AUDITED FINANCIAL STATEMENTS

MILLENNIUM WATER ALLIANCE

HOUSTON, TEXAS

September 30, 2012

J. RONALD MARTIN, P.A.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Millennium Water Alliance
Houston, Texas

We have audited the accompanying statements of financial position of Millennium Water Alliance as of September 30, 2012, 2011, and 2010, and the related statements of activities and cash flows for each of the years in the three-year period ended September 30, 2012. 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.

We conducted our audits 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 audits provide 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, 2012, 2011, and 2010, and the changes in its net assets and its cash flows for each of the years in the three-year period ended September 30, 2012, 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 February 28, 2013, 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 should be considered in assessing the results of our audit.

February 28, 2013

J. Ronald Martin, P.A.

MILLENNIUM WATER ALLIANCE

STATEMENTS OF FINANCIAL POSITION

	September 30, 2012	2011	2010
ASSETS			
Cash and equivalents, including refundable grant advances	$ 1,007,481	$ 803,691	$ 1,420,708
Grants receivable	197,020	636,069	170,660
Other receivables	15,045	15,223	-0-
Due from members	11,396	71,750	55,106
Prepaid expenses	8,009	5,062	9,191
Grant advances to subrecipients	274,618	927,583	569,301
	$ 1,513,569	$ 2,459,378	$ 2,224,966
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable	$ 72,558	$ 60,023	$ 60,425
Due to grant subrecipients	378,894	565,134	230,847
Refundable grant advances	648,655	1,364,409	1,556,199
Accrued expenses	53,564	96,478	51,791
Accrued compensated absences	14,935	15,195	6,747
Members’ assessments advanced	-0-	-0-	-0-
	1,168,606	2,101,239	1,906,009
Net assets:			
Unrestricted	344,963	358,139	318,957
	$ 1,513,569	$ 2,459,378	$ 2,224,966

See notes to financial statements.

MILLENNIUM WATER ALLIANCE

STATEMENTS OF ACTIVITIES

	Year Ended September 30,		
	2012	2011	2010
SUPPORT AND OTHER REVENUE			
Federal awards	$ 1,178,502	$ 1,539,150	$ 620,147
Contributions:			
Individuals	95	580	900
Foundations	2,112,254	1,847,792	327,229
Non-profit organizations	2,205	4,666	178,993
Corporate	34,724	615,973	351,755
Member dues and assessments	139,086	245,196	224,862
Interest income	1,455	1,547	3,251
	3,468,321	4,254,904	1,707,137
EXPENSES			
Program services	2,919,157	3,691,431	1,197,214
Supporting services	561,863	521,989	482,092
Fundraising	477	2,302	1,203
	3,481,497	4,215,722	1,680,509
CHANGE IN NET ASSETS	(13,176)	39,182	26,628
Net assets, beginning of year	358,139	318,957	292,329
	$ 344,963	$ 358,139	$ 318,957

See notes to financial statements.

MILLENNIUM WATER ALLIANCE

STATEMENTS OF CASH FLOWS

	Year Ended September 30,		
	2012	2011	2010
OPERATING ACTIVITIES			
Change in net assets	$ (13,176)	$ 39,182	$ 26,628
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:			
Decrease (increase) in grants receivable	439,049	(465,409)	320,418
Decrease (increase) in other receivables	178	(15,223)	3,994
Decrease (increase) in due from members	60,354	(16,644)	(29,982)
(Increase) decrease in prepaid expenses	(2,947)	4,129	(7,427)
Decrease (increase) in grant advances to subrecipients	652,965	(358,282)	(492,521)
Increase (decrease) in accounts payable	12,535	(402)	5,114
(Decrease) increase in due to grant subrecipients	(186,240)	334,287	(274,354)
(Decrease) increase in refundable grant advances	(715,754)	(191,790)	1,245,281
(Decrease) increase in accrued expenses	(42,915)	44,687	37,786
(Decrease) increase in accrued compensated absences	(260)	8,448	3,604
(Decrease) in member's assessments advanced	-0-	-0-	(12,059)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	203,789	(617,017)	826,482
NET INCREASE (DECREASE) IN CASH	203,789	(617,017)	826,482
Cash and equivalents at beginning of year	803,691	1,420,708	594,226
CASH AND EQUIVALENTS AT END OF YEAR	$ 1,007,480	$ 803,691	$ 1,420,708
Composition of cash:			
Unrestricted	$ 448,366	$ 363,457	$ 383,004
Grant advances	559,114	440,234	1,037,704
	$ 1,007,480	$ 803,691	$ 1,420,708
Supplementary information:			
Interest paid	$ -0-	$ -0-	$ -0-
Income taxes paid	$ -0-	$ -0-	$ -0-

See notes to financial statements.

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 organizations: CARE USA, Catholic Relief Services, Food for the Hungry, Global Water, Lifewater International, Living Water International, Water Aid America, Water for People, Water Missions International, Water.org and World Vision International.

   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 Department of State, United States Agency for International Development, and Hilton Foundation. The MWA has programs in Ethiopia, Kenya, Guatemala, Honduras, and Nicaragua.

2. Cash and 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.

   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.

   (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.

A - SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Recognition of Support, Revenues, and Capital Additions: 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. Grant Agreements: Federal grants received under cooperative agreements and non-federal grants, except as noted, are cost reimbursement grants due to the nature of their conditional terms. Receivables and support are recognized when reimbursable costs have been incurred for goods and services provided, which approximates the percentage of work completion.

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. The income tax returns of the MWA for 2011, 2010, and 2009 remain open for examination by the Internal Revenue Service. All other tax years have been closed by statute.

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.

10. 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.

A - SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. 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.

12. Web-site Development and Maintenance: The MWA accounts for web-site development and maintenance in accordance with generally accepted accounting principles, which 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.

13. Accrued Compensated Absences: The MWA accrues for compensated absences (holiday, vacation, sick and bereavement leave).

14. Fair Value Measurements: Generally accepted accounting principles ("GAAP") defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value, as defined under GAAP, is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. MWA utilizes market data or assumptions that market participants would use in pricing the asset or liability. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: **Level 1**, defined as observable inputs such as quoted prices in active markets; **Level 2**, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and **Level 3**, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

B - RELATED PARTIES

The MWA is an umbrella organization providing services to its members that may include transactions between the MWA and its members. In 2010, MWA leased office space from a member organization (See Note K). The MWA's members implement the MWA's programs; thus, they receive the "Subrecipient grant expenditures" reported in functional expenditures (See Note M). The members pay an initial and annual membership dues and assessments to the MWA, which are determined by the Board of Directors.

C - PROGRAMS

The MWA's ongoing programs are as follows:

		September 30,	
	2012	2011	2010
Unexpended program grants:			
Obligated funds	$ 4,266,729	$ 7,444,971	$ 3,751,073
Unobligated funds	-0-	-0-	1,499,996
	$ 4,266,729	$ 7,444,971	$ 5,251,069

Unobligated funds relate to grants with donor approved budgets in excess of the grantor's obligated funding for the budget. In July 2011, a grant of $6,000,000 from Hilton Foundation was approved and obligated.

D - NET ASSETS

There were no temporarily restricted or permanently restricted net assets at September 30, 2012, 2011 or 2010.

E - CONCENTRATIONS

The MWA places its cash with a financial institution which is insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000, through December 31, 2013. MWA maintains cash balances in excess of the $250,000 insured limit with this financial institution.

A significant portion of the MWA's support comes from a limited number of grantors.

F - RISKS AND CONTINGENCIES

The MWA participates in federal and non-federal grant programs, the expenditures for which are subject to audit from the respective funding agency. 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 a limited number of 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.

In order for the MWA to maintain its current 501(c)(3) status as a public charity, it must continue to maintain a specified level of public support. Failure to achieve broad public support could result in the MWA being reclassified by the Internal Revenue Service as a private foundation.

NOTE G - FAIR VALUE OF FINANCIAL MEASUREMENTS

Under U.S. generally accepted accounting principles, the MWA must disclose an estimate of the fair value of its material financial instruments (assets and liabilities).

Financial assets are cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right (1) to receive cash or another financial instrument from a second entity or (2) to exchange other financial instruments on potentially favorable terms with the second entity.

Financial liabilities are contracts that impose on one entity an obligation (1) to deliver cash or another financial instrument to a second entity or (2) to exchange other financial instruments on potentially unfavorable terms with the second entity.

The following table sets forth by level within the fair value hierarchy the MWA's financial assets and liabilities accounted for at fair value on a recurring basis. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The MWA's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

FINANCIAL ASSETS AND LIABILITIES

Recurring Basis:

		Fair Value Measurements Using			
Description	September 30, 2012	Level 1	Level 2	Level 3	Total Gains/ (Losses)
Grants receivable and other	$ 212,066		$ 212,066		$ -0-
Due from members	$ 11,396		$ 11,396		$ -0-
Prepaid expenses	$ 8,009		$ 8,009		$ -0-
Grant advances to subrecipients	$ 274,618		$ 274,618		$ -0-
Accounts payable	$ 72,558		$ 72,558		$ -0-
Due to grant subrecipients	$ 378,894		$ 378,894		$ -0-
Refundable grant advances	$ 648,655		$ 648,655		$ -0-
Accrued expenses	$ 68,499		$ 68,499		$ -0-

NOTE G - FAIR VALUE OF FINANCIAL MEASUREMENTS - Continued

Description	September 30, 2011	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Gains/ (Losses)
Grants receivable and other	$ 651,292		$ 651,292		$ -0-
Due from members	$ 71,750		$ 71,750		$ -0-
Prepaid expenses	$ 5,062		$ 5,062		$ -0-
Grant advances to subrecipients	$ 927,583		$ 927,583		$ -0-
Accounts payable	$ 60,023		$ 60,023		$ -0-
Due to grant subrecipients	$ 565,134		$ 565,134		$ -0-
Refundable grant advances	$ 1,364,409		$ 1,364,409		$ -0-
Accrued expenses	$ 111,673		$ 111,673		$ -0-

Description	September 30, 2010	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Gains/ (Losses)
Grants receivable	$ 170,660		$ 170,660		$ -0-
Due from members	$ 55,106		$ 55,106		$ -0-
Prepaid expenses	$ 9,191		$ 9,191		$ -0-
Grant advances to subrecipients	$ 569,301		$ 569,301		$ -0-
Accounts payable	$ 60,425		$ 60,425		$ -0-
Due to grant subrecipients	$ 230,847		$ 230,847		$ -0-
Refundable grant advances	$ 1,556,199		$ 1,556,199		$ -0-
Accrued expenses	$ 58,538		$ 58,538		$ -0-

The MWA does not have any financial assets or liabilities measured at fair value on a recurring basis categorized as Level 3, and there were no transfers in or out of Level 1, 2 or 3 during the year ended September 30, 2012, 2011 or 2010.

There were no changes during the year ended September 30, 2012, 2011 or 2010 to the MWA's valuation techniques used to measure asset and liability fair values on a recurring basis.

NOTE G - FAIR VALUE OF FINANCIAL MEASUREMENTS - Continued

Nonrecurring Basis:

The MWA does not have any financial assets or liabilities measured at fair value on a nonrecurring basis for the years ended September 30, 2012, 2011 or 2010.

NON-FINANCIAL ASSETS AND LIABILITIES:

The MWA does not have any non-financial assets or liabilities measured on a recurring or nonrecurring basis for the years ended September 30, 2012, 2011 or 2010.

NOTE H – RETIREMENT PLAN

Effective October 1, 2008, the MWA had a defined contribution pension plan under the Sommet Group, LLC 401(k) Plan. The plan covered substantially all employees over twenty-one years of age from date of employment. The MWA makes contributions based upon a percentage of salary and employees may make additional contributions. Vesting in the MWA contributions is based upon years of continuous service, which reaches 100% after three years of service. The Sommet Group, LLC is now part of the Chapter 7 bankruptcy proceedings under a new Trustee. The plan assets are frozen, with some exceptions, pending determination of the tax qualified status of the Plan.

As of June 2010, under the joint employer arrangement with Total Human Resources, Inc., MWA employees are covered under a new defined contribution pension plan of Total Human Resources. The plan covers substantially all employees over twenty-one years of age from date of employment. The MWA makes contributions based upon a percentage of salary and employees may make additional contributions. Vesting in the MWA contributions is based upon years of continuous service with 100% after three years of service.

Retirement expense was $18,335, $17,488 and $8,188 for each of the years ended September 30, 2012, 2011 and 2010, respectively.

NOTE I – THEFT LOSS

MWA used a third party vendor, Sommet Group, LLC of Franklin, Tennessee, to provide services for paying employees, human resources, and benefits, including an umbrella qualified retirement plan and insurances (group medical, dental, vision, term life and disability and workers compensation). In July 2010, Sommet Group was shut down by federal and state agencies for failure to pay taxes and insurance premiums and contributions to retirement accounts. The principles of Sommet Group are under criminal investigation and the company ordered into Chapter 7 of the U.S. Bankruptcy Code. The MWA accrued $54,832 and $8,428 in 2010 and 2011, respectively, related to unpaid taxes and related penalties and interest, insurance premiums, retirement account contributions and medical services provided to an employee. Information necessary to estimate the amount of recovery, if any, is unavailable and no estimate is reflected in the accrual.

NOTE J – CONTRACTED PERSONNEL

In July 2010, MWA entered into an agreement with Total Human Resources, Inc. (D.B.A. Checkmate) to furnish contract personnel and personnel services to the MWA under a joint employer arrangement.

NOTE K – LEASE

In September 2010, MWA leased Washington, DC office space from a member. The lease commenced September 1, 2010 and will expire on April 30, 2013 with no possibility of extension since the member is vacating the premises. The monthly lease amount is $2,832 from October to April 2013 (7 months). MWA will be relocating to new premises upon the expiration of the current lease and the new rent is estimated to be approximately $4,500 per month. The lease expense for 2012 was $24,982. Future estimated annual lease payments for the operating lease are as follows:

Year Ending September 30	Total
2013	$ 44,000

NOTE L – SUBSEQUENT EVENT

MWA has evaluated subsequent events from the date of the statement of financial position through the date of the independent auditors' report, which is the date the financial statements were available to be issued. During this period, no material recognizable subsequent events were identified.

NOTE M – FUNCTIONAL EXPENSES

	Year Ended September 30,											
	2012				2011				2010			
	Program	Support	Fundraising	Total	Program	Support	Fundraising	Totals	Program	Support	Fundraising	Totals
Subrecipient grant expenditures	$ 2,582,590	$ -0-	$ -0-	$ 2,582,590	$ 3,284,924	$ -0-	$ -0-	$ 3,284,924	$ 1,045,671	$ -0-	$ -0-	$ 1,045,671
Salaries and benefits	125,425	346,788	447	472,660	130,822	316,031	2,170	449,023	62,208	161,135	171	223,514
Contract labor	167,775	83,495		251,270	217,136	66,825		283,961	58,843	191,402		250,245
Travel	30,098	41,579		71,677	47,420	31,655		79,075	26,160	20,456		46,616
Professional fees		19,588		19,588		23,836		23,836	350	27,136	710	28,196
Conferences and meetings	2,459	7,023		9,482	1,150	3,317		4,467		1,760		1,760
Insurance		5,474		5,474		5,307		5,307		4,650		4,650
Rent	5,422	19,535	25	24,982	7,490	25,571	112	33,173	(414)	2,427		2,013
Publicity		3,341		3,341		8,550		8,550	1,374	180		1,554
Telephone	1,398	8,509	3	9,910	1,652	8,146	20	9,818	2,351	3,717		6,068
Miscellaneous	29	1,383		1,412		1,885		1,885	106	3,697	3	3,806
Supplies and printing		8,638		8,638	735	9,200		9,935	413	2,060		2,473
Website		15,828		15,828		12,087		12,087		8,237	319	8,556
Postage and shipping	3,961	682	2	4,645	102	1,151		1,253	152	403		555
Theft loss						8,428		8,428		54,832		54,832
	$ 2,919,157	$ 561,863	$ 477	$ 3,481,497	$ 3,691,431	$ 521,989	$ 2,302	$ 4,215,722	$ 1,197,214	$ 482,092	$ 1,203	$ 1,680,509

In 2012, $ 57,658 in expenses not specific to a functional classification were allocated to Program (23%), Support (77%), and Fundraising (0%) based on management's estimate of how such expenses were utilized.

See notes to financial statements