VILLAGEREACH

Financial Statements

For the Year Ended September 30, 2012

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, 2012, 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, 2011, financial statements and, in our report dated February 17, 2012, 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, 2012, 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 PS

Certified Public Accountants
January 24, 2013

VILLAGEREACH

Statement of Financial Position
September 30, 2012
(With Comparative Totals for 2011)

	2012	*2011*
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,593,206	$ 1,930,645
Contracts receivable	101,309	56,236
Prepaid expenses	36,981	38,918
Total Current Assets	**1,731,496**	**2,025,799**
Investment in VidaGas (Note 2)	99,178	
Fixed assets, net (Note 3)	564,415	661,410
Total Assets	**$ 2,395,089**	**$ 2,687,209**
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 170,966	$ 133,485
Deferred contract revenue	85,042	8,068
Total Current Liabilities	**256,008**	**141,553**
Net Assets:		
Unrestricted	1,368,495	2,023,782
Temporarily restricted (Note 4)	770,586	521,874
Total Net Assets	**2,139,081**	**2,545,656**
Total Liabilities and Net Assets	**$ 2,395,089**	**$ 2,687,209**

See accompanying notes.

VILLAGEREACH

Statement of Activities
For the Year Ended September 30, 2012
(With Comparative Totals for 2011)

	Unrestricted	*Temporarily Restricted*	*2012 Total*	*2011 Total*
Operating Activities				
Public Support and Revenue:				
Public support-				
Contributions and grants	$ 939,405	$ 898,550	$ 1,837,955	$ 3,010,778
In-kind contributions	250,425		250,425	164,639
Total public support	1,189,830	898,550	2,088,380	3,175,417
Contract revenue	510,994		510,994	504,804
Interest and dividends	3,051		3,051	3,198
Other income				2,683
Net assets released from restrictions	649,838	(649,838)		
Total Public Support and Revenue	**2,353,713**	**248,712**	**2,602,425**	**3,686,102**
Expenses:				
Program services	2,421,769		2,421,769	1,668,761
Supporting services-				
Management and general	423,282		423,282	364,358
Fundraising	151,809		151,809	100,154
Total supporting services	575,091		575,091	464,512
Total Expenses	**2,996,860**		**2,996,860**	**2,133,273**
Change in Net Assets from Operating Activities	**(643,147)**	**248,712**	**(394,435)**	**1,552,829**
Nonoperating Activities				
Loss on disposal of fixed assets	(12,140)		(12,140)	
Change in Net Assets from Nonoperating Activities	**(12,140)**		**(12,140)**	
Change in Net Assets	**(655,287)**	**248,712**	**(406,575)**	**1,552,829**
Net assets, beginning of year	2,023,782	521,874	2,545,656	992,827
Net Assets, End of Year	**$ 1,368,495**	**$ 770,586**	**$ 2,139,081**	**$ 2,545,656**

See accompanying notes.

VILLAGEREACH

Statement of Cash Flows
For the Year Ended September 30, 2012
(With Comparative Totals for 2011)

	2012	*2011*
Cash Flows from Operating Activities:		
Change in net assets	$ (406,575)	$ 1,552,829
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities-		
Depreciation	181,749	122,329
Loss on disposal of fixed assets	12,140	15
Changes in assets and liabilities:		
Grants receivable		62,500
Contracts receivable	(45,073)	26,393
Prepaid expenses	1,937	(20,121)
Accounts payable and accrued expenses	37,481	45,301
Deferred contract revenue	76,974	8,068
Net Cash (Used in) Provided by Operating Activities	**(141,367)**	**1,797,314**
Cash Flows from Investing Activities:		
Purchases of fixed assets	(107,636)	(281,380)
Purchase of investment in VidaGas	(99,178)	
Proceeds from sale of fixed assets	10,742	6,287
Net Cash Used in Investing Activities	**(196,072)**	**(275,093)**
Net Change in Cash and Cash Equivalents	**(337,439)**	**1,522,221**
Cash and cash equivalents balance, beginning of year	1,930,645	408,424
Cash and Cash Equivalents Balance, End of Year	**$ 1,593,206**	**$ 1,930,645**

See accompanying notes.

Note 1 - Nature of Operations and Significant Accounting Policies

Nature of Operations - VillageReach (the Organization) is a nonprofit 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 (IRC) in the United States and registered as a nongovernmental 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, nonprofits, 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. There were no grants receivable as of September 30, 2012 and 2011.

During the year ended September 30, 2012, the Organization received a grant totaling $1,500,000 that contained certain conditions before payment is to be received. Total conditions met and payments received during the year ended September 30, 2012, totaled $500,000. Since the grant represents conditional promises to give, the remaining amount will not be recorded as grant revenue until the donor condition is met.

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, 2012 and 2011.

Fixed Assets - The Organization capitalizes assets with a cost greater than $5,000 and an estimated useful life of one or more years. In prior years the Organization capitalized assets with a cost greater than $1,000. 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.

Note 1 - Continued

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, 2012 and 2011.

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. Payments received in advance of services provided are recorded as deferred contract revenue.

In-Kind Contributions - The Organization receives donated goods and services. Donated goods and use of facilities are recorded at fair 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:

	2012	*2011*
Donated salaries	$ 160,964	$ 90,000
Donated legal and professional services	32,976	8,590
Donated lease of office space	30,850	66,049
Donated office furniture	25,635	
Total	**$ 250,425**	**$ 164,639**

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.

Note 1 - Continued

Income Taxes - The Organization is a Section 501(c)(3) organization under the IRC 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, 2012, the Organization had cash on deposit in excess of the federally insured limits.

For the year ended September 30, 2012, the Organization received $800,000 from two grants, which represents 44% of total contribution and grant revenue. For the year ended September 30, 2011, the Organization received a $300,000 grant, which represented 10% of total contribution and grant revenue.

For the year ended September 30, 2012, the Organization received $420,717 from two contracts which represents 82% of total contract revenue. For the year ended September 30, 2011, the Organization received $397,993 from one contract which represented 79% of total contract revenue. At September 30, 2012 and 2011, 90% and 94% of the contracts receivable is due from three and 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 month end exchange rate. For the year ended September 30, 2012, the Organization recognized a foreign currency translation loss of $18,103. The loss is included as an expense on the statement of activities. For the year ended September 30, 2011, the Organization recognized a foreign currency translation gain of $2,683. 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, 2011, from which the summarized information was derived.

Reclassifications - Certain reclassifications were made to the 2011 financial statements to conform to the 2012 presentation. The reclassifications have no effect on net assets or total change in net assets.

Subsequent Events - The Organization has evaluated subsequent events through January 24, 2013, 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 nongovernmental 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 for 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.

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. The second payment was made during 2011, with the Organization’s interest in VidaGas reduced to 29% as of September 30, 2012 and 2011.

During the year ended September 30, 2012, the Organization made an additional investment of $99,178 to enable VidaGas to purchase additional gas cylinders for the distribution of gas to new customers. The investment is proportionate with the Organization’s 29% interest in VidaGas and does not represent a contribution to fund prior year losses. Therefore, the Organization will continue to account for the additional contribution under the equity method in the financial statements.

Note 3 - Fixed Assets

Fixed assets consisted of the following at September 30:

	2012	*2011*
Furniture and fixtures	$ 7,054	$ 7,054
Vehicles	445,207	394,223
Equipment	47,981	55,031
Software	403,206	390,478
Total fixed assets	903,448	846,786
Less accumulated depreciation	(339,033)	(185,376)
Fixed Assets, Net	**$ 564,415**	**$ 661,410**

Note 4 - Temporarily Restricted Net Assets

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

	2012	*2011*
Program services-		
Kwitanda Community Health Project	$ 145,582	$ 136,677
Barr Foundation Pharmacy Assistant Program	486,185	
OpenLMIS initiative	121,593	296,501
mScan project	17,226	88,696
	$ 770,586	**$ 521,874**

Note 5 - Leases

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.

Rent expense related to this lease was $35,019 for the year ended September 30, 2012, and is included in occupancy expense.

Future minimum lease payments under the noncancelable leases are as follows:

For the Year Ending September 30,	
2013	$ 45,229
2014	46,586
2015	47,984
2016	49,423
2017	10,372
	$ 199,594

Note 6 - Retirement Plan

The Organization has a 401(k) retirement plan that covers all employees who are at least 21 years of age with at least three months of service. Prior to November 15, 2012, the Organization matched 100% of the employees' deferrals up to 3% of the employee's compensation. Effective November 15, 2012, the plan was amended to match 100% of each participant's contribution up to a maximum of 3% of eligible compensation and 50% of each participant's contribution on the next 2% of eligible compensation, up to a maximum of 4% or the IRC limitation for a safe-harbor matching contribution. Total matching contributions totaled $23,176 and $6,100 for the years ended September 30, 2012 and 2011, respectively.

Note 7 - Malawi Pension Plan

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. Contributions totaled $9,935 and $12,703 for the years ended September 30, 2012 and 2011, respectively.

SUPPLEMENTARY INFORMATION

VILLAGEREACH

Statement of Functional Expenses
For the Year Ended September 30, 2012
(With Comparative Totals for 2011)

	Program Services	*Management and General*	*Fundraising*	*2012 Total*	*2011 Total*
Salaries	$ 1,025,987	$ 233,753	$ 110,786	$ 1,370,526	$ 755,642
Employee benefits and payroll taxes	178,580	53,431	20,675	252,686	138,429
Total Salaries and Related Expenses	**1,204,567**	**287,184**	**131,461**	**1,623,212**	**894,071**
Travel and lodging	331,373	9,008	2,720	343,101	236,626
Professional fees	162,664	64,522	11,836	239,022	478,930
Depreciation	181,749			181,749	122,329
Supplies	97,399	4,143		101,542	97,907
Vehicles	120,165			120,165	55,610
Subagreements	105,768			105,768	50,094
Occupancy	77,446	25,708		103,154	83,824
Computer related services	21,043	5,937		26,980	18,633
Telephone	24,092	1,906		25,998	17,712
Taxes and licenses	22,160	924		23,084	2,458
Insurance	9,197	11,179		20,376	12,833
Foreign exchange loss	17,420	657	26	18,103	
Bank charges	5,416	1,455	5,166	12,037	8,623
Meals and entertainment	7,888	1,547		9,435	7,142
Dues and subscriptions	7,122	1,406		8,528	12,222
Contract labor	4,966	2,974		7,940	8,697
Staff training and education	6,253	1,155		7,408	2,765
Repairs and maintenance	5,633	657		6,290	6,779
Miscellaneous					3,969
Postage and mailing	3,053	165		3,218	2,307
Printing and publications	5,387	1,155		6,542	2,504
Conferences	275	1,600	600	2,475	2,360
Community Mobilization	733			733	4,878
Total Expenses	**$ 2,421,769**	**$ 423,282**	**$ 151,809**	**$ 2,996,860**	**$ 2,133,273**

See independent auditors' report.

VILLAGEREACH

Schedule of Malawi Operating and Capital Expenditures
For the Year Ended September 30, 2012

Operating Expenses:	
Personnel	$ 145,781
Consultants	37,697
General/program	110,567
Travel	6,058
Total Operating Expenses	**$ 300,103**

See independent auditors' report.