

Opportunity and OTI have received determination letters from the Internal Revenue Service indicating that they are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and accordingly, no tax provision has been made in the accompanying consolidated financial statements for charitable activities.

The microfinance institutions included in the accompanying consolidated financial statements pay taxes in accordance with their respective countries' laws at rates from 9% to 31% of taxable income and current tax is recorded for these amounts. Income taxes for the overseas for-profit microfinance institutions are accounted for under the asset and liability method. Deferred taxes and liabilities are recognized for the future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax carryforwards. Deferred tax assets and liabilities are measured using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

#### ***Use of Estimates***

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

#### ***Comparative Financial Information***

The consolidated financial statements include 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 Opportunity's consolidated financial statements for the year ended December 31, 2005 from which the summarized information was derived.

# **OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

## Notes to Consolidated Financial Statements

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(with comparative totals for 2005)

### **(3) Pledges Receivable**

Unconditional pledges receivable at December 31, 2006 are due to be received as follows:

Within one year	\$ 4,666,052
One to five years	6,759,056
Less:	
Allowance on pledges receivable	(405,718)
Discounts to net present value	<u>(604,736)</u>
Net unconditional pledges and grants receivable	\$ <u><u>10,414,654</u></u>

The discount rate used in determining the net present value of unconditional pledges and grants receivable is 4.18% and 2.9% at December 31, 2006 and 2005, respectively. The discount rate approximates the average borrowing rate over the last 12 months. Amounts due at December 31, 2005 were net of an allowance of \$294,466 and a discount of \$122,736.

### **(4) Investments and Investments in Microfinance Institutions**

Investments consist of the following as of December 31, 2006 and 2005:

	<u><b>2006</b></u>	<u><b>2005</b></u>
Restricted marketable stock	\$ 11,539,816	497,511
Venture capital stock	48,862	48,862
Certificate of deposit in the Philippines	<u>393,984</u>	<u>450,000</u>
Total investments	11,982,662	996,373
Less reserve provision	<u>(369,639)</u>	<u>(264,133)</u>
Investments at fair value	\$ <u><u>11,613,023</u></u>	<u><u>732,240</u></u>

Opportunity received a donation of American Ethanol, Inc. common stock during 2006. This stock is convertible into shares of Marwich II Ltd. Under the terms of a merger agreement dated June 23, 2006, sale of the stock is restricted under Rule 144 of the Securities Exchange Act of 1934 until 12 months after the close of the merger transaction, which has not yet occurred.

The stock was included in revenue at a value equal to \$10,772,000. The value of this stock, which is also included as an asset on the December 31, 2006 consolidated balance sheet, is highly variable due to several factors, including the uncertainty of the ethanol market, the restriction on the sale of the stock until one year after the merger, the limited capitalization of the company, and the general variability of the stock market.

# **OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

## Notes to Consolidated Financial Statements

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OTI holds varying minority interests (as noted below) in microfinance institutions. Investment in microfinance institutions consists of the following as of December 31, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
Opportunity–SASL, Ghana (33%) *	\$ —	1,139,725
Opportunity International Bank Malawi (27.1%) *	—	1,011,020
Opportunity Microfinance Bank, Philippines (30%)	777,080	648,897
S.C. Opportunity Microcredit Romania S.R.L. (32%)	705,474	469,462
Zambuko Trust Limited, Zimbabwe (25%)	250,000	250,000
Development Finance Equity Partners (40%)	84,542	50,901
Growing Opportunity Finance, India (26%)	281,000	—
Faulu, Uganda (32%)	347,870	—
Subtotal	2,445,966	3,570,005
Less amounts reserved	(250,000)	(250,000)
Total investment in microfinance institutions	\$ 2,195,966	3,320,005

\* OTI acquired majority interest in 2006

Equity income (loss) from the investments in the microfinance institutions are included in other fees and income on the consolidated statements of activities, and consist of the following:

	<b>2006</b>	<b>2005</b>
Opportunity–SASL*	\$ —	7,402
Opportunity International Bank Malawi *	—	(66,187)
Opportunity Microfinance Bank, Philippines	(221,817)	(57,921)
S.C. Opportunity Microcredit Romania S.R.L.	236,012	129,497
Development Finance Equity Partners, GMBH	(16,759)	1,359
Net equity (loss) income from microfinance institutions	\$ (2,564)	14,150

\* OTI acquired majority interest in 2006

Investment income from charitable activities for the years ended December 31, 2006 and 2005 consists of the following:

	<b>2006</b>	<b>2005</b>
Interest	\$ 825,904	471,105
Dividends	137,488	32,331
Realized gain (loss) on investments	197,934	(19,934)
Unrealized gain (loss) on investments	66,955	(248,910)
Return on investments, net	\$ 1,228,281	234,592

# **OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

## Notes to Consolidated Financial Statements

December 31, 2006  
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### **(5) Notes Receivable**

Notes receivable as of December 31, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Nine unsecured installment loans to nongovernmental partners	\$ 1,804,209	2,132,150
One convertible note to a microfinance institution	890,000	898,394
	<hr/>	<hr/>
Subtotal notes receivable	2,694,209	3,030,544
Less allowance for uncollectible amounts	(370,000)	(370,000)
	<hr/>	<hr/>
Total net notes receivable	\$ <u>2,324,209</u>	<u>2,660,544</u>

Four of the notes to related partner organizations bear no interest. Eight others assess interest below current market rates ranging between 1% and 6%.

### **(6) Loans Receivable**

Loans represent micro loans granted to individuals and private entrepreneurs by microfinance banks for the purpose of providing financing support to small enterprises. In addition, loans may be made for the purpose of purchasing real estate or financing agriculture activities. These loans are granted generally for periods between four months and five years at interest rates of between 5% and 36%. Certain loans may be collateralized by security such as cash or mortgages. Loans outstanding for the years ended December 31, 2006 and 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Loans receivable	\$ 147,580,111	63,045,732
Less loan loss allowance	(3,122,906)	(1,830,073)
	<hr/>	<hr/>
Net loan portfolio	\$ <u>144,457,205</u>	<u>61,215,659</u>

OTI's banks will often make loans to borrowers that would be unable to secure financing from commercial sources. The ability of each borrower to repay its respective bank depends on the entrepreneurial success of each borrower. In addition, payments to OTI banks depend on the economic and political environment of each locality in which loans are made.

OTI's banks account for their loans in accordance with the provisions of Financial Accounting Standards Board Statement (SFAS) No. 114, *Accounting by Creditors for Impairment of a Loan*, as amended by SFAS No. 118, *Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures*. The objective of these statements is to eliminate the inconsistencies in the accounting for impaired and restructured loans by requiring, in general, that impaired loans be carried based on the present value of expected future cash flows discounted at the loan's effective interest rate. All loans have been evaluated for collectibility under the provisions of these statements.

# **OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

## Notes to Consolidated Financial Statements

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A summary of the activity in the allowance for loan losses for the years ended December 31, 2006 and 2005 is as follows:

	<b>2006</b>	<b>2005</b>
Balance at beginning of year	\$ 1,830,073	1,627,144
Provision for loan losses	2,074,602	1,089,837
Loans receivable charged off	(781,769)	(886,908)
Balance at end of year	\$ <u>3,122,906</u>	<u>1,830,073</u>

The lending activities of OTI's banks are primarily conducted within their respective country. The following is a summary of loans outstanding, net of the related allowance, by country as of December 31, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
Opportunity Bank Montenegro	\$ 85,712,556	38,309,417
PShM Albania	26,262,290	14,489,166
Opportunity Bank Serbia	10,877,349	7,710,828
Opportunidades Mexico	839,157	242,086
Banco Oportunidade Mozambique	930,420	464,162
Opportunity Bank Malawi	4,923,079	—
Opportunity-Wedco	867,116	—
Opportunity-SASL	13,920,976	—
Opportunity Finance	124,262	—
Balance at end of year	\$ <u>144,457,205</u>	<u>61,215,659</u>

The following is a summary of expected loan maturities as of December 31, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
Less than one month	\$ 22,870,486	7,128,006
From one to three months	12,780,264	7,651,646
From three to twelve months	50,380,713	23,444,656
From one to five years	55,791,743	22,991,351
Over five years	2,633,999	—
Balance at end of year	\$ <u>144,457,205</u>	<u>61,215,659</u>

Loans to employees and officers of these banks totaled \$2,234,853 and \$840,344 at December 31, 2006 and 2005, respectively. In addition, Opportunity Bank Montenegro leases office space for its primary corporate offices from one of its borrowers.

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The commercial microfinance banks in which OTI holds an interest are exposed to a number of risks. The following outlines some of these risks:

#### ***Credit Risk***

Credit risk is the risk of financial loss arising from the failure of a customer to settle financial obligations to the bank as they fall due. This is an inherent risk associated with the microfinance industry. The majority of loans are short-term in nature; about 60% of the loans fall due within one year as of December 31, 2006.

#### ***Foreign Currency Risk***

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign currency exchange rates.

#### ***Interest Rate Risk***

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. This is somewhat mitigated due to the relative short duration of the loans outstanding, most of which are due within one year.

#### ***Liquidity Risk***

Liquidity risk is the risk that the banks will encounter difficulty in raising funds to meet the commitment associated with financial instruments. Each country has minimum capital requirements that the microfinance institutions must adhere to. Total cash on hand of the combined banks is \$107 million, which is 40% of total assets of the combined banks.

# **OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

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### **(7) Deposits from Customers**

Deposits from customers as of December 31, 2006 and 2005 consist of the following:

	<u><b>2006</b></u>	<u><b>2005</b></u>
Opportunity Bank Montenegro:		
Demand deposits	\$ 115,975,150	20,542,234
Short-term deposits	25,175,480	9,849,150
Long-term deposits	<u>2,396,345</u>	<u>883,562</u>
Total Opportunity Bank Montenegro	<u>143,546,975</u>	<u>31,274,946</u>
Banco Oportunidade Mozambique:		
Demand deposits	464,788	210,006
Short-term deposits	<u>263,766</u>	<u>9,878</u>
Total Banco Oportunidade Mozambique	<u>728,554</u>	<u>219,884</u>
Opportunity Bank Serbia:		
Demand deposits	181,552	66,129
Long-term deposits	<u>268,934</u>	<u>224,976</u>
Total Opportunity Bank Serbia	<u>450,486</u>	<u>291,105</u>
Opportunity – SASL:		
Demand deposits	<u>6,680,933</u>	<u>—</u>
Opportunity – Wedco:		
Demand deposits	<u>244,277</u>	<u>—</u>
Opportunity Bank Malawi:		
Demand deposits	<u>6,929,125</u>	<u>—</u>
Total deposits from customers	\$ <u><u>158,580,350</u></u>	<u><u>31,785,935</u></u>

# **OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

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### **(8) Notes Payable**

Notes payable as of December 31, 2006 and 2005 include the following:

	<u><b>2006</b></u>	<u><b>2005</b></u>
Charitable notes payable:		
Note payable, 3.00% interest, maturity September 2006	\$ —	74,800
Note payable, 4.05% interest, maturity December 2008	29,000	29,000
Note payable, 4.05% interest, maturity December 2008	371,000	371,000
Note payable, 0% interest, maturity July 2007	250,000	250,000
Note payable, 0% interest, maturity January 2006	—	100,000
Note payable, 5.78% interest, maturity no earlier than March 13, 2006, no later than September 13, 2008	—	300,000
Note payable, 5.78% interest, maturity no earlier than March 13, 2006, no later than September 13, 2008	—	200,000
Note payable, 7.40% interest, maturity September, 2009	1,000,000	—
Note payable, 2.00% interest, maturity April 2010	1,000,000	1,000,000
Note payable, 0% interest, maturity December 31, 2011	150,000	—
Note payable, 1.00% interest, maturity November 2016	10,000,000	—
Total charitable notes payable	\$ <u>12,800,000</u>	<u>2,324,800</u>

# OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

## Notes to Consolidated Financial Statements

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	<u>2006</u>	<u>2005</u>
Loan guarantee fund notes payable:		
Note payable, 2.00% interest, maturity September 2007	\$ 500,000	500,000
Note payable, 2.00% interest, maturity September 2007	100,000	100,000
Note payable, 1.50% interest, maturity September 2007	500,000	500,000
Note payable, 2.00% interest, maturity September 2007	500,000	500,000
Note payable, 2.00% interest, maturity September 2007	100,000	100,000
Note payable, 2.00% interest, maturity September 2007	1,000,000	1,000,000
Note payable, 1.75% interest, maturity September 2007	100,000	100,000
Note payable, 2.00% interest, maturity September 2008	25,000	25,000
Note payable, 2.00% interest, maturity September 2008	1,000,000	1,000,000
Note payable, 2.25% interest, maturity September 2008	100,000	100,000
Note payable, 1.50% interest, maturity September 2008	100,000	100,000
Note payable, 2.25% interest, maturity September 2008	100,000	100,000
Note payable, 2.00% interest, maturity September 2008	1,000,000	1,000,000
Note payable, 2.25% interest, maturity September 2008	500,000	500,000
Note payable, 2.50% interest, maturity September 2009	25,000	25,000
Note payable, 2.00% interest, maturity September 2009	1,000,000	1,000,000
Note payable, 2.50% interest, maturity September 2009	100,000	100,000
Note payable, 2.00% interest, maturity September 2009	100,000	100,000
Note payable, 2.75% interest, maturity September 2010	100,000	100,000
Note payable, 2.75% interest, maturity September 2010	25,000	25,000
Note payable, 2.75% interest, maturity September 2010	200,000	200,000
Note payable, 2.65% interest, maturity September 2010	500,000	500,000
Note payable, 2.00% interest, maturity September 2010	150,000	150,000
Note payable, 3.00% interest, maturity September 2010	25,000	25,000
Note payable, 3.00% interest, maturity September 2011	400,000	400,000
Note payable, 3.00% interest, maturity September 2011	100,000	100,000
Note payable, 3.00% interest, maturity September 2011	100,000	100,000
Note payable, 3.25% interest, maturity September 2012	400,000	400,000
Note payable, 3.25% interest, maturity September 2012	200,000	200,000
Note payable, 3.00% interest, maturity September 2012	100,000	100,000
Note payable, 3.25% interest, maturity September 2012	100,000	—
Total loan guarantee fund notes payable	\$ <u>9,250,000</u>	<u>9,150,000</u>

# **OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

## Notes to Consolidated Financial Statements

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	<u>2006</u>	<u>2005</u>
Banking notes payable:		
Opportunity Bank Montenegro:		
Note payable, 8.00% interest, maturity June 2006	\$ —	888,300
Note payable, 7.60% or 6-month Euribor + 5.20% interest, maturity May 2007	—	1,184,400
Note payable, 6-month Euribor + 3.00% interest, maturity December 2007	3,564,810	3,434,760
Note payable, 4.65% – 4.84% interests maturity December 2008	756,532	1,192,691
Note payable, 6-month Euribor + 4.90% interest, maturity April 2009	—	3,109,050
Note payable, 4.65% – 4.84% interest, maturity June 2009	724,844	1,102,676
Note payable, 4.5-year swap rate + 4.17% interest, maturity October 2009	2,640,600	2,368,800
Note payable, 6-month Euribor + 3.00% interest, maturity June 2010	4,395,279	4,480,585
Note payable, 6-month Euribor + 3.00% interest, maturity October 2009	3,960,900	—
Note payable, 4.5-year swap rate + 4.17% interest, maturity October 2010	5,281,200	—
Subtotal Opportunity Bank Montenegro	\$ <u>21,324,165</u>	<u>17,761,262</u>

# **OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

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December 31, 2006  
(with comparative totals for 2005)

	<u>2006</u>	<u>2005</u>
Banking notes payable (continued):		
PShM Albania:		
Note payable, 2.00% interest, maturity April 2006	\$ —	105,134
Note payable, 8.00% interest, maturity April 2006	—	30,450
Note payable, 5.50% interest + Euribor, maturity September 2006	—	93,319
Note payable, 6-month Euribor + 7.00% interest, maturity June 2006	—	311,047
Note payable, 10.00% interest, maturity April 2007	111,800	180,071
Note payable, 10.00% interest, maturity April 2007	2,795	5,075
Note payable, lower of Euribor + 5.70% and 8.10% interest, maturity May 2007	1,938,500	746,512
Note payable, 7.00% interest + Euribor, maturity August 2007	68,523	62,209
Note payable, 1.00% interest + Euribor, maturity December 2007	553,857	497,685
Note payable, 8.00% interest, maturity December 2007	20,482	—
Note payable, 7.00% interest, maturity June 2008	207,702	223,950
Note payable, T-bill + 3.00% interest, maturity November 2008	1,266,951	1,536,456
Note payable, 11.97% interest first year and 12-month T-bill rate + 4.00% in years thereafter, maturity May 2009	456,938	491,534
Note payable, T-bill + 3.50% interest, maturity June 2009	803,596	1,008,736
Note payable, 12-month T-bill rate +3.00% rate, maturity December 2009	559,000	—
Note payable, 12-month T-bill rate +4.00% rate, maturity February 2010	1,011,812	—
Note payable, 9.20% interest, maturity August 2010	1,017,782	—
Note payable, 8.50% interest, maturity March 2011	2,762,366	—
Note payable, 4.5-year Euro swap rate + 5.17% interest maturity October 2010	6,809,447	2,439,644
Note payable, 5.25% interest + Euribor, maturity April 2011	693,015	—
Subtotal PShM Albania	\$ <u>18,284,566</u>	<u>7,731,822</u>

# **OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

## Notes to Consolidated Financial Statements

December 31, 2006  
(with comparative totals for 2005)

	<u>2006</u>	<u>2005</u>
Banking notes payable (continued):		
Opportunity Bank Serbia:		
Note payable, 6.00% interest, maturity June 2010	\$ 515,492	590,805
Opportunity – SASL:		
Note payable, Gibor + 5.25% interest, maturity December 2007	452,800	—
Note payable, 20.25% interest, maturity December 2007	1,484,189	—
Note payable, 20.50% interest, maturity December 2007	1,202,750	—
Note payable, Gibor + 5.25% interest, maturity December 2008	433,934	—
Note payable, 20.50% interest, maturity December 2008	919,750	—
Note payable, Euribor + 4.00% interest, maturity December 2008	686,903	—
Subtotal Opportunity–SASL	<u>5,180,326</u>	<u>—</u>
Opportunity–Wedco:		
Note payable, 12.00% interest, maturity December 2007	57,800	—
Note payable, 5.00% interest, maturity December 2008	289,000	—
Subtotal Opportunity–Wedco	<u>346,800</u>	<u>—</u>
Opportunity International Bank Malawi:		
Note payable, 10.00% interest, maturity August 2014	333,791	—
	<u>.</u>	<u>—</u>
Total banking notes payable	<u>45,469,648</u>	<u>25,493,084</u>
Total notes payable	\$ <u><u>68,035,140</u></u>	<u><u>36,967,884</u></u>

Aggregate maturities of notes payable as of December 31, 2006 are as follows:

2007	\$ 12,797,305
2008	7,496,772
2009	11,370,878
2010	21,006,012
2011	4,205,381
Thereafter	<u>11,158,792</u>
Total notes payable	\$ <u><u>68,035,140</u></u>

## OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

December 31, 2006  
(with comparative totals for 2005)

#### (9) Lines of Credit

Opportunity has entered into line of credit agreements with two banks providing for borrowings up to approximately \$6,000,000. One line totaling \$2,000,000 is guaranteed by a Board member's private foundation and expires on July 15, 2007, with interest at the prime rate (8.25% at December 31, 2006) minus a fraction of a point. The other line totaling approximately \$4,000,000 has an interest rate based on the 3-month Libor Rate (London Interbank Offered Rate) (5.4% at December 31, 2006) plus 1.5%. The assets of the Cornerstone Fund provide collateral for this line. As of December 31, 2006 and 2005, there was no balance outstanding under these lines of credit.

During 2003, OTI entered into a \$2 million revolving line of credit arrangement with Oikocredit Ecumenical Development Cooperative Society U.A. (Oikocredit) with a duration period not to exceed seven years. The interest rate on the agreement is Libor plus 2% per annum, adjusted annually up to a ceiling of 9.5%. The interest rate as of December 31, 2006 was 7.4%. Borrowings outstanding were \$1,000,000 and \$500,000 as of December 31, 2006 and 2005, respectively. The U.S. Agency for International Development (USAID) has guaranteed this note up to 50% of the outstanding borrowings.

#### (10) USAID Agreements

Opportunity entered into funding agreements with USAID over various periods for microenterprise development purposes in overseas countries as follows:

Program	Total grant	Funds received through December 31, 2006	Estimated completion date
Malawi	\$ 2,160,918	2,160,918	February 2007
Serbia 2003	9,966,025	9,561,402	September 2007
Albania	6,390,000	5,874,075	December 2007
OVC	5,090,089	2,599,106	February 2009
Malawi IGP	889,782	193,558	September 2009

## OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

December 31, 2006  
(with comparative totals for 2005)

#### (11) Commitments and Contingencies

##### *Lease Obligations*

Opportunity leases office space in Illinois, California, New York, and Washington D.C. under operating leases. The Illinois and California leases expire in 2009 and the New York and Washington D.C. leases expire in 2007. Lease expense for the years ended December 31, 2006 and 2005 was approximately \$342,153 and \$323,275, respectively. Future minimum operating lease payments as of December 31, 2006 are as follows:

2007	\$	387,686
2008		375,115
2009		<u>267,307</u>
Total	\$	<u><u>1,030,108</u></u>

The banks lease office space in the various countries in which they are located under operating leases. Lease expense for the years ended December 31, 2006 and 2005 was approximately \$1,245,112 and \$635,014, respectively. Future minimum operating lease payments as of December 31, 2006 are as follows:

2007	\$	933,602
2008		790,925
2009		741,870
2010		679,780
2011		688,862
Thereafter		<u>1,538,717</u>
Total	\$	<u><u>5,373,756</u></u>

##### *Government Grants*

The amount of U.S. government grant revenue reflected in the accompanying consolidated financial statements is subject to review and possible adjustment by granting agencies. Amounts recovered from the U.S. government include indirect costs based upon calculated overhead rates, which are subject to possible increases or decreases under audit by the granting agencies. The amount of costs that may be disallowed by the granting agencies cannot be determined at this time. It is the opinion of management that unallowable costs, if any, will be insignificant.

Certain of the grant agreements with the U.S. government have fiscal matching requirements to satisfy the conditions of the grant. Opportunity contractually passes those fiscal matching requirements through to its nongovernmental organizational partners. Opportunity management believes its nongovernmental organizational partners have satisfied those matching requirements.

## **OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

### **Notes to Consolidated Financial Statements**

December 31, 2006  
(with comparative totals for 2005)

#### ***Reserve and Regulatory Capital Requirements***

OTI's foreign for-profit microfinance companies are subject to certain regulatory capital requirements that they must maintain. Opportunity Bank Montenegro is required by the Central Bank of Montenegro to maintain an obligatory reserve in the amount of 50% of the average balance of its deposit-related liabilities. Opportunity Bank Serbia and Opportunity Bank Montenegro are required to maintain a minimum capital adequacy ratio of 8% established by the National Bank of Serbia and the Central Bank of the Republic of Montenegro, respectively. As of December 31, 2006 and 2005, these regulatory capital requirements had been met.

Pursuant to the Law on Banks and Other Financial Institutions, savings banks registered in Serbia are required to maintain a monetary portion of their capital as at December 31, 2006 at a minimum amount of \$2 million euros. The Bank complies with the National Bank of Serbia's capital requirement.

#### ***Guarantees***

The Opportunity Loan Guarantee Fund I, LLC was established for the purpose of supporting microfinance institutions in developing countries to increase the availability of loans and related microfinance services to the poor by establishing and operating the fund to provide collateral support or similar means to enable microfinance institutions to borrow or otherwise acquire funds in local currency. The Fund entered into collateral support agreements with five members of the Opportunity International Network during 2005 and 2006 enabling the members to obtain bank financing. The net savings to the banks in 2005, as a result of the contingent obligation of the Fund to stand ready to perform in the event that the specified triggering events or conditions occur, was \$25,850 in 2005. The Fund had stand-by letters of credit outstanding in the amount of \$2,525,000 and \$1,500,000 as of December 31, 2006 and 2005, respectively. The expiration date of the stand-by letters of credit are between February 28, 2007 and November 18, 2010. The Fund earned fees totaling \$58,478 and \$7,500 during the years ended December 31, 2006 and 2005, respectively, for providing the letters of credit. The Fund has not been required to make any payments on the guarantees as of December 31, 2006.

#### **(12) Employee Benefit Plan**

All domestic and expatriate employees of Opportunity who have completed three months of service are eligible to participate in a defined contribution benefit plan (403(b) plan) sponsored by Opportunity. Participants are eligible to make individual contributions up to a limit determined by age and salary level. Benefit expense amounted to \$284,433 and \$239,153 for the years ended December 31, 2006 and 2005, respectively.

## **OPPORTUNITY INTERNATIONAL, INC. AND AFFILIATES**

### **Notes to Consolidated Financial Statements**

December 31, 2006

(with comparative totals for 2005)

#### **(13) Related-Party Transactions**

Included in program services in the consolidated statements of activities are grant expenses of \$8,707,347 and \$7,899,812 in 2006 and 2005, respectively, which relate to disbursements made by Opportunity to its affiliated partner organizations.

Certain key employees and board members affiliated with Opportunity and the microfinance institutions own portions of the minority interest in the microfinance banks. Each individual ownership position does not exceed 4.3% of the common stock outstanding in each respective microfinance bank.

#### **(14) Subsequent Events**

On February 7, 2007, the National Bank of Serbia issued a permanent banking license to the successor of Opportunity Bank Serbia, Opportunity Banka a.d. Novi Sad. A Shareholder Agreement dated September 14, 2006 and amended December 4, 2006 was signed by OTI, European Bank for Reconstruction and Development (EBRD), Nederlandse Financierings-Maatschppij Voor Ontwikkelingsl (FMO), and Oikocredit. During 2007, the current shareholders, OTI and Oikocredit, will convert a total of 11,803 shares of the Opportunity Bank Serbia into an equal number of Opportunity Banka a.d. Novi Sad shares, while new shareholders will pay an additional 330,900 thousand dinar for 5,515 ordinary shares. OTI's percentage of ownership will be reduced to 63.51%.

Through August 31, 2007, exchange rates fluctuated such that foreign assets and liabilities increased in value by approximately \$5,226,000 and \$5,076,000, respectively, resulting in an increase in net assets of approximately \$150,000 due solely to exchange rates.

Subsequent to year end notes payable with maturity dates prior to September 19, 2007 totaling approximately \$5,000,000 matured and were paid in full.

The funding agreement between USAID and Opportunity for Malawi was completed in February, 2007.

OTI entered into a Shareholder Agreement with Growing Opportunity Finance (India) Private Limited (GOF Ltd.), Inter-Mission Self Help Group (a nonprofit organization in India), and Opportunity International Australia Limited on March 27, 2007. On December 15, 2006, OTI paid \$281,000 for its investment of 25.65% in GOF Ltd. GOF Ltd. was incorporated on February 16, 2006 and applied to the Reserve Bank of India and relevant regulatory authorities in India for authorization of Foreign Direct Investment. Once GOF Ltd. obtains the required authorization to have non-Indian shareholders for up to 51% of share capital, then GOF Ltd. will issue shares to investors.

On April 26, 2007, OTI sold 661 ordinary shares of Opportunity Bank Montenegro for proceeds of €1,987,000. During 2007, OTI also converted its 3,000 preferred shares into common shares. The net effect of these transactions decreased OTI's ownership percentage of Opportunity Bank Montenegro common shares by approximately 5%.