

Financial Statements of

**OPERATION SMILE CANADA
FOUNDATION**

And Independent Auditors' Report thereon

Year ended June 30, 2019



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Operation Smile Canada Foundation

Qualified 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, 2019
- the statement of operations for the year then ended
- the statement of changes in 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, except for the possible effects of the matter described in the "***Basis for Qualified Opinion***" section of our auditors' report, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at June 30, 2019 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 Qualified Opinion

In common with many charitable organizations, the Entity derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of this revenue was limited to the amounts recorded in the records of the Entity. Therefore, we were not able to determine whether any adjustments might be necessary to:

- the current assets reported in the statements of financial position as at June 30, 2019 and June 30, 2018
- the revenue from donations and deficiency of revenue over expenditures reported in the statements of operations for the years ended June 30, 2019 and June 30, 2018



Page 2

- the unrestricted balances, at the beginning and end of the year, reported in the statements of changes in net assets for the years ended June 30, 2019 and June 30, 2018
- the deficiency of revenue over expenditures reported in the statements of cash flows the years ended June 30, 2019 and June 30, 2018.

Our opinion on the financial statements for the year ended June 30, 2018 was qualified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' 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 qualified opinion.

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.

Auditors' 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 auditors' 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.



Page 3

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.

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 auditors' 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 auditors' 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.



Page 4

- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

October 22, 2019

OPERATION SMILE CANADA FOUNDATION

Statement of Financial Position

June 30, 2019, with comparative information for 2018

	2019	2018
Assets		
Cash	\$ 2,524,932	\$ 2,085,747
Accounts receivable	548,155	432,776
Due from Operation Smile, Inc. (note 3(b))	82,015	900,000
Prepaid expenses	80,669	75,915
	<u>\$ 3,235,771</u>	<u>\$ 3,494,438</u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued liabilities	\$ 384,394	\$ 121,724
Due to Operation Smile, Inc. (note 3(a))	470,095	77,928
Deferred revenue	—	212,973
	<u>854,489</u>	<u>412,625</u>

Net assets:


Internally restricted funds (note 7)	2,567,844	3,325,000
Unrestricted	<u>(186,562)</u>	<u>(243,187)</u>
	2,381,282	3,081,813

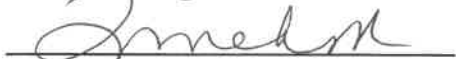
Commitments (note 5)

	<u>\$ 3,235,771</u>	<u>\$ 3,494,438</u>
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See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

OPERATION SMILE CANADA FOUNDATION

Statement of Operations

Year ended June 30, 2019, with comparative information for 2018

	2019	2018
Revenue:		
Donations	\$ 12,124,482	\$ 10,279,830
Operating grant (note 3(b))	499,983	900,000
Other	17,039	19,983
	<u>12,641,504</u>	<u>11,199,813</u>
Expenditures:		
Program services (note 4)	7,560,328	6,371,139
Supporting services (note 6):		
Fundraising	4,430,704	4,142,467
Administrative	1,351,881	1,118,181
Contribution to external endowment fund	—	25,000
Loss (gain) on foreign exchange	(878)	6,721
	<u>13,342,035</u>	<u>11,663,508</u>
Deficiency of revenue over expenditures	\$ (700,531)	\$ (463,695)

See accompanying notes to financial statements.

OPERATION SMILE CANADA FOUNDATION

Statement of Changes in Net Assets

Year ended June 30, 2019, with comparative information for 2018

			2019	2018
	Internally restricted (note 7)	Unrestricted	Total	Total
Balance, beginning of year	\$ 3,325,000	\$ (243,187)	\$ 3,081,813	\$ 3,545,508
Deficiency of revenue over expenditures	–	(700,531)	(700,531)	(463,695)
Interfund transfer (note 7)	(757,156)	757,156	–	–
Balance, end of year	\$ 2,567,844	\$ (186,562)	\$ 2,381,282	\$ 3,081,813

See accompanying notes to financial statements.

OPERATION SMILE CANADA FOUNDATION

Statement of Cash Flows

Year ended June 30, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenditures	\$ (700,531)	\$ (463,695)
Change in non-cash operating items:		
Accounts receivable	(115,379)	(136,953)
Due from Operation Smile, Inc.	817,985	(900,000)
Prepaid expenses	(4,754)	(69,602)
Accounts payable and accrued liabilities	262,670	(814,450)
Due to Operation Smile, Inc.	392,167	4,370
Deferred revenue	(212,973)	212,973
Increase (decrease) in cash	439,185	(2,167,357)
Cash, beginning of year	2,085,747	4,253,104
Cash, end of year	\$ 2,524,932	\$ 2,085,747

See accompanying notes to financial statements.

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements

Year ended June 30, 2019

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, 2019

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 grants. 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. 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, 2019

2. Significant accounting policies (continued):

(d) Allocation 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 \$6,968,621 (2018 - \$6,092,859) 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, \$499,983 (2018 - \$900,000) 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, 2019

4. Program services:

Details of the program services expenditures are as follows:

	2019	2018
Funded to OSI (note 3(a))	\$ 6,968,621	\$ 6,092,859
Other program expenses	591,707	278,280
	<u>\$ 7,560,328</u>	<u>\$ 6,371,139</u>

5. Commitments:

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

2020	\$ 181,109
2021	181,859
2022	181,859
2023	185,606
2024	186,356
	<u>\$ 916,789</u>

6. Supporting services expenditures:

Details of supporting services expenditures are as follows:

	2019		2018	
	Fundraising	Administrative	Fundraising	Administrative
Bank charges	\$ 1,272	\$ 163,589	\$ 136	\$ 137,076
Donor relations/processing	350,722	—	273,919	11,166
Media	1,809,077	—	2,324,209	—
Occupancy	—	187,351	—	90,763
Office expenses	8,755	141,111	245	99,117
Postage	669,382	4,348	438,240	5,443
Printing and promotions	974,312	11,546	566,032	13,442
Professional services	181,474	104,585	108,211	123,180
Salaries and benefits	258,458	708,910	210,071	589,054
Staff training	2,911	9,276	363	17,834
Travel	17,534	20,573	5,093	14,381
Web expense	156,807	592	215,948	16,725
	<u>\$ 4,430,704</u>	<u>\$ 1,351,881</u>	<u>\$ 4,142,467</u>	<u>\$ 1,118,181</u>

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2019

7. Internally restricted net assets:

Effective June 30, 2019, the Board of Directors approved the transfer of \$757,156 from the program fund to the unrestricted fund.

	2019	2018
Stabilization (a)	\$ 475,000	\$ 475,000
Program (b)	2,092,844	2,850,000
	<u>\$ 2,567,844</u>	<u>\$ 3,325,000</u>

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

(b) To fund OSI programs.