VILLAGEREACH

Financial Statements

For the Year Ended September 30, 2011

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
VillageReach
Seattle, Washington

We have audited the accompanying statement of financial position of VillageReach (the Organization) as of September 30, 2011, and the related statements of activities 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 September 30, 2010 financial statements and, in our report dated February 16, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2011, and the changes in its net assets 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 conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses and the schedule of Malawi operating and capital expenditures are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Clark Nuber P. S.

Certified Public Accountants
February 17, 2012

VILLAGEREACH

Statement of Financial Position
September 30, 2011
(With Comparative Totals for 2010)

	2011	*2010*
Assets		
Cash and cash equivalents	$ 1,930,645	$ 408,424
Grants receivable		62,500
Contracts receivable	56,236	82,629
Prepaid expenses	38,918	18,797
Total Current Assets	**2,025,799**	**572,350**
Fixed assets, net (Note 3)	661,410	508,661
Total Assets	**$ 2,687,209**	**$ 1,081,011**
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 141,553	$ 88,184
Total Liabilities	**141,553**	**88,184**
Net Assets:		
Unrestricted	2,023,782	786,748
Temporarily restricted (Note 4)	521,874	206,079
Total Net Assets	**2,545,656**	**992,827**
Total Liabilities and Net Assets	**$ 2,687,209**	**$ 1,081,011**

See accompanying notes.

VILLAGEREACH

Statement of Activities
For the Year Ended September 30, 2011
(With Comparative Totals for 2010)

	Unrestricted	*Temporarily Restricted*	*2011 Total*	*2010 Total*
Public Support and Revenue:				
Public support-				
Contributions and grants	$ 2,335,226	$ 675,552	$ 3,010,778	$ 1,319,495
In-kind contributions	164,639		164,639	169,385
Total public support	2,499,865	675,552	3,175,417	1,488,880
Contract revenue	504,804		504,804	506,003
Interest and dividends	3,198		3,198	1,261
Other income	2,683		2,683	4,002
Net assets released from restrictions	359,757	(359,757)		
Total Public Support and Revenue	**3,370,307**	**315,795**	**3,686,102**	**2,000,146**
Expenses:				
Program services	1,668,761		1,668,761	1,531,264
Supporting services-				
Management and general	364,358		364,358	209,673
Fundraising	100,154		100,154	140,107
Total supporting services	464,512		464,512	349,780
Total Expenses	**2,133,273**		**2,133,273**	**1,881,044**
Change in Net Assets	**1,237,034**	**315,795**	**1,552,829**	**119,102**
Net assets, beginning of year	786,748	206,079	992,827	873,725
Net Assets, End of Year	**$ 2,023,782**	**$ 521,874**	**$ 2,545,656**	**$ 992,827**

See accompanying notes.

VILLAGEREACH

Statement of Cash Flows
For the Year Ended September 30, 2011
(With Comparative Totals for 2010)

	2011	*2010*
Cash Flows from Operating Activities:		
Change in net assets	$ 1,552,829	$ 119,102
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	122,329	40,666
Loss on sale of fixed assets	15	2,914
Changes in assets and liabilities:		
Grants receivable	62,500	192,500
Contracts receivable	26,393	(82,629)
Prepaid expenses	(20,121)	(9,813)
Accounts payable and accrued expenses	53,369	46,696
Net Cash Provided by Operating Activities	**1,797,314**	**309,436**
Cash Flows from Investing Activities:		
Purchases of fixed assets	(281,380)	(297,557)
Proceeds from sale of fixed assets	6,287	3,836
Net Cash Used in Investing Activities	**(275,093)**	**(293,721)**
Net Change in Cash and Cash Equivalents	**1,522,221**	**15,715**
Cash and cash equivalents balance, beginning of year	408,424	392,709
Cash and Cash Equivalents Balance, End of Year	**$ 1,930,645**	**$ 408,424**

See accompanying notes.

Note 1 - Nature of Operations and Significant Accounting Policies

Nature of Operations - VillageReach (the Organization) is a non-profit organization operating in Seattle, Washington, and multiple low-income countries, primarily in sub-Saharan Africa. It is a Section 501(c)(3) entity per the Internal Revenue Code in the United States and registered as a non-governmental organization in the countries of Mozambique and Malawi. The Organization's mission is to save lives and improve health by increasing access to quality healthcare for remote, underserved communities. The Organization partners with governments, businesses, non-profits, and other organizations to improve health system performance and fill gaps in supporting infrastructure at the service delivery level or "last mile" in rural areas through health system strengthening, developing and deploying information communications technologies, and establishing and growing social businesses that support the health system.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Cash and Cash Equivalents - The Organization considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Grants Receivable - Grants and contributions, including any unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give, due in the next year, are recorded at their net realizable value. Unconditional promises to give, due in subsequent years, are reported at the present value of their net realizable value, using risk adjusted interest rates applicable to the years in which the payments are to be received.

Contracts Receivable - Contracts receivable are carried at original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management has not recorded an allowance for doubtful accounts as of September 30, 2011 and 2010.

Fixed Assets - The Organization capitalizes assets with a cost greater than $1,000 and an estimated useful life of one or more years. Depreciation is computed utilizing the straight-line method using estimated useful lives of three to five years for equipment, software, vehicles, furniture and fixtures.

The costs of repairs and maintenance are expensed as incurred. The costs of improvements and acquisitions are capitalized. Contributed property and equipment are recorded at fair value at the date of donation.

Net Assets - Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to externally-imposed restrictions.

Temporarily Restricted Net Assets - Net assets subject to externally-imposed restrictions that will be met either by action of the Organization or the passage of time.

Permanently Restricted Net Assets - Net assets subject to externally-imposed restrictions that stipulate the resources be maintained permanently. The Organization had no permanently restricted net assets as of September 30, 2011 and 2010.

Note 1 - Continued

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

Revenue Recognition - Contributions are recognized in the period received, including unconditional promises to give. Contract revenue is recognized as services are provided.

In-Kind Contributions - The Organization receives donated materials and services. Donated goods and use of facilities are recorded at fair market value at the date of receipt. Donated services are recorded only if specific professional expertise is provided or the services are for constructing a fixed asset, in accordance with GAAP.

Donated goods and services consisted of the following at September 30:

	2011	*2010*
Donated salaries	$ 90,000	$ 120,000
Donated lease of office space	66,049	49,385
Donated legal services	8,590	
Total	**$ 164,639**	**$ 169,385**

Allocation of Functional Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes - The Organization is a Section 501(c)(3) organization under the Internal Revenue Code and, as such, is exempt from federal income tax. Accordingly, the Organization has not made any provision for income tax expense. The Organization files income tax returns with the U.S. government. The Organization is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

Concentrations - The Organization places its cash with FDIC insured financial institutions. At September 30, 2011, the Organization had cash on deposit in excess of the federally insured limits.

For the year ended September 30, 2011, the Organization received a $300,000 grant, which represents 10% of total contribution and grant revenue. For the year ended September 30, 2010, the Organization received $250,000 and $175,000 in grants from two organizations, which represents 19% and 13%, respectively, of total contribution and grant revenue. At September 30, 2010, the entire grant receivable balance was due from one organization.

Note 1 - Continued

The Organization received $397,993 from one contract which represents 79% of total contract revenue for the year ended September 30, 2011. The Organization received $384,919 from a separate contract which represents 76% of total contract revenue for the year ended September 30, 2010. At September 30, 2011 and 2010, 94% and 76% of the contracts receivable is due from two contracts, respectively.

Use of Estimates - The preparation of financial statements in conformity with GAAP 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Operations - The functional currencies of the Organization's foreign operations are the local currencies. The financial statements of the Organization's foreign operations have been translated into U.S. dollars in accordance with GAAP. All statement of financial position accounts have been translated using the exchange rate in effect at the statement of financial position dates. Statement of activities amounts have been translated using the average monthly exchange rate. For the years ended September 30, 2011 and 2010, the Organization recognized a foreign currency translation gain of $2,683 and $3,559, respectively. The gain is included as "other income" on the statement of activities.

Summarized Information for Prior Year - The 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 GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2010, from which the summarized information was derived.

Subsequent Events - The Organization has evaluated subsequent events through February 17, 2012, the date on which the financial statements were approved and authorized for issuance by management.

Note 2 - Investment in VidaGas

Prior to September 30, 2010, the Organization had a 48% ownership interest in VidaGas, a for-profit liquid propane supplier, formed in 2002, in Mozambique. The remaining 52% was owned by a local non-governmental organization (Foundation for Community Development) that partners with the Organization in its mission to improve health care access in Mozambique. The partnership was formed because of the importance of a ready supply of liquid propane to the distribution and storage of vaccines. It is considered an extension of the Organization's mission in Mozambique. Propane sales are made to the public.

The investment in VidaGas is accounted for under the equity method in the financial statements of the Organization. However, due to negative retained earnings, which were considered other than temporary impairment in the investment, the carrying value in VidaGas was reduced to zero during the year ended September 30, 2006. Therefore no investment value is recorded in the statement of financial position. Management has reviewed the assessment of VidaGas for the year ended September 30, 2011 and has determined that the investment should remain at zero.

Note 2 - Continued

During the year ended September 30, 2010, Oasis Capital Limited purchased capital shares of VidaGas by investing $1,375,000, to be paid in three installment payments over 15 months. The Organization's interest in VidaGas will decrease to 35%, 29%, and 25% after the first, second and third payments are made, respectively. As of September 30, 2011, the second payment had been made, with the Organization's interest in VidaGas reduced to 29%. The Organization will continue to account for the investment under the equity method in the financial statements.

Note 3 - Fixed Assets

Fixed assets consisted of the following at September 30:

	2011	*2010*
Furniture and fixtures	$ 7,054	$ 1,941
Vehicles	55,031	157,799
Equipment	394,223	41,431
Software	390,478	376,588
Total fixed assets	846,786	577,759
Less accumulated depreciation	(185,376)	(69,098)
Fixed Assets, Net	**$ 661,410**	**$ 508,661**

Note 4 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30:

	2011	*2010*
Program services-		
Kwitanda Community Health Project	$ 136,677	$ 143,579
OpenLMIS initiative	296,501	
mScan project	88,696	
Total program services	521,874	143,579
Time restriction		62,500
	$ 521,874	**$ 206,079**

Note 5 - Retirement Plan

Effective January 1, 2011, the Organization implemented a 401(k) retirement plan that covers all employees who are at least 21 years of age with at least three months of service. The Organization matches 100% of the employees' deferrals up to 3% of the employee's compensation. Total matching contributions totaled $6,100 for the year ended September 30, 2011.

Note 6 - Malawi Pension Plan

On March 1, 2011, the Malawi Parliament adopted a bill establishing a national pension fund to which employers and employees make periodic, mandatory pension contributions. Employers are required to make contributions for individuals employed for at least 12 months. Total contributions totaled $12,703 for the year ended September 30, 2011.

Note 7 - Subsequent Events

Effective December 10, 2011, the Organization entered into a five year lease agreement for office space located in Seattle, Washington. The initial monthly rent of $3,686 will be increased every December by 3% until termination of the lease on December 9, 2016.

Subsequent to September 30, 2011, the Organization committed to make an investment of $99,177 to enable VidaGas to purchase additional gas cylinders for the distribution of gas to new customers. An initial payment of $33,161 was made on February 7, 2012, and the balance of $66,016 is scheduled to be paid on March 31, 2012. The investment is proportionate with the Organization's 29% interest in VidaGas.

SUPPLEMENTARY INFORMATION

VILLAGEREACH

Statement of Functional Expenses
For the Year Ended September 30, 2011
(With Comparative Totals for 2010)

	Program Services	*Management and General*	*Fundraising*	*2011 Total*	*2010 Total*
Salaries	$ 600,195	$ 136,320	$ 19,127	$ 755,642	$ 577,462
Employee benefits and payroll taxes	105,792	30,871	1,766	138,429	80,396
Total Salaries and Related Expenses	**705,987**	**167,191**	**20,893**	**894,071**	**657,858**
Professional fees	286,664	116,045	76,221	478,930	384,302
Travel and lodging	228,463	8,163		236,626	134,054
Depreciation	118,392	3,374	563	122,329	40,666
Supplies	93,654	4,253		97,907	113,227
Rent	55,854	24,497	2,040	82,391	62,199
Vehicles	55,610			55,610	23,578
Subagreements	50,094			50,094	328,425
Computer related services	9,657	8,976		18,633	16,530
Telephone	14,768	2,944		17,712	13,810
Insurance	2,697	10,136		12,833	13,844
Dues and subscriptions	7,252	4,970		12,222	13,873
Contract labor	8,697			8,697	43,999
Bank charges	1,153	7,033	437	8,623	4,373
Meals and entertainment	6,067	1,075		7,142	4,678
Repairs and maintenance	6,779			6,779	3,322
Community Mobilization	4,878			4,878	
Miscellaneous	1,102	2,867		3,969	4,511
Staff training and education	2,195	570		2,765	1,094
Printing and publications	1,979	525		2,504	6,466
Taxes and licenses	1,652	806		2,458	2,703
Conferences	1,660	700		2,360	6,009
Postage and mailing	2,074	233		2,307	320
Utilities	1,433			1,433	1,203
Total Expenses	**$ 1,668,761**	**$ 364,358**	**$ 100,154**	**$ 2,133,273**	**$ 1,881,044**

See independent auditors' report.

VILLAGEREACH

Schedule of Malawi Operating and Capital Expenditures
For the Year Ended September 30, 2011

Operating Expenses:		
Personnel	$	120,707
Consultants		10,130
General/program		149,687
Travel		5,705
Total Operating Expenses	**$**	**286,229**
Capital Expenditures:		
Vehicles	$	58,908
Equipment		8,506
Total Capital Expenditures	**$**	**67,414**

See independent auditors' report.