



OPERATION SMILE, INC.

Consolidated Financial Statements

June 30, 2020

(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, 2020, 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, 2020, 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 29, 2020

OPERATION SMILE, INC.

Consolidated Statement of Financial Position

June 30, 2020

Assets

Cash	\$	30,246,760
Investments		10,692,613
Prepaid expenses and other assets		1,458,496
Mission advances and other receivables		471,115
Inventories		2,421,068
Contributions receivable, net (note 2)		11,054,722
Property and equipment, net (notes 3 and 5)		<u>18,385,518</u>
Total assets	\$	<u><u>74,730,292</u></u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	\$	5,574,564
Refundable advances		979,280
Deferred revenue		120,988
Capital lease obligations (notes 3 and 5)		<u>68,400</u>
Total liabilities		<u>6,743,232</u>

Net assets:

Without donor restrictions		54,086,795
With donor restrictions (note 6)		<u>13,900,265</u>
Total net assets		67,987,060

Commitments and contingencies (notes 5 and 9)

Total liabilities and net assets	\$	<u><u>74,730,292</u></u>
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See accompanying notes to consolidated financial statements.

OPERATION SMILE, INC.

Consolidated Statement of Activities

Year ended June 30, 2020

	Without donor restrictions	With donor restrictions	Total
Revenues:			
Contributions (note 8)	\$ 60,467,691	23,088,573	83,556,264
Gifts-in-kind (note 4)	3,294,824	—	3,294,824
Contributed services (note 4)	20,233,251	—	20,233,251
Program service revenue	557,637	—	557,637
Foreign currency transaction losses, net	(19,425)	—	(19,425)
Other income, net	587,428	—	587,428
Net assets released from restrictions	15,904,318	(15,904,318)	—
Total revenues	101,025,724	7,184,255	108,209,979
Expenses and loss:			
Expenses:			
Program services:			
Medical missions (note 4)	38,709,980	—	38,709,980
Education and sustainability	22,458,012	—	22,458,012
Total program services	61,167,992	—	61,167,992
Supporting services:			
Fund-raising	21,747,539	—	21,747,539
Administration	7,121,110	—	7,121,110
Total supporting services	28,868,649	—	28,868,649
Total expenses	90,036,641	—	90,036,641
Loss on contributions receivable	3,000	—	3,000
Total expenses and loss	90,039,641	—	90,039,641
Change in net assets	10,986,083	7,184,255	18,170,338
Net assets at beginning of year	43,100,712	6,716,010	49,816,722
Net assets at end of year	\$ 54,086,795	13,900,265	67,987,060

See accompanying notes to consolidated financial statements.

OPERATION SMILE, INC.

Consolidated Statement of Cash Flows

Year ended June 30, 2020

Cash flows from operating activities:	
Change in net assets	\$ 18,170,338
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization expense	1,171,394
Loss on contributions receivable	3,000
Loss on disposal of asset	4,176
Perpetual endowment contributed	(935,000)
Net realized and unrealized gains on investments	(311,385)
Net in-kind donations of supplies and inventory	(229,869)
Changes in operating assets and liabilities:	
Prepaid expenses	(245,870)
Mission advances and other receivables	4,848
Contributions receivable, net	(3,211,221)
Inventories	166,334
Accounts payable and accrued expenses	(518,499)
Deferred revenue	(164,484)
Refundable advances	(477,334)
Net cash provided by operating activities	<u>13,426,428</u>
Cash flows from investing activities:	
Purchases of property and equipment	(315,052)
Purchases of investments	(38,175,263)
Proceeds from sale of investments	<u>41,352,374</u>
Net cash provided by investing activities	<u>2,862,059</u>
Cash flows from financing activities:	
Proceeds from loans	2,683,800
Repayments of loans	(2,683,800)
Perpetual endowment contributed	935,000
Principal payments on capital lease obligations	(34,258)
Net cash provided by financing activities	<u>900,742</u>
Net increase in cash	17,189,229
Cash at beginning of year	<u>13,057,531</u>
Cash at end of year	<u>\$ 30,246,760</u>
Supplemental cash flow information:	
Cash paid for interest	\$ 15,102

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, 2020

	Program services			Supporting services			Total expenses
	Medical missions	Education and sustainability	Total	Fund-raising	Administration	Total	
Grants	\$ 3,919,449	3,275,352	7,194,801	—	—	—	7,194,801
Salaries and benefits	4,585,487	4,407,822	8,993,309	4,480,079	3,652,001	8,132,080	17,125,389
Professional services	709,981	2,083,180	2,793,161	1,332,999	690,928	2,023,927	4,817,088
Advertising and promotion	123,649	329,386	453,035	14,933,233	597,476	15,530,709	15,983,744
Supplies and equipment	1,537,270	278,612	1,815,882	330,867	1,506,546	1,837,413	3,653,295
Mission supplies	1,330,677	218,670	1,549,347	38,350	19,175	57,525	1,606,872
Mission supplies gift-in-kind	2,692,250	71,168	2,763,418	—	—	—	2,763,418
Occupancy	234,690	182,050	416,740	69,502	103,559	173,061	589,801
Travel and conferences	2,575,812	1,381,065	3,956,877	360,077	86,606	446,683	4,403,560
Interest	4,058	2,998	7,056	3,504	4,542	8,046	15,102
Depreciation and amortization	499,349	199,789	699,138	84,212	388,044	472,256	1,171,394
Insurance	144,252	33,147	177,399	18,783	15,449	34,232	211,631
Other mission expense	55,153	10,568	65,721	1,486	743	2,229	67,950
Public education and awareness	—	9,948,137	9,948,137	—	—	—	9,948,137
Contributed services	20,233,251	—	20,233,251	—	—	—	20,233,251
Other	64,652	36,068	100,720	94,447	56,041	150,488	251,208
Total expenses	<u>\$ 38,709,980</u>	<u>22,458,012</u>	<u>61,167,992</u>	<u>21,747,539</u>	<u>7,121,110</u>	<u>28,868,649</u>	<u>90,036,641</u>

See accompanying notes to consolidated financial statements.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2020

(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 health care 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, 2020

(d) Cash

Cash consists primarily of cash in banks. Cash in banks exceeded federally insured limits at June 30, 2020. Cash with donor restrictions was \$6,396,364 for the year ended June 30, 2020, with \$2,878,095 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, 2020 was \$119,830.

(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, 2020 was \$1,051,564.

(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 consists of cash collected that OSI is entitled to only if conditions are met.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2020

(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 statements 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, 2020:

Medical missions	\$	27,012
Education and sustainability		11,322,585
Fund-raising		16,517,385
Administration		<u>1,221,813</u>
Total joint costs	\$	<u><u>29,088,795</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.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2020

(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, 2020, 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, 2020.

(p) 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, 2020, 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.

(q) 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, 2020

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	\$0
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, 2020 was \$6,279,540.

(r) Recently Adopted Accounting Standard

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) 2018-08, *Not-For-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU addresses practice issues by helping an entity evaluate whether it should account for a grant (or similar transaction) as a contribution or as an exchange transaction. The ASU also clarifies and expands the criteria for determining whether a contribution is conditional. OSI adopted ASU 2018-08 as of July 1, 2019 on a retrospective basis. The adoption of ASU 2018-08 did not have an impact on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash*. This ASU requires entities to include in total cash and cash equivalents on the statement of cash flows the cash and cash equivalents that have restrictions on withdrawal or use. It also requires additional disclosure of the nature of restrictions on its cash and cash equivalents. OSI adopted ASU 2016-18 as of July 1, 2019. The adoption of ASU 2016-18 did not have an impact on the consolidated financial statements.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2020

(2) Contributions Receivable

Contributions receivable as of June 30, 2020 are expected to be received as follows:

Within one year	\$ 5,931,893
From one to five years	<u>5,453,940</u>
	11,385,833
Less discount to present value at rates, which range from .43% to 5.285%	<u>331,111</u>
	<u>\$ 11,054,722</u>

Conditional promises as of June 30, 2020 consisted of the following initiatives:

The Global Essential Surgery: Building Surgical Ecosystems that Operate	\$ 4,622,130
Cleft Free Malawi	3,925,700
Advance Safe Surgery in India	<u>850,000</u>
	<u>\$ 9,397,830</u>

OSI entered into an agreement 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. 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. Additionally, OSI entered into an agreement for the Advance Safe Surgery in India Initiative.

(3) Property and Equipment

Property and equipment consist of the following at June 30, 2020:

Work in process	\$ 164,814
Medical equipment	2,203,751
Furniture, fixtures, and office equipment	3,389,930
Buildings	14,952,301
Building improvements	960,934
Land	3,094,293
Artwork	<u>221,697</u>
	24,987,720
Less accumulated depreciation	<u>6,602,202</u>
Property and equipment, net	<u>\$ 18,385,518</u>

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2020

As of June 30, 2020, furniture, fixtures, and office equipment recorded under capital leases have a cost basis of \$172,957 and related accumulated amortization of \$96,422 for a net book value of \$76,535.

(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 revenues and medical missions' expenses in the accompanying consolidated statement of activities. Such services amounted to \$20,233,251 in 2020. 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 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 equipment is depreciated using an estimated useful life and is included in Property and Equipment. Such donations and uses amounted to:

Donated:		
Medical supplies	\$	2,901,165
Nonmedical supplies		7,221
Equipment		<u>386,438</u>
Total gifts-in-kind received	\$	<u><u>3,294,824</u></u>
Usage:		
Medical supplies	\$	2,763,418
Equipment donated out, net		<u>301,537</u>
Total gifts-in-kind expensed, net	\$	<u><u>3,064,955</u></u>

(5) Leases

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

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2020

Future minimum lease payments under the operating leases and the present value of future minimum capital lease payments as of June 30, 2020 are as follows:

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending June 30:		
2021	\$ 43,434	20,824
2022	30,690	3,846
2023	15,864	—
2024	7,932	—
2025	—	—
	97,920	\$ 24,670
Total minimum lease payments	97,920	\$ 24,670
Less amount representing interest	29,520	
Present value of net minimum lease payments	68,400	
Less current maturities of capital lease obligations	32,695	
Capital lease obligations, excluding current maturities	\$ 35,705	

Total rent expense was \$59,803 in 2020.

(6) Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at June 30, 2020:

Domestic programs	\$ 50,856
Care centers	42,000
Global education and sustainability	863,597
International programs	4,357,752
Learning center	355,500
Research	231,124
Other programs	800,389
Total purpose restricted	6,701,218
Total time restricted	6,264,047
Perpetual endowment	935,000
Total net assets with donor restrictions	\$ 13,900,265

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2020

(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, 2020 were \$938,951.

(8) Related-Party Transactions

OSI recognized contributions from its Board of Directors, respective committee members, officers and relatives of those charged with governance of \$61,655 for the year ended June 30, 2020. Some board members may also contribute directly to independent, affiliated Operation Smile international foundations.

(9) Revolving Line of Credit

In February 2020, 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 2021. There was no outstanding balance on the line of credit at June 30, 2020.

(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 \$618,000 for the year ended June 30, 2020. This amount was contributed by independent donors within China during fiscal year 2020. Approximately \$410,877 was spent within China from the Special Fund during fiscal year 2020, of which \$353,000 represented surgical mission and other programmatic expenses.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2020

(11) Liquidity and Availability

As of June 30, 2020, 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	\$	30,246,760
Investments		10,692,613
Contributions receivable due within a year		5,931,893
Less:		
Cash with donor restrictions		<u>6,396,364</u>
	\$	<u>40,474,902</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)

On March 11, 2020 the World Health Organization declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringent steps to help contain or delay the spread of the virus. Currently, there is a significant increase in economic uncertainty which is, for example, evidenced by more volatile asset prices and currency exchange rates, and rising unemployment claims. OSI has temporarily postponed missions due to the pandemic and shifted their efforts toward education, non-surgical interventions, and international capacity building.

(13) Subsequent Events

OSI has evaluated subsequent events from the consolidated statement of financial position date through December 29, 2020 the date these consolidated financial statements were available to be issued, and determined there are no other items to disclose.