



Financial Statements

For the Year Ended September 30, 2016

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Independent Auditor's Report

**To the 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, 2016 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.



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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, 2016, 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.

Correction of Error

As discussed in Note 8 to the financial statements, the 2015 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Organization's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 11, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015 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 12, and the schedule of Malawi operating and capital expenditures on page 13 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.

Clark Nuber PS

Certified Public Accountants
February 9, 2017

VILLAGEREACH**Statement of Financial Position
September 30, 2016
(With Comparative Totals for 2015)**

	<u>2016</u>	<u>2015</u> (As Restated)
Assets		
Current Assets:		
Cash and cash equivalents	\$ 5,389,114	\$ 3,143,023
Contracts and grants receivable	5,014,506	2,037,138
Loans receivable, net (Note 2)	50,340	50,340
Prepaid expenses	<u>120,880</u>	<u>84,955</u>
Total Current Assets	10,574,840	5,315,456
Investment in VidaGas (Note 2)	11,506	11,506
Fixed assets, net (Note 3)	<u>172,749</u>	<u>285,214</u>
Total Assets	<u>\$ 10,759,095</u>	<u>\$ 5,612,176</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	<u>\$ 633,613</u>	<u>\$ 395,138</u>
Total Current Liabilities	633,613	395,138
Net Assets:		
Unrestricted	1,038,859	858,339
Temporarily restricted	<u>9,086,623</u>	<u>4,358,699</u>
Total Net Assets	<u>10,125,482</u>	<u>5,217,038</u>
Total Liabilities and Net Assets	<u>\$ 10,759,095</u>	<u>\$ 5,612,176</u>

See accompanying notes.

VILLAGEREACH

Statement of Activities
For the Year Ended September 30, 2016
(With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	2016 Total	2015 (As Restated)
Operating Activities				
Public Support and Revenue:				
Public support-				
Contributions and grants	\$ 747,021	\$ 9,856,840	\$ 10,603,861	\$ 4,711,852
In-kind contributions	136,729		136,729	223,670
Total public support	883,750	9,856,840	10,740,590	4,935,522
Contract revenue	1,168,761		1,168,761	1,176,715
Interest and dividends	16	1,443	1,459	2,066
Other income	2,500		2,500	
Net assets released from restrictions	5,130,359	(5,130,359)		
Total Public Support and Revenue	7,185,386	4,727,924	11,913,310	6,114,303
Expenses:				
Program services	6,198,878		6,198,878	5,165,504
Supporting services-				
Management and general	707,785		707,785	552,867
Fundraising	78,631		78,631	79,928
Total supporting services	786,416		786,416	632,795
Total Expenses	6,985,294		6,985,294	5,798,299
Change in Net Assets From Operating Activities	200,092	4,727,924	4,928,016	316,004
Nonoperating Activities				
Loss on investment in VidaGas				(3,643)
Loss on disposal of vehicles	(19,572)		(19,572)	
Change in Net Assets From Nonoperating Activities	(19,572)		(19,572)	(3,643)
Change in Net Assets	180,520	4,727,924	4,908,444	312,361
Net assets, beginning of year	858,339	4,358,699	5,217,038	4,904,677
Net Assets, End of Year	\$ 1,038,859	\$ 9,086,623	\$ 10,125,482	\$ 5,217,038

See accompanying notes.

VILLAGEREACH

Statement of Cash Flows
For the Year Ended September 30, 2016
(With Comparative Totals for 2015)

	2016	2015 (As Restated)
Cash Flows From Operating Activities:		
Change in net assets	\$ 4,908,444	\$ 312,361
Adjustments to reconcile change in net assets to net cash provided by (used) in by operating activities-		
Depreciation	122,673	202,710
Donated leasehold improvements		(37,466)
Loss on disposal of fixed assets	19,572	
Loss on investment in VidaGas		3,643
Changes in assets and liabilities:		
Contracts and grants receivable	(2,977,368)	(724,352)
Prepaid expenses	(35,925)	(10,119)
Accounts payable and accrued expenses	238,475	151,092
Net Cash Provided by (Used) in Operating Activities	2,275,871	(102,131)
Cash Flows From Investing Activities:		
Purchases of fixed assets	(29,780)	(119,426)
Issuance of notes receivable		(50,340)
Net Cash Used in Investing Activities	(29,780)	(169,766)
Net Change in Cash and Cash Equivalents	2,246,091	(271,897)
Cash and cash equivalents balance, beginning of year	3,143,023	3,414,920
Cash and Cash Equivalents Balance, End of Year	\$ 5,389,114	\$ 3,143,023
Supplementary Disclosure of Cash Flow Information:		
Donated leasehold improvements	\$ -	\$ 37,466

See accompanying notes.

VILLAGEREACH

Notes to Financial Statements For the Year Ended September 30, 2016

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, 2016 and 2015.

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 \$5,600 and \$0 as of September 30, 2016 and 2015, respectively.

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. 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.

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, 2016 and 2015 are purpose restricted.

VILLAGEREACH

Notes to Financial Statements For the Year Ended September 30, 2016

Note 1 - Continued

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 at September 30, 2016 and 2015.

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>2016</u>	<u>2015</u>
Donated salaries	\$ 136,729	\$ 180,000
Leasehold improvements		37,466
Donated legal and professional services		4,204
Supplies		<u>2,000</u>
	<u>\$ 136,729</u>	<u>\$ 223,670</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. 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.

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.

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Notes to Financial Statements For the Year Ended September 30, 2016

Note 1 - Continued

Concentrations - The Organization places its cash with FDIC insured financial institutions. At September 30, 2016, the Organization had cash on deposit in excess of the federally insured limits.

For the year ended September 30, 2016, the Organization received \$8,997,283 from one grantor, which represented 85% of total contributions and grants revenue. For the year ended September 30, 2015, the Organization received \$3,071,679 from one grantor, which represents 65% of total contributions and grants revenue.

At September 30, 2015, 47% of the contracts receivable was due from three 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 Organization operates in a number of foreign countries. At September 30, 2016 and 2015, the Organization held approximately \$38,141 and \$79,132 in foreign countries, of which \$5,675 and \$25,335 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, 2016 and 2015, the Organization recognized foreign currency translation losses of \$4,270 and \$7,216, respectively. The losses are 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, 2015, from which the summarized information was derived.

Reclassifications - Certain reclassifications have been reflected in the 2015 financial statements to conform to the classifications for 2016. The reclassifications had no impact on 2015 change in net assets or net assets.

Subsequent Events - The Organization has evaluated subsequent events through February 9, 2017, the date on which the financial statements were approved and authorized for issuance by management.

VILLAGEREACH

Notes to Financial Statements For the Year Ended September 30, 2016

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.

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, 2016, the loan has not been called. The Organization has recorded a \$15,660 allowance as of September 30, 2016 and 2015.

Note 3 - Fixed Assets

Fixed assets consisted of the following at September 30:

	<u>2016</u>	<u>2015</u>
Furniture and fixtures	\$ 62,337	\$ 56,581
Vehicles	405,638	614,370
Equipment	22,360	22,360
Software	423,931	418,906
Leasehold improvements	<u>37,466</u>	<u>37,466</u>
Total fixed assets	951,732	1,149,683
Less accumulated depreciation	<u>(778,983)</u>	<u>(864,469)</u>
Fixed Assets, Net	<u>\$ 172,749</u>	<u>\$ 285,214</u>

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. Subsequent to year end the lease was renewed through fiscal year 2022.

Rent expense related to this lease was \$49,423 and \$47,984 for the years ended September 30, 2016, and 2015, respectively, and is included in occupancy expense.

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Notes to Financial Statements For the Year Ended September 30, 2016

Note 4 - Continued

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

For the Year Ending September 30,

2017	\$	69,899
2018		100,189
2019		109,439
2020		119,288
2021		130,024
Thereafter		<u>33,191</u>
	\$	<u>562,030</u>

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 \$77,899 and \$58,093 for the years ended September 30, 2016 and 2015, 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 2016 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 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.

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 \$31,245 and \$25,793 for the years ended September 30, 2016 and 2015, respectively.

Note 7 - Commitments and Contingencies

At September 30, 2016, the Organization has sub-award commitments with one sub-awardee totaling \$417,000 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 recognizing this as a liability of the Organization.

VILLAGEREACH

Notes to Financial Statements
For the Year Ended September 30, 2016

Note 8 - Correction of Prior Year Misstatements

During the current year, management of the Organization determined that revenue received during the year ended September 30, 2014 in the amount of \$728,393 had not been recorded. Accordingly, the September 30, 2015 and 2014, balances have been adjusted to correctly reflect asset and net asset balances in order to recognize the revenue in the proper period.

As a result, certain balances as of September 30, 2015 were restated as follows:

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
Balance Sheet:			
Grants and contracts receivable	\$ 1,308,745	\$ 728,393	\$ 2,037,138
Net Assets:			
Unrestricted net assets	\$ 858,339	\$ -	\$ 858,339
Temporarily restricted net assets	<u>3,630,306</u>	<u>728,393</u>	<u>4,358,699</u>
Total Net Assets	<u>\$ 4,488,645</u>	<u>\$ 728,393</u>	<u>\$ 5,217,038</u>

Balances adjusted as of September 30, 2014 (beginning of year balances for the year ended September 30, 2015) are as follows:

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
Net Assets:			
Unrestricted net assets	\$ 1,053,665	\$ -	\$ 1,053,665
Temporarily restricted net assets	<u>3,122,619</u>	<u>728,393</u>	<u>3,851,012</u>
Total Net Assets	<u>\$ 4,176,284</u>	<u>\$ 728,393</u>	<u>\$ 4,904,677</u>

SUPPLEMENTARY INFORMATION

VILLAGEREACH

**Schedule of Functional Expenses
For the Year Ended September 30, 2016
(With Comparative Totals for 2015)**

	Program Services	Management and General	Fundraising	2016 Total	2015 Total
Salaries	\$ 2,772,310	\$ 291,429	\$ 63,690	\$ 3,127,429	\$ 2,596,157
Employee benefits and payroll taxes	857,995	124,007	7,994	989,996	719,935
Total Salaries and Related Expenses	3,630,305	415,436	71,684	4,117,425	3,316,092
Professional fees	632,366	53,529		685,895	171,941
Travel and lodging	656,877	7,366	3,248	667,491	706,329
Subagreements	597,238			597,238	666,101
Supplies	150,132	14,819	25	164,976	108,221
Computer related services	56,830	71,458	394	128,682	100,970
Depreciation	91,071	31,602		122,673	202,710
Occupancy	56,475	56,424		112,899	102,677
Vehicles	100,800			100,800	121,371
Telephone	54,776	7,545	100	62,421	66,083
Conferences	39,174	2,453	1,144	42,771	12,592
Staff training and education	35,852	919		36,771	10,157
Insurance	17,477	10,818		28,295	34,896
Meals and entertainment	15,522	5,412	1,127	22,061	25,031
Printing and publications	17,174	3,771		20,945	19,600
Contract labor	18,779	1,381		20,160	13,457
Bank charges	4,542	9,630		14,172	18,188
Dues and subscriptions	3,415	9,423		12,838	7,826
Miscellaneous	10,817	1,023	909	12,749	47,574
Foreign exchange loss	4,270			4,270	7,215
Postage and mailing	3,582	362		3,944	4,577
Taxes and licenses	(606)	3,526		2,920	27,268
Repairs and maintenance	2,010	888		2,898	7,423
Total Expenses	\$ 6,198,878	\$ 707,785	\$ 78,631	\$ 6,985,294	\$ 5,798,299

See independent auditor's report.

VILLAGEREACH

**Schedule of Malawi Operating and Capital Expenditures
For the Year Ended September 30, 2016**

Operating Expenses:	
Personnel	\$ 400,746
Consultants	19,496
General/program	198,999
Travel	<u>66,920</u>
Total Operating Expenses	<u>\$ 686,161</u>

See independent auditor's report.