

Financial Statements of

**OPERATION SMILE CANADA
FOUNDATION**

And Independent Auditors' Report thereon

Year ended June 30, 2020



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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, 2020
- 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, 2020 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, 2020 and June 30, 2019
- the revenue from donations and excess (deficiency) of revenue over expenditures reported in the statements of operations for the years ended June 30, 2020 and June 30, 2019



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- 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, 2020 and June 30, 2019
- the excess (deficiency) of revenue over expenditures reported in the statements of cash flows the years ended June 30, 2020 and June 30, 2019.

Our opinion on the financial statements for the year ended June 30, 2019 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.

Other Information

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

- the information, other than the financial statements and the auditors' 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 auditors' report thereon, included in the impact report as at the date of this auditors' 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 auditors' 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.

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.

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.



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- 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.
- 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'. The signature is written in a cursive, stylized font. Below the signature is a single horizontal line.

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

October 20, 2020

OPERATION SMILE CANADA FOUNDATION

Statement of Financial Position

June 30, 2020, with comparative information for 2019

	2020	2019
Assets		
Cash	\$ 3,486,700	\$ 2,524,932
Accounts receivable	224,111	548,155
Due from Operation Smile, Inc. (note 3(a))	42,897	82,015
Prepaid expenses	193,937	80,669
	<u>\$ 3,947,645</u>	<u>\$ 3,235,771</u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued liabilities	\$ 128,694	\$ 384,394
Due to Operation Smile, Inc. (note 3(a))	—	470,095
	<u>128,694</u>	<u>854,489</u>

Net assets:

Internally restricted funds (note 7)	2,892,844	2,567,844
Unrestricted	926,107	(186,562)
	<u>3,818,951</u>	<u>2,381,282</u>

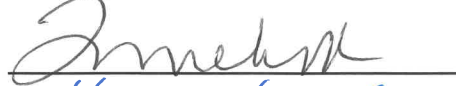

Commitments (note 5)

Subsequent event (note 8)

	<u>\$ 3,947,645</u>	<u>\$ 3,235,771</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, 2020, with comparative information for 2019

	2020	2019
Revenue:		
Donations	\$ 14,370,618	\$ 12,124,482
Operating grant (note 3(b))	499,983	499,983
Other	41,792	17,039
	<u>14,912,393</u>	<u>12,641,504</u>
Expenditures:		
Program services (note 4)	7,982,293	7,560,328
Supporting services (note 6):		
Fundraising	3,985,023	4,430,704
Administrative	1,507,408	1,351,003
	<u>13,474,724</u>	<u>13,342,035</u>
Excess (deficiency) of revenue over expenditures	\$ 1,437,669	\$ (700,531)

See accompanying notes to financial statements.

OPERATION SMILE CANADA FOUNDATION

Statement of Changes in Net Assets

Year ended June 30, 2020, with comparative information for 2019

			2020	2019
	Internally restricted (note 7)	Unrestricted	Total	Total
Balance, beginning of year	\$ 2,567,844	\$ (186,562)	\$ 2,381,282	\$ 3,081,813
Excess (deficiency) of revenue over expenditures	—	1,437,669	1,437,669	(700,531)
Interfund transfer (note 7)	325,000	(325,000)	—	—
Balance, end of year	\$ 2,892,844	\$ 926,107	\$ 3,818,951	\$ 2,381,282

See accompanying notes to financial statements.

OPERATION SMILE CANADA FOUNDATION

Statement of Cash Flows

Year ended June 30, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenditures	\$ 1,437,669	\$ (700,531)
Change in non-cash operating items:		
Accounts receivable	324,044	(115,379)
Due from Operation Smile, Inc.	39,118	817,985
Prepaid expenses	(113,268)	(4,754)
Accounts payable and accrued liabilities	(255,700)	262,670
Due to Operation Smile, Inc.	(470,095)	392,167
Deferred revenue	—	(212,973)
Increase in cash	961,768	439,185
Cash, beginning of year	2,524,932	2,085,747
Cash, end of year	\$ 3,486,700	\$ 2,524,932

See accompanying notes to financial statements.

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements

Year ended June 30, 2020

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, 2020

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, 2020

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 \$7,379,390 (2019 - \$6,968,621) to OSI.

As of year-end, \$42,897 (2019 - \$82,015) was receivable from OSI for reimbursement of travel expense prepaid by the Organization.

As of June 30, 2019, the due to OSI reflected the remaining program funds owing to OSI. There were no funds owing at June 30, 2020 (2019 - \$470,095).

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2020

3. Related party transactions and balances (continued):

(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, \$499,983 (2019 - \$499,983) funding was provided to the Organization.

4. Program services:

Details of the program services expenditures are as follows:

	2020	2019
Funded to OSI (note 3(a))	\$ 7,379,390	\$ 6,968,621
Other program expenses	602,903	591,707
	<u>\$ 7,982,293</u>	<u>\$ 7,560,328</u>

5. Commitments:

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

2021	\$ 181,859
2022	181,859
2023	185,606
2024	185,356
2025	185,356
Thereafter	803,464
	<u>\$ 1,723,500</u>

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2020

6. Supporting services expenditures:

Details of supporting services expenditures are as follows:

	2020		2019	
	Fundraising	Administrative	Fundraising	Administrative
Bank charges	\$ 1,200	\$ 172,235	\$ 1,272	\$ 163,589
Donor relations/processing	234,872	—	350,722	—
Media	1,604,663	—	1,809,077	—
Occupancy	—	191,115	—	187,351
Office expenses	11,806	142,771	8,755	141,111
Postage	680,817	13,626	669,382	4,348
Printing and promotions	821,034	3,645	974,312	11,546
Professional services	20,427	103,416	181,474	104,585
Salaries and benefits	432,281	839,962	258,458	708,910
Staff training	10,338	5,779	2,911	9,276
Travel	26,097	34,601	17,534	20,573
Web expense	141,488	—	156,807	592
Loss (gain) on foreign exchange	—	258	—	(878)
	\$ 3,985,023	\$ 1,507,408	\$ 4,430,704	\$ 1,351,003

7. Internally restricted net assets:

The Board of Directors has approved the transfer of \$325,000 from the unrestricted fund to the stabilization fund.

	2020	2019
Stabilization (a)	\$ 800,000	\$ 475,000
Program (b)	2,092,844	2,092,844
	\$ 2,892,844	\$ 2,567,844

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

(b) To fund OSI programs.

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2020

8. Subsequent event:

In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus ("COVID-19"). The situation is constantly evolving, and the measures put in place are having a significant impact on economic and social matters. The Organization continues to operate in line with recommendations of public health authorities.

As at June 30, 2020, the Organization did not have significant adjustments to reflect the possible future impact of COVID-19. Management is closely monitoring the situation and evaluating the impact of guidance and regulations implemented by medical and government bodies across the country. As this new information became available, management continued to evaluate the impact on the June 30, 2020 financial statements. As of the date these financial statements were approved, management has not identified any events which will have a negative financial impact on the Organization.