



OPERATION SMILE, INC.

Consolidated Financial Statements

June 30, 2021

(With Independent Auditors' Report Thereon)

OPERATION SMILE, INC.

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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Board of Directors
Operation Smile, Inc.:

We have audited the accompanying consolidated financial statements of Operation Smile, Inc. (OSI), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Operation Smile, Inc. as of June 30, 2021, and the changes in their net assets and their cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Norfolk, Virginia
December 23, 2021

OPERATION SMILE, INC.

Consolidated Statement of Financial Position

June 30, 2021

Assets

Cash	\$	48,344,537
Investments		10,858,481
Prepaid expenses and other assets		2,046,821
Mission advances and other receivables		1,297,792
Inventories		1,977,809
Contributions receivable, net (note 2)		10,926,115
Property and equipment, net (notes 3 and 5)		<u>19,472,985</u>
Total assets	\$	<u><u>94,924,540</u></u>

Liabilities and Net Assets

Liabilities:		
Accounts payable and accrued expenses	\$	5,736,569
Refundable advances		1,077,601
Deferred revenue		27,264
Capital lease obligations (note 5)		<u>66,635</u>
Total liabilities		<u>6,908,069</u>
Net assets:		
Without donor restrictions		70,818,361
With donor restrictions (note 6)		<u>17,198,110</u>
Total net assets		88,016,471
Commitments and contingencies (notes 5 and 9)		
Total liabilities and net assets	\$	<u><u>94,924,540</u></u>

See accompanying notes to consolidated financial statements.

OPERATION SMILE, INC.

Consolidated Statement of Activities

Year ended June 30, 2021

	Without donor restrictions	With donor restrictions	Total
Revenues:			
Contributions (note 8)	\$ 60,042,930	24,196,308	84,239,238
Gifts-in-kind (note 4)	700,833	—	700,833
Contributed services (note 4)	6,079,118	—	6,079,118
Program service revenue	73,469	—	73,469
Foreign currency transaction losses, net	3,765	—	3,765
Other income, net	276,533	—	276,533
Net assets released from restrictions	20,898,463	(20,898,463)	—
Total revenues	88,075,111	3,297,845	91,372,956
Expenses and loss:			
Expenses:			
Program services:			
Medical missions (note 4)	19,612,385	—	19,612,385
Education and sustainability	24,410,205	—	24,410,205
Total program services	44,022,590	—	44,022,590
Supporting services:			
Fundraising	19,850,603	—	19,850,603
Administration	7,345,352	—	7,345,352
Total supporting services	27,195,955	—	27,195,955
Total expenses	71,218,545	—	71,218,545
Loss on contributions receivable	125,000	—	125,000
Total expenses and loss	71,343,545	—	71,343,545
Change in net assets	16,731,566	3,297,845	20,029,411
Net assets at beginning of year	54,086,795	13,900,265	67,987,060
Net assets at end of year	\$ 70,818,361	17,198,110	88,016,471

See accompanying notes to consolidated financial statements.

OPERATION SMILE, INC.

Consolidated Statement of Cash Flows

Year ended June 30, 2021

Cash flows from operating activities:	
Change in net assets	\$ 20,029,411
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization expense	1,204,796
Loss on contributions receivable	125,000
Loss on disposal of asset	17,885
Net realized and unrealized gains on investments	(43,305)
Net-in-kind usage of donated supplies and inventory	850,320
Changes in operating assets and liabilities:	
Prepaid expenses	(1,231,202)
Mission advances and other receivables	(826,676)
Contributions receivable, net	3,608
Inventories	116,311
Accounts payable and accrued expenses	162,005
Deferred revenue	(93,725)
Refundable advances	98,321
Net cash provided by operating activities	<u>20,412,749</u>
Cash flows from investing activities:	
Purchases of property and equipment	(2,159,328)
Purchases of investments	(1,049,854)
Proceeds from sale of investments	927,291
Net cash used in investing activities	<u>(2,281,891)</u>
Cash flows from financing activity:	
Principal payments on capital lease obligations	<u>(33,081)</u>
Net cash used in financing activity	<u>(33,081)</u>
Net increase in cash	18,097,777
Cash at beginning of year	<u>30,246,760</u>
Cash at end of year	\$ <u><u>48,344,537</u></u>
Supplemental cash flow information:	
Cash paid for interest	\$ 14,426
Purchases of property and equipment included in accounts payable at year end	947,000

See disclosure of noncash items in note 4 to the consolidated financial statements.

See accompanying notes to consolidated financial statements.

OPERATION SMILE, INC.

Consolidated Statement of Functional Expenses

Year ended June 30, 2021

	Program services			Supporting services			Total expenses
	Medical missions	Education and sustainability	Total	Fundraising	Administration	Total	
Grants	\$ 4,406,783	5,704,969	10,111,752	—	—	—	10,111,752
Salaries and benefits	3,980,149	5,213,207	9,193,356	3,704,750	3,553,111	7,257,861	16,451,217
Professional services	816,455	3,278,297	4,094,752	903,755	1,039,799	1,943,554	6,038,306
Advertising and promotion	106,696	567,601	674,297	14,612,640	520,798	15,133,438	15,807,735
Supplies and equipment	866,698	372,337	1,239,035	347,285	1,636,379	1,983,664	3,222,699
Mission supplies	1,121,371	533,840	1,655,211	17,766	8,098	25,864	1,681,075
Mission supplies gift-in-kind	893,798	132,816	1,026,614	392	775	1,167	1,027,781
Occupancy	217,926	206,168	424,094	72,490	81,074	153,564	577,658
Travel and conferences	364,395	329,784	694,179	53,061	18,431	71,492	765,671
Interest	3,102	4,313	7,415	3,363	3,648	7,011	14,426
Depreciation and amortization	494,994	200,813	695,807	81,767	427,222	508,989	1,204,796
Insurance	196,268	18,532	214,800	13,773	15,470	29,243	244,043
Public education and awareness	—	7,820,339	7,820,339	—	—	—	7,820,339
Contributed services	6,079,118	—	6,079,118	—	—	—	6,079,118
Other	64,632	27,189	91,821	39,561	40,547	80,108	171,929
Total expenses	<u>\$ 19,612,385</u>	<u>24,410,205</u>	<u>44,022,590</u>	<u>19,850,603</u>	<u>7,345,352</u>	<u>27,195,955</u>	<u>71,218,545</u>

See accompanying notes to consolidated financial statements.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2021

(1) Nature of Organization and Summary of Significant Accounting Policies

(a) Nature of Organization

Operation Smile, Inc. (Operation Smile or OSI) is a 501c(3) not-for-profit voluntary health and welfare organization whose principal purpose is to perform life-changing reconstructive surgery on people born with cleft lip and cleft palate in low- and middle-income countries. As one of the largest medical volunteer-based nonprofits, Operation Smile has mobilized thousands of medical volunteers from a wide range of medical specialties from more than 80 countries. Operation Smile engages public-private partnerships to advance healthcare delivery, train local medical professionals to provide surgical care for patients in their communities, donate crucial medical equipment and supplies, and increase access to surgical care so that everyone living with cleft is treated.

In May 2010, OS HQ, LLC, a wholly owned subsidiary of Operation Smile, was formed to hold the assets and liabilities for the global center located in Virginia Beach, Virginia.

OSI has six representative offices in international countries, and their activities have been included in the accompanying consolidated financial statements. OSI has international foundations (OSI affiliates) that host mission teams, which are responsible for all in-country mission logistics. International foundations may also raise funds and awareness to support programs in international countries. The accompanying consolidated financial statements do not include the accounts of OSI affiliates in international countries.

(b) Basis of Presentation

The accompanying consolidated financial statements include the accounts of Operation Smile, including its wholly owned subsidiary, OS HQ, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Contributions

Contributions of cash and other assets, including unconditional promises to give, are recognized as revenue when the gifts are received by OSI. Contributions of other assets are recorded at their fair value as of the gift date and classified in the statement of activities based on the existence of donor-imposed restrictions on the contributions. Unconditional promises to give that are expected to be collected within one year are recorded on the date of gift at net realizable value, which approximates fair value. Unconditional promises to give that are expected to be collected in future years are recorded using present value techniques, which measure the fair value on the date of gift. The discount rates used to compute the present value are determined at the time the unconditional promises to give are initially recognized as revenue and are not revised subsequently. Amortization of the discount is recorded as additional contribution revenue in accordance with any donor-imposed restriction on the contribution.

Contributions with restrictions, which are met in the same fiscal year as their receipt, are reported as contributions without donor restrictions. Conditional promises to give are not recognized as revenues until such time as the conditions are substantially met.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2021

(d) Cash

Cash consists primarily of cash in banks. Cash in banks exceeded federally insured limits at June 30, 2021. Cash with donor restrictions was \$8,876,533, including a \$935,000 perpetual endowment, for the year ended June 30, 2021, with \$4,303,737 being held in a separate bank account in accordance with donor-imposed restrictions.

(e) Investments

Investment securities consist of mutual funds held in investment broker accounts. The net realized and unrealized gains and losses on investments are reflected in "other income, net," in the accompanying consolidated statement of activities. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

(f) Prepaid Expenses and Other Assets

Prepaid expenses are stated at cost less applicable amortization and include expenses prepaid for events that will occur in the next fiscal year, deferred direct response advertising costs which are expensed over their estimated useful lives using the straight-line method. Total amortization expense for the year ended June 30, 2021 was \$79,885.

(g) Inventories

Inventories consist primarily of supplies to be used for medical missions. Purchased inventory is valued at cost on the date of purchase. Donated inventory is valued at fair value on the date of receipt. Both are accounted for on the first-in, first-out basis.

(h) Property and Equipment

Property and equipment are stated at cost except for donated equipment, artwork, and land, which are stated at fair value at the date of receipt. Medical equipment and furniture, fixtures, and office equipment are depreciated using the straight-line method over estimated useful lives ranging from 3 to 10 years. No provision for depreciation is made on land or artwork. Additionally, no provision for depreciation is made on work in process until such time as the relevant assets are completed and placed into service. Buildings and building improvements are depreciated using the straight-line method over their estimated useful lives of 40 years. Property and equipment held under capital leases are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset. Total depreciation expense and lease amortization for the year ended June 30, 2021 was \$1,124,911.

(i) Deferred Revenue

Deferred revenue consists of cash collected for program events that will occur and be recognized as revenue in future periods.

(j) Refundable Advances

Refundable advances consist of cash collected that OSI is entitled to only if conditions are met.

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Notes to Consolidated Financial Statements

June 30, 2021

(k) Classification of Net Assets

Net Assets Without Donor Restrictions – Net assets available for use and not subject to donor-imposed restrictions of time or purpose.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

OSI reports contributions with donor restrictions as increases in net assets without donor restrictions if the stipulated time restriction ends or the purpose restriction is accomplished in the reporting period in which the revenue is recognized. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. All other donor-restricted contributions are reported as increases in net assets with donor restrictions.

(l) Functional Expenses

OSI allocates its expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly.

Other expenses that are common to several functions are allocated based on various statistical bases, such as content, time, and purpose.

(m) Joint Cost Allocation

OSI incurred expenses that were identifiable with a particular function but served joint purposes. Expenses related to certain events, donor communication, and program materials jointly support medical missions, education and sustainability, fundraising, and administration and were allocated by their function classification as follows for the year ended June 30, 2021:

Medical missions	\$	389,474
Education and sustainability		8,986,362
Fundraising		15,270,253
Administration		<u>1,264,435</u>
Total joint costs	\$	<u><u>25,910,524</u></u>

(n) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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June 30, 2021

(o) Fair Value Measurements

OSI utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to OSI at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

OSI's investments represent the financial assets that are accounted for at fair value on a recurring basis. At June 30, 2021, the carrying value of all the investments was considered to be the fair value determined using Level 1 inputs in the fair value hierarchy. There were no transfers in and out of Levels 1, 2, or 3 for the year ended June 30, 2021.

(p) Endowment

OSI established its first donor restricted endowment fund on June 30th, 2020. OSI has interpreted the Virginia Prudent Management of Institutional Funds Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, OSI classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted restricted net assets until those amounts are appropriated for expenditure by OSI in a manner consistent with the standard of prudence prescribed by Virginia Prudent Management of Institutional Funds Act.

In accordance with Uniform Prudent Management of Institutional Funds Act (UPMIFA), OSI considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of OSI and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2021

- Other resources of OSI
- The investment policies of OSI

For the year ended June 30, 2021, OSI had \$935,000 in endowments held into perpetuity. The change in the endowment assets for the year ended June 30, 2021 were as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>
Beginning endowment net assets	\$ —	935,000
Interest income	<u>1,995</u>	<u>—</u>
End of year	<u>\$ 1,995</u>	<u>935,000</u>

(q) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. As of June 30, 2021, there was no indication of impairment. Any assets to be disposed of within the next fiscal year would be separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the consolidated statement of financial position.

(r) Charitable Remainder Trusts

During the year ended June 30, 2020, OSI became a beneficiary of two irrevocable trust agreements administered by a trustee. Contributions totaling \$5,313,940 were recorded to recognize OSI's beneficial interest in the trusts. The assets in both trust portfolios consist of equity, fixed income

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2021

securities and cash and are recorded as a component of contributions receivable on the accompanying consolidated statement of financial position.

	<u>Trust agreement 1</u>	<u>Trust agreement 2</u>
Type of trust agreement	Split interest charitable remainder trust	Charitable remainder trust
Is OSI an income beneficiary?	No	Yes
Is OSI a remainder beneficiary?	Yes	Yes
Termination of trust	Death of other designated beneficiary	40 years
Contribution recognized by OSI	\$ 1,396,554	3,917,386
Discount amount	329,569	—
Discount rate	5.1 %	5.285 %
Term (based on the life expectancy of the other designated beneficiary)	40 years	40 years

The discount rate for the first trust agreement is arrived at by blending rates to the asset allocation at inception, using an equity rate of 7% on sixty percent of the assets, a fixed income yield of 3.5% on twenty-six percent of assets, and a cash rate of 0% of fourteen percent of assets. The discount rate for the second trust agreement is arrived at by blending rates to the asset allocation at inception, using an equity rate of 7% on sixty percent of the assets, a fixed income yield of 3.5% on thirty-one percent of assets, and a cash rate of 0% percent of nine percent of assets. Valuations are reviewed by management for any updates needed to the discount rates and the fair value of the underlying investments. The carrying value of all beneficial interests as of June 30, 2021 was \$4,883,353.

(2) Contributions Receivable

Contributions receivable as of June 30, 2021 are expected to be received as follows:

Within one year	\$ 5,875,060
From one to five years	<u>5,382,923</u>
	11,257,983
Less discount to present value at rates, which range from 0.41% to 2.71%	<u>331,868</u>
	<u><u>\$ 10,926,115</u></u>

Conditional promises as of June 30, 2021 consisted of the following initiatives:

The Global Essential Surgery: Building Surgical Ecosystems that Operate Cleft Free Malawi	\$ 2,779,872
	<u>3,594,746</u>
	<u><u>\$ 6,374,618</u></u>

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2021

In 2019, OSI entered into an agreement with Global Essential Surgery: Building Surgical Ecosystems that Operate Initiative. The initiative seeks to develop sustainable, local capacity for essential surgery in the countries of Nicaragua, Madagascar, and Vietnam. In 2019, OSI entered into an agreement for the Cleft Free Malawi Initiative. The initiative seeks to eradicate the backlog of patients living in Malawi with an unrepaired cleft condition and upskill the healthcare system in country.

(3) Property and Equipment

Property and equipment consist of the following at June 30, 2021:

Work in process	\$	1,287,842
Medical equipment		3,130,654
Furniture, fixtures, and office equipment		3,423,560
Buildings		14,952,301
Building improvements		961,547
Land		3,094,293
Artwork		<u>221,697</u>
		27,071,894
Less accumulated depreciation		<u>7,598,909</u>
Property and equipment, net	\$	<u><u>19,472,985</u></u>

As of June 30, 2021, furniture, fixtures, and office equipment recorded under capital leases have a cost basis of \$152,843 and related accumulated amortization of \$74,371 for a net book value of \$78,472.

(4) Contributed Services and Gifts-in-Kind

OSI's medical missions are staffed by volunteer surgical teams. In addition, when patients require treatment in the United States under the World Care Program, the hospital stay and related services are fully or partially donated by the hospitals and physicians. The donated medical services are recorded at their estimated fair values and are classified as contributed services revenue and medical missions expense in the accompanying consolidated statement of activities. Such services amounted to \$6,079,118 in 2021. OSI's medical missions are staffed by volunteer administrative support staff. These administrative personnel services are not recorded in the accompanying consolidated financial statements.

Donated supplies and equipment that are received throughout the year for use in the overall Operation Smile mission, are recorded at their estimated fair values, and are classified as gifts-in-kind revenues in the accompanying consolidated statement of activities. These supplies are expensed as they are used and are classified as mission supplies in the accompanying consolidated statement of activities. Donated

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Notes to Consolidated Financial Statements

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equipment is depreciated using an estimated useful life and is included in property and equipment. Such donations and uses amounted to:

Donated:	
Medical supplies	\$ 692,309
Nonmedical supplies	<u>8,524</u>
Total gifts-in-kind received	<u>\$ 700,833</u>
Usage:	
Medical supplies	\$ 1,027,781
Equipment donated out, net	<u>523,372</u>
Total gifts-in-kind expensed, net	<u>\$ 1,551,153</u>

(5) Leases

OSI is obligated under capital and operating leases for certain equipment.

Future minimum lease payments under the operating leases and the present value of future minimum capital lease payments as of June 30, 2021 are as follows:

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending June 30:		
2022	\$ 38,398	19,989
2023	24,960	20,462
2024	17,028	11,466
2025	9,096	10,164
2026	<u>6,822</u>	<u>—</u>
Total minimum lease payments	96,304	<u>\$ 62,081</u>
Less amount representing interest	<u>29,669</u>	
Present value of net minimum lease payments	66,635	
Less current maturities of capital lease obligations	<u>27,709</u>	
Capital lease obligations, excluding current maturities	<u>\$ 38,926</u>	

Total rent expense was \$81,710 in 2021.

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Notes to Consolidated Financial Statements

June 30, 2021

(6) Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at June 30, 2021:

International programs	\$ 8,785,443
Global education and sustainability	945,445
Other programs	612,611
Global student programs	506,035
Research	287,180
Domestic programs	<u>55,036</u>
Total purpose restricted	11,191,750
Total time restricted	5,071,360
Perpetual endowment	<u>935,000</u>
Total net assets with donor restrictions	<u>\$ 17,198,110</u>

(7) Retirement Savings Plan

OSI has a 401(k) retirement savings plan. Employees are eligible to participate beginning as of the first of the quarter following four months of employment. OSI matches a portion of the employee contributions and makes a safe harbor contribution on behalf of each employee. OSI's contributions to the retirement savings plans for the year ended June 30, 2021 were \$903,460.

(8) Related-Party Transactions

OSI recognized contributions from its board of directors, respective committee members, officers, and relatives of those charged with governance of \$350 for the year ended June 30, 2021. Some board members may also contribute directly to independent, affiliated Operation Smile international foundations.

(9) Revolving Line of Credit

In January 2021, OSI renewed a line of credit agreement with a financial institution to provide for borrowings up to \$5,000,000. The line of credit bears interest payable monthly at the rate of LIBOR + 2.5% and expires in January 2022. There was no outstanding balance on the line of credit at June 30, 2021.

(10) Unconsolidated Interests with Foreign Entities (Unaudited)

OSI has entered into an agreement with China Charities Aid Foundation for Children (CCAFC), a nationwide public-raising foundation in mainland China. CCAFC's purpose is to raise funds from the public to provide aid to a variety of children including those who confront special difficulties. The agreement between Operation Smile and CCAFC established the Operation Smile Special Fund of China Charities Aid Foundation for Children (Special Fund).

With the creation of this Special Fund, Operation Smile is able to conduct fundraising and aid activities within China related to the OSI mission including: raising social funds, arranging and merging social voluntary resources, providing free surgery and relevant treatment for children who are suffering from cleft

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2021

lip and palate and other maxillofacial deformities, education, and research while spreading the concept of charity and promoting the development of volunteerism. However, the accompanying consolidated financial statements do not include the activities of the Special Fund.

The Special Fund raised approximately \$517,000 for the year ended June 30, 2021. This amount was contributed by independent donors within China during fiscal year 2021. Approximately \$228,000 was spent within China from the Special Fund during fiscal year 2021, of which \$211,000 represented surgical mission and other programmatic expenses.

(11) Liquidity and Availability

As of June 30, 2021, financial assets and liquidity resources available within one year of the balance sheet date for general expenditure such as operating expenses were as follows:

Cash	\$	48,344,537
Investments		10,858,481
Contributions receivable due within a year		5,875,060
Less:		
Cash with donor restrictions		<u>8,876,533</u>
	\$	<u><u>56,201,545</u></u>

OSI is supported by contributions with and without donor restrictions. OSI must maintain sufficient resources to satisfy the donor's request that the resources be used in a particular manner or in a future period. Financial assets not required in the near term are invested. Investments consist of mutual funds, as disclosed in note 1. Interest income from the investments is reinvested. OSI maintains access to a \$5,000,000 line of credit as disclosed in note 9, which it may draw upon in case of an unanticipated liquidity event. Contributions receivable are subject to an implied time restriction but are expected to be collected within a year.

(12) Coronavirus Disease (COVID-19)

OSI has continued the temporary postponement of missions in countries and regions impacted by the pandemic. In response to this, emphasis has been placed on international capacity building, and solutions to offer nonsurgical interventions in order to continue engaging with and caring for patients amidst halted surgical environments. Nonsurgical cleft services such as nutrition, speech therapy, and dental care have been among those prioritized and offered to patients. Telehealth (virtual care programs) has helped expand access to care at a time when the pandemic has severely restricted patients' ability to visit medical missions and care centers. Virtual care programs have improved patient convenience, access, and continuity of care and continued to improve patient outcomes. These types of virtual consultations will continue to be provided to patients across the globe in future fiscal years.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2021

(13) Subsequent Events

OSI has evaluated subsequent events from the consolidated statement of financial position date through December 23, 2021, the date these consolidated financial statements were available to be issued, and determined there are no other items to disclose.