

Mastercard Foundation

Financial Statements

December 31, 2018

(expressed in thousands of US dollars)



Independent auditor's report

To the Directors of Mastercard Foundation

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Mastercard Foundation (the Organization) 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.

What we have audited

The Organization's financial statements comprise:

- the statement of financial position as at December 31, 2018;
- the statement of operations for the year then ended;
- the statement of changes in fund balances for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

PricewaterhouseCoopers LLP
400 Bradwick Drive, Suite 100, Concord, Ontario, Canada L4K 5V9
T: +1 905 326 6800, F: +1 905 326 5339

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



In preparing the financial statements, management is responsible for assessing the Organization'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 the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization'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 generally accepted auditing standards 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 generally accepted auditing standards, 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 the Organization'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 the Organization'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 the Organization 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Concord, Ontario

July 11, 2019

Mastercard Foundation
Statement of Financial Position
As at December 31, 2018

(expressed in thousands of US dollars)

			2018	2017
	General fund \$	Restricted fund \$	Total \$	Total \$
Assets				
Current assets				
Cash and cash equivalents	9,016	-	9,016	31,460
Prepaid expenses and sundry assets	2,064	-	2,064	2,455
Portfolio investments (note 3)	138,583	-	138,583	298,381
	149,663	-	149,663	332,296
Investment in Mastercard Incorporated shares (note 4)	-	17,247,917	17,247,917	13,668,764
Property and equipment (note 5)	3,281	-	3,281	2,819
Intangible assets (note 6)	634	-	634	608
	153,578	17,247,917	17,401,495	14,004,487

Approved by the Board of Directors

 Director
  Director

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

Mastercard Foundation

Statement of Financial Position ...continued

As at December 31, 2018

(expressed in thousands of US dollars)

			2018	2017
	General fund \$	Restricted fund \$	Total \$	Total \$
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	5,649	-	5,649	3,488
Tenant deposits	19	-	19	20
	5,668	-	5,668	3,508
Fund Balances				
General fund				
Unrestricted	9,327	-	9,327	33,834
Internally restricted	138,583	-	138,583	298,381
Restricted fund	-	17,247,917	17,247,917	13,668,764
	147,910	17,247,917	17,395,827	14,000,979
	153,578	17,247,917	17,401,495	14,004,487
Commitments (note 12)				

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

Mastercard Foundation

Statement of Operations

For the year ended December 31, 2018

(expressed in thousands of US dollars)

			2018	2017
	General fund \$	Restricted fund \$	Total \$	Total \$
Income				
Fair value changes in investments				
Mastercard Incorporated shares	-	3,579,153	3,579,153	4,539,512
Portfolio investments	(5,784)	-	(5,784)	362
	(5,784)	3,579,153	3,573,369	4,539,874
Investment income (note 3)	118,612	-	118,612	105,823
Rental income	479	-	479	472
	113,307	3,579,153	3,692,460	4,646,169
Expenditures				
Program disbursements (notes 9 and 12(b))	266,984	-	266,984	278,151
Program costs (note 8)	14,831	-	14,831	12,434
Administration costs (notes 7 and 8)	15,797	-	15,797	13,232
	297,612	-	297,612	303,817
Excess (deficiency) of income over expenditures for the year	(184,305)	3,579,153	3,394,848	4,342,352

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

Mastercard Foundation
Statement of Changes in Fund Balances
For the year ended December 31, 2018

(expressed in thousands of US dollars)

	<u>General fund</u>			
	Unrestricted \$	Internally restricted \$	Restricted fund \$	Total \$
Balance – December 31, 2016	215,668	292,573	9,150,386	9,658,627
Excess (deficiency) of income over expenditures for the year	(176,026)	-	4,518,378	4,342,352
Interfund transfers	(5,808)	5,808	-	-
Balance – December 31, 2017	33,834	298,381	13,668,764	14,000,979
Excess (deficiency) of income over expenditures for the year	(184,507)	202	3,579,153	3,394,848
Interfund transfer	160,000	(160,000)	-	-
Balance – December 31, 2018	9,327	138,583	17,247,917	17,395,827

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

Mastercard Foundation
Statement of Cash Flows
For the year ended December 31, 2018

(expressed in thousands of US dollars)

	2018	2017
	\$	\$
Cash provided by (used in)		
Operating activities		
Excess of income over expenditures for the year	3,394,848	4,342,352
Items not affecting cash		
Fair value changes in investments		
Mastercard Incorporated shares	(3,579,153)	(4,539,512)
Portfolio investments	5,784	(362)
Reinvestment of dividend income	(6,000)	(5,458)
Amortization of property and equipment	471	452
Amortization of intangible assets	119	64
Net changes in non-cash operating items		
Prepaid expenses and sundry assets	391	(407)
Accounts payable and accrued liabilities	2,161	1,178
Tenant deposits	(1)	(24)
	<u>(181,380)</u>	<u>(201,717)</u>
Investing activities		
Purchase of property and equipment	(933)	(210)
Purchase of intangible assets	(145)	(328)
Proceeds from sale of portfolio investments	160,014	1,911
Proceeds from sale of Mastercard Incorporated shares	-	222,577
	<u>158,936</u>	<u>223,950</u>
(Decrease) increase in cash and cash equivalents during the year	(22,444)	22,233
Cash and cash equivalents – Beginning of year	<u>31,460</u>	<u>9,227</u>
Cash and cash equivalents – End of year	<u>9,016</u>	<u>31,460</u>

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

Mastercard Foundation

Notes to Financial Statements

December 31, 2018

(expressed in thousands of US dollars)

1 Nature of organization

Mastercard Foundation, formerly known as The MasterCard Foundation (the Foundation), was incorporated under the Canada Corporations Act by letters patent on October 28, 2005 as a corporation without share capital and was legally continued under the Canada Not-for-Profit Corporations Act on October 1, 2014. The Foundation is an independent, private foundation established through a gift of Mastercard Incorporated shares (note 4) in May 2006. Through collaboration with partners, the Foundation advances youth learning and promotes financial inclusion to catalyze prosperity in developing countries.

The Foundation is registered under the Income Tax Act (Canada) (the Act) effective April 18, 2006 and, as such, is exempt from Canadian income taxes and is able to issue donation receipts for income tax purposes under registration number 817387277 RR 0001.

The Foundation has tax exempt status in the United States under Section 501(c)(4) of the Internal Revenue Code from the date of its formation in 2005.

The Foundation has Foreign Company Registration in Rwanda from the Rwanda Development Board. The branch office began operations during 2018.

The Foundation obtained External Company registration under the Companies Act, 1963 (Act 179) from the Republic of Ghana.

2 Summary of significant accounting policies

The financial statements of the Foundation have been prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) with all amounts reported in US dollars, the Foundation's functional currency. The accrual basis of accounting is used for reporting all income and expenditures.

Fund accounting

The Foundation follows the restricted fund method of accounting for contributions. It ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided. The financial statements include the following funds:

- The restricted fund represents the investment in Mastercard Incorporated shares, which are subject to disposition restrictions by the donor as further explained in note 4.
- The general fund consists of unrestricted and internally restricted amounts.

Unrestricted amounts are available to the Foundation for operational and charitable disbursement purposes and the Foundation's investment in property and equipment.

Internally restricted amounts have been set aside to meet the future commitments of the Foundation's charitable programs. The Board of Directors annually approves the transfer of funds between the unrestricted and internally restricted funds.

Mastercard Foundation

Notes to Financial Statements

December 31, 2018

(expressed in thousands of US dollars)

The Foundation transfers amounts from the restricted fund to the general fund to assist with operational and charitable disbursements, and additional investment in property and equipment.

Income recognition

Investment income represents interest and dividends. Interest is recognized as earned and dividends are recognized at the ex-dividend date. Interest and dividends earned on restricted investments are not restricted.

Investment transactions are accounted for on a trade date basis. Changes in fair value on investment transactions are recorded in the statement of operations. Changes in fair value of restricted investments are restricted.

Program disbursements

Disbursements to conduct program activities require approval by the Foundation's Board of Directors and execution of a contract between the Foundation and qualified donees or other third parties. Disbursements are recorded as expenditures in the year in which they are paid out. Disbursements for multi-year funding are recognized as expenditures based on a schedule of payments, if and when specified performance criteria are met.

Program disbursement commitments

Where funding has been approved by the Board of Directors, such amounts are disclosed as commitments. Commitments to program funding to qualified donees and other third parties are sometimes made in multiple disbursements.

Cash and cash equivalents

Cash and cash equivalents include cash and any short-term investments with a maturity of three months or less from the original date of purchase.

Portfolio investments

Portfolio investments are recorded at fair value. Investments are made in accordance with the Foundation's investment policy. All investments are in liquid securities. The Foundation classifies its portfolio investments as long-term when management holds them for a period greater than one year.

Investments in Mastercard Incorporated shares

Investments in Mastercard Incorporated shares are recorded at fair value. Fair value is determined based on the appraised fair value of the shares, generally at the closing bid price, less an estimated discount rate to reflect the restricted nature of the shares (note 4); such discount rate is determined by an independent appraiser each year. The valuation discount rate used as at December 31, 2018 is 18.5% (2017 – 19.5%). No discount is applied to unrestricted shares held at year-end.

Mastercard Foundation

Notes to Financial Statements

December 31, 2018

(expressed in thousands of US dollars)

Property and equipment

Property and equipment are stated at cost less accumulated amortization. Amortization of furniture and fixtures and computer and other equipment is determined using the straight-line method over the estimated useful lives of ten, three and five years for the assets, respectively. Amortization of leasehold improvements is determined using the straight-line method over the terms of the related leases.

The Foundation reviews the carrying amounts of its property and equipment regularly. If the property and equipment no longer have any long-term service potential to the Foundation, the excess of the net carrying amount over any residual value is recognized as an expense in the statement of operations.

Intangible assets

Intangible assets are recorded at cost and consist of the non-exclusive right to use the Mastercard trademark, copyrighted materials related to Mastercard Incorporated as used by the Foundation, computer software and website development costs.

The trademark and copyrighted materials both have indefinite useful lives. The Foundation reviews the value of these intangible assets on an annual basis for impairment or at any other time when events or changes have occurred that would suggest an impairment of the carrying value.

Computer software and website development costs are amortized on a straight-line basis over two years and three years, respectively.

Program costs

Program costs are operating expenses associated with charitable giving activities.

Allocation of expenses

The Foundation engages in financial inclusion and youth learning programs. Program costs include personnel, legal and other costs directly related to the programs. The Foundation also incurs other costs related to personnel, premises and other expenditures for the administration of the programs. Some of these costs are allocated to program costs, such as payroll and personnel related costs, which have been allocated in proportion to time spent and effort expended on program related activities. Occupancy costs have been allocated to programs in proportion to the space occupied by staff working on program related activities.

Foreign exchange translation

Income and expenditures denominated in foreign currencies are translated into US dollars at the previous month's closing exchange rate. Assets and liabilities denominated in foreign currencies are translated at the year-end date. Foreign exchange gains and losses are included with administration costs in the statement of operations.

Mastercard Foundation

Notes to Financial Statements

December 31, 2018

(expressed in thousands of US dollars)

Financial assets and liabilities

The Foundation initially measures cash and cash equivalents, sundry assets and accounts payable and accrued liabilities at fair value and subsequently at amortized cost.

The Foundation measures its portfolio investments and investment in Mastercard Incorporated shares on the statement of financial position at fair value, with changes in fair value recorded in the statement of operations. Transaction costs associated with the acquisition and disposal of the portfolio investments and investment in Mastercard Incorporated shares are expensed as incurred.

Financial assets, other than those measured at fair value, are tested for impairment at the end of each reporting period when there are indicators the assets may be impaired.

Use of estimates

The preparation of financial statements in accordance with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements and the income and expenditures during the reporting period. Significant estimates included in these financial statements are used in determining the useful lives of property and equipment, intangible assets, accruals, the discount rate used in the valuation of the Mastercard Incorporated shares and the allocation of expenditures. Actual results could differ from those estimates.

3 Portfolio investments

Portfolio investments comprise the following:

	2018 \$	2017 \$
Bond funds	134,778	288,231
Indexed trust	3,764	10,062
Other	41	88
	<hr/> 138,583	<hr/> 298,381

As at December 31, 2018, \$138,583 of portfolio investments was internally restricted (2017 – \$298,381).

Included in the general fund's investment income of \$118,612 (2017 – \$105,823) is interest income of \$429 (2017 – \$958) and dividend income of \$118,183 (2017 – \$104,865).

4 Investment in Mastercard Incorporated shares

	2018 \$	2017 \$
112,181,762 Class A Mastercard Incorporated restricted shares – gifted shares (2017 – 112,181,762)	<hr/> 17,247,917	<hr/> 13,668,764

Mastercard Foundation

Notes to Financial Statements

December 31, 2018

(expressed in thousands of US dollars)

Under the deed of gift with Mastercard Incorporated, the Foundation could not dispose of these gifted shares during the no-alienation period, defined as that period from the date of the initial donation (May 31, 2006) to the fourth anniversary of that date (May 30, 2010). Subsequent to this period, there is a period of limited alienation that is effective for 16 years and 11 months from one day after the fourth anniversary (April 30, 2027). During this limited alienation period, disposition can only be done to satisfy the Foundation's disbursement quota and operating expenses. After this limited alienation period (May 1, 2027), the Foundation may dispose of the shares at its discretion, in an orderly and structured manner so as not to unreasonably disrupt the market for Mastercard Incorporated's shares. Furthermore, the balance of the gift on the commencement of the unlimited alienation period is required to be divided into two funds, namely, the Perpetual Endowment Fund (the capital is to be held in perpetuity; the income is to be disbursed to satisfy the charitable purpose of the gift) and the Remaining Fund (to be disbursed in its entirety within the first ten years of the unlimited alienation period), with allocation between the funds being based on the gifting agreement.

5 Property and equipment

			2018	2017
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Leasehold improvements	3,087	860	2,227	2,234
Furniture and fixtures	1,059	242	817	441
Computer and other equipment	380	143	237	144
	4,526	1,245	3,281	2,819

During fiscal 2018, the Foundation wrote off \$128 (2017 – \$260) in property and equipment and related accumulated amortization.

6 Intangible assets

	2018 \$	2017 \$
Mastercard Incorporated trademark	179	179
Copyrighted material	89	89
Computer software – net of accumulated amortization of \$42 (2017 – \$39)	43	68
Website development costs – net of accumulated amortization of \$42 (2017 – \$39)	323	272
	634	608

During fiscal 2018, the Foundation wrote off \$90 (2017 – \$69) in intangible assets and related accumulated amortization.

Mastercard Foundation

Notes to Financial Statements

December 31, 2018

(expressed in thousands of US dollars)

7 Administration costs

	2018 \$	2017 \$
Payroll and personnel related costs	5,347	5,444
Professional fees	4,908	3,628
Legal and audit	849	430
Office expense	1,476	1,218
Travel	1,221	659
Occupancy	1,317	1,433
Amortization of property and equipment	471	452
Amortization of intangible assets	118	64
Foreign exchange gain	90	(96)
	<hr/> 15,797	<hr/> 13,232

8 Allocation of expenses

Payroll and personnel related costs

Total payroll and personnel related costs of \$13,573 (2017 – \$10,142) have been allocated to program related activities or administrative activities based on the proportion of time spent and effort expended by employees on each of the activities. \$8,226 (2017 – \$4,698) in payroll and personnel related costs has been allocated to program costs and \$5,347 (2017 – \$5,444) has been allocated to administration costs.

Occupancy costs

The Foundation allocated the relevant portion of the occupancy costs incurred to program costs based on the following:

- floor premises occupied by departments involved in charitable activities were either fully allocated to program costs or allocated using percentage of time spent and effort expended by such employees on program related activities; and
- floor premises of common areas and support departments were allocated as administration costs.

Occupancy costs of \$1,639 (2017 – \$1,590) have been allocated on the basis described above. \$322 (2017 – \$157) in occupancy costs has been allocated to program costs and the remainder of \$1,317 (2017 – \$1,433) has been allocated to administration costs.

Mastercard Foundation

Notes to Financial Statements

December 31, 2018

(expressed in thousands of US dollars)

9 Related party transactions

The Foundation has a formal professional code of conduct in place for staff and the Board of Directors, governing conflict of interest and competitive purchasing practices. During the year, organizations affiliated with certain current members of the Board of Directors received disbursements to conduct charitable activities. Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The total program disbursements included in the accounts of the Foundation related to these organizations amount to \$27,445 (2017 – \$8,672), as follows:

	2018 \$	2017 \$
Directors' programs (2018 – six (2017 – three))	260	125
Disbursements to director affiliated organizations (2018 – three (2017 – two))	27,185	8,547
	<u>27,445</u>	<u>8,672</u>

10 Financial risk management

Financial risk management relates to the understanding and active management of risks associated with the operations of the Foundation and its assets. The Foundation is exposed to currency, credit, market and liquidity risks as follows.

Currency risk

The Foundation holds cash and cash equivalent balances denominated in currencies (principally Canadian dollars) other than its reporting currency, the US dollar. Consequently, the Foundation is exposed to the risk that the exchange rate of the US dollar relative to other currencies may change in a manner that has an adverse or beneficial effect on the reported value of the Foundation's investments.

Credit risk

The Foundation bears credit risk associated with its holdings of portfolio investments, cash and cash equivalents. To mitigate this risk, the Foundation places its cash and portfolio investments in securities of federal or provincial governments, chartered banks, major trust companies or high quality corporate bonds.

Market risk

The Foundation's portfolio investments and investment in Mastercard Incorporated shares are subject to market risk, which includes price risk arising from market volatility and the risk of loss of capital associated with these investments. The Foundation manages this risk for the portfolio investments by diversifying its portfolio and investing in a variety of different funds, governed by the Foundation's investment policy and by ensuring that total outstanding program commitments do not exceed 20% of the Foundation's assets.

Mastercard Foundation

Notes to Financial Statements

December 31, 2018

(expressed in thousands of US dollars)

Liquidity risk

Liquidity risk is the risk the Foundation will not be able to meet its financial obligations primarily related to program disbursements as they come due. The Foundation manages liquidity risk through regular monitoring of forecast and actual cash flows in conjunction with the determination of both the timing and amount of sales of the Mastercard Incorporated shares, which are subject to sale restrictions as disclosed in note 4.

11 Status of Foundation

The Foundation is a Canadian registered charity and is designated as a private foundation under subsection 149.1(1) of the Act. The Act requires that a private foundation expend certain amounts each year on its own charitable activities or by way of donations to other qualified donees (disbursement quota). The Foundation received approval from the Canada Revenue Agency for an averaging arrangement with respect to its disbursement quota obligations, representing the sum of its annual disbursement quotas for fiscal years 2007 through 2016 inclusive. During 2011, the Foundation obtained another five-year extension of the averaging arrangement. With this extension, the Foundation is considered to have met its disbursement quota requirements for each of the fiscal years 2007 to 2021, provided it has expended amounts on its own charitable activities and/or has made gifts to qualified donees on a cumulative basis, which equal its disbursement quota requirements for the 15-year period ending December 31, 2021.

12 Commitments

a) Lease commitments

The Foundation is committed to total lease payments under operating leases for office space and equipment as follows:

	\$
2019	1,428
2020	1,481
2021	1,556
2022	1,501
2023	1,433
2024 and thereafter	3,512
	<hr/>
	10,911
	<hr/>

b) Current program disbursements and commitments

During the year, the Foundation expensed \$266,984 (2017 – \$278,151) relating to program disbursements to qualified donees and other third parties.

Mastercard Foundation

Notes to Financial Statements

December 31, 2018

(expressed in thousands of US dollars)

Commitments to provide program funding to qualified donees and other third parties are sometimes made in multiple disbursements. However, the Foundation only commits to and expenses one disbursement at a time for each donee or other third party, with the subsequent disbursements subject to review for compliance with specified performance criteria. If the specified performance criteria are met, and funds are available, funding of subsequent disbursements is made.

The total program commitments relating to future years, not yet expensed, amount to \$585,755 (2017 – \$815,430) and are scheduled to be paid as follows:

	Program commitment \$	Scholarship commitment \$	Total \$
2019	143,986	117,470	261,456
2020	85,164	70,071	155,235
2021	27,929	51,012	78,941
2022	9,927	36,661	46,588
2023	4,292	24,579	28,871
Thereafter	667	13,997	14,664
	<hr/>	<hr/>	<hr/>
	271,965	313,790	585,755

Included in these commitments is \$39,526 (2017 – \$65,011) committed to organizations affiliated with members of the Board of Directors.

13 Comparative figures

Certain prior year comparative figures were reclassified to conform to the current year's financial statement presentation.