

# **WATER FUND FOR LIMA AND CALLAO - AQUAFONDO**

FINANCIAL AUDIT REPORT

FROM THE EXAM TO THE FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2020 AND 2019 (NOT AUDITED)

## **WATER FUND FOR LIMA AND CALLAO (AQUAFONDO)**

### **Financial Statements**

**As of December 31, 2020 and 2019 (Not audited)**

**Along with the report of independent auditors**

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S/      = PEN

US\$    = American Dollar

## **Report of independent auditors**

Messrs. Associates, President and Directors  
From Water Fund for Lima and Callao - Aquafondo

1. We have audited the attached financial statements of the Water Fund for Lima and Callao (hereinafter Aquafondo); a non-profit civil association established in Peru, comprising the balance sheet as of December 31, 2020, as well as the corresponding statements of activities, changes in shareholders' equity and cash flow statements for the year completed on that date, as well as the summary of significant accounting policies and other explanatory notes included from 1 to 14 attached to said financial statements.

## **Accountability of the Management on Financial Statements**

2. The Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles in Peru, and for the internal control that the Management concludes is necessary to allow the preparation of financial statements that are free of material misstatements, whether due to fraud or error.

## **Auditor's accountability**

3. Our accountability is to express an opinion on these financial statements based on our audit. Our audit was carried out in accordance with the International Standards on Auditing approved for application in Peru by the Board of Deans of Associations of Public Accountants of Peru. Such standards require that we comply with ethical requirements, plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the balances and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, and include assessing the risk that the financial statements will contain significant misstatements, whether as a result of fraud or error. In conducting this risk assessment, the auditor takes into consideration the relevant internal control of Aquafondo in the preparation and fair presentation of the financial statements in order to design audit procedures in accordance with the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Aquafondo's internal control. An audit also includes an evaluation of whether the accounting principles applied are appropriate and whether the accounting estimates made by the Management are reasonable, as well as an evaluation of the general presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide us with a basis for our audit opinion.

## Opinion

4. In our opinion, the attached financial statements present fairly, in all their significant aspects, the balance sheet of the Water Fund for Lima and Callao as of December 31, 2020, as well as the results of its activities and cash flows for the year completed on that date, in accordance with Generally Accepted Accounting Principles in Peru.

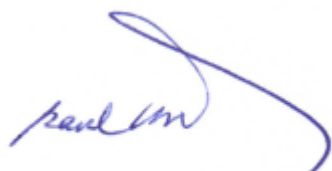
## Emphasis of matter

5. Without modifying our opinion, as indicated in note 14 to the financial statements, that as a result of the Covid-19 outbreak, its declaration as a pandemic by the World Health Organization and the consequent measures taken by the different governments worldwide and the Peruvian Government, aimed at containing the outbreak and protecting the life and health of people, which, among others, have included the immobilization of the population, the closure of borders and the closure of operations considered non-essential, which were paralyzed since March 16, 2020. Based on what has been stated, we wish to indicate that Aquafondo has not been significantly affected in the development of the operations of the programs and projects as well as the contribution of the water security of Lima and Callao. Likewise, the continuity of Aquafondo's operations as a going concern depends on the success of the action plan that the Management and the Board of Directors have adopted and are executing as of the date of this report, which is aimed at maintaining solvency and liquidity of Aquafondo which are necessary to meet its current obligations for the different projects and programs that it develops.

## Other issues

6. The financial statements for the year completed on December 31, 2019 are presented for comparative purposes, since they were not audited by other independent auditors as of the date of this report.

Countersigned by:



**Raúl Martínez Torres** (Partner)  
Chartered Public Accountant  
Registration No. 5410

**Martínez, Rodríguez y Asociados S. Civil de R.L.**  
AGN International member firm

May 21, 2021  
Lima, Peru

Av. Javier Prado Este 3010, Of. 303  
San Borja, Lima 41, Perú  
+51(1) 346 1403 • 984 124 498  
gerencia@martinezrodriguez.com.pe  
martinezrodriguezagnperu@gmail.com  
www.martinezrodriguez.com.pe  
www.agn.org

## WATER FUND FOR LIMA AND CALLAO - AQUAFONDO

### Balance Sheet

As of December 31, 2020 and 2019 (Not audited)

Asset	As of December 31		Liabilities and Equity	As of December 31	
	2020	2019		2020	2019
	PEN	PEN		PEN	PEN
<b>Current Asset</b>		<b>(Not audited)</b>	<b>Current liability</b>		<b>(Not audited)</b>
Funds received and available (note 4)	1,914,570	1,629,893	Trade accounts payable (note 8)	-	169
Other accounts receivable (note 5)	123,868	222,698	Other accounts payable (note 9)	81,032	58,104
<b>Total current asset</b>	<b>2,038,438</b>	<b>1,852,591</b>	<b>Total current liability</b>	<b>81,032</b>	<b>58,273</b>
			<b>Total liability</b>	<b>81,032</b>	<b>58,273</b>
<b>Non-current asset</b>			<b>Shareholders' equity (Note 10)</b>		
Refundable tax credit (note 6)	134,960	129,307	Associates contributions	440,550	440,550
Net computer equipment (note 7)	10,963	14,943	Equity funds	1,454,571	1,454,571
<b>Total non-current asset</b>	<b>145,923</b>	<b>144,250</b>	Cumulative Surplus	208,208	43,447
			<b>Total equity</b>	<b>2,103,329</b>	<b>1,938,568</b>
<b>Total asset</b>	<b>2,184,361</b>	<b>1,996,841</b>	<b>Total liability and equity</b>	<b>2,184,361</b>	<b>1,996,841</b>

The attached notes are part of the financial statements.

**For the years completed as of December 31, 2020 and 2019 (Not audited)**

	<b>2020</b>	<b>2019</b>
	PEN	PEN
<b>Income:</b>		<b>(Not audited)</b>
Donations from associates in agreement	1,490,364	1,197,079
Services rendered	130,496	159,530
Financial income	146	328
<b>Total</b>	<b>1,621,006</b>	<b>1,356,937</b>
<b>Expenses</b>		
Project performance and administration expenses (note 12)	(1,463,220)	(1,282,053)
Net profit (Loss) for change difference (note 3)	20,370	(12,405)
<b>Total</b>	<b>(1,442,850)</b>	<b>(1,294,458)</b>
<b>Surplus (Shortage) of activites in the year</b>	<b>178,156</b>	<b>62,479</b>

The attached notes are part of the financial statements.

## WATER FUND FOR LIMA AND CALLAO - AQUAFONDO

### Statement of Changes in Shareholders' Equity

For years completed on December 31, 2020 and 2019 (Not audited)

	Associates contributions	Equity Funds	Accrued Surplus (Shortage)	Total
	PEN	PEN	PEN	PEN
<b>Balances as of January 1, 2019 (Not audited)</b>	<b>390,450</b>	-	<b>(19,032)</b>	<b>371,418</b>
Surplus of the year	-	-	62,479	62,479
Transfer of equity funds (note 10.2)	-	1,454,571	-	1,454,571
Associates contributions	50,100	-	-	50,100
<b>Balances as of December 31, 2019 (Not audited)</b>	<b>440,550</b>	<b>1,454,571</b>	<b>43,447</b>	<b>1,938,568</b>
Surplus of the year	-	-	178,156	178,156
Adjustment of accrued results	-	-	(13,395)	(13,395)
<b>Balances as of December 31, 2020</b>	<b>440,550</b>	<b>1,454,571</b>	<b>208,208</b>	<b>2,103,329</b>

The attached notes are part of the financial statements.

**WATER UND FOR LIMA AND CALLAO - AQUAFONDO**  
**Cash Flow Statement**  
**For the years completed on December 31, 2020 and 2019 (Not Audited)**

	<b>2020</b>	<b>2019</b>
	PEN	PEN
		<b>(Not audited)</b>
<b>Cash flow of the operation activities</b>		
Surplus (Shortage) of the activities in the year	178,156	62,479
<b>Mores (less) items which do not represent cash flow</b>		
Depreciation	5,502	4,531
Provisions for doubtful accounts	4,298	46,354
Provisions and adjustments	(52,648)	(107,851)
<b>Net variations in assets and liabilities of operation</b>		
Other accounts receivable	127,986	(18,787)
Trade accounts receivable	(169)	169
Other accounts payable	22,928	(3,621)
<b>Net cash provided by (used in) the operation activities</b>	<u>286,053</u>	<u>(16,726)</u>
<b>Cash flow of investing activities</b>		
Computer equipment sales	-	-
Computer equipment purchase	(1,522)	(13,585)
<b>Net cash provided by (used in) the investing activities</b>	<u>(1,522)</u>	<u>(13,585)</u>
<b>Cash flow of financing activities</b>		
Associates contributions	-	50,100
Donations received	-	1,454,571
Financial operations interests	146	328
<b>Net cash provided by the financing activities</b>	<u>146</u>	<u>1,504,999</u>
<b>Net increase (decrease) of cash and cash equivalent</b>	<u>284,677</u>	<u>1,474,688</u>
Cash balance and cash equivalent at the beginning of the year	1,629,893	155,205
<b>Cash balance and cash equivalence at the end of the year (note 4)</b>	<u><u>1,914,570</u></u>	<u><u>1,629,893</u></u>

The attached notes to the financial statements are an integral part of this statement.



# **WATER FUND FOR LIMA AND CALLAO – AQUAFONDO**

## **Notes to the Financial Statements**

**As of December 31, 2020 and 2019 (Not audited)**

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### **1. Background, identification and institutional activity**

#### **1.1 Background**

On March 7, 2011, various private companies and institutions signed the agreement that creates the "Fund for the conservation of watersheds and water resources of Lima and Callao - Aquafondo" providing resources and money for the development of Aquafondo and which includes the guidelines and Framework Principles for the administration of resources and projects. Said agreement establishes the main objective of the conservation of the basins and water resources of Lima and Callao.

The Convention has set the goal of promoting a new water culture, contributing to the solution of degradation problems in the basins of the Chillón, Rímac and Lurín rivers, especially their headwaters, through the development of projects financed with the income generated by the patrimonial fund and resources for direct allocation and that allow to protect and improve the availability and quality of the water resources of the three basins.

The founding members

- Unión de Cervecerías Peruanas Backus y Johnston S.A.A.
- La Sociedad Peruana de Derecho Ambiental – SPDA (Peruvian Society for Environmental Law)
- Pontificia Universidad Católica Del Perú (Pontifical Catholic University of Peru)
- Fondo de las Américas del Perú (Peruvian America Fund)
- The Nature Conservancy – TNC
- Grupo Gea

#### **1.2 Identification**

**WATER FUND FOR LIMA AND CALLAO** (hereinafter Aquafondo), is a non-profit private law association incorporated on December 1, 2015, in the province of Lima, department of Lima-Peru. Aquafondo's legal address is located at Calle German Schreiber No. 276 - San Isidro, Lima, where it carries out its administrative operations.

#### **1.3 Institutional activity**

Aquafondo, according to its incorporation, has the social purpose of creating, promoting and disseminating relevant knowledge and information for the efficient and sustainable use of water resources in the basins of the Rímac, Chillón and Lurín rivers that flow into the Pacific Ocean, with the intention to forge a new culture of water use. It also promotes the development of seminars, conferences and congresses at national and international level that allow the knowledge and better application of the latest world scientific advances in the field of efficient and sustainable use of water resources and create appropriate instruments for the management of water quality and availability of water in the aforementioned basins, based on scientific studies and put them at the service

of the community, in order to contribute to reducing the levels of contamination of the water resources that supply Metropolitan Lima and to have a positive impact on the population health.

For the fulfillment of its purposes, Aquafondo may enter into all kinds of agreements, contracts, or other legal acts that it deems convenient for the administration and execution of educational and scientific programs and projects; assuming the respective costs, as well as being a recipient of international technical cooperation and/or economic contributions from natural and legal persons, nationals and/or from abroad, benefiting from the exceptions of the law for the payment of the obligations provided for the organizations of this nature.

As of December 31, 2020 and 2019, Aquafondo associated companies have been the following:

- Grupo Gea S.A.C.
- Sociedad Peruana de Derecho Ambiental
- Pontificia Universidad Católica del Perú.
- Fundación Backus S.A.C.
- Fondo de las Américas
- Nestlé Perú S.A.
- Dalka S.A.C.
- The Nature Conservancy – TNC
- Hydro-Geo Consultores S.A.C.
- Mexichem Perú S.A

#### **1.4 Main programs and projects**

Aquafondo has developed and promoted, among others, the following projects and social programs during the periods completed as of December 31, 2020 and 2019, which are carried out under lines of intervention and which are presented below:

##### **(i) Management and conservation of water resources in Lima**

The strategic objective is to promote more investment for the integral management of the water of the Lima basins and especially, for natural infrastructure projects. We prioritize actions for the conservation and restoration of natural infrastructure. We recognize, revalue and integrate ancestral knowledge, wisdom and techniques.

- Recovery and improvement of the ancestral water recharge infrastructure in the peasant communities of San Pedro de Casta.
- Adaptation to climate change for the communities of the Lima Basins.
- Adaptation of water resources management to climate change: development of management tools and sustainable financing mechanisms in three representative ecoregions of Peru.

(ii) Water governance

Strategic objective is to be spokespersons on issues of water security, also promoting participation, planning and agreement for the governance of water as a public good.

- Organization of the Workshop on Guidelines for the Elaboration of the Baseline of the Chillón, Rímac and Lurín Basin.
- Review and Feedback of the Natural Infrastructure Plan of the Chillón, Rímac and Lurín Basins.

(iii) Participatory management and culture of water

Strategic objective is to strengthen the capacities of regional and local actors and peasant communities based on a new water culture.

- Programa Urbano de Cultura del Agua – PUCA (Urban Program of Water Culture)
- Support for the process of conformation of the council of water resources of Lima and Callao basins
- Reuse of treated wastewater for irrigation of green areas
- Promotion of the proper disposal of recycled household oil

## **1.5 Agreements and conventions for project execution**

(i) Sub-donation Agreement No. NASCA 00128/2017

Aquafondo and The Nature Conservancy, in July 2017, signed the Sub-donation for the execution of the project “Adaptation of water resources management to climate change: development of management tools and sustainable financing mechanisms in three representative ecoregions of Peru”, with a financing of € 599 946.00, as of December 31, 2020 and 2019.

As of December 31, 2020 and 2019 Aquafondo has received funds for € 580,450.00 and € 492,967.00, equivalent to PEN 2,098,010.00 and PEN 1,764,045.00, Aquafondo has disbursed for the project execution the amount of € 571,357.00 and € 469,321.00, equivalent to PEN 2,063,657.00 and PEN 1,680,023.00.

(ii) Cooperation Agreement No. NASCA 0095/2019

Aquafondo and The Nature Conservancy, in May 2019 signed the cooperation agreement to support the Partner in the strengthening of Aquafondo and the implementation in the field of watershed management activities that bring benefits in terms of “replenish”, for the execution of the project “Water funds and replenishment”, with a financing of PEN 150,000, with the final contribution of PEN 136,604.00.

As of December 31, 2020 and 2019, Aquafondo has received funds and has disbursed for the project execution the amount of PEN 136,604.00, being completed as of December 31.

(iii) Aquafondo Convention – Fondo de las Américas

Aquafondo and Fondo de las Américas, in February 2019, signed the agreement for the execution of the project “Ancestral infrastructure management for artificial water recharge (Amuna) in the peasant community of San Pedro de Casta, District of San Pedro de Casta, Province of Huarochirí”, with a financing of US\$ 30,000, equivalent to PEN 97,000.00.

As of December 31, 2019 Aquafondo has received said funds and has disbursed for the project execution the amount of PEN 97,000.00, being completed as of December 31, 2020.

(iv) Aquafondo Convention – Backus Foundation

Project: Recovery and improvement of the ancestral infrastructure of artificial water recharge in the peasant community of San Pedro de Casta, province of Huarochirí, Lima Region

The project contemplates the recovery and improvement of three amunas that are equivalent to a total of 4,101 km, in order to improve the distribution and infiltration of water in the micro-basin, as well as the stabilization of slopes, in addition to allowing the development of the vegetation cover in the spaces near the canal, product of the moistening of the soil. In this way, it finally contributes to water security through the increase in the availability of water resources for various activities such as irrigation, guaranteeing an increase in agricultural production in the area. The location of the project is in the district of San Pedro de Casta, province of Huarochirí and department of Lima.

The projected budget for the recovery of 66.24 km of amuna is US\$ 17,875,337.00, and the amount of US\$ 300,560 is received as of December 31, 2020.

(v) Contract between the Swiss Confederation, represented by the Federal Department of Foreign Affairs - Swiss Embassy-SDC

Aquafondo and SDC, on February 18, 2020, signed the Contract relating to the Concession of a contribution to the project “Updating and methodological expansion of the study of water risks, earthquake and vulnerability of the private sector in the field of peasant communities”, with a contribution of PEN 17,125.00 soles as of December 31, 2020.

As of December 31, 2020 Aquafondo has received said funds for PEN 17,125.00 and has disbursed for the project execution in its entirety.

(vi) Contribution of Nestlé Perú

Aquafondo has received from Nestlé Perú, as of December 2020 and December 2019 a contribution of PEN 17,500.00 and PEN 120,000.00, respectively, for the study of “Water crisis, a silent threat for economic development” and as an extraordinary contribution for the project execution for Aquafondo.

As of December 31, 2020 Aquafondo has received said funds and has fully disbursed them.

The income and disbursements received and executed in the Aquafondo's projects and program for the years completed as of December 31, 2020 and 2019 are presented below:

<b>Funds (disbursements) received for projects</b>	As of December 31	
	2020	2019
	PEN	PEN
<b>Income:</b>		
TNC-Sub-donation Agreement No. NASCA 00128/2017	2,098,010	1,764,045
Backus Foundation	1,055,866	-
Swiss Embassy-SDC	17,125	-
Nestlé Perú	17,500	120,000
TNC – Agreement Nasca 0095/2019	-	136,604
Fondo de las Américas	-	97,000
Total	3,188,501	2,117,649
<b>(-) Disbursements:</b>		
Sub-donation Agreement No. NASCA 00128/2017	(2,063,657)	(1,680,023)
Backus Foundation	(1,055,866)	-
Swiss Embassy-SDC	(17,125)	-
Nestlé Perú	(17,500)	(120,000)
TNC – Agreement Nasca 0095/2019	-	(136,604)
Fondo de las Américas	-	(97,000)
Total	(3,154,148)	(2,033,627)
<b>Income (disbursements), net</b>	<b>34,353</b>	<b>84,022</b>

The funds received for donation comprise the resources received by Aquafondo by virtue of conventions signed in order to use them for the execution of projects within the scope of action of Aquafondo.

## 1.6 Approval of financial statements

The financial statements as of and for the year completed on December 31, 2020, have been prepared in accordance with Generally Accepted Accounting Principles in Peru and will be presented to the Board of Directors of Aquafondo for approval of their issuance, and then submitted for consideration of the General Assembly of Associates that will be summoned within the terms established by Law.

## 2. Summary of significant accounting principles and practices

### 2.1 Basis of preparation and presentation

#### Compliance Statement.-

Aquafondo's financial statements have been prepared in accordance with Generally Accepted Accounting Principles in Peru (hereinafter GAAP), such principles include the International Financial Reporting Standards (IFRS), made official through resolutions issued by the Consejo Normativo de Contabilidad (CNC) (Normative Council of Accounting) as of December 31, 2020 and 2019, respectively, as applicable to Aquafondo.

#### Accountability of the information.-

The information contained in these financial statements is the accountability of the Aquafondo's Management, which expressly confirms that all the principles and criteria contemplated in the (GAAP) issued by the (CNC), in force at the end of each fiscal year, have been applied in their preparation.

#### Basis of measurement.-

The attached financial statements arise from Aquafondo's accounting records and have been prepared on a historical cost basis.

#### Functional and presentation currency.-

The financial statements are presented in soles (PEN), which is Aquafondo's functional and presentation currency, except when a different monetary expression is indicated.

#### Use of estimates and judgments.-

The preparation of financial statements in accordance with (GAAP) requires Aquafondo's Management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates. Relevant estimates and assumptions are regularly reviewed. Revisions to accounting estimates are recognized prospectively.

The main accounting estimates made by Aquafondo include: useful life assigned to the various equipment, net and estimate of doubtful accounts.

Aquafondo's Management has exercised its critical judgment when applying accounting policies in the preparation of the attached financial statements, as explained in the corresponding accounting policies.

## **2.2 Functional currency and foreign currency transactions**

The functional currency is the currency of the primary economic environment where the entity operates. Aquafondo's Management has considered Sol (PEN) as its functional and presentation currency, since it reflects the nature of the economic events carried out by Aquafondo.

Operations in foreign currency are recorded in the functional currency, applying the exchange rate on the date of the transaction to the amounts in foreign currency. During the years 2020 and 2019, Aquafondo's disbursement operations in foreign currency are immaterial.

## 2.3 Financial instruments

### Initial recognition and subsequent measurement.-

Purchases or sales of financial assets that require the delivery of assets within the period generally established by regulation or market conditions are recorded on the transaction negotiation date; that is, the date on which Aquafondo commits to buy or sell the asset.

The classification of financial instruments on initial recognition depends on the purpose for which the financial instruments were acquired and its characteristics. All financial instruments are initially recognized at fair value plus the incremental costs related to the transaction that are directly attributed to the purchase or issuance of the instrument, except in the case of financial assets or financial liabilities carried at fair value with effect on results.

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when it has the legal right to offset them and Aquafondo's Management intends to cancel them on a net basis or to realize the asset and cancel the liability simultaneously.

At the date of the financial statements, Aquafondo classifies its financial instruments in the following categories defined in (IAS 39): (i) financial assets and liabilities at fair value with effect on results, (ii) loans and accounts receivable, (iii) financial liabilities at amortized cost, (iv) financial assets available for sale, and (v) financial assets held to maturity, as appropriate. Aquafondo's Management determines the classification of its financial instruments at the time of initial recognition.

As of December 31, 2020 and 2019, Aquafondo maintains financial assets and liabilities only in the categories of "Loans and accounts receivable" and "Financial liabilities at amortized cost". The most relevant aspects of each category applicable to Aquafondo are described below:

#### (i) Loans and accounts receivable.-

Aquafondo maintains in this category: cash and cash equivalents and various accounts receivable which are expressed at the value of the transaction, net of its provision for doubtful accounts when applicable. The funds received and available held in banks are not subject to a significant risk of changes in its value.

Accounts receivable are non-derivative financial assets whose collections are fixed or determinable, which are not traded in an active market, for which Aquafondo does not intend to sell them immediately or in the near future, and which do not have recovery risks other than their own. deterioration. After their initial recognition, accounts receivable are carried at amortized cost using the effective interest rate method, less the provision for impairment. Losses caused by impairment are recognized in the statement of activities and surplus. The provision for doubtful accounts is established if there is objective evidence that Aquafondo will not be able to recover the amounts of the debts in accordance with the original agreed terms. For this purpose, Aquafondo's Management periodically evaluates the need and/or sufficiency of said provision through the aging analysis of accounts receivable and the collectability

statistics that Aquafondo maintains. The provision for doubtful accounts is recorded with a charge to income for the fiscal year in which its need is determined.

(ii) Financial liabilities at amortized cost.-

As of December 31, 2020 and 2019, financial liabilities at amortized cost include the caption "Other accounts payable". Financial liabilities at amortized cost are recognized when Aquafondo is part of the contractual agreements of the instrument. After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The amortized cost is calculated considering any discount and the costs that are an integral part of the effective interest rate. Financial liabilities are classified as short-term obligations unless Aquafondo has the irrevocable right to defer the agreement of the obligations for more than twelve months after the date of the balance sheet.

Derecognition of financial assets and liabilities.-

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized when: (i) the rights to receive cash flows from the asset have ended; or (ii) Aquafondo has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay all of the cash flows received immediately to a third party under a transfer agreement and (iii) the Foundation has substantially transferred all the risks and rewards of the asset or, failing to transfer or retain substantially all the risks and rewards of the asset, it has transferred its control.

A financial liability is derecognized when the payment obligation is terminated, canceled or expired. When an existing financial liability is replaced by another of the same borrower under significantly different conditions, or the conditions are significantly modified, such replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability, recognizing the difference between both in the results of the period.

Offsetting of financial assets and liabilities.-

Financial assets and liabilities are offset and the net amount is presented in the balance sheet, when it has the legal right to offset them and Management intends to cancel them on a net basis or to realize the asset and cancel the liability simultaneously.

## **2.4 Funds received and available**

They represent the funds received from donors that have not yet been used in the project execution during the period. These funds are in soles and American dollars, and are recognized when they are deposited into local Aquafondo bank accounts.

## **2.5 Other accounts receivable**

Accounts receivable are expressed at their nominal value.



## 2.6 Net computer equipment

Computer equipment is registered at the net cost of the accrued depreciation and/or to accrued impairment losses, if any. The historical cost of acquisition includes payments directly attributed to the acquisition or manufacture of assets. This cost includes the cost of replacing a part of the computer equipment, including non-refundable purchase taxes and fees and any other necessary cost to get the asset in operating conditions.

Subsequent costs attributed to various equipment are capitalized just when it is likely to generate future economic benefits related to the asset for Aquafondo and the cost of these assets may be reasonably measured; otherwise, the expense will be allocated when incurred on it.

A computer equipment component or any significant part initially recognized are derecognized when it is not expected to get future economic benefits for its use or sale. Any loss or profit in the derecognition of the asset (calculated as the difference between the net income arising from the asset sale and its book value) is included in the income statement when the asset is derecognized.

Residual values, useful lives and depreciation methods of assets are reviewed at each reporting date and are prospectively adjusted, if applicable, and are as follows:

Categories:	Years
Various equipment and computer equipment	25
Furniture	10

## 2.7 Impairment of long-lived assets

Aquafondo reviews and assesses the devaluation of its long-lived assets when there are events or economic changes that indicate that the value of an asset will not be recoverable. A devaluation loss is the amount by which the book value of long-lived assets exceeds the net sale price or the use value, whichever is higher. The net sale price is the amount that results from the sale of an asset in a free market, while the use value is the existing value of future cash flows estimated of the continuous use of an asset and of its disposal at the end of its useful life. A devaluation loss recognized in the previous years is refunded if a change is made in the estimated amount used in the last chance in which the loss was recognized.

## 2.8 Trade accounts payable

The trade accounts payable are payment obligations for properties and services acquired from suppliers in the normal course of activities carried out. The trade accounts payable are classified such as current liabilities if the payment has to be done within or less a year, otherwise, they will be presented as non-current liabilities.

## **2.9 Provisions**

Provisions are recognized when Aquafondo has a (legal or constructive) existing obligation as a result of a past event only. It is likely that resources to settle the obligation are required and the obligation amount may be estimated reliably. Provisions are reviewed in each fiscal year and are adjusted to reflect the best estimate available at the date of the statement of financial position. When the effect of the money value over the time is significant, the amount of provision is the existing value of the expenses that are expected to be incurred to cancel it.

## **2.10 Income and expenses recognition**

Donation income received by Aquafondo is registered when received. Such income is based on funds committed by Aquafondo to implement and develop projects and programs that are executed and are carried out to contribute to water security of Lima and Callao.

On the other hand, donations received with the restriction of being intended to a defined purpose by Aquafondo recognize as an income to the extent that such donations are used in such defined purpose and executed in the period. Donations are initially debited and credited in the item "funds introduced and available" and "donations received to execute", respectively, of the statement of the financial situation. Subsequently, to the extent of the use, donations received are affected to the statement of activities, in the same amounts to which were executed.

Costs and expenses are recognized to the extent that they accrued regardless of when they are paid, and are recorded in the periods to which they are related to.

## **2.11 Contingent assets and liabilities**

Contingent liabilities are not recognized in financial statements, they are disclosed in the notes to the financial statement only. When the possibility of an outlay of financial resources to cover a contingent liability to be remote, such disclosure is not required.

Contingent assets are not recognized in financial statements, they are disclosed in the notes to the financial statements only when it is likely to result in the income of financial resources.

Items treated previously as contingent liabilities will be recognized in the financial statements in the period in which a change of probabilities occurs, this is when it is probably that an outlay of financial resources is caused to cover such liability.

Items treated as contingent assets will be recognized in the financial statements in the period in which it is determined that it is virtually secured that an income of financial resources will be performed, respectively.

## 2.12 Reclassifications

Some quantities of the balances of assets and liabilities of the financial statements of 2019 have been reclassified to compare them to the financial statements of 2020. The amount of the reclassifications done is insignificant in regards to the financial statements as a whole.

## 3. Financial risks management

The activities of Aquafondo expose it to a variety of financial risks: liquidity, credit, interest and exchange. The Aquafondo risks management program intends to reduce the potential negative effects in its financial performance. Aquafondo Management is aware of the existing conditions and, based on its knowledge and experience, controls risks, following the policies approved by the Board of Directors.

### Liquidity risk.-

The liquidity risk is the risk that cash may not be available to pay obligations to the expiration to a reasonable cost. Aquafondo controls the required liquidity through an appropriate management of the expiration of assets and liabilities to match the income flow and future payments.

### Credit risk.-

The credit risk is generated because of the failure of associates to comply with the payment of its obligations to Aquafondo upon maturity. The Management assesses the financial conditions of its associates as a part of the management process developed every year in order to reduce this risk.

### Interest risk.-

The exposure of Aquafondo to this risk is because of the changes in the interest rates in its financial liabilities. Aquafondo holds liabilities subject to fixed interest rates, consequently, the Management does not expect to incur in loss for interest risk.

### Foreign exchange risk.-

Aquafondo is exposed to fluctuations in the foreign currency exchange rates prevailing in its financial position and cash flow. The Management sets limits on exposure levels per currency.

Foreign currency transactions are carried out at the exchange rate set by supply and demand in the National Financial System.

As of December 31, 2020, the weighted average exchange rate published by the Superintendency of Banking, Insurance and Private Pension Fund Management Company for US dollars transactions was PEN 3.618 for purchasing transactions and PEN 3.621 for selling transaction (PEN 3.311 for purchase and PEN 3.317 for sale in 2019).

The exchange (profit) difference generated in 2020 is presented in the net exchange difference in the statement of activities that was PEN 20,370. (net (loss) exchange difference for 2019 reached PEN 12,405).

#### Credit quality of financial assets.-

As of December 31, 2020 and 2019, the cash credit quality and cash equivalent are set forth as follow:

	As of December 31	
	2020	2019
	PEN	PEN
Banco de Crédito del Perú (A+)	1,906,662	1,627,413
Banco de la Nación (A)	7,908	2,480
Total	1,914,570	1,629,893

The classification of the foregoing chart shows high credit qualities. For banks located in Peru, the classifications are derived from credit rating agencies authorized by the Superintendency of Banking, Insurance and Private Pension Fund Management Company.

#### **4. Funds introduced and available**

This item includes:

	As of December 31	
	2020	2019
	PEN	PEN
Current accounts	1,883,382	1,518,525
Current saving accounts, current accounts	31,188	111,368
Total	1,914,570	1,629,893

Cash mainly comprises current accounts and they correspond to balances in local banks, in PEN and American dollars, and are freely available and do not generate interests.

As of December 31, 2020 and 2019, Aquafondo holds in current accounts of Banco de Crédito del Perú a balance of PEN 1,454,571 (capital: PEN 1,396,120, interest: PEN 58,450), corresponding to the Support to Capitalization of Aquafondo in the Framework of the Project with Global Environmental Facility (GEF) and Inter-American Development Bank (IADB). (See note 10.2)

#### **5. Other accounts receivable**

This item includes:

	As of December 31	
	2020	2019
	PEN	PEN
Invoices receivable	-	165,550
Subscriptions receivable to associates (*)	54,270	49,665
Membership receivable to associates (**)	79,596	46,354
Security deposit	8,177	7,483
Reclamations to Third-Party	29,156	-
Other accounts receivable	3,321	-
(-) Reclassifications of associates obligations	(50,652)	(46,354)
Total	123,868	222,698

As of December 31, 2020, subscriptions receivable to associates belong to documents pending of collection of Universidad de Ingeniería y Tecnología (Technology and Engineering University) for USD 15,000. (\*)

Membership receivable to associates belongs to documents pending of collection for the years completed as of December 31, 2020 and 2019, to which correspond USD 22,000 and USD 14,000, respectively. (\*\*)

According to Aquafondo's Management, other trade accounts receivable as of December 31, 2020 and 2019 were subject to impairment, which caused reclassifications to recognize the obligations of associates in such dates.

## 6. Tax credit to recover

As of December 31, 2020 and 2019, the balance of credits to recover belongs to the General Sales Tax equivalent to PEN 134,960 and PEN 129,307, respectively, which were generated because of the different activities related to projects and programs of Aquafondo, which are compensated when future income is generated from the carry out of activities subject to taxation.

In the Framework of the project "Adaptation of water resources management to climate change: development of management tools and sustainable financing mechanisms in three representative ecoregions of Peru".

Aquafondo, at the date of the financial statements, upon request of the Peruvian International Cooperation Agency (APCI), issued the return certificate of General Sales Tax and IMP paid in the purchase of goods and services with the financing of foreign donations and International Technical Cooperation. The issuance of the certificate for PEN 7,734.00 was approved and this transfer in the National Superintendency of Customs and Tax Administration (SUNAT) was carried out.

## 7. Net various equipment

The movement and balances ending as of December 31 has set forth as follows:

<u>Cost:</u>	<u>Balance as of</u> <u>12/31/2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance as</u> <u>12/31/2020</u>
	<u>PEN</u>	<u>PEN</u>	<u>PEN</u>	<u>PEN</u>
Furniture	4,339	1,522	-	5,861
Computer equipment	19,660	-	-	19,660
	<u>23,999</u>	<u>1,522</u>	<u>-</u>	<u>25,521</u>
<u>(-) Accrued Depreciation:</u>				
Furniture	(229)	(586)	-	(815)
Computer equipment	(8,827)	(4,916)	-	(13,743)
	<u>(9,056)</u>	<u>(5,502)</u>	<u>-</u>	<u>(14,558)</u>
 Net cost:	 <u>14,943</u>			 <u>10,963</u>

As of December 31, 2020 and 2019, based on the estimates made by the Aquafondo' Management on the results expected for next years, there are no signs that recoverable values of computer equipment to be less to its book values. Therefore, any impairment provision is not necessary to be established for these assets to the date of the statement of financial situation.

## 8. Trade accounts payable

Accounts payable originate mainly from services and goods received from suppliers related to Aquafondo's activities in regards to projects and programs executed, which help to contribute to water security of Lima and Callao and are mainly denominated in PEN, have current expiration, do not generate interests and no guarantees were granted for these obligations.

## 9. Other accounts payable

This item includes:

	As of December 31	
	2020	2019
	PEN	PEN
Taxes and contributions	9,471	13,594
Wages and social benefits payable	67,409	44,510
Sundry	4,152	-
Total	81,032	58,104

## 10. Shareholder's equity

### 10.1 Social contributions.-

Social contributions comprise of installments per year of the associates of Aquafondo that as of December 31, 2020 and 2019 have PEN 440,550 and PEN 440,545, respectively. During 2019, contributions to associates in cash for an amount of PEN 50,100 were made.

### 10.2 Endowment fund.-

Endowment fund of Aquafondo corresponds to the transfer made on September 6, 2019, to the current account of Banco de Crédito del Perú, whose balance as of December 31, 2020 is PEN 1,454,571 (capital: PEN 1,396,120, interest: PEN 58,450); in reference to the Convention (Donation Agreement No. 5.1.11 SIDB 2014) entitled "Support to capitalization of Aquafondo in the framework of the project with global environmental facility (GEF) and Inter-American Development Bank (IADB)", pursuant to the notice issued on August 19, 2019 by The Nature Conservancy (TNC) organization to Fondo de las Américas (FONDAM). (See note 4).

As of December 31, 2020 and 2019, such account balance has been temporarily registered in Aquafondo's equity because as of the date of the submission of the attached financial statements, they have not been approved in minutes by the governing bodies such as the General Assembly of Associates and the Board of Directors.

According to Aquafondo's Management, such endowment funds will ensure the stability in hard economic times or foresee extraordinary events and/or will serve as leverage and strengthening of Aquafondo's equity.

### 10.3 Accrued surplus.-

The assets of Aquafondo, in the event of dissolution and conclusion of the liquidation, if applicable and if there is a resulting net income, shall be transferred according to title VIII of its statute.

If the event that this is not possible, the respective Civil Division of the Superior Court will order its application for similar purposes in interest of the community, giving preference to the province where Aquafondo had its headquarter, in accordance with article 98 of the Civil Code.

## 11. Tax situation

Aquafondo submitted the Annual Income Tax Return as of December 31, 2020 before the National Superintendency of Tax Administration (SUNAT), dated February 10, 2021.

### (i) Tax regime of Aquafondo in the Income Tax.

Aquafondo is a third category income beneficiary. Therefore, all it requires is to be within the hypothesis of incidence of the tax regulation to be subject to tax, as per articles 14 and 28, subsections (e) and (f), respectively, of the Unique Ordered Text of the Income Tax Law (hereinafter referred to as ITL), approved by Supreme Decree No. 179-2004-EF and its Regulation approved by Supreme Decree No. 122-94-EF and amendments.

By Administrative Resolution No. 0230050163688, dated November 15, 2016, Aquafondo was registered in the Income Tax Exempt Entities Registry thanks to the exemption of the tax established in the first subsection b) of article 19 of the ITL, modified by article 3 of Law No. 30404, published on December 30, 2015.

Dated February 25, 2020, by Administrative Resolution No. 0230050304055, Aquafondo renewed its qualification as a Donation Receiving Entity according to Ministerial Resolution No. 767-2008-EF/15, and supplemented by Superintendence Resolution No. 184-2012/SUNAT and procedure No. 39 of the Unique Text of Administrative Procedure of the National Superintendency of Tax Administration-UTAP, approved by Supreme Decree No. 176-2013-EF. Such qualification is applicable for (3) years since February 25, 2020, protecting the capacity of control of the Tax Administration enshrined in article 62 of the Unique Ordered Text of the Tax Code approved by Supreme Decree No. 133-2013-EF and amendments.

The capacity of control of the National Superintendency of Tax Administration (SUNAT), in accordance with the last paragraph of article 19 of the ITL provides that “the verification of non-compliance of some requirements for the exemption established in subsections a), b) and m) of this article will tax the incomes obtained by entities included in the aforementioned subsections, in the taxable year subject to control, resulting in application including, if applicable, the provision of the second paragraph of article 55 of the ITL. In the foregoing cases, the sanctions established in the Tax Code are applicable.”

### (ii) Tax Regime of Aquafondo in the General Sales Tax:

The regulation established in the Unique Ordered Text of the General Income Tax Law and Selective Consumption Tax (hereinafter referred to as IGV), to non-profit civil Associations is not to tax those transactions that are not business. In other words, those that results in third category income. In accordance with letter b) of article 2 of IGV Law, it establishes that the transfer of used goods made by individual or legal entities who do not carry out business activity constitutes a non-taxed concept, unless they are common in the performance of this type of operation, as established number 1 of article 4 of the Regulation of IGV Law.

## 12. Administration expenses and project execution

This item includes:

	As of December 31	
	2020	2019
	PEN	PEN
Staff cost	588,218	524,940
Services provided by third parties	805,151	449,342
Cost due to taxes	622	-
Other management costs	63,728	303,240
Provisions of the year	5,501	4,531
Total	<u>1,463,220</u>	<u>1,282,053</u>

## 13. Contingencies

As of December 31, 2020, no judgments from third parties exist against Aquafondo. In accordance with the Management and its Legal Advisors, there are no judgments or important claims pending to solve or any other contingency against Aquafondo in such date.

## 14. Events after the date of the financial statements

The outbreak of the coronavirus disease COVID-19 is unfortunate and critical for the global society. We are committed to the health and safety of our Associates and, of course, of our staff that perform the programs and projects. Due to the measurements introduced by the government of our country, we have taken several measures since March, 2020 to keep Associates and employees safe during this unusual situation. The extent of the impact will depend on how long the situation will continue.

The Aquafondo's Management is monitoring the impact of COVID-19 very closely to take the necessary measures to mitigate the adverse effects in the operating results, solvency and liquidity. The Management developed a series of scenarios and is prepared to apply contingency plans when necessary.

The Aquafondo's Management is not aware of other events except for the foregoing paragraphs that have occurred between January 1, 2020 and the date on which the issuance of financial statement that requires to be recognized as adjustments to balances or disclosure of additional information was authorized.

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