



Financial Statements

For the Year Ended September 30, 2015

## Table of Contents

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	Page
<b>Independent Auditor's Report</b>	1 - 2
<b>Financial Statements:</b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 10
<b>Supplementary Information:</b>	
Schedule of Functional Expenses	11
Schedule of Malawi Operating and Capital Expenditures	12

## Independent Auditor's Report

**Board of Directors**  
**VillageReach**  
**Seattle, Washington**

We have audited the accompanying financial statements of VillageReach (the Organization), which comprise the statement of financial position as of September 30, 2015 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. 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.

### 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, 2015, 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.



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## **Report on Summarized Comparative Information**

We have previously audited the Organization's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2014 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 is 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.



Certified Public Accountants  
February 11, 2016

VILLAGEREACH

Statement of Financial Position  
September 30, 2015  
(With Comparative Totals for 2014)

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 3,143,023	\$ 3,414,920
Contracts and grants receivable	1,308,745	584,393
Loans receivable, net (Note 2)	50,340	
Prepaid expenses	84,955	74,836
<b>Total Current Assets</b>	<b>4,587,063</b>	<b>4,074,149</b>
Investment in VidaGas (Note 2)	11,506	15,149
Fixed assets, net (Note 3)	285,214	331,032
<b>Total Assets</b>	<b>\$ 4,883,783</b>	<b>\$ 4,420,330</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 395,138	\$ 244,046
<b>Total Current Liabilities</b>	<b>395,138</b>	<b>244,046</b>
<b>Net Assets:</b>		
Unrestricted	858,339	1,053,665
Temporarily restricted	3,630,306	3,122,619
<b>Total Net Assets</b>	<b>4,488,645</b>	<b>4,176,284</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 4,883,783</b>	<b>\$ 4,420,330</b>

See accompanying notes.

VILLAGEREACH

Statement of Activities  
For the Year Ended September 30, 2015  
(With Comparative Totals for 2014)

	Unrestricted	Temporarily Restricted	2015 Total	2014 Total
<b>Operating Activities</b>				
<b>Public Support and Revenue:</b>				
Public support-				
Contributions and grants	\$ 1,299,337	\$ 3,412,515	\$ 4,711,852	\$ 4,435,121
In-kind contributions	223,670		223,670	180,000
Total public support	1,523,007	3,412,515	4,935,522	4,615,121
Contract revenue	1,176,715		1,176,715	1,079,131
Interest and dividends	1,022	1,044	2,066	2,485
Other income				1,652
Net assets released from restrictions	2,905,872	(2,905,872)		
<b>Total Public Support and Revenue</b>	<b>5,606,616</b>	<b>507,687</b>	<b>6,114,303</b>	<b>5,698,389</b>
<b>Expenses:</b>				
Program services	5,165,504		5,165,504	4,418,307
Supporting services-				
Management and general	552,867		552,867	489,704
Fundraising	79,928		79,928	118,358
Total supporting services	632,795		632,795	608,062
<b>Total Expenses</b>	<b>5,798,299</b>		<b>5,798,299</b>	<b>5,026,369</b>
<b>Change in Net Assets From Operating Activities</b>	<b>(191,683)</b>	<b>507,687</b>	<b>316,004</b>	<b>672,020</b>
<b>Nonoperating Activities</b>				
Loss on investment in VidaGas	(3,643)		(3,643)	
Loss on disposal of fixed assets				(4,057)
<b>Change in Net Assets From Nonoperating Activities</b>	<b>(3,643)</b>		<b>(3,643)</b>	<b>(4,057)</b>
<b>Change in Net Assets</b>	<b>(195,326)</b>	<b>507,687</b>	<b>312,361</b>	<b>667,963</b>
Net assets, beginning of year	1,053,665	3,122,619	4,176,284	3,508,321
<b>Net Assets, End of Year</b>	<b>\$ 858,339</b>	<b>\$ 3,630,306</b>	<b>\$ 4,488,645</b>	<b>\$ 4,176,284</b>

See accompanying notes.

**VILLAGEREACH****Statement of Cash Flows  
For the Year Ended September 30, 2015  
(With Comparative Totals for 2014)**

	<u>2015</u>	<u>2014</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 312,361	\$ 667,963
Adjustments to reconcile change in net assets to net cash (used) in provided by operating activities-		
Depreciation	202,710	195,012
Donated leasehold improvements	(37,466)	
Loss on disposal of fixed assets		4,057
Loss on investment in VidaGas	3,643	
Changes in assets and liabilities:		
Contracts and grants receivable	(724,352)	(351,365)
Prepaid expenses	(10,119)	(30,033)
Accounts payable and accrued expenses	151,092	12,037
	<u>(102,131)</u>	<u>497,671</u>
<b>Net Cash (Used) in Provided by Operating Activities</b>	<b>(102,131)</b>	<b>497,671</b>
<b>Cash Flows From Investing Activities:</b>		
Purchases of fixed assets	(119,426)	(35,817)
Issuance of notes receivable	(50,340)	
Proceeds from sale of fixed assets		6,849
	<u>(169,766)</u>	<u>(28,968)</u>
<b>Net Cash Used in Investing Activities</b>	<b>(169,766)</b>	<b>(28,968)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(271,897)</b>	<b>468,703</b>
Cash and cash equivalents balance, beginning of year	<u>3,414,920</u>	<u>2,946,217</u>
<b>Cash and Cash Equivalents Balance, End of Year</b>	<b><u>\$ 3,143,023</u></b>	<b><u>\$ 3,414,920</u></b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Donated leasehold improvements	\$ 37,466	

See accompanying notes.

## VILLAGEREACH

### Notes to Financial Statements For the Year Ended September 30, 2015

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#### 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 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.

**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 not recorded an allowance for doubtful accounts as of September 30, 2015 and 2014.

**Contracts Receivable** - Contracts receivable are carried at original invoice amount less an estimate made for doubtful accounts. Management has not recorded an allowance for doubtful accounts as of September 30, 2015 and 2014.

**Fixed Assets** - The Organization capitalizes assets with a cost greater than \$5,000 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. All temporarily restricted net assets at September 30, 2015 and 2014 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, 2015 and 2014.



## VILLAGEREACH

### Notes to Financial Statements For the Year Ended September 30, 2015

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#### 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. 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 at September 30:

	<u>2015</u>	<u>2014</u>
Donated salaries	\$ 180,000	\$ 180,000
Leasehold improvements	37,466	
Donated legal and professional services	4,204	
Supplies	2,000	
	<u>\$ 223,670</u>	<u>\$ 180,000</u>

**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 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.

**Income from Operations** - The statement of activities includes a performance indicator that reports income 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 disposal of fixed assets.

**Concentrations** - The Organization places its cash with FDIC insured financial institutions. At September 30, 2015, the Organization had cash on deposit in excess of the federally insured limits.

## VILLAGEREACH

### Notes to Financial Statements For the Year Ended September 30, 2015

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#### Note 1 - Continued

For the year ended September 30, 2015, the Organization received \$3,071,679 from one grantor, which represented 65% of total contributions and grants revenue. For the year ended September 30, 2014, the Organization received \$2,854,961 from one grantor, which represents 64% of total contributions and grants revenue.

For the year ended September 30, 2015, the Organization had receivables of \$527,651 from three contracts which represents 47% of total contract revenue. For the year ended September 30, 2014, the Organization had receivables of \$703,209 from three contracts which represents 65% of total contract revenue.

At September 30, 2014, 83% of the contracts receivable was due from five contracts, respectively.

**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 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 year ended September 30, 2015 and 2014, the Organization recognized a foreign currency translation loss of \$7,215 and \$1,525, respectively. The loss is included as an expense on the statement 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, 2014, from which the summarized information was derived.

**Subsequent Events** - The Organization has evaluated subsequent events through February 11, 2016, the date on which the financial statements were approved and authorized for issuance by management.

#### Note 2 - Investment in VidaGas

The Organization has a 29% ownership in VidaGas, a for-profit liquid propane supplier, formed in 2002, in Mozambique. The remaining 71% is owned by Oasis Capital Limited and 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 VillageReach and 71% to the remaining partners in accordance with the partnership agreement.

## VILLAGEREACH

### Notes to Financial Statements For the Year Ended September 30, 2015

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#### Note 2 - Continued

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, 2015, the loan has not been called. The Organization has recorded a \$15,660 allowance as of September 30, 2015.

#### Note 3 - Fixed Assets

Fixed assets consisted of the following at September 30:

	<u>2015</u>	<u>2014</u>
Furniture and fixtures	\$ 56,581	\$ 7,054
Vehicles	614,370	568,370
Equipment	22,360	22,360
Software	418,906	395,006
Leasehold improvements	<u>37,466</u>	
Total fixed assets	1,149,683	992,790
Less accumulated depreciation	<u>(864,469)</u>	<u>(661,758)</u>
<b>Fixed Assets, Net</b>	<b><u>\$ 285,214</u></b>	<b><u>\$ 331,032</u></b>

#### 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 will be increased every December by 3% until termination of the lease on December 9, 2016.

Rent expense related to this lease was \$47,984 and \$46,586 for the years ended September 30, 2015, and 2014, respectively, is included in occupancy expense.

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

For the Year Ending September 30,

2016	\$ 49,423
2017	<u>10,372</u>
	<b><u>\$ 59,795</u></b>

## VILLAGEREACH

### Notes to Financial Statements For the Year Ended September 30, 2015

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#### **Note 5 - 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. 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 \$58,093 and \$39,628 for the years ended September 30, 2015 and 2014, 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 2015 was \$18,000, with "catch-up" provisions allowing additional deferrals up to the lesser of two times the \$18,000 limit or the sum of 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.

#### **Note 6 - 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 \$25,793 and \$23,843 for the years ended September 30, 2015 and 2014, respectively.

#### **Note 7 - Commitments and contingencies**

At September 30, 2015, the Organization has sub-award commitments with 6 sub-awardees totaling \$295,000 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 be recording as a liability of the organization.

**SUPPLEMENTARY INFORMATION**

VILLAGEREACH

**Schedule of Functional Expenses  
For the Year Ended September 30, 2015  
(With Comparative Totals for 2014)**

	Program Services	Management and General	Fundraising	2015 Total	2014 Total
Salaries	\$ 2,311,532	\$ 230,560	\$ 54,065	\$ 2,596,157	\$ 1,955,627
Employee benefits and payroll taxes	629,778	75,559	14,598	719,935	548,711
<b>Total Salaries and Related Expenses</b>	<b>2,941,310</b>	<b>306,119</b>	<b>68,663</b>	<b>3,316,092</b>	<b>2,504,338</b>
Travel and lodging	701,921	4,325	83	706,329	489,064
Subagreements	666,101			666,101	1,032,854
Depreciation	164,935	37,775		202,710	195,012
Professional fees	148,965	22,101	875	171,941	138,429
Vehicles	121,371			121,371	160,001
Supplies	99,668	8,553		108,221	156,388
Occupancy	49,296	53,381		102,677	76,241
Computer related services	60,997	39,842	131	100,970	41,677
Telephone	59,296	6,787		66,083	49,294
Miscellaneous	19,769	27,805		47,574	151
Insurance	22,720	12,176		34,896	32,935
Taxes and licenses	20,312	6,956		27,268	39,295
Meals and entertainment	21,303	2,793	935	25,031	25,436
Printing and publications	8,658	7,913	3,029	19,600	14,942
Bank charges	7,674	6,666	3,848	18,188	22,374
Contract labor	13,457			13,457	3,286
Conferences	11,153	840	599	12,592	11,968
Staff training and education	9,350	758	49	10,157	16,935
Dues and subscriptions	462	5,864	1,500	7,826	6,619
Repairs and maintenance	5,915	1,508		7,423	3,724
Foreign exchange loss	7,215			7,215	1,525
Postage and mailing	3,656	705	216	4,577	3,736
Community Mobilization					145
<b>Total Expenses</b>	<b>\$ 5,165,504</b>	<b>\$ 552,867</b>	<b>\$ 79,928</b>	<b>\$ 5,798,299</b>	<b>\$ 5,026,369</b>

See independent auditor's report.

**VILLAGEREACH**

**Schedule of Malawi Operating and Capital Expenditures  
For the Year Ended September 30, 2015**

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<b>Operating Expenses:</b>	
Personnel	\$ 454,420
Consultants	12,046
General/program	580,837
Travel	<u>49,593</u>
<b>Total Operating Expenses</b>	<b><u>\$ 1,096,896</u></b>