
Financial statements of FINCA Canada

December 31, 2019

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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, 2019, 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, 2019, 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.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
June 17, 2020

FINCA Canada
Statement of financial position
As at December 31, 2019

	Notes	2019	2018
		\$	\$
Assets			
Current assets			
Cash		1,266,602	1,339,982
Restricted cash	2	565,829	1,169,097
Pledges receivable		41,357	30,875
Loans and interest receivable from related parties	4a	28,271	759,859
Due from related parties	4b	1,474,052	84,624
		3,376,111	3,384,437
Long-term asset			
Investment in life insurance	3	39,917	35,453
		3,416,028	3,419,890
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	44,137	63,153
Due to related parties	4c	213,301	551,782
		257,438	614,935
Long-term liability			
Deferred revenue	5d	1,447,866	1,099,331
		1,705,304	1,714,266
Net assets			
General			
		1,710,724	1,705,624
		3,416,028	3,419,890

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, 2019

	Notes	General \$	Externally restricted (Note 6) \$	2019 Total \$	2018 Total \$
					(Note 11)
Revenue					
Grants - MasterCard Foundation	5a	—	—	—	188,681
Grants - Global Affairs Canada	5b	2,580,807	—	2,580,807	2,978,910
Grants - The Peter Gilgan Foundation	5c	253,709	—	253,709	—
Donations		1,416,664	—	1,416,664	1,151,175
Donations-in-kind	2	2,355	—	2,355	3,380
Interest income		30,383	—	30,383	58,763
Gain realized on donated life insurance policy	3	4,464	—	4,464	1,500
		4,288,382	—	4,288,382	4,382,409
Expenses					
Program services	9	3,220,828	—	3,220,828	3,448,945
General and administrative	2	587,409	—	587,409	314,250
Fundraising		505,028	—	505,028	902,118
		4,313,265	—	4,313,265	4,665,313
Foreign currency gains (losses)	7c	29,983	—	29,983	(6,297)
Excess (deficiency) of revenue over expenses for the year		5,100	—	5,100	(289,201)
Net assets, beginning of year		1,705,624	—	1,705,624	1,994,825
Net assets, end of year		1,710,724	—	1,710,724	1,705,624

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

FINCA Canada**Statement of cash flows**

Year ended December 31, 2019

	2019	2018
	\$	\$
Operating activities		
Excess (deficiency) of revenue over expenses for the year	5,100	(289,201)
Adjustment for		
Non-cash gain on donated life insurance policy	(4,464)	(1,500)
	636	(290,701)
Changes in non-cash working capital items		
Pledges receivable	(10,482)	16,873
Prepaid expenses and other assets	—	38,175
Loans and interest receivable from related parties	731,588	(57,262)
Accounts payable and accrued expenses	(19,016)	12,762
Due to/from related parties	(1,727,909)	517,026
Deferred revenue	348,535	(5,086)
Net (decrease) increase in cash during the year	(676,648)	231,787
Cash, beginning of year	2,509,079	2,277,292
Cash, end of year	1,832,431	2,509,079
Comprised of		
Cash	1,266,602	1,339,982
Restricted cash	565,829	1,169,097
Cash, end of year	1,832,431	2,509,079

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, as a Canadian Registered 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 accounting 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 \$2,355 (\$3,380 in 2018) 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 and changes in net assets.

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. Accounts requiring significant estimates and assumptions include pledges receivable, accrued liabilities and deferred revenue.

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 on 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) on donated life insurance policy within the Statement of revenue and expenses and changes in net assets. At December 31, 2019, FINCA Canada recorded a gain of \$4,464 (\$1,500 in 2018).

4. Related parties transactions and balances

(a) Loans and interest receivable from related parties

	2019	2018
	\$	\$
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	4,271	3,071
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. The loan was repaid on July 9, 2019.	—	650,000
Accrued interest on the above	—	82,788
	28,271	759,859

(b) Due from related parties

	2019	2018
	\$	\$
FINCA Haiti, S.A.	1,061,007	84,624
FINCA RD Congo, S.A.	413,045	—
	1,474,052	84,624

The amounts due from the above-noted related parties at December 31, 2019 represent funds advanced for qualified programs of FINCA Canada and are recognized as program expenses when the underlying costs are incurred, which is expected to be within the next twelve months. The amounts are unsecured and non-interest bearing.

(c) Due to related parties

	2019	2018
	\$	\$
FINCA International	213,301	317,009
FINCA RD Congo, S.A.	—	234,773
	213,301	551,782

The above-noted balances are for expenses related to grants, donations or vendor payments made by the above-noted related party 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 are unsecured, 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 deferred revenue at December 31, 2019, and 2018 are summarized below:

	2019	2018
	\$	\$
Beginning balance – January 1	—	187,000
Revenue recognized	—	(188,681)
Foreign exchange gains	—	1,681
Closing balance – December 31	—	—

Foreign exchange gains associated with the US dollar denominated deferred revenue liability were deferred in accordance with the Mastercard Foundation agreement, and then realized at the conclusion of the 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 deferred revenue at December 31, 2019, and 2018 are summarized below:

	2019	2018
	\$	\$
Beginning balance - January 1	1,099,331	917,417
Contributions received	2,882,413	3,159,022
Revenue recognized	(2,580,807)	(2,978,910)
Interest income	8,638	1,802
Closing balance - December 31	1,409,575	1,099,331

(c) The Peter Gilgan Foundation

In 2017, FINCA Canada signed a \$500,000 multiyear contribution agreement with The Peter Gilgan Foundation to support the BrightLife: Lighting Up Africa project. The project has the goal of unleash the power of access to clean energy, water and finance, and to help African families progress out of poverty. The activity and the balance of deferred revenue at December 31, 2019, and 2018 are summarized below:

	2019	2018
	\$	\$
Beginning balance - January 1	—	—
Contribution received	292,000	—
Revenue recognized	(253,709)	—
Closing balance - December 31	38,291	—

5. Deferred revenue (continued)

(d) *Total*

	2019	2018
	\$	\$
Global Affairs Canada (Note 5b)	1,409,575	1,099,331
The Peter Gilgan Foundation (Note 5c)	38,291	—
	1,447,866	1,099,331

6. Externally restricted net assets

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

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 foreign currency risk. The following sections describe how FINCA Canada manages each of these risks:

(a) *Credit risk*

Financial instruments exposed to credit risk include cash, restricted cash, pledges receivable, loans and interest receivable from related parties, due 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 \$1,632,431 (\$2,309,079 in 2018). 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. Financial instruments exposed to credit risk include accounts payable and accrued liabilities and due to related parties.

(c) *Foreign currency risk*

Foreign currency 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 \$1,225 in financial assets and \$213,301 in financial liabilities (\$84,692 in financial assets and \$560,247 in financial liabilities in 2018) 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. FINCA Canada had a foreign exchange gain of \$29,983 for the year ended December 31, 2019 (loss of \$6,297 in 2018).

8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include \$nil with respect to outstanding government remittances as at December 31, 2019 and 2018.

9. Allocation of expenses

Expenses have been allocated to financial line items as follows:

	Program services	General and administrative	Fundraising	2019 Total
	\$	\$	\$	\$
Labour and benefits				
International programs	2,037,877	313,291	—	2,351,168
Professional and contractual services	341,739	135,105	229,921	706,765
Hiring and training	195,712	21,457	—	217,169
Rent expense	—	9,444	—	9,444
Bank charge	—	54,875	—	54,875
Supplies, materials and maintenance	443,062	26,121	265,670	734,853
Travel and entertainment	202,438	27,116	9,437	238,991
	3,220,828	587,409	505,028	4,313,265

	Program services	General and administrative	Fundraising	2018 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

10. Subsequent event

Subsequent to the year end, on March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel corona virus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put into place to combat the spread of the virus. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the severity and length of these developments will have on the financial results and condition of FINCA Canada in future periods.

11. Comparative amounts

The following comparative amounts have been reclassified to conform to the current year's financial statement presentation:

	As amended \$	2019 As previously presented \$
Statement of revenue and expenses and changes in net assets		
Revenue		
Gain realized on donated life insurance policy	1,500	—
Foreign currency gains (losses)	6,297	4,797
	<u>4,797</u>	<u>4,797</u>