

VILLAGEREACH

Financial Statements and
Independent Auditors' Report

September 30, 2007

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

We have audited the accompanying statement of financial position of VillageReach as of September 30, 2007, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of VillageReach's management. 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 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 VillageReach as of September 30, 2007, 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 8 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 13, 2008

VILLAGEREACH

Statement Of Financial Position
As of September 30, 2007

Assets:

| | |
|-----------------------------|-----------------------------------|
| Cash and cash equivalents | \$ 954,843 |
| Grants receivable (Note 2) | 400,245 |
| Prepaid expenses | <u>11,706</u> |
| Total Current Assets | 1,366,794 |
| Fixed assets (Note 4) | <u>13,421</u> |
| Total Assets | <u><u>\$ 1,380,215</u></u> |

Liabilities and Net Assets:

Liabilities

| | |
|-------------------------------------|-----------|
| Accounts payable & accrued expenses | \$ 15,619 |
|-------------------------------------|-----------|

Net Assets

| | |
|---|-----------------------------------|
| Unrestricted | 865,645 |
| Temporarily restricted (Note 5) | <u>498,951</u> |
| Total Net Assets | <u>1,364,596</u> |
| Total Liabilities and Net Assets | <u><u>\$ 1,380,215</u></u> |

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

VILLAGEREACH

Statement Of Activities
Year Ended September 30, 2007

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|---------------------|
| Public Support and Revenue: | | | |
| Public support - | | | |
| Contributions | \$ 27,198 | \$ 149,639 | \$ 176,837 |
| Contributions in-kind | 75,848 | | 75,848 |
| | <u>103,046</u> | <u>149,639</u> | <u>252,685</u> |
| Total public support | 103,046 | 149,639 | 252,685 |
| Interest and dividends | 17,146 | | 17,146 |
| Net assets released from restrictions | 821,000 | (821,000) | |
| | <u>941,192</u> | <u>(671,361)</u> | <u>269,831</u> |
| Total Public Support and Revenue | 941,192 | (671,361) | 269,831 |
| Expenses: | | | |
| Program services | 507,428 | | 507,428 |
| Supporting services | | | |
| Management and general | 174,429 | | 174,429 |
| Fundraising | 115,162 | | 115,162 |
| | <u>289,591</u> | <u></u> | <u>289,591</u> |
| Total supporting services | 289,591 | | 289,591 |
| | <u>797,019</u> | <u></u> | <u>797,019</u> |
| Total Expenses | 797,019 | | 797,019 |
| Change in Net Assets | 144,173 | (671,361) | (527,188) |
| Net assets, beginning of year | 721,472 | 1,170,312 | 1,891,784 |
| | <u>721,472</u> | <u>1,170,312</u> | <u>1,891,784</u> |
| Net Assets, End of Year | \$ 865,645 | \$ 498,951 | \$ 1,364,596 |

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

VILLAGEREACH

Statement Of Cash Flows
Year Ended September 30, 2007

| | |
|---|-------------------|
| Cash Flows from Operating Activities: | |
| Change in net assets | \$ (527,188) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation and amortization | 4,252 |
| Changes in assets and liabilities | |
| Employee receivables | 4,852 |
| Grant receivables | 770,067 |
| Prepaid | 4,402 |
| Accounts payables and accrued expenses | (11,691) |
| | <hr/> |
| Net Cash Provided by Operating Activities | 244,694 |
| | <hr/> |
| Cash Flows from Investing Activities: | |
| Purchases of fixed assets | (3,727) |
| | <hr/> |
| Net Change in Cash | 240,967 |
| | <hr/> |
| Cash balance, beginning of year | 713,876 |
| | <hr/> |
| Cash Balance, End of Year | \$ 954,843 |
| | <hr/> <hr/> |

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

VILLAGEREACH

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 and in Mozambique. 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 country of Mozambique. 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, vehicles, furniture and fixtures.

The costs of repairs and maintenance are expensed as incurred. The costs of improvements and acquisitions are capitalized.

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. At September 30, 2007, the Organization does not have any permanently restricted net assets.

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.

VILLAGEREACH

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 at September 30, 2007 were made up of \$47,895 in donated professional services and \$27,141 for lease of office space.

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, 2007, 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 \$100,000 (37% of total revenue) in grants from one foundation for the year ended September 30, 2007. In addition, the Organization's entire grant receivable balance of \$400,245 at September 30, 2007 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.

Note 2 - Grants Receivable

Grants receivable totaled \$400,245 at September 30, 2007. 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 their 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.

VILLAGEREACH

Notes To Financial Statements

Note 3 - Continued

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, 2007 and has determined that the investment should remain at zero.

Note 4 - Fixed Assets

Fixed assets consist of the following at September 30, 2007:

| | |
|--------------------------------|-------------------------|
| Equipment and vehicles | \$ 19,295 |
| Less: accumulated depreciation | <u>(5,874)</u> |
| Net Fixed Assets | <u>\$ 13,421</u> |

Note 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets totaled \$498,951 and are available to support the Organization's 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, 2008. Cancellation of the agreement can be made with 30 days advance notice prior to July 15, 2008. Remaining lease commitments through July 15, 2008 total \$8,265.

Note 7 - Affiliate

VillageReach Europe was founded in March 2005 in Geneva, Switzerland to improve health and quality of life in the most isolated regions of countries in development. The Organization is one of the founders of VillageReach Europe. However, the by-laws of VillageReach Europe do not provide the Organization with voting rights or economic interest in VillageReach Europe. During the year-ended September 30, 2007, VillageReach Europe and the Organization have two common board members. The Organization provides funding through sub grants to VillageReach Europe as the funds are used to support the mission of the Organization. During the year ended September 30, 2007, the Organization made grants to VillageReach Europe in the amount of \$54,863.

On March 18, 2007, VillageReach Europe was dissolved and the Organization ceased all grant funding. All operating functions have been taken over by the Organization.

SUPPLEMENTAL INFORMATION

VILLAGEREACH

**Statement Of Functional Expenses
Year Ended September 30, 2007**

| | <i>Program Services</i> | <i>Management and General</i> | <i>Fundraising</i> | <i>Total Expense</i> |
|--|-----------------------------|-----------------------------------|--------------------|--------------------------|
| Salaries | \$ 243,989 | \$ 23,372 | \$ 46,746 | \$ 314,107 |
| Employee benefits and payroll taxes | 25,142 | 3,940 | 6,004 | 35,086 |
| Total Salaries and Related Expenses | 269,131 | 27,312 | 52,750 | 349,193 |
| Grant disbursements | 73,453 | 54,863 | | 128,316 |
| Program disbursements | 25,922 | | | 25,922 |
| Legal | 3,616 | 8,556 | | 12,172 |
| Professional fees | 16,024 | 20,368 | 47,575 | 83,967 |
| Contract labor | 22,733 | 1,553 | 2,000 | 26,286 |
| Office supplies | 3,503 | 941 | 714 | 5,158 |
| Telephone | 6,238 | 1,381 | | 7,619 |
| Postage & mailing | 486 | 7 | 70 | 563 |
| Rent | 12,843 | 27,141 | | 39,984 |
| Repairs & maintenance | 2,675 | | | 2,675 |
| Utilities | 993 | | | 993 |
| Vehicles | 5,335 | | | 5,335 |
| Computer related services | 2,108 | 3,126 | 2 | 5,236 |
| Printing & publications | 230 | 337 | 806 | 1,373 |
| Conferences | 10,447 | 6,565 | 7,525 | 24,537 |
| Travel & lodging | 46,971 | 218 | 3,002 | 50,191 |
| Meals & entertainment | 1,435 | 1,053 | | 2,488 |
| Staff training & education | | 2,117 | | 2,117 |
| Dues & subscriptions | 99 | 597 | 718 | 1,414 |
| Taxes & licenses | 51 | 45 | | 96 |
| Insurance | 76 | 14,696 | | 14,772 |
| Bank charges | 654 | 1,706 | | 2,360 |
| Depreciation | 2,405 | 1,847 | | 4,252 |
| Total Expenses | \$ 507,428 | \$ 174,429 | \$ 115,162 | \$ 797,019 |

See independent auditors' report.