

Financial Statements of

**OPERATION SMILE CANADA
FOUNDATION**

And Independent Auditor's Report thereon

Year ended June 30, 2024



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Operation Smile Canada Foundation

Opinion

We have audited the financial statements of Operation Smile Canada Foundation (the Entity) which comprise:

- the statement of financial position as at June 30, 2024
- the statement of operations and changes in unrestricted net assets for the year then ended
- the statement of changes in restricted net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at June 30, 2024, and its results of 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. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity 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 opinion.



Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditor's report thereon, included in the impact report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditor's report thereon, included in the impact report as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

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 the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 the financial statements.



Page 3

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 Entity'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 Entity'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 Entity 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.
- 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.

A handwritten signature in black ink that reads 'KPMG LLP' in a cursive, slanted font. A horizontal line is drawn underneath the signature.

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

September 24, 2024

OPERATION SMILE CANADA FOUNDATION

Statement of Financial Position

June 30, 2024, with comparative information for 2023

	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,390,260	\$ 6,502,749
Accounts receivable	310,552	265,271
Due from Operation Smile, Inc. (note 3(a))	127,044	–
Prepaid expenses	121,865	117,665
	<u>6,949,721</u>	<u>6,885,685</u>
Capital assets (note 4)	59,500	–
	<u>\$ 7,009,221</u>	<u>\$ 6,885,685</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 401,561	\$ 256,689
Due to Operation Smile, Inc. (note 3(a))	–	576,367
	<u>401,561</u>	<u>833,056</u>
Net assets:		
Unrestricted	1,093,833	1,093,833
Internally restricted funds (note 6)	5,513,827	4,958,796
	<u>6,607,660</u>	<u>6,052,629</u>
Commitments (note 7)		
	<u>\$ 7,009,221</u>	<u>\$ 6,885,685</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Treasurer

OPERATION SMILE CANADA FOUNDATION

Statement of Operations and Changes in Unrestricted Net Assets

Year ended June 30, 2024, with comparative information for 2023

	2024	2023
Revenue:		
Donations	\$ 20,569,970	\$ 17,678,948
Operating grant (note 3(b))	1,000,000	1,000,000
Other (note 3(a))	378,951	336,821
	<u>21,948,921</u>	<u>19,015,769</u>
Expenditures:		
Program services (note 5)	12,439,512	11,220,420
Supporting services (note 8):		
Fundraising	7,001,490	6,495,940
Administrative	1,952,888	1,975,182
	<u>21,393,890</u>	<u>19,691,542</u>
Excess of revenue over expenditures (expenditures over revenue)	555,031	(675,773)
Unrestricted net assets, beginning of year	1,093,833	1,093,833
Internal transfer from (to) restricted fund for program commitments (note 6)	(555,031)	675,773
Unrestricted net assets, end of year	<u>\$ 1,093,833</u>	<u>\$ 1,093,833</u>

See accompanying notes to financial statements.

OPERATION SMILE CANADA FOUNDATION

Statement of Changes in Restricted Net Assets

Year ended June 30, 2024, with comparative information for 2023

	2024	2023
Restricted net assets, beginning of year	\$ 4,958,796	\$ 5,634,569
Internal transfer from (to) unrestricted fund for program commitments (note 6)	555,031	(675,773)
Restricted net assets, end of year	\$ 5,513,827	\$ 4,958,796

See accompanying notes to financial statements.

OPERATION SMILE CANADA FOUNDATION

Statement of Cash Flows

Year ended June 30, 2024, with comparative information for 2023

	2024	2023
Cash provided by (used in):		
Operations:		
Excess of revenue over expenditures (expenditures over revenue)	\$ 555,031	\$ (675,773)
Amortization which does not involve cash	6,847	–
Change in non-cash operating working capital:		
Accounts receivable	(45,281)	(958)
Due to/from Operation Smile, Inc.	(703,411)	1,395,051
Prepaid expenses	(4,200)	63,458
Accounts payable and accrued liabilities	144,872	(151,768)
	(46,142)	630,010
Investing activities:		
Purchase of capital assets	(66,347)	–
Increase (decrease) in cash and cash equivalents	(112,489)	630,010
Cash and cash equivalents, beginning of year	6,502,749	5,872,739
Cash and cash equivalents, end of year	\$ 6,390,260	\$ 6,502,749

See accompanying notes to financial statements.

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements

Year ended June 30, 2024

1. Purpose of organization:

Operation Smile Canada Foundation ("Operation Smile" or the "Organization") was incorporated without share capital under the Canada Corporations Act on July 1, 2011 and was continued under the Canada Not-for-profit Corporations Act on August 21, 2014. Operation Smile is registered as a charitable organization under the Income Tax Act (Canada) and, accordingly, is not subject to income taxes.

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 who support these programs, which are delivered through a Contract for Service Agreement by Operation Smile, Inc. ("OSI"), a related party, headquartered in Virginia Beach, Virginia, USA.

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2024

2. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations - Part III of the Chartered Professional Accountants of Canada Handbook applied with the framework of the accounting policies summarized below.

(a) Revenue recognition:

The Organization follows the deferral method of accounting for contributions which include donations and operating grants. Operating grants are recorded as revenue in the year in which they relate. Grants approved but not received at the end of an accounting year are accrued. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized.

(b) Cash and cash equivalents:

Cash and cash equivalents include cash in the bank and guaranteed investment certificates with maturities of less than three months.

(c) Foreign currency translation:

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.

(d) 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.

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2024

2. Significant accounting policies (continued):

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

The Organization believes that it is not exposed to significant interest rate risk, market risk, credit risk, cash flow risk or liquidity risk arising from its financial instruments. There has been no change to the risk exposures from 2023.

(e) Capital assets:

Capital asset purchases are recorded at cost and are amortized over their estimated useful lives on a straight-line basis. The Organization uses the following annual amortization rates:

Computer hardware	5 years
Equipment	5 years
Furniture and fixtures	10 years

(f) Allocation of expenditures:

Operation Smile allocates salaries and benefits and certain other expenditures to program and supporting services (fundraising and administration) activities based on estimates of time spent.

(g) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities 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.

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2024

3. Related party transactions and balances:

The Organization has a Licensing Agreement with OSI, which grants the Organization the legal right to use the "Operation Smile" name, logo and other trademarks to raise awareness and funds that support programs as stated in note 1.

(a) Program services:

The Organization remits an agreed upon amount to OSI based on Contractor Agreement(s).

During the year, the Organization funded \$11,206,479 (2023 - \$10,259,965) to OSI. At year end, nil (2023 - \$742,641) was payable to OSI for the Contractor Agreement(s).

During the year, the Organization received reimbursements of expenses related to the department of Global Medical Training & Education of \$88,550 (2023 - \$117,652) included in other revenue, of which, \$22,304 (2023 - \$20,295) was receivable from OSI as of year end.

At year end, \$104,740 (2023 - \$145,979) was receivable from OSI for reimbursement of travel expenses prepaid by the Organization.

(b) Operating grant:

OSI supports the Organization with grant funding to assist with strategic fundraising initiatives that leverage a larger portion of donations to be used for program purposes as it grows its donor base and becomes self-sufficient. In the current year, funding of \$1,000,000 (2023 - \$1,000,000) was provided to the Organization.

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2024

4. Capital assets:

			2024	2023
	Cost	Accumulated amortization	Net book value	Net book value
Computer hardware	\$ 29,580	\$ 2,615	\$ 26,965	\$ –
Equipment	19,740	3,948	15,792	–
Furniture and fixtures	17,027	284	16,743	–
	\$ 66,347	\$ 6,847	\$ 59,500	\$ –

5. Program services:

Details of the program services expenditures are as follows:

	2024	2023
Funded to OSI (note 3(a))	\$ 11,206,479	\$ 10,259,965
Other program expenses	1,233,033	960,455
	\$ 12,439,512	\$ 11,220,420

6. Internally restricted net assets:

The Board of Directors has approved the transfer to the program fund of \$555,031 to support program commitments (2023 - \$675,773 was transferred from the program fund).

	2024	2023
Stabilization (a)	\$ 800,000	\$ 800,000
Program (b)	4,713,827	4,158,796
	\$ 5,513,827	\$ 4,958,796

(a) To cover its operations in the event of unanticipated changes.

(b) Supporting program commitments for surgical and comprehensive cleft care programs, education/training, and research.

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2024

6. Internally restricted net assets (continued):

In 2018, the Board of Directors approved the transfer of \$25,000 from the stabilization fund to establish an endowment fund with the Toronto Foundation. This endowment fund is restricted for program purposes. At year end, the fund balance was \$25,809 (2023 - \$24,529). During the year, the Organization received a distribution of \$981 (2023 - \$934) from the endowment fund.

7. Commitments:

The minimum annual lease payments under operating leases for premises for the next five years and thereafter are as follows:

2025	\$	205,025
2026		203,383
2027		207,130
2028		211,627
2029		216,124
Thereafter		35,506
	\$	1,078,795

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2024

8. Supporting services expenditures:

Details of supporting services expenditures are as follows:

	2024		2023	
	Fundraising	Administrative	Fundraising	Administrative
Bank and credit card charges	\$ 54	\$ 260,485	\$ –	\$ 239,282
Computer expense	37,672	181,966	17,396	154,420
Direct mail	1,327,765	–	1,217,525	225
Donor engagement activities	3,658	1,529	14,082	588
Donor relations/processing	226,277	–	231,322	–
Media	1,327,353	–	1,610,940	–
Occupancy	–	203,945	–	201,385
Office expenses	5,735	66,438	2,095	63,285
Outbound donor engagement programs	1,164,900	–	1,125,411	–
Postage	763,204	17,740	684,633	25,044
Printing and promotions	43,236	4,321	50,437	12,749
Professional services	196,900	246,073	112,769	220,463
Salaries and benefits	1,392,826	858,402	1,184,671	960,157
Staff training	30,776	59,466	27,925	68,931
Travel	71,920	36,341	65,377	22,773
Web expense	409,214	–	151,357	–
Loss on foreign exchange	–	9,335	–	5,880
Amortization	–	6,847	–	–
	\$ 7,001,490	\$ 1,952,888	\$ 6,495,940	\$ 1,975,182