



OPERATION SMILE, INC.

Consolidated Financial Statements

June 30, 2022

(With Independent Auditors' Report Thereon)

OPERATION SMILE, INC.

Table of Contents

	Page(s)
Independent Auditors' Report	1
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Cash Flows	5
Consolidated Statement of Functional Expenses	6
Notes to Consolidated Financial Statements	7–16



KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Board of Directors
Operation Smile, Inc.:

Opinion

We have audited the consolidated financial statements of Operation Smile, Inc. (the Company), which comprise the consolidated statement of financial position as of June 30, 2022, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2022, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. 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. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Norfolk, Virginia
May 19, 2023

OPERATION SMILE, INC.
Consolidated Statement of Financial Position
June 30, 2022

Assets

Cash	\$ 59,679,274
Investments	10,666,301
Prepaid expenses and other assets	3,113,956
Contributions receivable, net (note 2)	12,166,365
Mission advances and other receivables	1,740,948
Inventories	1,974,118
Property and equipment, net (notes 3 and 5)	<u>18,663,163</u>
Total assets	<u>\$ 108,004,125</u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	\$ 4,828,636
Refundable advances	1,505,754
Deferred revenue	193,644
Capital lease obligations (note 5)	<u>38,926</u>
Total liabilities	<u>6,566,960</u>

Net assets:

Without donor restrictions	84,821,380
With donor restrictions (note 6)	<u>16,615,785</u>
Total net assets	101,437,165

Commitments and contingencies (notes 5 and 9)

Total liabilities and net assets	\$ <u><u>108,004,125</u></u>
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See accompanying notes to consolidated financial statements.

OPERATION SMILE, INC.
Consolidated Statement of Activities
Year ended June 30, 2022

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues:			
Contributions (note 8)	\$ 62,382,115	25,169,258	87,551,373
Gifts-in-kind (note 4)	3,494,714	—	3,494,714
Contributed services (note 4)	20,412,619	—	20,412,619
Program service revenue	152,471	—	152,471
Net assets released from restrictions	<u>25,751,583</u>	<u>(25,751,583)</u>	<u>—</u>
Total revenues	<u>112,193,502</u>	<u>(582,325)</u>	<u>111,611,177</u>
Expenses and loss:			
Expenses:			
Program services:			
Medical Programs (note 4)	41,406,284	—	41,406,284
Education and sustainability	<u>26,043,813</u>	<u>—</u>	<u>26,043,813</u>
Total program services	<u>67,450,097</u>	<u>—</u>	<u>67,450,097</u>
Supporting services:			
Fundraising	25,210,751	—	25,210,751
Administration	<u>5,411,175</u>	<u>—</u>	<u>5,411,175</u>
Total supporting services	<u>30,621,926</u>	<u>—</u>	<u>30,621,926</u>
Total expenses	98,072,023	—	98,072,023
Other losses, net	15,862	—	15,862
Foreign currency transaction losses, net	65,712	—	65,712
Loss on contributions receivable	<u>36,886</u>	<u>—</u>	<u>36,886</u>
Total expenses and loss	<u>98,190,483</u>	<u>—</u>	<u>98,190,483</u>
Change in net assets	14,003,019	(582,325)	13,420,694
Net assets at beginning of year	<u>70,818,361</u>	<u>17,198,110</u>	<u>88,016,471</u>
Net assets at end of year	<u>\$ 84,821,380</u>	<u>16,615,785</u>	<u>101,437,165</u>

See accompanying notes to consolidated financial statements.

OPERATION SMILE, INC.

Consolidated Statement of Cash Flows

Year ended June 30, 2022

Cash flows from operating activities:	
Change in net assets	\$ 13,420,694
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization expense	1,410,698
Loss on contributions receivable	36,886
Loss on disposal of asset	92,161
Net realized and unrealized gains on investments	399,840
Net-in-kind usage of donated supplies and inventory	267,276
Changes in operating assets and liabilities:	
Prepaid expenses	(1,267,426)
Mission advances and other receivables	(443,157)
Contributions receivable, net	(1,277,137)
Inventories	(19,361)
Accounts payable and accrued expenses	(907,932)
Deferred revenue	166,381
Refundable advances	428,153
Net cash provided by operating activities	<u>12,307,076</u>
Cash flows from investing activities:	
Purchases of property and equipment	(736,969)
Purchases of investments	(560,705)
Proceeds from sale of investments	353,045
Net cash used in investing activities	<u>(944,629)</u>
Cash flows from financing activity:	
Principal payments on capital lease obligations	<u>(27,710)</u>
Net cash used in financing activity	<u>(27,710)</u>
Net increase in cash	11,334,737
Cash at beginning of year	<u>48,344,537</u>
Cash at end of year	<u>\$ 59,679,274</u>
Supplemental cash flow information:	
Cash paid for interest	\$ 14,618
Purchases of property and equipment included in accounts payable at year end	9,998
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, 2022

	Program services			Supporting services			Total expenses
	Medical programs	Education and sustainability	Total	Fundraising	Administration	Total	
Grants	\$ 6,536,739	5,184,752	11,721,491	—	—	—	11,721,491
Salaries and benefits	3,982,962	6,708,133	10,691,095	4,007,744	2,151,487	6,159,231	16,850,326
Professional services	1,084,492	4,224,098	5,308,590	1,832,783	615,766	2,448,549	7,757,139
Advertising and promotion	83,570	724,820	808,390	18,409,490	447,427	18,856,917	19,665,307
Supplies and equipment	1,326,878	764,635	2,091,513	475,596	1,481,935	1,957,531	4,049,044
Mission supplies	1,581,640	258,590	1,840,230	22,346	6,586	28,932	1,869,162
Mission supplies gift-in-kind	3,482,956	34,809	3,517,765	—	—	—	3,517,765
Occupancy	158,523	223,091	381,614	90,398	109,360	199,758	581,372
Travel and conferences	1,857,393	1,098,261	2,955,654	201,334	50,973	252,307	3,207,961
Interest	2,485	5,555	8,040	2,923	3,655	6,578	14,618
Depreciation and amortization	640,591	187,615	828,206	97,880	484,612	582,492	1,410,698
Insurance	214,623	37,245	251,868	19,800	22,739	42,539	294,407
Other Mission Expense	11,687	—	11,687	—	—	—	11,687
Public education and awareness	—	6,531,359	6,531,359	—	—	—	6,531,359
Contributed services	20,412,619	—	20,412,619	—	—	—	20,412,619
Other	29,126	60,850	89,976	50,457	36,635	87,092	177,068
Total expenses	\$ 41,406,284	26,043,813	67,450,097	25,210,751	5,411,175	30,621,926	98,072,023

See accompanying notes to consolidated financial statements.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2022

(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 purpose includes performing life-changing surgery on people born with cleft lip and cleft palate, medical education and health system strengthening 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 project teams, which are responsible for all in-country program 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, 2022

(d) Cash

Cash consists primarily of cash in banks. Cash in banks exceeded federally insured limits at June 30, 2022. Cash with donor restrictions was \$10,857,789, including a \$1,060,000 perpetual endowment, for the year ended June 30, 2022, with \$5,679,538 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, (losses), 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.

(g) Inventories

Inventories consist primarily of supplies to be used for medical programs. 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, 2022, was \$1,410,698.

(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.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2022

(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.

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 programs, education and sustainability, fundraising, and administration and were allocated by their function classification as follows for the year ended June 30, 2022:

Medical programs	\$	332,753
Education and sustainability		7,522,202
Fundraising		15,514,101
Administration		<u>1,044,964</u>
Total joint costs	\$	<u>24,414,020</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.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2022

(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, 2022, 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 Level 3 for the year ended June 30, 2022.

(p) Endowment

OSI established its first donor restricted endowment fund in 2020. OSI has interpreted the Virginia Prudent Management of Institutional Funds Act (the 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 the 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

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2022

- The expected total return from income and the appreciation of investments
- Other resources of OSI
- The investment policies of OSI

For the year ended June 30, 2022, OSI had \$1,060,000 in the permanently restricted endowment.

The change in the endowment assets for the year ended June 30, 2022 were as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>
Beginning endowment net assets	\$ 1,995	935,000
Endowment Contributed	—	125,000
Interest income	<u>6,317</u>	<u>—</u>
End of year	<u>\$ 8,312</u>	<u>1,060,000</u>

(q) 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, 2022, 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 securities and cash and are recorded as a component of contributions receivable on the accompanying consolidated statement of financial position.

The carrying value of all beneficial interests as of June 30, 2022 was \$4,752,599.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2022

(2) Contributions Receivable

Contributions receivable as of June 30, 2022, are expected to be received as follows:

Within one year	\$	6,878,801
From one to five years		<u>5,637,168</u>
		12,515,969
Less discount to present value at rates, which range from 0.41% to 2.95%		<u>349,604</u>
	\$	<u><u>12,166,365</u></u>

Conditional promises as of June 30, 2022, consisted of the following initiatives:

The Global Essential Surgery: Building Surgical Ecosystems that Operate	\$	1,832,184
Cleft Free Malawi		3,060,011
Baxter International Foundation		<u>1,300,000</u>
	\$	<u><u>6,192,195</u></u>

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 reduce the backlog of patients living in Malawi with an unrepaired cleft condition and upskill the healthcare system in country. In 2021, OSI entered into an agreement with Baxter International Foundation to promote access to safe surgery and nutrition in India. The initiative seeks to improve the quality and completeness of cleft care provided through comprehensive care centers.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2022

(3) Property and Equipment

Property and equipment consist of the following at June 30, 2022:

Work in process	\$	480,969
Medical equipment		3,337,452
Furniture, fixtures, and office equipment		3,580,923
Buildings		14,763,095
Building improvements		1,987,824
Land		3,094,293
Artwork		<u>221,697</u>
		27,466,253
Less accumulated depreciation		<u>8,803,090</u>
Property and equipment, net	\$	<u><u>18,663,163</u></u>

As of June 30, 2022, furniture, fixtures, and office equipment recorded under capital leases have a cost basis of \$99,529 and related accumulated amortization of \$47,744 for a net book value of \$51,785.

(4) Contributed Services and Gifts-in-Kind

OSI's medical programs are staffed by volunteer surgical teams. The donated medical services are recorded at their estimated fair values and are classified as contributed services revenue and medical programs expense in the accompanying consolidated statement of activities. Such services amounted to \$20,412,619 in 2022. OSI's medical programs 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 program supplies in the accompanying consolidated statement of activities. Donated equipment is depreciated using an estimated useful life and is included in property and equipment. Such donations and uses amounted to:

Donated:		
Medical supplies	\$	3,494,714
Usage:		
Medical supplies	\$	3,571,765
Equipment donated out, net		<u>190,585</u>
Total gifts-in-kind expensed, net	\$	<u><u>3,762,350</u></u>

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2022

(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, 2022 are as follows:

	Capital leases	Operating leases
Year ending June 30:		
2023	\$ 24,960	31,969
2024	17,028	12,027
2025	9,096	10,105
2026	6,822	—
2027	—	—
	57,906	54,101
Total minimum lease payments		
Less amount representing interest	18,980	
Present value of net minimum lease payments	38,926	
Less current maturities of capital lease obligations	15,780	
Capital lease obligations, excluding current maturities	\$ 23,146	

Total rent expense was \$97,366 in 2022.

(6) Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at June 30, 2022:

International programs	\$ 8,630,889
Global education and sustainability	649,653
Other programs	749,619
Global student programs	514,041
Research	83,340
Domestic programs	56,825
Total purpose restricted	10,684,367
Total time restricted	4,871,418
Perpetual endowment	1,060,000
Total net assets with donor restrictions	\$ 16,615,785

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2022

(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, 2022, were \$868,875.

(8) Related-Party Transactions

OSI recognized contributions from its board of directors, respective committee members, officers, and relatives of those charged with governance of \$2,220 for the year ended June 30, 2022. Some board members may also contribute directly to independent, affiliated Operation Smile international foundations.

(9) Revolving Line of Credit

In September 2022, 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 AMERIBOR + 2.5% and expires in September 2023. There was no outstanding balance on the line of credit at June 30, 2022.

(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 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 \$805,038 for the year ended June 30, 2022. This amount was contributed by independent donors within China during fiscal year 2022. Approximately \$266,128 was spent within China from the Special Fund during fiscal year 2022, of which \$238,063 represented medical programs and other programmatic expenses.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2022

(11) Liquidity and Availability

As of June 30, 2022, 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	\$	59,679,274
Investments		10,666,301
Contributions receivable due within a year		6,878,801
Less:		
Cash with donor restrictions		9,797,789
Perpetual endowment		<u>1,060,000</u>
Total available net assets without donor restrictions	\$	<u><u>66,366,587</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. 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.

(12) Coronavirus Disease (COVID-19)

In 2022, the coronavirus (COVID-19) pandemic that developed rapidly in March of 2020 continued to temporarily postpone medical programs in countries impacted by the virus during the first half of the fiscal year. In response to this, continued emphasis was placed on international capacity building, and solutions to offer other clinical interventions to remain engaged with and care for patients amidst halted surgical environments. Other clinical cleft services such as nutrition, speech therapy, and dental care were among those prioritized and offered to patients. Telehealth (virtual care programs) helped expand access to care at a time when the pandemic continued to restrict patients' ability to visit medical programs and care centers. Virtual care programs have improved patient convenience, access, and continuity of care and continued to improve patient outcomes. These types of services will continue to be provided to patients across the globe in future fiscal years.

(13) Subsequent Events

OSI has evaluated subsequent events from the consolidated statement of financial position date through May 19, 2023 the date these consolidated financial statements were available to be issued and determined there are no other items to disclose.