

AUDITED FINANCIAL STATEMENTS

MILLENNIUM WATER ALLIANCE

HOUSTON, TEXAS

September 30, 2016

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AUDITED FINANCIAL STATEMENTS

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

Board of Directors
Millennium Water Alliance
Houston, Texas

Report on Financial Statements

We have audited the accompanying financial statements of Millennium Water Alliance, which comprise the statement of financial position as of September 30, 2016, 2015, and 2014, and the related statements of activities, and cash flows for each of the years in the three-year period ended September 30, 2016, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 auditors consider internal control relevant to the Millennium Water Alliance'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 Millennium Water Alliance'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.

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, 2016, 2015, and 2014, and the changes in its net assets and its cash flows for each of the years in the three-year period ended September 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 2, 2017, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Millennium Water Alliance's internal control over financial reporting and compliance.

May 2, 2017

J. Ronald Martin, P.A.

MILLENNIUM WATER ALLIANCE
STATEMENTS OF FINANCIAL POSITION

	September 30,		
	2016	2015	2014
ASSETS			
Cash and equivalents, including refundable grant advances	\$ 2,836,220	\$ 2,186,708	\$ 3,318,207
Grants receivable	614,674	(144)	859,156
Other receivables	33,094	71,403	8,763
Due from members	20,643		-0-
Prepaid expenses	15,387	14,521	14,239
Grant advances to subrecipients	292,343	538,101	592,896
Equipment	5,317	5,316	5,316
(Less) accumulated depreciation	<u>(3,190)</u>	<u>(2,126)</u>	<u>(1,063)</u>
	<u>2,127</u>	<u>3,190</u>	<u>4,253</u>
	<u>\$ 3,814,488</u>	<u>\$ 2,813,779</u>	<u>\$ 4,797,514</u>
 LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable	\$ -0-	\$ 19,876	\$ 25,162
Due to grant subrecipients	1,069,869	331,633	1,663,075
Refundable grant advances	1,974,056	1,913,110	2,493,535
Accrued expenses	167,648	34,887	94,716
Accrued payroll benefits	7,938	9,439	8,272
Due to members	-0-	500	1,000
Accrued payroll	<u>57,365</u>	<u>53,194</u>	<u>73,393</u>
	3,276,876	2,362,639	4,359,153
Net assets:			
Unrestricted	<u>537,612</u>	<u>451,140</u>	<u>438,361</u>
	<u>\$ 3,814,488</u>	<u>\$ 2,813,779</u>	<u>\$ 4,797,514</u>

See notes to financial statements.

MILLENNIUM WATER ALLIANCE

STATEMENTS OF ACTIVITIES

	Year Ended September 30,		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
SUPPORT AND OTHER REVENUE			
Federal awards	\$ 2,549,220	\$ 2,156,741	\$ 3,900,406
Contributions:			
Individuals	-0-	-0-	500
Foundations	3,816,740	4,347,410	4,780,322
Non-profit organizations	-0-	50,000	-0-
Member dues and assessments	164,000	157,000	87,000
Interest income	<u>1,884</u>	<u>2,801</u>	<u>2,892</u>
	6,531,844	6,713,952	8,771,120
EXPENSES			
Program services	5,767,680	5,952,722	8,043,966
Supporting services	675,837	747,799	637,541
Fundraising	<u>1,855</u>	<u>652</u>	<u>1,196</u>
	<u>6,445,372</u>	<u>6,701,173</u>	<u>8,682,703</u>
CHANGE IN NET ASSETS	86,472	12,779	88,417
Net assets, beginning of year	<u>451,140</u>	<u>438,361</u>	<u>349,944</u>
	<u>\$ 537,612</u>	<u>\$ 451,140</u>	<u>\$ 438,361</u>

See notes to financial statements.

MILLENNIUM WATER ALLIANCE

STATEMENTS OF CASH FLOWS

	Year Ended September 30,		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES			
Change in net assets	\$ 86,472	\$ 12,779	\$ 88,417
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Change in operating assets and liabilities:			
Grants receivable	(614,818)	859,300	103,246
Other receivables	38,310	(62,640)	11,840
Due from members	(21,143)	(500)	1,000
Prepaid expenses	(866)	(282)	(1,168)
Equipment	1,063	1,063	(4,253)
Grant advances to subrecipients	245,757	54,795	(11,606)
Accounts payable	(9,478)	(25,485)	(212,730)
Due to grant subrecipients	738,236	(1,331,442)	645,691
Refundable grant advances	60,946	(580,425)	709,943
Accrued expenses	126,534	(59,829)	63,603
Accrued compensated absences	(1,501)	1,167	(9,250)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>649,512</u>	<u>(1,131,499)</u>	<u>1,384,733</u>
NET CHANGE IN CASH	<u>649,512</u>	<u>(1,131,499)</u>	<u>1,384,733</u>
Cash and equivalents at beginning of year	<u>2,186,708</u>	<u>3,318,207</u>	<u>1,933,474</u>
CASH AND EQUIVALENTS AT END OF YEAR	<u>\$ 2,836,220</u>	<u>\$ 2,186,708</u>	<u>\$ 3,318,207</u>
Composition of cash:			
Unrestricted	\$ 613,094	\$ 442,702	\$ 438,538
Refundable grant advances	<u>2,223,126</u>	<u>1,744,006</u>	<u>2,879,669</u>
	<u>\$ 2,836,220</u>	<u>\$ 2,186,708</u>	<u>\$ 3,318,207</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, 2016

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 member organizations: CARE USA, Catholic Relief Services, Food for the Hungry, Global Water, IRC International Water and Sanitation Centre, El Porvenir, Living Water International, Pure Water for the World, Inc, Water Aid America, Water for People, Water Missions International, Water.org, World Vision International, Helvetas Swiss Intercooperation, and Water4.

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, Hilton Foundation, Coca Cola, and FEMSA Foundations. The MWA has programs in Ethiopia, Kenya, Guatemala, Honduras, Nicaragua, Colombia, and Mexico.

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

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 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 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 2015, 2014, and 2013 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

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. The MWA's members implement the MWA's programs; thus, they receive the "Subrecipient grant expenditures" reported in functional expenditures (See Note L). The members pay an initial and annual membership dues and assessments to the MWA, which are determined by the Board of Directors.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

C - PROGRAMS

The MWA’s ongoing programs are as follows:

	September 30,		
	2016	2015	2014
Unexpended program grants:			
Obligated funds	\$ 10,146,964	\$ 6,129,768	\$ 11,415,751
Unobligated funds	<u>10,000,000</u>	<u>-0-</u>	<u>-0-</u>
	<u>\$ 20,146,964</u>	<u>\$ 6,129,768</u>	<u>\$ 11,415,751</u>

Unobligated funds relate to grants with donor approved budgets in excess of the grantee’s obligated funding for the budget. In September 2015 an award of \$12,500,000 from USAID and in August 2016 an award of \$7,500,000 from Swiss Development Corporation (SDC) were approved.

D - NET ASSETS

There were no temporarily restricted or permanently restricted net assets at September 30, 2016, 2015 or 2014.

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. 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

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.

FINANCIAL ASSETS AND LIABILITIES

Recurring Basis:

The MWA does not have any financial assets or liabilities measured at fair value on a recurring basis for the years ended September 30, 2016, 2015, or 2014.

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, 2016, 2015, or 2014.

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, 2016, 2015, or 2014.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE H – RETIREMENT PLAN

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 \$26,150, \$30,328, and \$25,135 for each of the years ended September 30, 2016, 2015, and 2014, respectively.

NOTE I – CONTRACTED PERSONNEL

MWA has an agreement with Total Human Resources, Inc. to furnish contract personnel and personnel services to the MWA under a joint employer arrangement.

NOTE J – LEASE COMMITMENT

MWA entered into a lease for office space beginning May 1, 2013, and the rent was \$5,548 per month for the first year and increases annually for cost of living adjustments. The lease is from May 1, 2013 to April 30, 2018. The lease expense for 2016 was \$74,955. Future minimum annual lease payments for the operating lease are as follows:

<u>Year Ending September 30</u>	<u>Total</u>
2017	\$ 73,042
2018	<u>43,284</u>
	<u>\$ 116,326</u>

NOTE K – 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE L – FUNCTIONAL EXPENSES

	Year Ended September 30,											
	2016				2015				2014			
	Program	Support	Fundraising	Total	Program	Support	Fundraising	Totals	Program	Support	Fundraising	Totals
Subrecipient grant expenditures	\$ 4,818,664	\$ -0-	\$ -0-	\$ 4,818,664	\$ 5,369,458	\$ -0-	\$ -0-	\$ 5,369,458	\$ 7,491,882	\$ -0-	\$ -0-	\$ 7,491,882
Salaries and benefits	354,076	473,603	1,581	829,260	316,422	504,853	594	821,869	324,843	426,396	1,106	752,345
Contract labor	437,472	40,795		478,267	141,350	60,238		201,588	24,118	52,347		76,465
Travel	78,567	22,627		101,194	56,269	55,169		111,438	66,482	57,856		124,338
Professional fees	5,409	26,156		31,565	511	30,782		31,293		27,450		27,450
Conferences and meetings	30,898	23,120		54,018	14,149	13,937		28,086	57,199	5,198		62,397
Insurance		8,780		8,780		6,309		6,309		4,645		4,645
Rent	31,759	47,323	155	79,237	42,400	40,189	50	82,639	25,464	30,769	78	56,311
Publicity		1,563		1,563		25		25		290		290
Telephone	5,604	11,415	119	17,138	4,859	5,792	6	10,657	4,788	11,215	12	16,015
Miscellaneous	1,016	7,644		8,660	205	10,629		10,834	570	3,711		4,281
Supplies and printing	2,581	8,127		10,708	5,781	12,542		18,323	15,384	11,135		26,519
Website		1,545		1,545		2,950		2,950		4,323		4,323
Postage and shipping	1,634	646		2,280	85	696	2	783	160	1,143		1,303
Depreciation		1,063		1,063		1,063		1,063		1,063		1,063
Staff development		1,430		1,430		2,553		2,553	33,076			33,076
Water testing supplies				-0-	1,233	72		1,305				-0-
	<u>\$ 5,767,680</u>	<u>\$ 675,837</u>	<u>\$ 1,855</u>	<u>\$ 6,445,372</u>	<u>\$ 5,952,722</u>	<u>\$ 747,799</u>	<u>\$ 652</u>	<u>\$ 6,701,173</u>	<u>\$ 8,043,966</u>	<u>\$ 637,541</u>	<u>\$ 1,196</u>	<u>\$ 8,682,703</u>

In 2016, \$96,375 in expenses not specific to a functional classification were allocated to Program (39%), Support (61%), and Fundraising (0%) based on management's estimate of how such expenses were utilized.

In 2015, \$93,296 in expenses not specific to a functional classification were allocated to Program (51%), Support (49%), and Fundraising (0%) based on management's estimate of how such expenses were utilized.

In 2014, \$ 72,326 in expenses not specific to a functional classification were allocated to Program (42%), Support (58%), and Fundraising (0%) based on management's estimate of how such expenses were utilized.