

Operation Smile Canada FY17 Financials

During the year Operation Smile Canada (OSC) was in the process of formalizing an agreement to fund programs with Operation Smile Inc. (OSI - the International entity) that was in compliance with CRA regulations. That agreement was finalized in the last quarter of the fiscal year and as a result fewer programs were funded during the fiscal year.

In response, Operation Smile Canada created an internally restricted program reserve of \$2,850,000 that will be used to fund OSI programs in future years. OSC has also established a stabilization fund of \$500,000 to ensure the long term financial stability of the organization.

OSI had provided OSC with an operating grant to cover a portion of the fundraising costs during the first few years of start-up that ended in FY17. As a result while fundraising revenue increased from the previous year, the total revenue decreased by nearly 4.3 million.

Financial Statements of

**OPERATION SMILE CANADA
FOUNDATION**

Year ended June 30, 2017



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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, 2017, the statements of operations, changes in net assets (deficiency) 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.



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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, 2017 and June 30, 2016, 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 (deficiency) 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, 2016.

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, 2017 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

December 8, 2017
Vaughan, Canada

OPERATION SMILE CANADA FOUNDATION

Statement of Financial Position

June 30, 2017, with comparative information for 2016



	2017	2016
Assets		
Cash	\$ 4,253,104	\$ 759,449
Accounts receivable	295,823	269,887
Due from Operation Smile, Inc. (note 3(b))	-	900,000
Prepaid expenses	6,313	23,136
	<u>\$ 4,555,240</u>	<u>\$ 1,952,472</u>

Liabilities and Net Assets (Deficiency)

Liabilities:		
Accounts payable and accrued liabilities	\$ 936,174	\$ 401,671
Due to Operation Smile, Inc. (note 3(a))	73,558	1,575,197
	<u>1,009,732</u>	<u>1,976,868</u>
Net assets (deficiency):		
Internally restricted funds (note 6)	3,350,000	-
Unrestricted	195,508	(24,396)
	<u>3,545,508</u>	<u>(24,396)</u>
Commitments (note 4)		
	<u>\$ 4,555,240</u>	<u>\$ 1,952,472</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, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Donations	\$ 9,852,707	\$ 9,202,284
Operating grant (note 3(b))	—	4,946,518
Other	7,711	—
	<u>9,860,418</u>	<u>14,148,802</u>
Expenditures:		
Program services (note 3(a))	429,553	7,189,916
Supporting services (note 5):		
Fundraising	4,874,751	6,120,109
Administrative	989,015	749,265
Loss (gain) on exchange	(2,805)	126,308
	<u>6,290,514</u>	<u>14,185,598</u>
Excess (deficiency) of revenue over expenditures	<u>\$ 3,569,904</u>	<u>\$ (36,796)</u>

See accompanying notes to financial statements.

OPERATION SMILE CANADA FOUNDATION

Statement of Changes in Net Assets (Deficiency)

Year ended June 30, 2017, with comparative information for 2016

	2017			2016
	Internally restricted (note 6)	Unrestricted	Total	Total
Balance, beginning of year	\$ -	\$ (24,396)	\$ (24,396)	\$ 12,400
Excess (deficiency) of revenue over expenditures	-	3,569,904	3,569,904	(36,796)
Interfund transfers	3,350,000	(3,350,000)	-	-
Balance, end of year	\$ 3,350,000	\$ 195,508	\$ 3,545,508	\$ (24,396)

See accompanying notes to financial statements.

OPERATION SMILE CANADA FOUNDATION

Statement of Cash Flows

Year ended June 30, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenditures	\$ 3,569,904	\$ (36,796)
Change in non-cash operating items:		
Accounts receivable	(25,936)	(33,355)
Due from Operation Smile, Inc.	900,000	(256,802)
Prepaid expenses	16,823	(20,791)
Accounts payable and accrued liabilities	534,503	318,757
Due to Operation Smile, Inc.	(1,501,639)	347,829
Increase in cash	3,493,655	318,842
Cash, beginning of year	759,449	440,607
Cash, end of year	\$ 4,253,104	\$ 759,449

See accompanying notes to financial statements.

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements

Year ended June 30, 2017

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, 2017

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.

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2017

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 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 (deficiency). 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.

(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 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. Those estimates are reviewed periodically and, as adjustments become necessary, they are reported in the statement of operations and changes in net assets (deficiency) in the year in which they become known.

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:

During the year, the Organization was in the process of formalizing an agreement to facilitate programs with OSI. In the absence of a formal project agreement, the Organization funded fewer OSI programs. An internally restricted program reserve has been established that will be used to fund OSI programs in future years (note 6).

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2017

3. Related party transactions and balances (continued):

(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, no (2016 - \$4,946,518) funding was provided to the Organization.

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

4. Commitments:

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

2018	\$	88,117
2019		98,185
2020		98,934
2021		98,934
2022		102,682
Thereafter		768,238
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	\$	1,255,090

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2017

5. Supporting services expenditures:

Details of supporting services expenditures are as follows:

	2017		2016	
	Fundraising	Administrative	Fundraising	Administrative
Acquisition of donor list	\$ 19,765	\$ —	\$ 255,831	\$ —
Bank charges	119,984	6,833	100,484	15,418
Computer software expense	—	5,252	—	333
Direct mail	1,437,752	18,620	2,231,148	1,424
Donor relations/processing	—	314,320	—	318,689
Insurance	—	6,443	—	6,040
Media	2,356,519	—	2,770,809	54,354
Occupancy	—	83,501	—	47,452
Office equipment	2,172	22,346	—	5,297
Office supplies and expenses	417	16,952	—	7,162
Printing and promotions	39,816	4,422	18,440	22,061
Professional services	177,124	168,482	168,839	116,156
Salaries and benefits	234,525	289,162	155,396	104,401
Travel and conferences	2,709	13,450	—	21,190
Website	481,609	37,818	419,162	15,267
Other	2,359	1,414	—	14,021
	\$ 4,874,751	\$ 989,015	\$ 6,120,109	\$ 749,265

6. Internally restricted net assets:

During the year, the Organization was in the process of formalizing an agreement to facilitate programs with OSI. In the absence of a formal project agreement, the Organization funded fewer OSI programs, resulting in a surplus in the unrestricted fund. Accordingly, the Board of Directors approved the establishment of the following internally restricted funds, which are not available for other purposes without the approval of the Board of Directors.

	2017	2016
Stabilization (a)	\$ 500,000	\$ —
Program (b)	2,850,000	—
	\$ 3,350,000	\$ —

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

(b) To fund OSI programs.