

Financial Statements of

**OPERATION SMILE CANADA
FOUNDATION**

Year ended June 30, 2016



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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, 2016, the statements of operations and 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. Accordingly, verification of this revenue for the year ended June 30, 2015 by the predecessor auditors was limited to the amounts recorded in the records of Operation Smile Canada Foundation. Therefore, we, and the predecessor auditors, were not able to determine, respectively, whether, as at and for the years ended June 30, 2016 and June 30, 2015, 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 the predecessor auditor to qualify their audit opinion on the financial statements as at and for the year ended June 30, 2015.

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, 2016 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.

Other Matter

The financial statements of Operation Smile Canada Foundation as at and for the year ended June 30, 2015, were audited by another auditor who expressed a qualified opinion on those financial statements on October 7, 2015 due to the matter described in the Basis for Qualified Opinion paragraph.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

November 22, 2016
Vaughan, Canada

OPERATION SMILE CANADA FOUNDATION

Statement of Financial Position

June 30, 2016, with comparative information for 2015



	2016	2015
Assets		
Cash	\$ 759,449	\$ 440,607
Accounts receivable	269,887	236,532
Due from Operation Smile, Inc. (note 3(b))	900,000	643,198
Prepaid expenses	23,136	2,345
	<u>\$ 1,952,472</u>	<u>\$ 1,322,682</u>

Liabilities and Net Assets (Deficiency)

Liabilities:		
Accounts payable and accrued liabilities	\$ 401,671	\$ 82,914
Due to Operation Smile, Inc. (note 3(a))	1,575,197	1,227,368
	<u>1,976,868</u>	<u>1,310,282</u>
Net assets (deficiency)	(24,396)	12,400
Commitments (note 4)		
	<u>\$ 1,952,472</u>	<u>\$ 1,322,682</u>

See accompanying notes to financial statements.

On behalf of the Board:

 Director
 Director

OPERATION SMILE CANADA FOUNDATION

Statement of Operations and Changes in Net Assets (Deficiency)

Year ended June 30, 2016, with comparative information for 2015

	2016	2015
Revenue:		
Donations	\$ 9,202,284	\$ 7,638,290
Operating grant (note 3(b))	4,946,518	4,490,920
	14,148,802	12,129,210
Expenditures:		
Program services (note 3(a))	7,189,916	6,164,752
Supporting services (note 5):		
Fundraising	6,120,109	5,231,211
Administrative	749,265	510,282
Loss on exchange	126,308	159,861
	14,185,598	12,066,106
Excess (deficiency) of revenue over expenditures	(36,796)	63,104
Net assets (deficiency), beginning of year	12,400	(50,704)
Net assets (deficiency), end of year	\$ (24,396)	\$ 12,400

See accompanying notes to financial statements.

OPERATION SMILE CANADA FOUNDATION

Statement of Cash Flows

Year ended June 30, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenditures	\$ (36,796)	\$ 63,104
Change in non-cash operating items:		
Accounts receivable	(33,355)	(85,632)
Due from Operation Smile, Inc.	(256,802)	(128,743)
Prepaid expenses	(20,791)	(261)
Accounts payable and accrued liabilities	318,757	(143,630)
Due to Operation Smile, Inc.	347,829	(86,576)
Increase (decrease) in cash	318,842	(381,738)
Cash, beginning of year	440,607	822,345
Cash, end of year	\$ 759,449	\$ 440,607

See accompanying notes to financial statements.

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements

Year ended June 30, 2016

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 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., a related party, headquartered in Virginia Beach, Virginia, USA.

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2016

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. Previously, the Organization followed the restricted fund method of accounting for contributions, however there were no restricted funds. Accordingly, this change in accounting policy has no impact on the financial statements.

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, 2016

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 Operation Smile, Inc., 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 Operation Smile, Inc., 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 Operation Smile, Inc. based on the revenue generated by the Direct Response and Major and Planned Gifts fundraising programs.

As of year end, the due to Operation Smile, Inc. reflects the remaining program funds owing to Operation Smile, Inc.

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2016

3. Related party transactions and balances (continued):

(b) Operating grant:

Operation Smile, Inc. 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.

As of year end, the due from Operation Smile, Inc. reflects the remaining committed operating grants owing from Operation Smile, Inc.

4. Commitments:

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

2017	\$ 214,000
2018	27,000
2019	29,000
2020	5,000
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	\$ 275,000

OPERATION SMILE CANADA FOUNDATION

Notes to Financial Statements (continued)

Year ended June 30, 2016

5. Supporting services expenditures:

Details of supporting services expenditures are as follows:

	2016		2015	
	Fundraising	Administrative	Fundraising	Administrative
Acquisition of donor list	\$ 255,831	\$ —	\$ 148,382	\$ —
Bank charges	100,484	15,418	97,913	9,405
Computer software expense	—	333	—	—
Direct mail	2,231,148	1,424	2,395,168	541
Donor relations/processing	—	318,689	—	254,085
Insurance	—	6,040	—	6,013
Media	2,770,809	54,354	1,969,900	3,247
Occupancy	—	47,452	—	40,312
Office equipment	—	5,297	—	—
Office supplies and expenses	—	7,162	—	5,111
Printing and promotions	18,440	22,061	4,920	15,176
Professional services	168,839	116,156	147,271	54,493
Salaries and benefits	155,396	104,401	160,730	69,213
Travel and conferences	—	21,190	—	17,439
Website	419,162	15,267	306,927	30,847
Other	—	14,021	—	4,400
	\$ 6,120,109	\$ 749,265	\$ 5,231,211	\$ 510,282

6. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.