
Financial statements of FINCA Canada

December 31, 2018

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Independent Auditor's Report

To the Board of Directors of
FINCA Canada

Opinion

We have audited the financial statements of FINCA Canada, which comprise the statement of financial position as at December 31, 2018, and the statements of revenue and expenses and changes in net assets and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of FINCA Canada as at December 31, 2018, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of FINCA Canada in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing FINCA Canada's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate FINCA Canada or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing FINCA Canada's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 FINCA Canada's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on FINCA Canada's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause FINCA Canada to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The image shows a handwritten signature in cursive script that reads "Deloitte LLP". The signature is written in black ink on a white background.

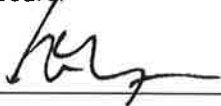
Chartered Professional Accountants
Licensed Public Accountants
June 24, 2019


FINCA Canada
Statement of financial position
As at December 31, 2018

	Notes	2018	2017
		\$	\$
Assets			
Current assets			
Cash		1,339,982	1,042,755
Restricted cash	7c	1,169,097	1,234,537
Pledges receivable		30,875	47,748
Prepaid expenses and other assets		—	38,175
Loans and interest receivable from related parties	4a	759,859	25,871
Due from related parties	4b	84,624	498,977
		3,384,437	2,888,063
Long-term assets			
Investment in life insurance	3	35,453	33,953
Loans and interest receivable from related parties	4a	—	676,726
		3,419,890	3,598,742
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	63,153	50,391
Due to related parties	4c	551,782	449,109
		614,935	499,500
Long-term liability			
Deferred revenue	5c	1,099,331	1,104,417
		1,714,266	1,603,917
Net assets			
General		1,705,624	1,994,825
		3,419,890	3,598,742

The accompanying notes are an integral part of the financial statements.

Approved by the Board


_____, Director


_____, Director

FINCA Canada**Statement of revenue and expenses and changes in net assets**

Year ended December 31, 2018

		2018		2017
		General	Externally restricted (Note 6)	Total
Notes		\$	\$	Total \$
Revenue				
	Grants - MasterCard Foundation	188,681	—	2,941,799
	Grants - Global Affairs Canada	2,978,910	—	633,373
	Donations	1,151,175	—	1,429,707
	Donations-in-kind	3,380	—	—
	Interest income	58,763	—	28,460
		4,380,909	—	5,033,339
Expenses				
	Program services	3,448,945	—	3,833,896
	General and administrative	314,250	—	279,126
	Fundraising	902,118	—	721,729
		4,665,313	—	4,834,751
	Foreign currency (loss) gain	(4,797)	—	23,724
	(Deficiency) excess of revenue over expenses for the year	(289,201)	—	222,312
	Net assets, beginning of year	1,994,825	—	1,772,513
	Net assets, end of year	1,705,624	—	1,994,825

The accompanying notes are an integral part of the financial statements.

FINCA Canada
Statement of cash flows
Year ended December 31, 2018

	2018	2017
	\$	\$
Operating activities		
(Deficiency) excess of revenue over expenses for the year	(289,201)	222,312
Adjustment for		
Non-cash gain on donated life insurance policy	(1,500)	(2,297)
	(290,701)	220,015
Changes in non-cash working capital items		
Pledges receivable	16,873	15,071
Prepaid expenses and other assets	38,175	(37,142)
Loans and interest receivable from related parties	(57,262)	(669,737)
Accounts payable and accrued expenses	12,762	10,222
Due to/from related parties	517,026	(272,827)
Deferred revenue	(5,086)	(1,189,723)
Net decrease in cash during the year	231,787	(1,924,121)
Cash, beginning of year	2,277,292	4,201,413
Cash, end of year	2,509,079	2,277,292
Comprised of		
Cash	1,339,982	1,042,755
Restricted cash	1,169,097	1,234,537
Cash, end of year	2,509,079	2,277,292

The accompanying notes are an integral part of the financial statements.

1. Nature of activities

FINCA Canada's mission is to alleviate poverty through lasting solutions that help people - women in particular - build assets, create jobs and raise their standard of living.

FINCA Canada was incorporated under the Canada Corporations Act on January 9, 2006, registered as a not-for-profit charity under paragraph 149(1) (f) of the Income Tax Act on December 5, 2007, and continued under section 211 of the Canada Not-for-profit Corporations Act on March 4, 2014.

FINCA Canada is affiliated with FINCA International Inc. ("FINCA International"), a not-for-profit corporation organized as a 501(c)(3) U.S. charity, and FINCA Microfinance Holdings, a leading network of microfinance institutions dedicated to low-income entrepreneurs, with more than 10,000 employees worldwide. Beginning from the simple premise that access to finance can unleash entrepreneurship and productive capacity, today FINCA International operates in 20 countries around the world, continuously innovating to develop modern, responsible, and affordable financial services and non-financial products that help people lift themselves and their families out of poverty.

FINCA Canada receives grants, contributions, donations and public support from individuals, foundations, corporations and government to further its charitable purpose of fostering sustainable economic development in poor communities and developing nations in order to create jobs and increase individual opportunity, health, resilience and family well-being.

This purpose is accomplished by a) providing and facilitating the provision of responsible financial services to poor and low income individuals and families in developing nations, including credit and savings opportunities, financial education and counselling; b) providing and facilitating the provision of affordable capital to local businesses operating in poor communities and/or businesses that provide products and services that benefit poor individuals and families; c) engaging in interventions to promote the provision and distribution of products and services that improve the standards of living in poor communities; d) conducting research into programs and interventions related to the purposes described above; e) providing and facilitating the provision of educational training and assistance for poor and low income individuals, including technical and business skills training and education on new technologies; and f) educating the public on the importance of supporting sustainable community development through market-based solutions and strategies.

2. Significant accounting policies

Basis of presentation

The financial statements of FINCA Canada are prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant policies:

Restricted cash

Restricted cash represents amounts reserved for programs.

Revenue recognition

FINCA Canada follows the restricted fund method of accounting for contributions. Revenue is recognized when received or receivable in the respective fund if the amount to be received can be reasonably estimated and collection is reasonably assured. All other restricted contributions for which no restricted fund has been established are deferred and recognized as revenue of the General Fund in the year in which the related expenses are incurred.

2. Significant accounting policies (continued)

Contributions

FINCA Canada receives funding through grants, contributions and donations from individuals, foundations, corporations and Global Affairs Canada for direct and indirect program costs. Contributions received and unconditional promises to give are recorded as revenue at fair value, as determined by management or by qualified third parties, and are recorded as unrestricted, or externally restricted, depending on the existence and/or nature of any donor restrictions.

Contributed services and gifts

FINCA Canada records contributed services at fair value when those services require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation.

Donated gifts and materials are recorded at their fair value at the date of the gift.

Donations-in-kind recognized during the year consisted of \$3,380 (\$nil in 2017) of donated professional services included in General and administrative expenses.

Pledges receivable

Unconditional promises to give are recorded as receivable and contribution revenue when the promise is made and ultimate collection is reasonably assured.

Pledges receivable are initially recorded at their net realizable value based on amounts to be collected from donors. This valuation reflects net pledge balances at a level which, in the judgment of management, is adequate to meet the present and potential risks of uncollectibility of the pledges receivable. Management's judgment is based on a variety of factors, which include experience related to expenses and recoveries, previous collection history and scrutiny of individual accounts. Specific accounts are written off upon notification from the donors that the pledges are no longer collectible. Management deems all pledges receivable to be fully collectible.

Fund accounting

General Fund

The General Fund records earned revenue, awards, and donations used to support FINCA Canada's program services and operations. In addition, this Fund holds restricted amounts for which there is no applicable restricted fund. The deferral method of matching revenue with expenses in the period in which these expenses are incurred (with unused contributions shown as deferred revenue on the Statement of financial position) is used to record restricted contributions for which there is no applicable restricted fund.

Externally Restricted Fund

This fund records any awards and donations that are restricted for a specific purpose by donor-imposed stipulations. Investment income, if any, earned on resources of the Externally restricted fund is reported in the Externally restricted fund, or the Unrestricted fund, depending on any restrictions imposed by the donor.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when FINCA Canada becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost.

2. Significant accounting policies (continued)

Expenses

Expenses are recognized during the period in which they are incurred. Expenses paid in advance and not yet incurred are deferred to the applicable period.

Allocation of expenses

The costs of providing program services and other activities have been reported on a functional basis. FINCA Canada follows a direct expense classification to each function based on the nature of the expense.

Foreign exchange

FINCA Canada transacts business in various foreign countries where its programs are located, using the local currencies of these countries. Management of FINCA Canada has determined that the functional currency, as well as the reporting currency of FINCA Canada, is the Canadian dollar. Accordingly, gains and losses from changes in exchange rates between the functional currency, and the currency in which the transaction is denominated, are recorded as foreign currency transaction gains or losses, as appropriate, within the Statement of revenue and expenses.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates and assumptions may also affect the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Investment in life insurance

FINCA Canada has received a donation of a life insurance policy in which FINCA Canada is the owner and at the same time, the beneficiary. The policy requires that FINCA Canada pay the annual premiums of the policy; however, donations from the donor of the policy are received to cover the premiums of the policy. The donor has committed to make an annual donation equivalent to the annual premium cost; however, FINCA Canada intends to continue to cover the premium costs even if the annual donation to cover the cost of premiums is not received. The premiums paid on the policy are recorded as a non-current asset in the Statement of financial position. In the event FINCA Canada ceases to make premium payments on the policy, the investment less the cash surrender value received will be expensed. Changes in the cash surrender value of the investment are recorded as other gains (losses) within the Statement of revenue and expenses. At December 31, 2018, FINCA Canada recorded a gain of \$1,500 (\$2,297 in 2017).

4. Related parties transactions and balances

(a) Loans and interest receivable from related parties

	<u>2018</u>	<u>2017</u>
	\$	\$
FINCA Haiti, S.A - unsecured loan, bearing interest at 5% per annum and repayable (with accrued interest) on demand	24,000	24,000
Accrued interest on the above	3,071	1,871
FINCA Haiti, S.A. - unsecured loan, bearing interest at 8.62% per annum and repayable with accrued interest on July 15, 2019, or as agreed	650,000	650,000
Accrued interest on the above	82,788	26,726
Total	759,859	702,597
Less: current position	759,859	25,871
Long-term	—	676,726

(b) Due from related parties

	<u>2018</u>	<u>2017</u>
	\$	\$
FINCA RD Congo, S.A.	—	347,358
FINCA Haiti, S.A.	84,624	109,224
FINCA Tanzania Limited	—	42,395
	84,624	498,977

The amounts due from the above-noted related parties at December 31, 2018 represent funds advanced for qualified programs of FINCA Canada and are recognized as program expenses when the underlying costs are incurred.

(c) Due to related parties

	<u>2018</u>	<u>2017</u>
	\$	\$
FINCA International, Inc.	317,009	449,109
FINCA RD Congo, S.A.	234,773	—
	551,782	449,109

The amounts owed to FINCA International Inc. and FINCA RD Congo, S.A. are for expenses related to grants, donations or vendor payments made by FINCA International Inc. and FINCA RD Congo, S.A. on behalf of FINCA Canada. The denominated currency of the amounts owing is the local currency; therefore at the end of each reporting year they are translated to reflect the settlement amount in Canadian dollars using the spot exchange rate on the last day of the reporting period. The balances have no terms of repayment and are non-interest bearing.

5. Deferred revenue

(a) *Mastercard Foundation*

In 2013, FINCA Canada signed a \$12.7 million US dollar multiyear contract with the Mastercard Foundation to support Microfinance Development through innovative product delivery channels, primarily in three countries in Africa; Malawi, Tanzania, and Zambia. In addition, the contribution was intended to support the establishment and strengthening of operational infrastructure of FINCA Canada. The activity and the balance of unearned revenue at December 31, 2018 are summarized below:

	2018	2017
	\$	\$
Beginning balance – January 1,	187,000	2,294,140
Contribution received	—	661,491
Revenue recognized	(188,681)	(2,941,799)
Deferred foreign exchange gains (losses)	1,681	173,168
Closing balance – December 31,	—	187,000

Foreign exchange gains (losses) associated with the US dollar denominated deferred revenue liability are deferred in accordance with the Mastercard Foundation agreement.

(b) *Global Affairs Canada*

In 2017, FINCA Canada signed a \$12 million dollar multiyear contribution agreement with Global Affairs Canada to support financial inclusion in Haiti and the Democratic Republic of Congo. The activity and the balance of unearned revenue at December 31, 2018 are summarized below:

	2018	2017
	\$	\$
Beginning balance - January 1,	917,417	—
Contribution received	3,159,022	1,550,790
Revenue recognized	(2,978,910)	(633,373)
Interest income	1,802	—
Closing balance - December 31,	1,099,331	917,417

(c) *Total*

	2018	2017
	\$	\$
Mastercard Foundation (Note 5a)	—	187,000
Global Affairs Canada (Note 5b)	1,099,331	917,417
	1,099,331	1,104,417

6. Externally restricted net assets

Externally restricted net assets include donor-restricted and other funds, which are only available for program activities and are recorded in the appropriate fund.

There were no transactions during 2018. During 2017, \$64,336 was incurred for expenses related to programs delivered in Zambia, Malawi and Uganda. These programs were completed during the year ended December 31, 2017 and were funded by restricted donations from previous years.

7. Financial instrument risks

FINCA Canada has policies relating to the identification, measurement, monitoring, mitigating and controlling risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and currency risk. The following sections describe how FINCA Canada manages each of these risks:

(a) Credit and counterparty risk

Financial instruments exposed to credit risk include cash, restricted cash, pledges receivable, loans and interest receivable from related parties, due to/from related parties, and investment in life insurance. FINCA Canada places its cash and restricted cash with high credit quality financial institutions that are insured up to \$100,000 per account under the Canada Deposit Insurance Corporation Act ("CDICA"). Amounts held in excess of the CDICA limits for interest bearing accounts were \$2,309,079 (\$1,877,292 in 2017). FINCA Canada has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on its cash and restricted cash. FINCA Canada has not experienced any losses on pledges receivables. Such pledges are written off if they are determined to be uncollectible.

(b) Liquidity risk

Liquidity risk is the risk that FINCA Canada will not be able to meet its financial obligations as they fall due. FINCA Canada's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to FINCA Canada's reputation.

(c) Currency risk

Foreign exchange risk is the risk that the value of financial instruments and the associated revenue will fluctuate due to changes in currency exchange rates. FINCA Canada is exposed to foreign exchange risk related to transactions that are dominated in US dollars. FINCA Canada had foreign currency positions of \$84,692 in financial assets and \$560,247 in financial liabilities (\$835,151 in financial assets and \$636,743 in financial liabilities in 2017) which respectively consist of the Canadian dollar equivalent of restricted cash balances in US dollars, the amount due from/to related parties in US dollars (Note 4b and c) and the US dollar denominated accounts payable and deferred revenue balance (Note 5c). FINCA Canada had a foreign exchange loss of \$4,797 for the year ended December 31, 2018 (gain of \$23,724 in 2017).

8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include \$Nil with respect to outstanding government remittances as at December 31, 2018 and 2017.

9. Allocation of expenses

Expenses have been allocated to financial line items as follows:

				2018
	Program services	General and administrative	Fundraising	Total
	\$	\$	\$	\$
Labour and benefits				
International programs	1,733,425	98,803	180,426	2,012,654
Professional and contractual services	293,102	84,707	365,007	742,816
Hiring and training	31,774	—	—	31,774
Rent expense	—	11,685	—	11,685
Supplies, materials and maintenance	1,159,903	68,190	344,519	1,572,612
Travel and entertainment	230,741	50,865	12,166	293,772
	3,448,945	314,250	902,118	4,665,313

				2017
	Program services	General and administrative	Fundraising	Total
	\$	\$	\$	\$
Labour and benefits				
International programs	1,385,228	72,007	117,283	1,574,518
Professional and contractual services	1,236,201	111,300	251,659	1,599,160
Hiring and training	104,056	—	—	104,056
Rent expense	—	9,758	—	9,758
Supplies, materials and maintenance	894,961	56,245	342,212	1,293,418
Travel and entertainment	213,450	29,816	10,575	253,841
	3,833,896	279,126	721,729	4,834,751