

Operation Smile Canada Foundation

Financial Statements
June 30, 2014



October 14, 2014

Independent Auditor's Report

To the Board of Directors of Operation Smile Canada Foundation

We have audited the accompanying financial statements of Operation Smile Canada Foundation, which comprise the statement of financial position as at June 30, 2014 and the statements of operations and changes in net deficit and cash flows for the year then ended, and the related notes, which comprise 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 qualified audit opinion.

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



Basis for qualified opinion

In common with many not-for-profit organizations, Operation Smile Canada Foundation derives revenues from donations, the completeness of which is not susceptible to satisfactory audit verification.

Accordingly, verification of this donations revenue was limited to the amounts recorded in the records of Operation Smile Canada Foundation. Therefore, we were not able to determine whether any adjustments might be necessary to donations revenue, deficit (surplus) of revenue over expenditures and cash flows for the years ended June 30, 2014 and June 30, 2013, current assets as at June 30, 2014 and June 30, 2013 and net deficit as at July 1 and June 30 for both 2014 and 2013 years. Our audit opinion on the financial statements for the year ended June 30, 2013 was modified accordingly because of the possible effects of this limitation in scope.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Operation Smile Canada Foundation as at June 30, 2014 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

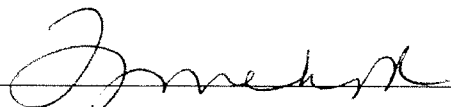
Operation Smile Canada Foundation


Statement of Financial Position

As at June 30, 2014

	2014 \$	2013 \$
Assets		
Current assets		
Cash	822,345	807,936
Accounts receivable	150,900	324,924
Due from Operation Smile, Inc. (note 3)	514,455	96,000
Prepaid expenses	2,084	-
	<hr/> 1,489,784	<hr/> 1,228,860
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	226,544	789,629
Due to Operation Smile, Inc. (note 3)	<hr/> 1,313,944	<hr/> 474,310
	1,540,488	1,263,939
Net Deficit	<hr/> (50,704)	<hr/> (35,079)
	<hr/> 1,489,784	<hr/> 1,228,860
Commitment (note 4)		

Approved by the Board of Directors

 Director

 Director

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

Operation Smile Canada Foundation
Statement of Operations and Changes in Net Deficit
For the year ended June 30, 2014

	2014	2013
	\$	\$
Revenue		
Donations	6,603,354	4,998,171
Operation Smile, Inc. operating grant (note 3)	3,874,469	3,097,685
	<hr/>	<hr/>
	10,477,823	8,095,856
Expenditures		
Grant to Operation Smile, Inc. - program services (note 3)	5,301,688	3,997,631
Supporting services (note 5)		
Fundraising	4,683,334	3,573,477
Administrative	508,426	475,831
	<hr/>	<hr/>
	10,493,448	8,046,939
(Deficit) surplus of revenue over expenditures for the year	(15,625)	48,917
Net deficit - Beginning of year	<hr/>	<hr/>
	(35,079)	(83,996)
Net deficit - End of year	<hr/>	<hr/>
	(50,704)	(35,079)

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

Operation Smile Canada Foundation

Statement of Cash Flows

For the year ended June 30, 2014

	2014	2013
	\$	\$
Cash provided by (used in)		
Operating activities		
(Deficit) surplus of revenue over expenditures for the year	(15,625)	48,917
Changes in working capital		
Accounts receivable	174,024	(316,898)
Due from Operation Smile, Inc.	(418,455)	(73,866)
Prepaid expenses	(2,084)	1,365
Accounts payable and accrued liabilities	(563,085)	350,899
Due to Operation Smile, Inc.	839,634	308,444
	<hr/>	<hr/>
Increase in cash during the year	14,409	318,861
Cash - Beginning of year	807,936	489,075
	<hr/>	<hr/>
Cash - End of year	822,345	807,936
	<hr/>	<hr/>

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

Operation Smile Canada Foundation

Notes to Financial Statements

June 30, 2014

1 Purpose of organization

Operation Smile Canada Foundation (Operation Smile or the organization) was incorporated under the laws of the Province of Ontario as a not-for-profit organization with initial letters of patent issued on August 30, 2010. Operation Smile launched fundraising operations as a not-for-profit organization on July 1, 2011 and received its charitable status on July 1, 2012.

Operation Smile's charitable purposes are:

- to perform health-care examinations and surgical procedures by credentialed medical professionals on children and other individuals to repair various facial deformities, including but not limited to, cleft lip and cleft palate;
- to provide education and training to medical personnel with respect to providing surgical care and treatment services to children and other individuals;
- to provide medical equipment to not-for-profit medical clinics and hospitals in geographical areas unable to adequately meet the medical needs of individuals suffering from facial deformities;
- to conduct research with respect to the causes of cleft lip and cleft palate, and to disseminate the results of such research; and
- to raise awareness and inspire action and leadership with respect to cleft lip and cleft palate by educating the public through social media and by participating in international health conferences.

The organization raises funds from Canadians to support these programs, which are conducted by Operation Smile, Inc., a related party, headquartered in Virginia Beach, Virginia, USA

2 Summary of significant accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) - Part III of the Chartered Professional Accountants of Canada Handbook applied within the framework of the accounting policies summarized below:

Fund accounting

The organization follows the restricted fund method of accounting for contributions. Any restricted donations received from the organization's annual fundraising campaigns, as well as other donations that are restricted by the donors, are recorded in the restricted fund. The balance in the restricted fund represents various funds, all of which must be spent toward specific fund programs, as specified by the donors. Once a program initiative has been fully funded, any excess donations are transferred to the general fund and used toward future program funding initiatives. There were no restricted funds as at June 30, 2014.

Operation Smile Canada Foundation

Notes to Financial Statements

June 30, 2014

Revenue

Revenue is derived from the following significant sources:

- Donations

Donations from the public, which are not designated for a specific purpose, are recognized as revenue when received.

- Grants from Operation Smile, Inc.

Grants from Operation Smile, Inc. are recognized when committed.

Foreign currency translation

Non-monetary assets and liabilities denominated in foreign currencies are carried in these financial statements at their Canadian dollar equivalents, as determined on the date of the original transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the statement of financial position date. Revenue and expenditures relating to foreign currency denominated transactions are translated into Canadian dollars at the rates of exchange prevailing on the dates of the transactions.

Financial instruments

Financial assets and liabilities are recognized when the organization becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognized when the rights and obligations to receive or repay cash flows from the assets and liabilities have expired or have been transferred and the organization has transferred substantially all the risks and rewards of ownership.

The organization initially recognizes all its financial assets and financial liabilities at fair value and subsequently at amortized cost, except for due to/from Operation Smile, Inc., which is measured at the exchange amount. Changes in fair value are recognized in the statement of operations and changes in net deficit. Financial assets measured at amortized cost are tested for impairment at the end of each reporting period when there are indicators the assets may be impaired.

Allocation of expenditures

Operation Smile allocates its supporting services expenditures to its fundraising and administrative activities. Expenditures that can be identified with a specific activity are allocated directly. Other expenditures that are common to both activities are allocated based on the nature of the expenditure and may include estimates of time spent, material costs and head count.

Operation Smile Canada Foundation

Notes to Financial Statements

June 30, 2014

Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the related disclosures at the date of the financial statements and the reported amounts of revenue and expenditures during the year. Actual results could differ from those estimates.

3 Related party transactions and balances

Operation Smile has entered into a co-operative agreement with Operation Smile, Inc. to conduct program work on its behalf through the donations of Canadians. Under the terms of the co-operative agreement, Operation Smile will remit 80% of the revenue generated by the Direct Response and Major and Planned Gifts fundraising programs unless otherwise agreed to by Operation Smile and Operation Smile, Inc. in writing.

As of year-end, the due to Operation Smile, Inc. reflects the remaining grants owing to Operation Smile, Inc. in accordance with the terms of the co-operative agreement.

Operation Smile, Inc. has agreed, in the initial years, to provide grant funding to help cover the fundraising costs of Operation Smile to allow a large percentage of donations to be used for program purposes as it grows its donor base and becomes self-sufficient.

As of year-end, the due from Operation Smile, Inc. reflects the remaining committed operating grants owing from Operation Smile, Inc.

4 Commitment

The minimum annual commitment as per vendor agreements and the operating lease for the premises are as follows:

	\$
2015	190,082
2016	161,054
2017	<u>170,183</u>
	<u>521,319</u>

Operation Smile Canada Foundation

Notes to Financial Statements

June 30, 2014

5 Supporting services expenditures

Supporting services expenditures have been allocated to the following activities:

	2014		2013	
	Fundraising \$	Administrative \$	Fundraising \$	Administrative \$
Salaries and benefits	147,774	63,634	79,609	57,876
Professional services	132,530	25,586	125,843	31,069
Printing and promotions	13,499	330	4,854	7,505
Office supplies and expenses	-	6,595	-	6,411
Occupancy	-	33,661	-	17,732
Travel and conferences	-	11,316	-	7,056
Insurance	-	5,261	-	5,006
Direct mail	1,967,799	339	1,179,073	19,673
Media	1,843,093	8,198	1,664,972	13,904
Acquisition of donor list	254,267	-	281,922	-
Website	226,982	27,899	119,099	-
Donor relations/processing	-	264,855	16,981	252,227
Bank charges	96,936	224	67,330	774
Other	454	60,528	33,794	56,598
	<u>4,683,334</u>	<u>508,426</u>	<u>3,573,477</u>	<u>475,831</u>