VillageReach

Starting at the Last Mile

Financial Statements

For the Year Ended September 30, 2017

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Clark Nuber PS

Independent Auditor's Report

To the Board of Directors
VillageReach
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of VillageReach (the Organization), which comprise the statement of financial position as of September 30, 2017 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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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, 2017, and the results of its change in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 9, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 11, and the schedule of Malawi operating and capital expenditures on page 12 are presented for purposes of additional analysis and are not required parts 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.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Clark Nuber PS

Certified Public Accountants
June 29, 2018

VILLAGEREACH

Statement of Financial Position
September 30, 2017
(With Comparative Totals for 2016)

	2017	2016
Assets		
Current Assets:		
Cash and cash equivalents	$ 4,183,135	$ 5,389,114
Contracts and grants receivable	2,933,733	5,014,506
Loans receivable, net (Note 2)	66,000	50,340
Prepaid expenses	131,136	120,880
Total Current Assets	**7,314,004**	**10,574,840**
Investment in VidaGas (Note 2)	11,506	11,506
Fixed assets, net (Note 3)	263,425	172,749
Total Assets	**$ 7,588,935**	**$ 10,759,095**
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 957,385	$ 633,613
Total Current Liabilities	**957,385**	**633,613**
Deferred rent	14,405	
Total Liabilities	**971,790**	**633,613**
Net Assets:		
Unrestricted	1,051,212	1,038,859
Temporarily restricted	5,565,933	9,086,623
Total Net Assets	**6,617,145**	**10,125,482**
Total Liabilities and Net Assets	**$ 7,588,935**	**$ 10,759,095**

See accompanying notes.

VILLAGEREACH

Statement of Activities
For the Year Ended September 30, 2017
(With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	2017 Total	2016
Operating Activities				
Public Support and Revenue:				
Public support-				
Contributions and grants	$ 472,368	$ 3,245,336	$ 3,717,704	$ 10,603,861
In-kind contributions	21,770		21,770	136,729
Total public support	494,138	3,245,336	3,739,474	10,740,590
Contract revenue	2,946,539		2,946,539	1,168,761
Interest and dividends	3,831	104	3,935	1,459
Other income	15,360		15,360	2,500
Net assets released from restrictions	6,766,130	(6,766,130)		
Total Public Support and Revenue	**10,225,998**	**(3,520,690)**	**6,705,308**	**11,913,310**
Expenses:				
Program services	8,673,587		8,673,587	6,198,878
Supporting services-				
Management and general	1,329,366		1,329,366	707,785
Fundraising	207,735		207,735	78,631
Total supporting services	1,537,101		1,537,101	786,416
Total Expenses	**10,210,688**		**10,210,688**	**6,985,294**
Change in Net Assets From Operating Activities	**15,310**	**(3,520,690)**	**(3,505,380)**	**4,928,016**
Nonoperating Activities				
Loss on disposal of vehicles	(2,957)		(2,957)	(19,572)
Change in Net Assets From Nonoperating Activities	**(2,957)**		**(2,957)**	**(19,572)**
Change in Net Assets	**12,353**	**(3,520,690)**	**(3,508,337)**	**4,908,444**
Net assets, beginning of year	1,038,859	9,086,623	10,125,482	5,217,038
Net Assets, End of Year	**$ 1,051,212**	**$ 5,565,933**	**$ 6,617,145**	**$ 10,125,482**

See accompanying notes.

VILLAGEREACH

Statement of Cash Flows
For the Year Ended September 30, 2017
(With Comparative Totals for 2016)

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	$ (3,508,337)	$ 4,908,444
Adjustments to reconcile change in net assets to		
net cash provided by (used) in by operating activities-		
Depreciation	94,143	122,673
Loss on disposal of fixed assets	2,957	19,572
Donated leasehold improvements	(10,000)	
Changes in assets and liabilities:		
Contracts and grants receivable	2,080,773	(2,977,368)
Loans receivable, net	(15,660)	
Prepaid expenses	(10,256)	(35,925)
Accounts payable and accrued expenses	323,772	238,475
Deferred rent	14,405	
Net Cash (Used in) Provided by Operating Activities	**(1,028,203)**	**2,275,871**
Cash Flows From Investing Activities:		
Purchases of fixed assets	(189,982)	(29,780)
Proceeds from sale of fixed assets	12,206	
Net Cash Used in Investing Activities	**(177,776)**	**(29,780)**
Net Change in Cash and Cash Equivalents	**(1,205,979)**	**2,246,091**
Cash and cash equivalents balance, beginning of year	5,389,114	3,143,023
Cash and Cash Equivalents Balance, End of Year	**$ 4,183,135**	**$ 5,389,114**
Supplementary Disclosure of Cash Flow Information:		
Noncash investing activities - donated leasehold improvements	$ 10,000	$ -

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-resource 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, Malawi, Tanzania and Democratic Republic of Congo. The Organization's mission is to save lives and improve health by increasing access to quality healthcare for the most 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.

During the year ended September 30, 2017, the Organization acquired an unrelated entity that shares the Organization's mission. The assets acquired are reflected as temporarily restricted contribution revenue on the statement of activities and unspent funds are included in temporarily restricted net assets as of September 30, 2017.

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 (U.S. 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. Management has determined an allowance for doubtful accounts was not necessary as of September 30, 2017 and 2016.

Contracts Receivable - Contracts receivable are carried at original invoice amount less an estimate made for doubtful accounts. Management has recorded an allowance for doubtful accounts of $0 and $5,600 as of September 30, 2017 and 2016, respectively.

Fixed Assets - The Organization capitalizes assets with a cost equal to or greater than $5,000 and an estimated useful life of one or more years. Depreciation is computed utilizing the straight-line method based on estimated useful lives of three to five years for equipment, software, vehicles, furniture and fixtures. Leasehold improvements are depreciated over the short of useful life or lease term.

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. All temporarily restricted net assets as of September 30, 2017 and 2016 are purpose restricted.

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, 2017 and 2016.

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.

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 U.S. GAAP.

Donated goods and services consisted of the following for the years ended September 30:

	2017	2016
Salaries	$ -	$ 136,729
Leasehold improvements	10,000	
Professional services	4,296	
Other	7,474	
Total In-Kind Contributions	**$ 21,770**	**$ 136,729**

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

Tax Exempt Status - 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 in the accompanying financial statements.

Note 1 - Continued

Operating Activities - The statement of activities includes a performance indicator that reports the change in net assets from operations. Changes in net assets excluded from income from operations, consistent with industry practice, include the recognition of the loss on investments accounted for under the equity method and the loss on disposal of fixed assets.

Concentrations - The Organization places its cash with FDIC insured financial institutions. At September 30, 2017, the Organization had cash on deposit in excess of the federally insured limits.

For the year ended September 30, 2017, the Organization received $2,002,576 from one donor, which represented 68% of total contributions and grants revenue. For the year ended September 30, 2016, the Organization received $8,997,283 from one donor, which represents 85% of total contributions and grants revenue. As of September 30, 2017 and 2016, 15% and 91% of total contracts and grants receivable, respectively, were from one donor.

For the year ended September 30, 2017, 76% of contract revenue was from five entities. As of September 30, 2017, 10% of total contracts and grants receivable was from a contract with one entity. There were no contract concentrations as of and for the year ended September 30, 2016.

Use of Estimates - The preparation of financial statements in conformity with U.S. 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 Organization operates in a number of foreign countries. As of September 30, 2017 and 2016, the Organization held approximately $53,201 and $38,802 in foreign countries, of which $0 and $5,675 was in foreign currencies, respectively. Repatriation of funds restrictions may exist in a small number of foreign currency accounts. The Organization has not experienced any losses in such accounts and closely monitors its cash and investments. Therefore, management believes the Organization is not exposed to any significant credit risk on cash and equivalents.

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 U.S. 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 years ended September 30, 2017 and 2016, the Organization recognized foreign currency translation losses of $2,965 and $4,270, respectively. The losses are included as an expense on the schedule of functional expense.

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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended September 30, 2016, from which the summarized information was derived.

Subsequent Events - The Organization has evaluated subsequent events through June 29, 2018, the date on which the financial statements were approved and authorized for issuance by management (Note 2).

Note 2 - Investment in VidaGas

The Organization has a 29% ownership in VidaGas, a for-profit liquid propane supplier, formed in 2002, in Mozambique. An additional 40% is owned by Oasis Capital Limited, and the remaining 31% is 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. The net profits, net losses, and credits of VidaGas are allocated 29% to the Organization and 71% to the remaining partners in accordance with the partnership agreement.

During January 2015, the Organization loaned $66,000 to VidaGas, and under the current terms of the loan, the amount was callable at April 26, 2015. As of September 30, 2017, the loan has not been called. The Organization determined an allowance for the loan was not necessary as of September 30, 2017. The Organization recorded a $15,660 allowance for the loan as of September 30, 2016. The Organization's 29% ownership, along with that of Oasis Capital's were sold on May 11, 2018 to Vida Energy Ltd. The Organization's gross proceeds from the sale are $756,522, from which the loan receivable of $66,000 will be repaid.

Note 3 - Fixed Assets

Fixed assets consisted of the following as of September 30:

	2017	2016
Furniture and fixtures	$ 101,012	$ 62,337
Vehicles	283,430	405,638
Equipment	22,360	22,360
Software	435,600	423,931
Leasehold improvements	122,064	37,466
Total fixed assets	964,466	951,732
Less accumulated depreciation	(701,041)	(778,983)
Fixed Assets, Net	**$ 263,425**	**$ 172,749**

Note 4 - 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 was increased every December by 3% until termination of the lease on December 9, 2016. Subsequent to year end the lease was renewed through December 31, 2021.

Rent expense related to this lease was $69,899 and $49,423 for the years ended September 30, 2017, and 2016, respectively, and is included in occupancy expense.

Note 4 - Continued

Future minimum lease payments under the noncancelable lease is as follows:

For the Year Ending September 30,		
2018	$	104,089
2019		113,339
2020		123,188
2021		133,924
2022		34,166
Total	**$**	**508,706**

Note 5 - Retirement Plans

The Organization has a 401(k) retirement plan that covers all U.S. based employees and U.S. citizens employed in foreign offices who are at least 21 years of age with at least three months of service. The Organization matches 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 $116,500 and $77,899 for the years ended September 30, 2017 and 2016, respectively.

During 2015, the Organization established a nonqualified 457(b) deferred compensation plan that is covered under section 457 of the IRC. Only employees specifically designated by the Board of Trustees are eligible. The maximum salary deferral under this plan in calendar year 2017 was $18,000, with "catch-up" provisions allowing additional deferrals up to the lessor of two times the $18,000 limit or the sum of an unused portion of the $18,000 in any prior year of participation in the plan. There are no matching provisions. The nonqualified deferred compensation plan is administered by the Organization.

During 2017, the Organization established an international defined contribution retirement plan for third country national employees in foreign offices. All such employees are required to become members of and contribute 5% of gross earnings to the plan with a mandatory Organization match of 100%. The Organization's contributions to the plan totaled $12,330 for the year ended September 30, 2017.

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. Employee contributions totaled $51,842 and $31,245 for the years ended September 30, 2017 and 2016, respectively.

Note 6 - Commitments and Contingencies

Conditional Awards - As of September 30, 2017, the Organization has sub-award commitments with one sub-awardee totaling $200,214 to be paid over the course of the next 15 months. These amounts are not recorded on the statement of financial position as conditions exist that must be met prior to recognizing this as a liability of the Organization.

Potential Disallowed Costs - Expenses incurred under certain programs are subject to audit by the awarding entities. If, as a result of such audit, certain expenses incurred are determined to be nonreimbursable, the Organization may be obligated to repay the disallowed expenses previously claimed or received.

SUPPLEMENTARY INFORMATION

VILLAGEREACH

Schedule of Functional Expenses
For the Year Ended September 30, 2017
(With Comparative Totals for 2016)

	Program Services	Management and General	Fundraising	2017 Total	2016 Total
Salaries	$ 3,863,832	$ 506,731	$ 125,202	$ 4,495,765	$ 3,127,429
Employee benefits and payroll taxes	1,328,178	204,105	47,058	1,579,341	989,996
Total Salaries and Related Expenses	**5,192,010**	**710,836**	**172,260**	**6,075,106**	**4,117,425**
Professional fees	1,285,497	78,093	17,099	1,380,689	685,895
Travel and lodging	880,457	101,536	5,826	987,819	667,491
Subagreements	547,573			547,573	597,238
Computer related services	116,325	117,959	2,990	237,274	128,682
Vehicles	188,239	49		188,288	100,800
Occupancy	72,126	108,095		180,221	112,899
Supplies	99,973	16,570	421	116,964	164,976
Depreciation	10,048	84,095		94,143	122,673
Telephone	59,052	13,114	7	72,173	62,421
Meals and entertainment	28,986	17,352	1,255	47,593	22,061
Insurance	31,519	15,389		46,908	28,295
Conferences	42,617	2,897	539	46,053	42,771
Miscellaneous	24,972	8,747	5,309	39,028	12,749
Contract labor	35,553			35,553	20,160
Staff training and education	23,811	10,410		34,221	36,771
Bank charges	8,508	15,955		24,463	14,172
Printing and publications	10,399	4,968	1,630	16,997	20,945
Dues and subscriptions	1,795	9,926	237	11,958	12,838
Repairs and maintenance	3,922	7,977		11,899	2,898
Taxes and licenses	3,229	4,577		7,806	2,920
Postage and mailing	4,011	821	162	4,994	3,944
Foreign exchange loss	2,965			2,965	4,270
Total Expenses	**$ 8,673,587**	**$ 1,329,366**	**$ 207,735**	**$ 10,210,688**	**$ 6,985,294**

See independent auditor’s report.

VILLAGEREACH

Schedule of Malawi Operating and Capital Expenditures
For the Year Ended September 30, 2017

Operating and Capital Expenditures:	
Personnel	$ 865,187
Consultants	75,516
General/program	394,166
Travel	139,614
Total Operating and Capital Expenditures	**$ 1,474,483**

See independent auditor's report.