

Financial Statements of

**OPERATION SMILE CANADA
FOUNDATION**

Year ended June 30, 2018



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INDEPENDENT AUDITORS' 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, 2018, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising 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.

Auditors' 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 our 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, we consider 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.



Basis for Qualified Opinion

In common with many not-for-profit organizations, Operation Smile Canada Foundation derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Therefore, we were not able to determine whether, as at and for the years ended June 30, 2018 and June 30, 2017, any adjustments might be necessary to donations revenue and excess (deficiency) of revenue over expenditures reported in the statements of operations, excess (deficiency) of revenue over expenditures reported in the statements of cash flows and net assets reported in the statements of financial position. This caused us to qualify the audit opinion on the financial statements as at and for the year ended June 30, 2017.

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, 2018 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

September 25, 2018
Vaughan, Canada

OPERATION SMILE CANADA FOUNDATION

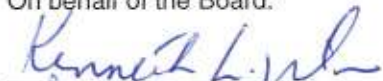
Statement of Financial Position

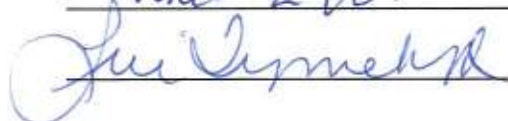
June 30, 2018, with comparative information for 2017

	2018	2017
Assets		
Cash	\$ 2,085,747	\$ 4,253,104
Accounts receivable	432,776	295,823
Due from Operation Smile, Inc. (note 3(b))	900,000	-
Prepaid expenses	75,915	6,313
	<u>\$ 3,494,438</u>	<u>\$ 4,555,240</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 121,724	\$ 936,174
Due to Operation Smile, Inc. (note 3(a))	77,928	73,558
Deferred revenue	212,973	-
	<u>412,625</u>	<u>1,009,732</u>
Net assets:		
Internally restricted funds (note 6)	3,325,000	3,350,000
Unrestricted	(243,187)	195,508
	<u>3,081,813</u>	<u>3,545,508</u>
Commitments (note 4)		
	<u>\$ 3,494,438</u>	<u>\$ 4,555,240</u>

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

OPERATION SMILE CANADA FOUNDATION

Statement of Operations

Year ended June 30, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Donations	\$ 10,279,830	\$ 9,852,707
Operating grant (note 3(b))	900,000	—
Other	19,983	7,711
	<u>11,199,813</u>	<u>9,860,418</u>
Expenditures:		
Program services (note 3(a))	6,371,139	429,553
Supporting services (note 5):		
Fundraising	4,142,467	5,210,172
Administrative	1,118,181	653,594
Contribution to external endowment fund (note 6)	25,000	—
Loss (gain) on foreign exchange	6,721	(2,805)
	<u>11,663,508</u>	<u>6,290,514</u>
Excess (deficiency) of revenue over expenditures	\$ (463,695)	\$ 3,569,904

See accompanying notes to financial statements.

OPERATION SMILE CANADA FOUNDATION

Statement of Changes in Net Assets

Year ended June 30, 2018, with comparative information for 2017

	2018			2017	
	Internally restricted (note 6)	Unrestricted	Total	Total	
Balance, beginning of year	\$ 3,350,000	\$ 195,508	\$ 3,545,508	\$ (24,396)	
Excess (deficiency) of revenue over expenditures	–	(463,695)	(463,695)	3,569,904	
Interfund transfer (note 6)	(25,000)	25,000	–	–	
Balance, end of year	\$ 3,325,000	\$ (243,187)	\$ 3,081,813	\$ 3,545,508	

See accompanying notes to financial statements.

OPERATION SMILE CANADA FOUNDATION

Statement of Cash Flows

Year ended June 30, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenditures	\$ (463,695)	\$ 3,569,904
Change in non-cash operating items:		
Accounts receivable	(136,953)	(25,936)
Due from Operation Smile, Inc.	(900,000)	900,000
Prepaid expenses	(69,602)	16,823
Accounts payable and accrued liabilities	(814,450)	534,503
Due to Operation Smile, Inc.	4,370	(1,501,639)
Deferred revenue	212,973	—
Increase (decrease) in cash	(2,167,357)	3,493,655
Cash, beginning of year	4,253,104	759,449
Cash, end of year	\$ 2,085,747	\$ 4,253,104

See accompanying notes to financial statements.

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements

Year ended June 30, 2018

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 to support these programs, which are conducted 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, 2018

2. Significant accounting policies:

These 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 within 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 grant. Operating grants are recorded as revenue in the year to 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) 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.

(c) 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 OSI, which is measured at the exchange amount. Changes in fair value are recognized in the statement of operations and changes in 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.

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2018

2. Significant accounting policies (continued):

(d) Allocations of expenditures:

Operation Smile allocates salaries and benefits to its fundraising and administrative activities based on estimates of time spent.

(e) 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. Significant items subject to such estimates and assumptions include the allocation of expenditures. Actual results could differ from those estimates.

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 conduct program work, and to raise funds under the Operation Smile name in Canada.

(a) Program services:

The Organization remits an agreed upon amount to OSI based on contractor agreements.

During the year, the Organization funded \$6,092,859 (2017 - \$419,038) to OSI.

As of year-end, the due to OSI reflects the remaining program funds owing to OSI.

(b) Operating grant:

OSI 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. In the current year, \$900,000 (2017 - nil) funding was provided to the Organization.

As of year-end, the due from OSI reflects the committed operating grants owing from OSI.

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2018

4. Commitments:

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

2019	\$ 177,362
2020	181,109
2021	181,859
2022	181,859
2023	185,606
	\$ 907,795

5. Supporting services expenditures:

Details of supporting services expenditures are as follows:

	2018		2017	
	Fundraising	Administrative	Fundraising	Administrative
Bank charges	\$ 136	\$ 137,076	\$ –	\$ 126,782
Donor relations/processing	273,919	11,166	314,320	–
Media	2,324,209	–	2,356,519	–
Occupancy	–	90,763	–	83,501
Office expenses	245	99,117	3,409	51,144
Postage	438,240	5,443	693,396	8,010
Printing and promotions	566,032	13,442	810,143	8,844
Professional services	108,211	123,180	177,124	168,482
Salaries and benefits	210,071	589,054	368,141	155,546
Staff training	363	17,834	2,427	1,345
Travel	5,093	14,381	3,084	12,122
Web expense	215,948	16,725	481,609	37,818
	\$ 4,142,467	\$ 1,118,181	\$ 5,210,172	\$ 653,594

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2018

6. Internally restricted net assets:

During the year, the Board of Directors approved the transfer of \$25,000 from the stabilization fund to establish of an endowment fund with the Toronto Foundation. This endowment fund is restricted for program purposes.

	2018	2017
Stabilization (a)	\$ 475,000	\$ 500,000
Program (b)	2,850,000	2,850,000
	<u>\$ 3,325,000</u>	<u>\$ 3,350,000</u>

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

(b) To fund OSI programs.

7. Comparative information:

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year excess of revenue over expenditures.