

VILLAGEREACH

Financial Statements and
Independent Auditors' Report

September 30, 2008

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Independent Auditors' Report***Board of Directors
VillageReach
Seattle, Washington***Certified Public
Accountants
and Consultants

We have audited the accompanying statement of financial position of VillageReach (the Organization) as of September 30, 2008, and the related statement 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, 2007 financial statements and, in our report dated February 13, 2008 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 statement is 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, 2008, 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule on page 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants
February 6, 2009

VILLAGEREACH

Statement of Financial Position
September 30, 2008
(With Comparative Totals for 2007)

	<u>2008</u>	<u>2007</u>
<i>Assets:</i>		
Cash and cash equivalents	\$ 781,950	\$ 954,843
Grants receivable (Note 2)	250,000	400,245
Prepaid expenses	<u>12,576</u>	<u>11,706</u>
Total Current Assets	1,044,526	1,366,794
Fixed assets (Note 4)	<u>126,706</u>	<u>13,421</u>
Total Assets	<u>\$ 1,171,232</u>	<u>\$ 1,380,215</u>
 <i>Liabilities and Net Assets:</i>		
Liabilities		
Accounts payable & accrued expenses	\$ 28,835	\$ 15,619
Net Assets		
Unrestricted	731,795	865,645
Temporarily restricted (Note 5)	<u>410,602</u>	<u>498,951</u>
Total Net Assets	<u>1,142,397</u>	<u>1,364,596</u>
Total Liabilities and Net Assets	<u>\$ 1,171,232</u>	<u>\$ 1,380,215</u>

The accompanying notes are an integral part of the financial statements.

VILLAGEREACH

Statement of Activities
Year Ended September 30, 2008
(With Comparative Totals for 2007)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2008 Total</u>	<u>2007 Total</u>
Public Support and Revenue:				
Public support -				
Contributions	\$ 218,124	\$ 519,652	\$ 737,776	\$ 176,837
Contributions in-kind	88,209		88,209	75,848
Total public support	306,333	519,652	825,985	252,685
Interest and dividends	23,845		23,845	17,146
Other income	5,015		5,015	
Net assets released from restrictions	608,001	(608,001)		
Total Public Support and Revenue	943,194	(88,349)	854,845	269,831
Expenses:				
Program services	770,072		770,072	507,428
Supporting services				
Management and general	222,306		222,306	174,429
Fundraising	84,666		84,666	115,162
Total supporting services	306,972		306,972	289,591
Total Expenses	1,077,044		1,077,044	797,019
Change in Net Assets	(133,850)	(88,349)	(222,199)	(527,188)
Net assets, beginning of year	865,645	498,951	1,364,596	1,891,784
Net Assets, End of Year	\$ 731,795	\$ 410,602	\$ 1,142,397	\$ 1,364,596

The accompanying notes are an integral part of these financial statements.

VILLAGEREACH

Statement of Cash Flows
Year Ended September 30, 2008
(With Comparative Totals for 2007)

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (222,199)	\$ (527,188)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,418	4,252
Changes in assets and liabilities		
Employee receivables		4,852
Grant receivables	150,245	770,067
Prepays	(870)	4,402
Accounts payables and accrued expenses	13,216	(11,691)
	<u>(49,190)</u>	<u>244,694</u>
Net Cash (Used) Provided by Operating Activities	(49,190)	244,694
Cash Flows from Investing Activities:		
Purchases of fixed assets	<u>(123,703)</u>	<u>(3,727)</u>
Net Change in Cash	(172,893)	240,967
Cash balance, beginning of year	<u>954,843</u>	<u>713,876</u>
Cash Balance, End of Year	<u>\$ 781,950</u>	<u>\$ 954,843</u>

The accompanying notes are an integral part of the financial statements.

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Notes to Financial Statements

Note 1 - Nature of Operations and Significant Accounting Policies

Nature of Operations - VillageReach is a non-profit organization (the Organization) operating in Seattle, Washington, Mozambique, and Malawi. It is a section 501(c)(3) entity per the Internal Revenue Code in the United States and is a non-governmental organization in the countries of Mozambique and Malawi. The Organization's mission is to save lives and improve well-being in developing countries by increasing community access to healthcare and other essential services. The Organization works to establish the infrastructure required for the delivery of vaccines to remote villagers in developing countries.

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.

Cash and 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-free interest rates applicable to the years in which the promises are to be received.

Fixed Assets - The Organization capitalizes assets with a cost greater than \$1,000 and an estimated useful life of one or more years. Depreciation is computed utilizing the straight-line method using estimated useful lives of 3 to 5 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 is recorded at fair value at the date of donation.

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

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

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

Permanently Restricted Net Assets - Net assets subject to externally-imposed restrictions that stipulate the resources be maintained permanently. The Organization had no permanently restricted net assets as of September 30, 2008 and 2007.

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.

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Notes to Financial Statements

Note 1 - Continued

Revenue Recognition - Contributions are recognized in the period received, including unconditional promises to give.

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

Donated goods and services consisted of the following September 30:

	<u>2008</u>	<u>2007</u>
Donated salaries	\$ 50,000	\$ -
Donated professional services		47,895
Donated lease of office space	<u>38,209</u>	<u>27,141</u>
Total Donated Services	<u>\$ 88,209</u>	<u>\$ 75,036</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 Internal Revenue Code and, as such, is exempt from Federal Income Tax. Accordingly, the Organization has not made any provision for income tax expense.

Concentrations - The Organization places its cash with FDIC insured financial institutions. At September 30, 2008, the Organization had cash on deposit in excess of the federally insured limits.

The Organization receives grants as its primary revenue source; the Organization received \$600,000 (70% of total revenue) in grants from three foundations for the year ended September 30, 2008. In addition, the Organization's entire grant receivable balance of \$250,000 at September 30, 2008 is due from one foundation.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 Statement of Financial Accounting Standards (SFAS) No. 52, Foreign Currency Translation. All statement of financial position accounts have been translated using the exchange rate in effect at the statement of financial position dates. Statements of activities amounts have been translated using the average exchange rate for the year.

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Notes to Financial Statements

Note 1 - Continued

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2007, from which the summarized information was derived.

Note 2 - Grants Receivable

Grants receivable totaled \$250,000 and \$400,245 at September 30, 2008 and 2007, respectively. The entire balance is due within one year.

Note 3 - Investment in VidaGas

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

The investment in VidaGas is accounted for under the equity method in the financial statements of the Organization. However, due to negative retained earnings, which were considered other than temporary impairment in the investment, the carrying value in VidaGas was reduced to zero during the year ended September 30, 2006. Therefore no investment value is recorded in the statement of financial position. Management has reviewed the assessment of VidaGas for the year ended September 30, 2008 and has determined that the investment should remain at zero.

Note 4 - Fixed Assets

Fixed assets consisted of the following at September 30:

	<u>2008</u>	<u>2007</u>
Furniture and fixtures	\$ 1,941	\$ -
Vehicles	43,225	
Equipment	27,622	19,295
Software in development	<u>70,210</u>	<u> </u>
Total fixed assets	142,998	19,295
Less accumulated depreciation	<u>(16,292)</u>	<u>(5,874)</u>
Net Fixed Assets	<u>\$ 126,706</u>	<u>\$ 13,421</u>

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Notes to Financial Statements

Note 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets totaled \$410,602 and are available to support the Organization's programs and operations for the year ending September 30, 2008.

Note 6 - Future Lease Commitments

The Organization maintains a regional office in Maputo, Mozambique. The lease is an annual lease with an option to renew on July 15, 2009. Cancellation of the agreement can be made with 30 days advance notice prior to July 15, 2009. Remaining lease commitments through July 15, 2009 total \$8,265.

Note 7 - Going Concern Uncertainty and Future Plans

The Organization has incurred losses from operations in the past few years. This is partly because large pledges in past years were recorded as revenue in the year that the donations were pledged rather than in the year pledge payments were received. Management estimates that assets currently available will be sufficient to fund the Organization's full plans through 2009, assuming there are no unforeseen unfavorable circumstances. If necessary, the Organization can reduce costs to continue operation into 2010. The Organization is in discussions with potential donors for funding to stabilize the Organization's overall financial condition. The Organization is dependent upon the success of these efforts to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Organization is unable to continue as a going concern.

SUPPLEMENTAL INFORMATION

VILLAGEREACH

**Statement of Functional Expenses
Year Ended September 30, 2008
(With Comparative Totals for 2007)**

	<i>Program Services</i>	<i>Management and General</i>	<i>Fundraising</i>	<i>2008 Total</i>	<i>2007 Total</i>
Salaries	\$ 343,440	\$ 46,748	\$ 60,702	\$ 450,890	\$ 314,107
Employee benefits and payroll taxes	37,133	5,790	6,707	49,630	35,086
Total Salaries and Related Expenses	380,573	52,538	67,409	500,520	349,193
Grant disbursements					128,316
Program disbursements					25,922
Legal	2,660	4,400		7,060	12,172
Professional fees	47,847	74,171	2,800	124,818	83,967
Contract labor	78,583	15,243		93,826	26,286
Office supplies	13,110	2,301		15,411	5,158
Telephone	9,073	2,039		11,112	7,619
Postage & mailing	408	21		429	564
Rent	9,646	38,209		47,855	39,984
Repairs & maintenance	3,033			3,033	2,675
Utilities	1,182			1,182	993
Vehicles	15,603			15,603	5,334
Computer related services	1,990	8,971	191	11,152	5,236
Printing & publications	676	334	565	1,575	1,373
Conferences	2,473	500	2,881	5,854	24,538
Travel & lodging	178,697	360	9,584	188,641	50,191
Meals & entertainment	5,706	2,045	409	8,160	2,488
Staff training & education	175			175	2,117
Dues & subscriptions	344	569	787	1,700	1,414
Taxes & licenses	4,339	75	10	4,424	96
Insurance	885	16,193		17,078	14,772
Bank charges	4,926	1,882	30	6,838	2,359
Miscellaneous	180			180	
Depreciation	7,963	2,455		10,418	4,252
Total Expenses	\$ 770,072	\$ 222,306	\$ 84,666	\$ 1,077,044	\$ 797,019

See independent auditors' report.