

AUDITED FINANCIAL STATEMENTS

MILLENNIUM WATER ALLIANCE

HOUSTON, TEXAS

September 30, 2007

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Millennium Water Alliance
Houston, Texas

We have audited the accompanying statement of financial position of Millennium Water Alliance as of September 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Millennium Water Alliance's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the years ended September 30, 2006, and 2005, were audited by other auditors whose reports dated January 11, 2007, and December 15, 2005, respectively, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Millennium Water Alliance's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Millennium Water Alliance 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2008, on our consideration of Millennium Water Alliance'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

January 7, 2008

J. Ronald Martin, P.A.

MILLENNIUM WATER ALLIANCE
STATEMENTS OF FINANCIAL POSITION

| | September 30, | | |
|---------------------------------------|-------------------|-------------------|-------------------|
| | 2007 | 2006 | 2005 |
| ASSETS | | | |
| Cash, including grant advances | \$ 269,397 | \$ 148,141 | \$ 111,302 |
| Grants receivable | 586,437 | 613,742 | 259,412 |
| Other receivables | -0- | -0- | 5,347 |
| Due from members | 202 | 8,656 | -0- |
| Prepaid expenses | 1,542 | 1,578 | 1,693 |
| Grant advances to subrecipients | <u>-0-</u> | <u>42,072</u> | <u>17,315</u> |
| | <u>\$ 857,578</u> | <u>\$ 814,189</u> | <u>\$ 395,069</u> |
| LIABILITIES AND NET ASSETS | | | |
| Liabilities: | | | |
| Accounts payable | \$ 21,324 | \$ 50,895 | \$ 34,249 |
| Due to grant subrecipients | 608,389 | 616,450 | 253,218 |
| Refundable grant advances | 133,355 | 108,753 | 80,638 |
| Accrued expenses | 14,383 | 25,490 | 14,511 |
| Accrued compensated absences | <u>2,799</u> | <u>3,115</u> | <u>2,250</u> |
| | <u>780,250</u> | <u>804,703</u> | <u>384,866</u> |
| Net assets: | | | |
| Unrestricted | 76,308 | 8,592 | 203 |
| Board designated – member assessments | <u>1,020</u> | <u>894</u> | <u>10,000</u> |
| | <u>77,328</u> | <u>9,486</u> | <u>10,203</u> |
| | <u>\$ 857,578</u> | <u>\$ 814,189</u> | <u>\$ 395,069</u> |

See notes to financial statements.

MILLENNIUM WATER ALLIANCE

STATEMENTS OF ACTIVITIES

| | Year Ended September 30, | | |
|-------------------------------|--------------------------|------------------|------------------|
| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
| SUPPORT AND OTHER | | | |
| Federal awards | \$ 1,080,902 | \$ 1,664,830 | \$ 893,412 |
| Contributions: | | | |
| Individuals | 3,536 | 5,000 | 4,020 |
| Foundations | 67,309 | 1,069 | 24,141 |
| Non-profit organizations | 36,733 | 871 | -0- |
| Corporate | 23,155 | 45,155 | -0- |
| Member dues and assessments | 109,054 | 84,500 | 55,000 |
| Interest income | <u>2,824</u> | <u>1,836</u> | <u>1,585</u> |
| | 1,323,513 | 1,803,261 | 978,158 |
| EXPENSES | | | |
| Program services | 1,118,845 | 1,671,204 | 961,984 |
| Supporting services | 136,715 | 132,774 | 98,155 |
| Fundraising | <u>111</u> | <u>-0-</u> | <u>-0-</u> |
| | <u>1,255,671</u> | <u>1,803,978</u> | <u>1,060,139</u> |
| CHANGE IN NET ASSETS | 67,842 | (717) | (81,981) |
| Net assets, beginning of year | <u>9,486</u> | <u>10,203</u> | <u>92,184</u> |
| NET ASSETS, END OF YEAR | <u>\$ 77,328</u> | <u>\$ 9,486</u> | <u>\$ 10,203</u> |

See notes to financial statements.

MILLENNIUM WATER ALLIANCE

STATEMENTS OF CASH FLOWS

| | Year Ended September 30, | | |
|--|--------------------------|-------------------|-------------------|
| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
| OPERATING ACTIVITIES | | | |
| Change in net assets | \$ 67,842 | \$ (717) | \$ (81,981) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | | |
| Decrease (increase) in grants receivable | 27,305 | (354,330) | (255,675) |
| Decrease (increase) in other receivables | -0- | 5,347 | (5,347) |
| Decrease (increase) in due from members | 8,454 | (8,656) | -0- |
| Decrease (increase) in prepaid expenses | 36 | 115 | (1,693) |
| Decrease (increase) in grant advances to subrecipients | 42,072 | (24,757) | 3,808 |
| (Decrease) increase in accounts payable | (29,571) | 16,646 | 24,963 |
| (Decrease) increase in due to grant subrecipients | (8,061) | 363,232 | 229,252 |
| Increase in refundable grant advances | 24,602 | 28,115 | 80,638 |
| (Decrease) increase in accrued expenses | (11,423) | 11,844 | 16,761 |
| (Decrease) increase in due to member | <u>-0-</u> | <u>-0-</u> | <u>(831)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>121,256</u> | <u>36,839</u> | <u>9,895</u> |
| NET INCREASE IN CASH | 121,256 | 36,839 | 9,895 |
| Cash at beginning of year | <u>148,141</u> | <u>111,302</u> | <u>101,407</u> |
| CASH AT END OF YEAR | <u>\$ 269,397</u> | <u>\$ 148,141</u> | <u>\$ 111,302</u> |
| Composition of cash: | | | |
| Unrestricted | \$ 136,042 | \$ 42,868 | \$ 30,664 |
| Grant advances | <u>133,355</u> | <u>105,273</u> | <u>80,638</u> |
| | <u>\$ 269,397</u> | <u>\$ 148,141</u> | <u>\$ 111,302</u> |
| Supplementary information: | | | |
| Interest paid | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |
| Income taxes paid | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |

See notes to financial statements.

MILLENNIUM WATER ALLIANCE

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

A - SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

1. Operations: Millennium Water Alliance (the "MWA") is a not-for-profit organization incorporated under the laws of the State of Texas on December 20, 2002, and is dedicated to providing clean water and sanitation worldwide.

The Millennium Water Alliance is comprised of the following board organizations: Africare, CARE USA, Catholic Relief Services, Emmanuel International Mission, Food for the Hungry, Global Water, Lifewater International, Living Water International, Water for People, Water Missions International, WaterPartners International and World Vision International. The United Nations Children's Fund (UNICEF) is an advisor organization to the MWA.

The MWA operates as an umbrella organization providing institutional synergy to ensure technical excellence, programmatic innovation, and long-term financial, social and environmental sustainability in water resources management to its board members. The MWA is governed by a board of directors whose qualifications include the requirement that each be a director or employee of a member organization.

A significant portion of the MWA's support is from the United States Agency for International Development. The MWA has programs in Ethiopia and Kenya.

2. Cash and Cash Equivalents: For purposes of the statement of cash flows, which is prepared using the indirect method, the MWA considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents having immediate availability.
3. Financial Statement Presentation: The financial statements of the MWA are prepared on the accrual basis. The significant accounting policies followed by the MWA are described below to enhance the usefulness of the financial statements to the reader.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the MWA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- (a) Unrestricted Net Assets are from unrestricted contributions and income and are available for use by the MWA, including current operating expenses.
- (b) Temporarily Restricted Net Assets are from contributions whose use is limited by donor-imposed stipulations which are satisfied by actions of the MWA or passage of time.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

A - SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- (c) **Permanently Restricted Net Assets** are from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be satisfied or removed by the MWA.
4. **Recognition of Support, Revenues, and Capital Additions:** In accordance with SFAS No. 116, "Accounting for Contributions Received and Contributions Made," contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Temporarily restricted contributions recognized and utilized in the same accounting period are classified as unrestricted.
 5. **Cooperative Agreements:** Cooperative agreements are deemed to be exchange transactions due to the nature of their conditional terms. Receivables and support are recognized when reimbursable costs have been incurred for goods and services provided.
 6. **Promises Receivable:** Unconditional promises receivable are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefit received. Conditional promises receivable are recognized when the conditions on which they depend are substantially met. Promises receivable deemed to be uncollectible are reserved and/or written off, as appropriate.
 7. **Property and Equipment:** Additions are recorded at cost if purchased and appraised value at the time of donation, if received as a gift. Minor renewals and replacements are expensed. When property and equipment are retired, their costs and related allowances for depreciation are removed from the accounts. Any gains or losses are recognized in the statement of activities.
 8. **Income Taxes:** The MWA is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The MWA is not a private foundation within the meaning of section of the Internal Revenue Code because the MWA is described in sections 509(a)(1) and 170(b)(1)(A)(vi). Such Internal Revenue Service determination was received in September 2003 and confirmed in March 2007.
 9. **Donated Materials and Services:** Donated materials and equipment, when significant, are reflected as contributions at estimated fair value at date of receipt. Donated services, when significant and measurable as to value, are reflected as contributions when provided. Volunteers, including officers and directors of the MWA, donate their time in program, support and fund raising. However, no amounts have been reflected in the financial statements for these services as they do not meet the criteria for recognition under SFAS 116.
 10. **Fair Value of Financial Instruments:** Financial instruments consist of cash, promises receivable, accounts payable, capital lease obligation, and notes payable. The carrying value of these financial instruments approximates their respective fair values at each financial statement date.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

A - SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributions receivable arising from unconditional promises that are expected to be collected within one year of the financial statement date are recorded at fair value. Contributions arising from unconditional promises that are expected to be collected one year or more after the financial statement date, are recorded at fair value based on the present value, (the time value of money represented by a risk-free rate of interest) of the estimated future cash flows, using a risk-free rate of return. (Also see Note G).

11. Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
12. Functionalization of Expenses: Expenses not associated with a specific functional classification are allocated among the various classifications based upon management's estimate of how such costs were utilized.
13. Web-site Development and Maintenance: The MWA accounts for web-site development and maintenance in accordance with Statement of Position No 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). SOP 98-1 provides guidance regarding when software developed or obtained for internal use should be capitalized, and requires certain costs incurred during the development stage to be capitalized, while costs incurred during the preliminary project stage and post implementation/operation stage should be expensed as incurred.
14. Accrued Compensated Absences: The MWA accrues for compensated absences (holiday and vacation pay, but not sick leave).

B - RELATED PARTIES

The MWA is an umbrella organization providing services to its members that may include transactions between the MWA and its members. A member organization provides office space for an employee of the MWA. The MWA's members implement the MWA's programs; thus, they receive the "Subrecipient grant expenditures" reported in functional expenditures (See Note H). The members also pay an initial and annual membership dues and assessments to the MWA, which are determined by the Board of Directors. The MWA contracts the treasurer's services from an unrelated company, and the treasurer is not a member of the Board of Directors or Executive Committee. Transactions are negotiated on an arms-length basis and are generally accounted for at their cost.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

C - PROGRAMS

The MWA's on going programs are as follows:

| | September 30, | | |
|---------------------------|---------------------|---------------------|---------------------|
| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
| Unexpended program grants | | | |
| Obligated funds | \$ 4,261,009 | \$ 2,746,247 | \$ 1,951,829 |
| Unobligated funds | <u>544,566</u> | <u>439,181</u> | <u>-0-</u> |
| | <u>\$ 4,805,575</u> | <u>\$ 3,185,428</u> | <u>\$ 1,951,829</u> |

The unobligated funds relate to grants approved as of September 30, 2007 and 2006 by the grantor. In November 2007, an additional \$94,566 was obligated..

As of September 30, 2007, the MWA had obligations under a grant award to match approximately \$229,000 of the grantor's funds, which has not been secured. The match requirements are effective for fiscal years beginning in 2008 through 2010. Management expects to fund these match requirements from new grants or from members' dues and assessments.

D - NET ASSETS

There were no temporarily restricted or permanently restricted net assets at September 30, 2007, 2006 or 2005.

E - CONCENTRATION OF CREDIT RISK

The MWA places its cash with a financial institution which is insured by the Federal Deposit Insurance Corporation up to \$100,000. Periodically, the MWA maintains cash balances in excess of the \$100,000 limit.

F - RISKS AND CONTINGENCIES

The MWA participates in federal grant programs, the expenditures for which are subject to audit from the respective funding agencies and/or the General Accounting Office. Upon examination, expenditures could be disallowed and refunds required. The MWA has not been notified that any such audits are forthcoming, and is not aware of any expenditures for which such disallowances or refunds would be required by funding agencies.

The MWA receives a substantial portion of its operating funds from government grants and awards. Curtailment or cancellation of awards from these sources would have a significant effect on the future operations of the MWA and its ability to continue as a going concern.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

G - FAIR VALUE MEASUREMENTS

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157 Fair Value Measurements to be effective for fiscal years beginning after November 15, 2007. The Statement defines fair value, establishes a framework for measuring fair value as generally accepted accounting principles (“GAAP”), and expands financial statement disclosures about fair value measurements. Prior to the issuance of SFAS No. 157, there existed different definitions of fair value and limited guidance for applying those definitions in GAAP that created inconsistencies that added to the complexity of applying GAAP to financial statements. The adoption of SFAS No. 157 is not expected to have a significant effect on future financial statements of the MWA.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

H - FUNCTIONAL EXPENSES

| | Year Ended September 30, | | | | | | | |
|---------------------------------|--------------------------|-------------------|---------------|---------------------|---------------------|-------------------|-------------|---------------------|
| | 2007 | | 2006 | | 2005 | | | |
| | Program | Support | Fundraising | Total | Program | Support | Fundraising | Totals |
| Subrecipient grant expenditures | \$ 1,044,908 | \$ - | \$ - | \$ 1,044,908 | \$ 1,594,943 | \$ - | \$ - | \$ 1,594,943 |
| Contract labor | 2,660 | 74,519 | - | 77,179 | 13,159 | 66,631 | - | 79,790 |
| Salaries and benefits | 54,884 | 1,289 | - | 56,173 | 46,474 | 8,232 | - | 54,706 |
| Travel | 13,876 | 13,245 | - | 27,121 | 9,827 | 19,258 | - | 29,085 |
| Professional fees | - | 20,230 | 90 | 20,320 | - | 24,500 | - | 24,500 |
| Telephone ① | 969 | 135 | - | 1,104 | 4,715 | 2,931 | - | 7,646 |
| Insurance | - | 4,362 | - | 4,362 | - | 4,857 | - | 4,857 |
| Conferences and meetings | - | 19,839 | - | 19,839 | - | 4,334 | - | 4,334 |
| Rent ① | 1,365 | 179 | - | 1,544 | 2,086 | 378 | - | 2,464 |
| Miscellaneous | - | 793 | - | 793 | - | 300 | - | 300 |
| Website | - | 409 | 21 | 430 | - | 641 | - | 641 |
| Supplies and printing | 152 | 418 | - | 570 | - | 501 | - | 501 |
| Postage and shipping | 31 | 137 | - | 168 | - | 211 | - | 211 |
| Press release | - | 1,160 | - | 1,160 | - | - | - | - |
| | <u>\$ 1,118,845</u> | <u>\$ 136,715</u> | <u>\$ 111</u> | <u>\$ 1,255,671</u> | <u>\$ 1,671,204</u> | <u>\$ 132,774</u> | <u>\$ -</u> | <u>\$ 1,803,978</u> |
| | | | | | <u>\$ 961,984</u> | <u>\$ 98,155</u> | <u>\$ -</u> | <u>\$ 1,060,139</u> |

① Allocated by the grant manager's hours

See notes to financial statements