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# Financial statements of FINCA Canada

December 31, 2017

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## Independent Auditor's Report

To the Board of Directors of  
FINCA Canada

We have audited the accompanying financial statements of FINCA Canada (the "Organization"), which comprise the statement of financial position as at December 31, 2017, the statements of revenue and expenses and changes in net assets and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2017 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.

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
June 21, 2018

**FINCA Canada****Statement of financial position**

As at December 31, 2017

	Notes	2017	2016
		\$	\$
<b>Assets</b>			
Current assets			
Cash		1,042,755	1,300,490
Restricted cash	7c	1,234,537	2,900,923
Pledges receivable		47,748	62,819
Prepaid expenses and other assets		38,175	1,033
Loans and interest receivable from related parties	4a(i)	25,871	32,860
Due from related parties		498,977	—
		<b>2,888,063</b>	4,298,125
Long-term assets			
Investment in life insurance	3	33,953	31,656
Loans and interest receivable from related parties	4a(i)	676,726	—
		<b>3,598,742</b>	4,329,781
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued expenses	8	50,391	40,169
Due to related parties	4c	449,109	222,959
		<b>499,500</b>	263,128
Long-term liability			
Deferred revenue	5c and 7c	1,104,417	2,294,140
		<b>1,603,917</b>	2,557,268
<b>Net assets</b>			
General		1,994,825	1,708,177
Externally restricted	6	—	64,336
		<b>1,994,825</b>	1,772,513
		<b>3,598,742</b>	4,329,781

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, 2017

		2017			2016
		General	Externally restricted (Note 6)	Total	Total
Notes		\$	\$	\$	\$
<b>Revenue</b>					
	Grants - MasterCard Foundation	2,941,799	—	2,941,799	5,299,193
	Grants - Global Affairs Canada	633,373	—	633,373	—
	Donations	1,429,707	—	1,429,707	1,337,460
2	Donations-in-kind	—	—	—	2,605
	Interest income	28,460	—	28,460	884
		<b>5,033,339</b>	<b>—</b>	<b>5,033,339</b>	<b>6,640,142</b>
<b>Expenses</b>					
9	Program services	3,769,560	64,336	3,833,896	5,108,136
2	General and administrative	279,126	—	279,126	288,480
	Fundraising	721,729	—	721,729	721,382
		<b>4,770,415</b>	<b>64,336</b>	<b>4,834,751</b>	<b>6,117,998</b>
	Foreign currency gain	23,724	—	23,724	—
	Excess (deficiency) of revenue over expenses for the year	286,648	(64,336)	222,312	522,144
	Net assets, beginning of year	1,708,177	64,336	1,772,513	1,250,369
	<b>Net assets, end of year</b>	<b>1,994,825</b>	<b>—</b>	<b>1,994,825</b>	<b>1,772,513</b>

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

**FINCA Canada****Statement of cash flows**

Year ended December 31, 2017

	2017	2016
	\$	\$
<b>Operating activities</b>		
Excess of revenue over expenses for the year	222,312	522,144
Adjustment for		
Non-cash gain on donated life insurance policy	(2,297)	(716)
	<b>220,015</b>	521,428
Changes in non-cash working capital items		
Pledges receivable	15,071	(30,196)
Prepaid expenses and other assets	(37,142)	93,988
Loans and interest receivable from related parties	(669,737)	(32,860)
Accounts payable and accrued expenses	10,222	(86,622)
Due to/from related parties	(272,827)	(726,371)
Deferred revenue	(1,189,723)	(2,012,042)
Net decrease in cash during the year	(1,924,121)	(2,272,675)
Cash, beginning of year	4,201,413	6,474,088
<b>Cash, end of year</b>	<b>2,277,292</b>	4,201,413
<b>Comprised of</b>		
Cash	1,042,755	1,300,490
Restricted cash	1,234,537	2,900,923
<b>Cash, end of year</b>	<b>2,277,292</b>	4,201,413

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 nil (\$2,605 in 2016) of donated professional services included in the 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, 2017, FINCA Canada recorded a gain of \$2,297(\$716 in 2016).

**4. Related parties transactions and balances**

a) *Loans and interest receivable from related parties*

(i) *Current*

	<b>2017</b>	2016
	\$	\$
FINCA Haiti, S.A - unsecured loan, bearing interest at 5% per annum and repayable (with accrued interest) on demand	<b>24,000</b>	20,000
FINCA Guatemala Limited - unsecured loan, bearing interest at 5% per annum and repayable (with accrued interest) on demand	—	12,000
	<b>24,000</b>	32,000
Accrued interest	<b>1,871</b>	860
	<b>25,871</b>	32,860

(ii) *Long-term*

	<b>2017</b>	2016
	\$	\$
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	<b>650,000</b>	—
Accrued interest	<b>26,726</b>	—
	<b>676,726</b>	—

b) *Due from related parties*

	<b>2017</b>	2016
	\$	\$
FINCA RD Congo, S.A.	<b>347,358</b>	—
FINCA Haiti, S.A.	<b>109,224</b>	—
FINCA Tanzania Limited	<b>42,395</b>	—
	<b>498,977</b>	—

The amounts due from the above-noted related parties at December 31, 2017 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*

	<b>2017</b>	2016
	\$	\$
FINCA International, Inc.	<b>449,109</b>	186,959
FINCA Guatemala Limited	—	16,000
FINCA Tanzania Limited	—	20,000
	<b>449,109</b>	222,959

**4. Related parties transactions and balances (continued)**

*c) Due to related parties (continued)*

The amount owed to FINCA International Inc., is for expenses related to grants, donations or vendor payments made by FINCA International Inc. on behalf of FINCA Canada. The denominated currency of the amounts owing is the US dollar; 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.

The amounts owed to FINCA Guatemala Limited and FINCA Tanzania Limited at December 31, 2016, represented qualified program expenses of FINCA Canada.

**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 will support the establishment and strengthening of operational infrastructure of FINCA Canada. The activity and the balance of unearned revenue at December 31, 2017 are summarized below:

	<b>2017</b>	2016
	\$	\$
Beginning balance – January 1,	<b>2,294,140</b>	4,306,182
Contribution received	<b>661,491</b>	3,575,248
Revenue recognized	<b>(2,941,799)</b>	(5,299,193)
Deferred foreign exchange gains (losses)	<b>173,168</b>	(288,097)
Closing balance – December 31,	<b>187,000</b>	2,294,140

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, 2017 are summarized below:

	<b>2017</b>	2016
	\$	\$
Beginning balance - January 1,	—	—
Contribution received	<b>1,550,790</b>	—
Revenue recognized	<b>(633,373)</b>	—
Closing balance - December 31,	<b>917,417</b>	—

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

**5. Deferred revenue (continued)**

c) *Total*

	<b>2017</b>	2016
	\$	\$
Mastercard Foundation (Note 5a)	<b>187,000</b>	2,294,140
Global Affairs Canada (Note 5b)	<b>917,417</b>	—
	<b>1,104,417</b>	2,294,140

**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.

Externally restricted net assets were available for the following programs:

	<b>2017</b>			
	<b>Opening balance</b>	<b>Additions</b>	<b>Released</b>	<b>Closing balance</b>
	\$	\$	\$	\$
FINCA Zambia Limited	<b>23,336</b>	—	<b>(23,336)</b>	—
FINCA Malawi Limited	<b>21,000</b>	—	<b>(21,000)</b>	—
FINCA Uganda Limited	<b>20,000</b>	—	<b>(20,000)</b>	—
	<b>64,336</b>	—	<b>(64,336)</b>	—

**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 \$1,877,292 (\$3,901,413 in 2016). 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.

**7. Financial instrument risks (continued)**

*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 \$835,151 in financial assets and \$636,743 in financial liabilities (\$2,900,923 in financial assets and \$2,517,099 in financial liabilities in 2016) 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 deferred revenue balance (Note 5c). FINCA Canada had a foreign exchange gain of \$23,724 for the year ended December 31, 2017 (Nil in 2016).

**8. Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities include nil with respect to outstanding government remittances as at December 31, 2017 and 2016.

**9. Allocation of expenses**

Expenses have been allocated to financial line items as follows:

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

**9. Allocation of expenses (continued)**

				2016
	Program services	General and administrative	Fundraising	Total
	\$	\$	\$	\$
Labour and benefits				
International programs	1,843,275	25,540	—	1,868,815
Professional and contractual services	1,749,062	213,302	144,033	2,106,397
Hiring and training	252,334	—	—	252,334
Loan capital	32,000	—	—	32,000
Rent expense	—	9,322	—	9,322
Supplies, materials and maintenance	1,152,625	25,228	571,859	1,749,712
Travel and entertainment	78,840	15,088	5,490	99,418
	<u>5,108,136</u>	<u>288,480</u>	<u>721,382</u>	<u>6,117,998</u>