ONE DROP

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013

ONE DROP

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013

TABLE OF CONTENTS

Deloitte LLP
1 Place Ville Marie
Suite 3000
Montreal QC H3B 4T9
Canada

Tel.: 514-393-7115
Fax: 514-390-4116
www.deloitte.ca

Independent auditor's report

To the members of
ONE DROP

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of ONE DROP, which comprise the consolidated balance sheet as at December 31, 2013 and the consolidated statements of income, changes in net assets and cash flows for the year ended December 31, 2013 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of the consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ONE DROP as at December 31, 2013 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Report on Other Legal Rules and Regulations

As required by Part II of the Canada Corporations Act, we report that, in our opinion, accounting principles have been applied on a basis consistent with that of the preceding year.

Deloitte LLP[1]

June 10, 2014

[1] CPA auditor, CA, public accountancy permit No. A120628

Consolidated Balance Sheet

December 31, 2013
(in US dollars)

		2013		2012
Assets				
Current				
Cash and short-term investments (Note 3)	$	7 324 471	$	8 810 740
Receivables (Note 4)		345 721		199 031
Prepaid expenses		71 297		87 613
		7 741 489		9 097 384
Investments (Note 5)		5 296 413		5 197 749
Capital assets (Note 6)		493 109		611 323
	$	13 531 011	$	14 906 456
Liabilities				
Current				
Accounts payable and accrued liabilities (Note 7)	$	752 162	$	1 401 381
Unearned revenue		255 073		173 884
Deferred contributions (Note 8)		1 351 420		1 659 976
		2 358 655		3 235 241
Deferred lease inducements (Note 9)		353 222		393 355
		2 711 877		3 628 596
Net Assets				
Invested in capital assets		257 824		326 621
Endowments		5 211 903		4 994 913
Restricted by management (Note 10)		1 328 319		3 636 718
Available		4 021 088		2 319 608
		10 819 134		11 277 860
	$	13 531 011	$	14 906 456

Commitments (Note 17)

See accompanying notes to the consolidated financial statements.

On behalf of the Board of ONE DROP Canada:

Signed,
Guy Laliberté
Director

Signed,
Robert Blain
Director

ONE DROP

Consolidated Income Statement

Year ended December 31, 2013
(in US dollars)

		2013		2012
Revenues				
Contributions (Note 11)	**$**	**7 268 121**	$	9 166 235
Benefit events		**3 762 010**		6 500 084
Investments (Note 12)		**878 388**		358 145
		11 908 519		16 024 464
Direct costs related to benefit events		**1 945 332**		840 303
		9 963 187		15 184 161
Expenditures				
Programs (Notes 13 et 14)		**6 885 627**		7 487 632
Development and revenue generation (Note 14)		**2 240 601**		1 280 435
Administration and international network (Note 14)		**1 374 466**		1 523 168
		10 500 694		10 291 235
(Deficiency) excess of revenues over expenditures	**$**	**(537 507)**	$	4 892 926

See accompanying notes to the consolidated financial statements.

ONE DROP

Consolidated Statement of Changes in Net Assets

Year ended December 31, 2013
(in US dollars)

		Invested in capital assets		Endowments		Restricted by management		Available		Total
Net assets, as at December 31, 2011	$	381 180	$	4 408 178	$	160 932	$	844 492	$	5 794 782
(Deficiency) excess of revenues over expenditures		(70 798)	*	-		-		4 963 724		4 892 926
Acquisition of capital assets		7 769		-		-		(7 769)		-
Endowment contributions		-		451 447		-		-		451 447
Allocation of a portion of the year's investment income		-		-		203 791		(203 791)		-
Net transfer to programs		-		-		3 271 995		(3 271 995)		-
Transfer for the adjustment corresponding to the year's inflation rate on endowments		-		35 708		-		(35 708)		-
Cumulative translation adjustment		8 470		99 580		-		30 655		138 705
Net assets, as at December 31, 2012		**326 621**		**4 994 913**		**3 636 718**		**2 319 608**		**11 277 860**
Deficiency of revenues over expenditures		**(49 262)**	*	**-**		**-**		**(488 245)**		**(537 507)**
Endowment contributions		**-**		**491 051**		**-**		**-**		**491 051**
Allocation of a portion of the year's investment income		**-**		**-**		**23 572**		**(23 572)**		**-**
Net use for programs		**-**		**-**		**(2 277 646)**		**2 277 646**		**-**
Transfer for the adjustment corresponding to the year's inflation rate on endowments		**-**		**56 316**		**-**		**(56 316)**		**-**
Cumulative translation adjustment		**(19 535)**		**(330 377)**		**(54 325)**		**(8 033)**		**(412 270)**
Net assets, as at December 31, 2013	**$**	**257 824**	**$**	**5 211 903**	**$**	**1 328 319**	**$**	**4 021 088**	**$**	**10 819 134**

* Comprised of the amortization of capital assets of $81,305 ($103,964 in 2012) and the amortization of deferred lease inducements related to leasehold improvements of $32,043 ($33,166 in 2012).

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended December 31, 2013
(in US dollars)

		2013		2012
Operating activities				
(Deficiency) excess of revenues over expenditures	**$**	**(537 507)**	$	4 892 926
Adjustments for:				
Amortization of capital assets		**81 305**		103 964
Change in the cumulative translation adjustment related to capital assets		**36 909**		(15 404)
Change in fair value of investments		**(629 037)**		(247 752)
Change in the cumulative translation adjustment related to investments		**349 980**		(96 889)
Lease inducements received		**32 897**		72 172
Amortization of lease inducements		**(48 104)**		(49 561)
Change in the cumulative translation adjustment related to lease inducements		**(24 926)**		(765)
Change in the cumulative translation adjustment related to net assets		**(412 270)**		138 705
		(1 150 753)		4 797 396
Changes in non-cash operating working capital items				
(Increase) decrease in receivables		**(146 690)**		113 807
Decrease (increase) in prepaid expenses		**16 316**		(41 917)
(Decrease) increase in accounts payable and accrued liabilities		**(649 219)**		237 783
Increase in unearned revenue		**81 189**		-
Decrease in deferred contributions		**(308 556)**		(629 333)
		(1 006 960)		(319 660)
		(2 157 713)		4 477 736
Financing activities				
Endowment contributions		**491 051**		451 447
Investing activities				
Acquisition of long-term investments		**(3 374 207)**		(2 778 932)
Proceeds from disposition of long-term investments		**3 554 600**		2 325 158
Acquisition of capital assets		**-**		(7 769)
		180 393		(461 543)
Net (decrease) increase in cash and short-term investments		**(1 486 269)**		4 467 640
Cash and short-term investments, beginning of the year		**8 810 740**		4 343 100
Cash and short-term investments, end of the year (Note 3)	**$**	**7 324 471**	$	8 810 740

See accompanying notes to the consolidated financial statements.

1. Governing statutes and nature of operations

The international network of ONE DROP entities ("ONE DROP") is comprised of not-for-profit organizations that pursue the same mission. This mission is to provide access to water and to raise individual and community awareness of the need to mobilize so that safe water is accessible to all, in sufficient quantity, today and tomorrow.

Fondation ONE DROP ("ONE DROP Canada") was incorporated on July 3, 2007 under Part II of The Canada Corporations Act. ONE DROP FOUNDATION, INC. ("ONE DROP USA") was incorporated on July 31, 2008 under the General Corporation Law of Delaware. ONE DROP FOUNDATION ("ONE DROP UK") was incorporated on October 7, 2008 under the Great Britain Companies Acts of 1985 and 2006. ONE DROP France was created on May 28, 2010 as an association under France's Association Act of July 1, 1901. Fondation ONE DROP Suisse ("ONE DROP Switzerland") was created on March 21, 2012 and registered on March 28, 2012 with the Trade Register Office of Geneva. All of these entities are recognized as charities registered with the tax authorities of their respective countries.

ONE DROP is sponsored by its Founder, Guy Laliberté, and Cirque du Soleil and its affiliates ("Cirque du Soleil"). Support comes in the form of financial contributions, services and business opportunities. The Founder provides funding on a regular basis. Cirque du Soleil also generously offers its support for the organization of benefit events. The Founder and Cirque du Soleil offer business opportunities that facilitate the creation of a global movement on water issues and help diversify program funding.

2. Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and are expressed in US dollars. The significant accounting policies are:

a) Consolidated financial statements

These consolidated financial statements include the accounts for ONE DROP Canada, ONE DROP USA, ONE DROP UK, ONE DROP France and ONE DROP Switzerland.

b) Revenue recognition

The deferral method is used to recognize contributions. Restricted contributions, which are contributions that must be used for a specified purpose, are recognized as revenue in the year during which the related expenses are incurred. Unrestricted contributions are recognized as revenue in the year they are received. Contributions pledged are recognized when cash is received. Endowments are recorded as direct increases in net assets.

c) Contributed services

Contributed services, including that of volunteers, are not recognized in the consolidated financial statements because it is difficult to measure their fair value.

2. Significant accounting policies *(continued)*

d) Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when ONE DROP becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost, except for investments that are recognized at fair value at the date of the financial statements. The investment's fair value is established at bid price. Fair value fluctuations, which include interest earned, accrued interest, realized gain and loss and unrealized gain and loss, are included in investment income.

Transaction costs related to financial instruments measured at fair value are expensed as incurred. Transaction costs related to the other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in net earnings as interest income or expense.

With respect to financial assets measured at cost or amortized cost, ONE DROP recognizes in the consolidated income statement an impairment loss, if any, when it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed in the consolidated income statement in the period the reversal occurs.

e) Capital assets

Capital assets are recorded at cost. Amortization is calculated on a straight-line basis over the estimated useful life at the following rates:

	Rate
Furniture and office equipment	20%
Computer equipment and software	33 1/3%
Leasehold improvements	Term of lease

f) Deferred lease inducements

Deferred lease inducements are amortized over the term of the lease and the amortization is applied against the rent expenditure.

2. Significant accounting policies *(continued)*

g) Net assets

Invested in capital assets

Net assets invested in capital assets are established using the net value of the capital assets, net of deferred lease inducements for leasehold improvements.

Endowments

Net endowment assets are composed of endowments, increased by the adjustment corresponding to the inflation rate of the year, in order to preserve the value of the endowments. Endowments are contributions from donors requesting that their contribution be permanently maintained. The endowments ensure ONE DROP's sustainability and provide adequate funding for long-term fulfillment of its programs.

Restricted by management

Net assets restricted by management include net assets restricted by management for programs. They also include a reserve for the transfer of the adjustment equal to the year's inflation rate on endowments to net endowment assets. This reserve has been established at a maximum of 5% of endowments. The annual adjustment comes from the allocation of a portion of investment income.

Available

Available net assets are used to fund working capital and program commitments.

h) Presentation of expenditures

Expenditures are presented by function. The Programs function consists of expenditures incurred to directly carry out the mission to provide access to water in developing countries, as well as expenditures related to awareness and mobilization. The Development and revenue generation function consists of fundraising expenses. The Administration and international network function consists of general operating expenses and expenses for implementing and operating the international network of ONE DROP entities.

Administration expenditures, including those related to compensation, management of human resources, premises and information technology, have been divided between the three functions as follows:

- compensation on the basis of the time spent in each function;
- human resources management, premises and information technology on the basis of the number of people employed within each function.

2. Significant accounting policies *(continued)*

i) Recognition of program expenditure

Program expenditures are recognized when funds are transferred to the partners in charge of carrying out the programs. Funds are transferred after a commitment has been approved by the ONE DROP's Board of Directors and an agreement has been entered into with the partner responsible for carrying out the program.

j) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated using rates in effect at year-end, while non-monetary items are translated at historical rates. Revenue and expenditure are translated using rates in effect during the year. Foreign currency translation gains and losses are mainly generated from the translation of cash and investments and are presented with investment income. The consolidated financial statements are presented in US dollars. For the purposes of consolidation, the balance sheet of each entity has been translated using rates in effect at year-end, while the income statement of each entity has been translated using average rates in effect during the year. Foreign currency gains and losses resulting from this translation are recorded in the consolidated statement of changes in net assets.

k) Use of estimates

Preparing consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the notes to the consolidated financial statements. These estimates and assumptions are based on management's knowledge of ongoing activities. Actual results could differ from these estimates.

3. Cash and short-term investments

Cash and short-term investments yielded from 0.25% to 1.00% as at December 31, 2013 (from 0.15% to 0.25% as at December 31, 2012).

4. Receivables

		2013		2012
Fonds Azula, an entity under common control	**$**	**94 020**	$	50 020
Cirque du Soleil		**1 472**		-
Other receivables		**250 229**		149 011
	$	**345 721**	$	199 031

(in US dollars)

5. Investments

		2013		2012
By type of security:				
Deposits and notes	**$**	**375 333**	$	929 845
Fixed income securities*		**2 178 853**		1 886 225
Equity securities		**2 725 640**		2 365 203
Accrued revenue		**16 587**		16 476
	$	**5 296 413**	$	5 197 749
By currency:				
Canadian dollars	**$**	**3 759 787**	$	3 915 867
United States dollars		**758 493**		541 992
Other currencies		**778 133**		739 890
	$	**5 296 413**	$	5 197 749

* Fixed income securities have maturity dates between 2014 and 2022 and yields ranging from 1.70% to 8.90% (0.50% to 8.90% in 2012).

6. Capital assets

						2013		2012
		Cost		**Accumulated amortization**		**Net value**		Net value
Furniture and office equipment	**$**	**103 727**	**$**	**50 006**	**$**	**53 721**	$	79 621
Computer equipment and software		**210 887**		**210 887**		**-**		-
Leasehold improvements		**578 957**		**139 569**		**439 388**		531 702
	$	**893 571**	**$**	**400 462**	**$**	**493 109**	$	611 323

7. Accounts payable and accrued liabilities

		2013		2012
Cirque du Soleil	**$**	**246 298**	$	259 626
Other payables and accrued liabilities		**505 864**		1 141 755
	$	**752 162**	$	1 401 381

(in US dollars)

8. Deferred contributions

		2013		2012
Balance at beginning of the year	**$**	**1 659 976**	$	2 463 193
Restricted contributions received during the year for projects		**2 033 220**		2 513 713
Restricted contributions recognized as revenue during the year		**(2 298 923)**		(3 349 480)
Foreign exchange adjustment		**(42 853)**		32 550
Balance at end of the year	**$**	**1 351 420**	$	1 659 976
Comprised of:				
India project	**$**	**783 345**	$	944 171
Burkina Faso project		**30 473**		-
Microfinance		**91 387**		-
Haiti project		**7 944**		303 579
El Salvador project		**5 745**		-
Awareness and mobilization projects		**-**		236 842
Other projects		**432 526**		175 384
	$	**1 351 420**	$	1 659 976

9. Deferred lease inducements

		2013		2012
Balance at beginning of the year	**$**	**393 355**	$	371 509
Lease inducements received during the year		**32 897**		72 172
Lease inducements amortized during the year		**(73 030)**		(50 326)
Balance at end of the year	**$**	**353 222**	$	393 355
Comprised of:				
Leasehold improvements reimbursed	**$**	**235 285**	$	284 702
Other inducements		**117 937**		108 653
	$	**353 222**	$	393 355

10. Net assets restricted by management

		2013		2012
Restricted for programs :				
Burkina Faso project	**$**	**680 208**	$	2 231 611
India project		**434 659**		-
Honduras project		**-**		195 544
Salvador project		**-**		1 005 772
Reserve for the transfer to endowments of the adjustment corresponding to the inflation rate on endowments		**213 452**		203 791
Balance at end of the year	**$**	**1 328 319**	$	3 636 718

(in US dollars)

11. Contributions

		2013		2012
Restricted contributions deferred from the previous year	**$**	**1 659 976**	$	2 463 193
Contributions received during the year:				
Founder and Cirque du Soleil		**2 920 618**		2 697 177
Businesses		**2 620 921**		2 843 573
Individuals		**1 159 695**		1 048 423
Fonds Azula, an entity under common control		**174 025**		195 125
Foundations		**127 159**		885 468
Other		**-**		660 702
		7 002 418		8 330 468
Foreign exchange adjustment		**(42 853)**		32 550
Restricted contributions deferred to the following year		**(1 351 420)**		(1 659 976)
Contributions recorded as revenue for the year	**$**	**7 268 121**	$	9 166 235

12. Investment income

		2013		2012
Interest	**$**	**91 336**	$	89 578
Dividends		**71 824**		67 765
Currency translation gains (losses)		**116 622**		(16 578)
Gains from the change in fair value of investments		**629 037**		247 752
Management and custody fees		**(30 431)**		(30 372)
	$	**878 388**	$	358 145

(in US dollars)

13. Programs

		2013		2012
Burkina Faso project	**$**	**2 023 379**	$	1 193 650
El Salvador project		**1 452 655**		1 572 311
India project		**805 625**		651 734
Haiti project		**430 717**		779 063
Honduras project		**415 473**		268 463
Contribution to Fonds AZULA, an entity under common control		**248 078**		203 864
Springs Preserve Foundation		**200 000**		-
AQUA project		**65 809**		267 743
Africa project		**64 099**		-
Millennium Water Alliance		**54 975**		-
GAÏA project		**22 972**		629 018
Nicaragua project		**-**		33 907
Waterhero project		**-**		198 801
Other projects		**2 426**		983 485
Communication and awareness		**-**		366 330
Programs management and other		**1 099 419**		339 263
	$	**6 885 627**	$	7 487 632

14. Allocation of expenses

Administration expenditures, including those related to compensation, management of human resources, premises and information technology, have been divided between the three functions as follows:

		2013		2012
Programs	**$**	**324 420**	$	253 859
Development and revenue generation		**264 070**		241 240
Administration and international network		**1 374 466**		1 523 168
	$	**1 962 956**	$	2 018 267

15. Transactions with related parties

Transactions with related parties are disclosed separately in the consolidated financial statements, except for the following expenditures. These transactions were completed in the normal course of business and recorded at the exchange amount.

		2013		2012
Cirque du Soleil				
Expenditures paid to Cirque du Soleil for services rendered				
Direct costs related to benefit events	**$**	**417 588**	$	368 496
Expenditures		**310 900**		130 685
	$	**728 488**	$	499 181

(in US dollars)

16. Pension plan

ONE DROP has a defined contribution plan providing pension benefits to its employees. The financial obligations towards the plan are discharged regularly and all obligations have been recorded in the accounts at December 31, 2013. The expenditure and the amount paid for the year amount to $73,390 ($87,263 in 2012).

17. Commitments

Programs

The international development projects span over several years. Commitments by ONE DROP for these projects are as follows:

2014	$	**3 522 674**
2015		**34 787**
	$	**3 557 461**

Comprised of:		
Burkina Faso project	$	**1 982 122**
India project		**674 404**
El Salvador project		**499 587**
Honduras project		**375 807**
Haiti project		**25 541**
	$	**3 557 461**

In addition, under a partnership with Water for People, ONE DROP is committed to fund $5,000,000 towards a project in India over an approximate period of four years, starting in 2014.

ONE DROP also pledged to donate $800,000 to Springs Preserve Foundation over the next four years.

Administrative office

ONE DROP signed a contract for the rental of administrative offices expiring May 31, 2021. Minimum commitments for the upcoming years are as follows:

2014	$	**191 124**
2015		**191 124**
2016		**196 101**
2017		**203 069**
2018		**203 069**
2019 and thereafter		**524 597**
	$	**1 509 084**

18. Contributions pledged

Contributions pledged, including those from the Founder and Cirque du Soleil, are as follows:

	Endowments	Contributions	**Total**
2014	$ 476 000	$ 4 813 000	**$ 5 289 000**
2015	3 013 000	2 813 000	**5 826 000**
2016	2 968 000	2 668 000	**5 636 000**
2017	2 915 000	1 598 000	**4 513 000**
2018	2 915 000	1 237 000	**4 152 000**
2019 and thereafter	32 719 000	12 602 000	**45 321 000**
	$ 45 006 000	$ 25 731 000	**$ 70 737 000**

19. Financial instruments and risk management

Foreign exchange risk

Foreign exchange risk is a risk resulting from fluctuations in foreign currency.

As certain investments are made in foreign currency to minimize the risks linked to a concentration of investments, investments present a foreign exchange risk. This risk is handled through the investment policy.

Currency risk is also present due to expenditures which are incurred largely in Canadian currency, while less than half of the revenues are in Canadian currency. This risk is managed during the budgeting and monitoring for each project.

Market risk

Market risk is the risk arising from the volatility of the prices of securities, rates of interest and exchange rates. ONE DROP is exposed to market risk because of its investment activities. This risk is handled through the investment policy.

Risk of interest rate fluctuation

The risk of interest rate fluctuation is a loss risk resulting from an interest rate fluctuation.

Fixed-yield investments present a risk of interest rate fluctuation. For titles with a fixed rate of interest, interest rate changes on the market will produce an impact on their fair value. This risk is handled through the investment policy.

19. Financial instruments and risk management *(continued)*

Credit risk

ONE DROP's exposure to credit risk in respect of its assets is not significant. The bonds are investment grade instruments with a credit rating of AA as at December 31, 2013 (AA as at December 31, 2012) and cash and short-term investments represent deposits with Canadian banks.

Liquidity risk

ONE DROP's objective is to have sufficient liquidity to meet its liabilities when due. ONE DROP monitors its cash balances and cash flows generated from operations to meet its requirements. As at December 31, 2013, the most significant financial liabilities are accounts payable and accrued liabilities.

20. Comparative figures

Certain prior year amounts have been reclassified to conform to the current year presentation.