

Operation Smile, Inc.

Consolidated Financial Statements
Year Ended June 30, 2024

The report accompanying these financial statements was issued by BDO USA, P.C., a Virginia professional corporation, and the U.S. member of BDO International Limited, a UK company limited by guarantee.



Operation Smile, Inc.

Consolidated Financial Statements
Year Ended June 30, 2024

Operation Smile, Inc.

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Independent Auditor's Report

The Board of Directors
Operation Smile, Inc.
Virginia Beach, Virginia

Opinion

We have audited the consolidated financial statements of Operation Smile, Inc. (OSI), which comprise the consolidated statement of financial position as of June 30, 2024, and the related consolidated statements of activities, functional expenses, and cash flows 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 Operation Smile, Inc. as of June 30, 2024, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of OSI 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 accounting principles generally accepted in the United States of America, 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 OSI's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.



Auditor's 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 auditor's 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 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 OSI'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 OSI'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.

BDO USA, P.C.

April 30, 2025

Consolidated Financial Statements

Operation Smile, Inc.

Consolidated Statement of Financial Position

June 30, 2024

Assets

Cash	\$	74,184,859
Investments		11,561,175
Program advances and other receivables		1,870,893
Contributions receivable, net		7,633,307
Contributions receivable, Partner Countries		142,857
Charitable remainder trusts		4,468,238
Prepaid expenses and other assets		4,411,948
Inventories		2,360,812
Property and equipment, net		16,745,957

Total Assets	\$	123,380,046
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Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$	4,923,152
Payables to Partner Countries		291,797
Refundable advances		180,317
Deferred revenue		177,483

Total Liabilities		5,572,749
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Commitments and Contingencies

Net Assets

Without donor restrictions		96,212,194
With donor restrictions		21,595,103

Total Net Assets		117,807,297
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Total Liabilities and Net Assets	\$	123,380,046
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See accompanying notes to consolidated financial statements.

Operation Smile, Inc.
Consolidated Statement of Activities

Year ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue			
Contributions	\$ 47,619,954	\$ 8,537,551	\$ 56,157,505
Contributions from Partner Countries	26,645,326	-	26,645,326
Bequests and legacy contributions	9,513,673	-	9,513,673
Gifts-in-kind	3,670,740	-	3,670,740
Contributed services and facilities	60,092,202	-	60,092,202
Program service revenue	343,702	-	343,702
Net assets released from restrictions	3,426,130	(3,426,130)	-
Total Operating Revenue	151,311,727	5,111,421	156,423,148
Operating Expenses			
Program services:			
Medical programs	81,901,138	-	81,901,138
Education and sustainability	40,965,793	-	40,965,793
Total Program Services	122,866,931	-	122,866,931
Supporting Services			
Fundraising	24,935,886	-	24,935,886
Administration	9,609,870	-	9,609,870
Total Supporting Services	34,545,756	-	34,545,756
Total Operating Expenses	157,412,687	-	157,412,687
Change in Net Assets from Operations	(6,100,960)	5,111,421	(989,539)
Non-Operating Revenue			
Investment income, net	4,059,501	73,047	4,132,548
Change in Net Assets	(2,041,459)	5,184,468	3,143,009
Net Assets, beginning of year	98,253,653	16,410,635	114,664,288
Net Assets, end of year	\$ 96,212,194	\$ 21,595,103	\$ 117,807,297

See accompanying notes to consolidated financial statements.

Operation Smile, Inc.
Consolidated Statement of Functional Expenses

Year ended June 30, 2024

	Program Services			Supporting Services			Total Expenses
	Medical Programs	Education and Sustainability	Total	Fundraising	Administration	Total	
Grants	\$ 9,205,280	\$ 10,663,411	\$ 19,868,691	\$ -	\$ -	\$ -	\$ 19,868,691
Salaries and benefits	3,050,703	8,358,863	11,409,566	4,025,819	4,305,307	8,331,126	19,740,692
Professional services	656,503	7,053,807	7,710,310	2,381,363	1,161,579	3,542,942	11,253,252
Advertising and promotion	132,952	4,127,264	4,260,216	17,391,231	545,173	17,936,404	22,196,620
Supplies and equipment	838,251	621,704	1,459,955	404,328	2,565,585	2,969,913	4,429,868
Medical supplies	1,662,825	1,637,358	3,300,183	1,625	217	1,842	3,302,025
Medical supplies gift-in-kind	3,082,785	-	3,082,785	-	-	-	3,082,785
Occupancy	10,352	385,627	395,979	825	275,517	276,342	672,321
Travel and conferences	3,007,329	2,982,554	5,989,883	482,677	304,078	786,755	6,776,638
Interest	-	-	-	-	7,055	7,055	7,055
Depreciation and amortization	105,031	557,513	662,544	162,320	143,224	305,544	968,088
Insurance	20,928	171,701	192,629	1,520	128,945	130,465	323,094
Other mission expense	6,168	98,512	104,680	-	-	-	104,680
Public awareness and education	-	4,112,110	4,112,110	-	-	-	4,112,110
Contributed services	60,092,202	-	60,092,202	-	-	-	60,092,202
Other	29,829	195,369	225,198	84,178	173,190	257,368	482,566
Total Expenses	\$ 81,901,138	\$ 40,965,793	\$ 122,866,931	\$ 24,935,886	\$ 9,609,870	\$ 34,545,756	\$ 157,412,687

See accompanying notes to consolidated financial statements.

Operation Smile, Inc.
Consolidated Statement of Cash Flows

Year ended June 30, 2024

Cash Flows from Operating Activities

Change in net assets	\$	3,143,009
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense		968,088
Loss on disposal of property and equipment		5,714
Realized and unrealized gain on investments		(108,851)
Changes in operating assets and liabilities:		
Prepaid expenses		(871,802)
Program advances and other receivables		1,393,676
Contributions receivable and charitable remainder trusts, net		7,310,113
Inventories		(437,666)
Accounts payable and accrued expenses		536,801
Deferred revenue		94,700
Refundable advances		(4,135,173)

Net Cash Provided by Operating Activities 7,898,609

Cash Flows from Investing Activities

Purchases of property and equipment		(137,588)
Purchases of investments		(947,285)
Proceeds from sale of investments		368,253

Net Cash Used in Investing Activities (716,620)

Net Increase in Cash 7,181,989

Cash, beginning of year 67,002,870

Cash, end of year \$ 74,184,859

Supplemental Cash Flow Information

Cash paid for interest	\$	7,055
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See accompanying notes to consolidated financial statements.

Operation Smile, Inc.

Notes to Consolidated Financial Statements

1. 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 providing life-changing surgery for people born with cleft lip and cleft palate and other surgical conditions. The organization provides medical education and supports health system strengthening initiatives in lower- 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 clinical specialties from more than 80 countries. Operation Smile engages in partnerships with governments, health ministries, corporations, academic institutions and other NGOs 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 has access to care.

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 eight representative offices in countries outside of the U.S. which are located in Ethiopia, Rwanda, China, Madagascar, Kenya, Vietnam, Tanzania, and Myanmar. In accordance with the requirements of Accounting Standards Codification (ASC) 958-810, *Consolidation*, due to OSI's control of the Board of these entities, their activities have been consolidated in the accompanying consolidated financial statements.

OSI is affiliated with other nonprofit organizations outside of the United States that share the mission and vision of OSI (Partner Countries). These relationships are governed by licensing agreements which grant each Partner Country the right to utilize OSI intellectual property and trademarked brand assets. Each Partner Country raises charitable funds in their respective territories and subsequently provides these funds to OSI to support global programmatic activities. The Partner Countries also provide volunteer clinician resources to support the global programmatic activities of OSI. Periodically, OSI provides funding to the Partner Countries to support their fundraising and volunteer recruitment initiatives. While contractual and economic relationships exist with OSI affiliates and Partner Countries, OSI does not meet the control requirements prescribed by ASC 958-810, *Consolidation*, to consolidate and therefore the accompanying consolidated financial statements do not include the accounts of Partner Countries. See Note 10 for related party transactions with Partner Countries.

OSI also has licensing arrangements with other international foundations that may host project teams. These organizations may raise funds and awareness to support programs and are responsible for program implementation in their respective countries. These statements do not include the accounts of these international foundations.

2. Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Operation Smile, Inc.

Notes to Consolidated Financial Statements

Principles of Consolidation

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP 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.

Recently Adopted Authoritative Guidance

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which changes the current incurred loss model to a forward-looking expected credit loss model for most financial assets, such as trade and other receivables, loans and other instruments. For nonprofit entities, the ASU was effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years, with early adoption permitted. Entities are required to apply the provisions of the standard through a cumulative-effect adjustment to net assets as of the effective date. On July 1, 2023, OSI adopted the provisions of ASU 2016-13. The adoption did not result in a material impact to OSI's financial results or disclosures.

Operating Measure

The consolidated statement of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of items attributable to OSI's ongoing program services. Nonoperating activities are limited to resources that generate return from investments as well as other activities considered to be of a more unusual or nonrecurring nature.

Foreign Currency Translation

The financial position and results of operations of OSI's representative offices are determined using local currency as the functional currency. Assets and liabilities of these entities are translated at the exchange rate in effect each reporting date. The consolidated statement of activities accounts are translated at the weighted average rate of exchange prevailing throughout each period. Translation adjustments arising from the use of differing exchange rates from period to period totaled \$33,351 and are included in other expense in the consolidated statement of functional expenses.

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

Operation Smile, Inc.

Notes to Consolidated Financial Statements

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, including those received under multi-year grant agreements, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. A promise is considered conditional only if the donor has stipulated one or more barriers that must be overcome before OSI is entitled to the assets transferred or promised, and there also exists a right of return to the donor of any assets transferred or a right of release of the donor's obligation to honor the promise. A transfer of assets from a donor that contains donor conditions is accounted for as a refundable advance until the conditions have been substantially met or explicitly waived by the donor.

Bequests and Legacy Contributions

OSI is the beneficiary under various wills. Bequests and legacy contributions are recognized when OSI has an irrevocable right to the gift and the proceeds are readily measurable.

Program Service Revenue

Revenue from contracts with customers consists of merchandise sales and conference and attendance fees for student programs initiatives. Revenue is recognized when control of the merchandise is transferred to the customer or when the conference or event occurs in an amount that reflects the consideration OSI receives for the merchandise or event attendance. Revenue is recognized net of discounts and refunds. Revenue is recognized using the five-step approach, as follows:

- Identification of the contract with a customer.
- Identification of the performance obligations in the contract.
- Determination of the transaction price.
- Allocation of the transaction price to the performance obligation in the contract.
- Recognition of revenue when, or as, performance obligations are satisfied.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each performance obligation identified in the arrangement based on the relative standalone selling price of each distinct good or service and revenue is recognized when, or as, the performance obligation is satisfied.

Merchandise sales revenue is recognized at a point in time when the merchandise is handed over and shipped to the customer. Conference and attendance fees are recognized when the event occurs.

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Contributed Services, Facilities, and Gifts-in-Kind

OSI receives substantial support in the form of contributed services from medical professionals, contributed facility space from local hospitals, and donated medical supplies. These contributions are recorded at their estimated fair market value. Donated services, facilities, and supplies are utilized to support OSI's programs and are not otherwise sold or monetized (see Note 6).

Cash

Cash consists primarily of cash in banks. Due to the limited number of financial institutions utilized by OSI, approximately \$6,000,000 of its cash balance is in excess of federally insured limits at June 30, 2024. Cash with donor restrictions was \$9,357,096, including a \$1,060,000 perpetual endowment, for the year ended June 30, 2024, with \$2,283,405 being held in a separate bank account in accordance with donor-imposed restrictions.

Investments

Investments are carried at their estimated fair value in the consolidated statement of financial position. The net realized and unrealized gains and losses on investments are reflected in investment 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.

Program Advances and Other Receivables

Program advances and other receivables consist of funds granted to OSI affiliates and Partner Countries for which the condition of the grant, imposed by OSI, has not been satisfied. Upon the condition of the grant being satisfied, OSI recognizes these advances as grant expense in the consolidated statement of functional expenses.

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.

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 the estimated fair value on the date of receipt. Both purchased and donated inventory are accounted for on the first-in, first-out basis.

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 three to ten 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

Operation Smile, Inc.

Notes to Consolidated Financial Statements

straight-line method over their estimated useful lives of 40 years. Property and equipment held under finance 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, 2024, was \$968,088.

Deferred Revenue

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

Refundable Advances

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

Classification of Net Assets

Net assets are classified into two categories: Net assets without donor restrictions net assets with donor restrictions.

Net Assets Without Donor Restrictions - Net assets without donor restrictions consist of amounts available for the general operations and are not subject to donor-imposed restrictions of time or purpose.

Net Assets with Donor Restrictions - Net assets with donor restrictions consists of gifts of cash or other assets whose use is subject to stipulations imposed by donors. 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 restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Generally, the donors of these assets permit OSI to use the income earned on the related investments for general or specific purposes. Donor restricted contributions whose purpose restrictions are met in the same reporting period are reported as net assets without donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is accomplished, net assets are reclassified as net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Functional Expenses

The cost of providing various programs and other activities has been summarized on a functional basis in the consolidated statements of activities and functional expenses. OSI organizes its expenses based on their purpose and contribution to its mission, differentiating between program-related activities and support services. Costs that can be specifically identified with a final cost objective are charged directly to that activity. Certain categories of expenses that are attributable to one or more program or supporting functions of the organization are allocated directly to respective programs as incurred and/or by utilizing predetermined allocation rates established by management. Other expenses are allocated based on estimates of time and effort.

Operation Smile, Inc.

Notes to Consolidated Financial Statements

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, 2024:

Year ended June 30, 2024

General and administrative	\$ 335,412
Education and sustainability	4,046,232
Fundraising	9,866,374
Total Joint Costs	\$ 14,248,018

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, 2024, there was no indication of impairment.

Charitable Remainder Trusts

OSI is the beneficiary of two irrevocable trust agreements.

One agreement represents a split interest agreement, whereby an unrelated third party is the trustee, and OSI therefore holds a beneficial interest in the trust. Under the terms of the agreement, the trust is to annually distribute \$14,400 to the beneficiary through the date of the beneficiary's death, upon which the trust terminates, and the remaining assets are distributable to OSI. The receivable for the split interest agreement is carried at fair value, which is estimated based upon the present value of future cash flows, mortality tables, and current market conditions. At June 30, 2024, the estimated fair value of the trust totaled \$1,066,958.

The second agreement represents a charitable remainder trust, whereby an unrelated third party is the trustee, and OSI therefore holds a beneficial interest in the trust. Under the terms of the agreement, the trust makes annual distributions to OSI and shall distribute to OSI 25% of the balance of the trust every ten years such that the trust terminates at the expiration of the 40th year. The receivable for the charitable remainder trust is carried at fair value, which is estimated based upon the present value of future cash flows, an estimated annual return of approximately 5%, and current market conditions. At June 30, 2024, the estimated fair value of the trust totaled \$3,401,280.

Concentration of Credit Risk

OSI's assets that are exposed to credit risk consist primarily of cash; investments; and contributions, and other receivables. Cash is maintained at financial institutions, and, at times, balances may exceed federally insured limits. OSI has historically not experienced losses related to these

Operation Smile, Inc.

Notes to Consolidated Financial Statements

balances. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and that such changes could materially affect the investment balances and the amounts reported in the consolidated statement of financial position. OSI's contributions, bequests, and other receivables balance consists primarily of amounts due from individuals and corporations. Historically, OSI has not experienced significant losses related to the bequests and contributions receivable balances and, therefore, believes that the credit risk is minimal.

Financial and Operational Risks

OSI has operations in multiple countries, some of which have politically and economically volatile environments. As a result, OSI may have financial and operational risks associated with these foreign operations which could negatively impact OSI.

Commitments and Contingencies

OSI recognizes liabilities for commitments and contingencies in accordance with applicable authoritative guidance. Contingencies, including legal claims or other uncertain loss events are evaluated based on the likelihood of occurrence and ability to estimate the potential loss. A liability is recorded when it is probable that a loss has been incurred and the amount can be reasonably estimated. At June 30, 2024, OSI has not identified any material commitments or contingencies which require recognition or disclosure.

Income Taxes

OSI has been classified by the Internal Revenue Service as a not-for-profit organization exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization that is not a private foundation. Therefore, OSI is generally not subject to tax under present income tax laws; however, any unrelated business income may be subject to federal and state income taxes.

OSI has adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. OSI has evaluated its uncertainty in income taxes for the year ended June 30, 2024 and determined that there were no matters that would require recognition in the consolidated financial statements, or that might have any effect on OSI's tax-exempt status. As of June 30, 2024, there are no audits for any tax periods pending or in progress. It is OSI's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax or interest expense in the year it becomes known. OSI has determined that it is no longer subject to U.S. federal, state, and local, or non-U.S., income tax examinations by tax authorities for years before years ended June 30, 2021 and prior. There are currently no examinations pending or in progress regarding OSI's income tax returns.

Operation Smile, Inc.

Notes to Consolidated Financial Statements

3. Contributions Receivable

Contributions receivable as of June 30, 2024, are expected to be received as follows:

Year ended June 30, 2024

Within one year	\$ 6,705,289
From one to five years	965,000
	<hr/> 7,670,289
Less: discount to net present value (0.85% - 4.66%)	(36,982)
Total Contributions Receivable, Net	\$ 7,633,307

Contributions receivable totaling \$142,857 from Partner Countries are expected to be collected within one year.

Conditional promises as of June 30, 2024, consisted of the following initiatives:

Year ended June 30, 2024

Global Essential Surgery:	
Building Surgical Ecosystems that Operate	\$ 394,672
Cleft Free Malawi	1,665,505
	<hr/> \$ 2,060,177

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.

4. Investments and Fair Value Measurements

Investments consist of the following at June 30, 2024:

Year ended June 30, 2024

Mutual funds:	
Short duration income fund	\$ 3,540,704
Short duration bond fund	7,978,968
Money market funds	41,503
Total Investments	\$ 11,561,175

Mutual funds and money market funds are valued at quoted prices in an active market.

Operation Smile, Inc.

Notes to Consolidated Financial Statements

Investment Income, Net

The components of net investment income for the year ended June 30, 2024 are as follows:

Year ended June 30, 2024

Interest and dividends	\$	4,023,697
Realized loss on sale of investments		(3,789)
Unrealized gain on investments		112,640
Total Investment Income, Net	\$	4,132,548

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 - This level consists of unadjusted quoted prices in active markets for identical assets or liabilities accessible to OSI at the measurement date.

Level 2 - This level consists of other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly.

Level 3 - This level consists of 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.

The following table presents OSI's assets which are measured at fair value on a recurring basis for each hierarchy level at June 30, 2024:

Description	Level 1	Level 2	Level 3	Total
Investments	\$ 11,561,175	\$ -	\$ -	\$ 11,561,175
Charitable remainder trusts	-	-	4,468,238	4,468,238
Total	\$ 11,561,175	\$ -	\$ 4,468,238	\$ 16,029,413

Operation Smile, Inc.

Notes to Consolidated Financial Statements

The following tables present a reconciliation of assets in which significant unobservable inputs (Level 3) were used to determine fair value:

Year ended June 30, 2024

Charitable Remainder Trusts Fair Value, beginning of year	\$ 4,612,883
Distributions received	(144,645)
Charitable Remainder Trusts Fair Value, end of year	\$ 4,468,238

5. Property and Equipment

Property and equipment consist of the following at June 30, 2024:

Year ended June 30, 2024

Medical equipment	\$ 3,417,162
Furniture, fixtures, and office equipment	1,661,281
Vehicle	59,519
Computer equipment and software	2,534,276
Buildings	14,763,095
Building improvements	1,522,903
Land	3,547,885
Artwork	221,697
	<hr/> 27,727,818
Less: accumulated depreciation and amortization	(10,981,861)
Property and Equipment, Net	\$ 16,745,957

6. Contributed Services, Facilities, and Gifts-in-Kind

Contributed Services and Facilities

OSI's medical programs are staffed by volunteer surgical teams. OSI also receives donated facility space for their medical programs. The donated medical services and facilities are recorded at their estimated fair values and are classified as contributed services and facilities revenue and medical programs expense in the accompanying consolidated statement of activities. The value of contributed services and facilities are estimated using procedure codes and published industry pricing guides for similar medical procedures performed in the United States, which OSI has determined is the principal and most advantageous market. Contributed services and facilities and related medical programs expense totaled \$60,092,202 for the year ended June 30, 2024. The contributed services and facilities do not have any donor-imposed restrictions. In addition, OSI's medical programs are staffed by volunteer administrative support staff. These administrative personnel services are not recorded in the accompanying consolidated financial statements.

Operation Smile, Inc.

Notes to Consolidated Financial Statements

Types of contributed services and facilities are as follows:

Types of Contributed Services and Donated Facility Use	Procedures Performed	Estimated Value
Surgical procedures	7,375	\$ 39,747,456
Hospital facility usage	5,147	5,547,967
Dental procedures	16,994	2,926,388
Consultations at care centers	112,319	11,870,391
Total	141,835	\$ 60,092,202

Gifts-in-Kind

Donated supplies that are received throughout the year for use in Operation Smile programs, are recorded at their estimated fair values, and are classified as gifts-in-kind revenue in the accompanying consolidated statement of activities. These supplies are initially capitalized to inventories and then expensed as they are used. The expense of donated supplies are classified as medical supplies in the accompanying consolidated statement of functional expenses. Donated supplies are valued based upon the fair market value of similar supplies, if purchased.

Such donations and uses amounted to:

Year ended June 30, 2024

Donated:		
Medical supplies		\$ 3,670,740
Usage:		
Medical supplies		\$ 3,082,785

7. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following:

June 30, 2024

Purpose restriction:		
International programs		\$ 6,272,030
Global education and sustainability		2,045,345
Other programs		647,661
Global student programs		785,005
Research		103,524
Domestic programs		61,367
Total Purpose Restricted		9,914,932
Total Time Restricted		10,620,171
Perpetual Endowment		1,060,000
Total Net Assets with Donor Restrictions		\$ 21,595,103

Operation Smile, Inc.

Notes to Consolidated Financial Statements

During the year ended June 30, 2024, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows:

Year ended June 30, 2024

International programs	\$	1,526,084
Global education and sustainability		1,550,064
Other programs		184,998
Global student programs		488
Domestic programs		187
Time-restricted		164,309
Total Net Assets Released from Restrictions	\$	3,426,130

8. Endowment

OSI established its first donor restricted endowment fund in 2020 for the purpose of funding OSI's mission. Net assets associated with the endowment fund is classified and reported based on the existence or absence of donor-imposed restrictions.

Governing Board's Interpretation of Law

The Board of Directors has interpreted the Virginia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2024, there were no such donor stipulations. As a result of this interpretation, OSI retains in perpetuity (a) the original value of initial and subsequent gift amounts and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by 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.
- Other resources of OSI.
- The investment policies of OSI.

Investment Return Objectives and Risk Parameters

OSI has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets with donor

Operation Smile, Inc.

Notes to Consolidated Financial Statements

restrictions that OSI must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield returns which exceed the Consumer Price Index plus two percent while assuming a balanced level of investment risk. OSI expects its endowment funds, over time, to provide an average rate of return of approximately 4% annually. Actual returns in any given year may vary from this amount.

Spending Policy

OSI's endowment spending policy allows for appropriation of distributions at the Board of Director's discretion which is to be based on OSI's programmatic needs. If in any year, the endowment's earnings are not appropriated and expended, the unspent portion carries forward into the subsequent year. This is consistent with OSI's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Underwater Endowment Fund

From time to time, the fair value of assets associated with individual donor restricted endowment fund may fall below the level that the donor and UPMIFA requires OSI to retain as a fund of perpetual duration. There were no deficiencies of this nature as of June 30, 2024.

Endowment net asset composition by type of fund is as follows:

June 30, 2024

	Without Donor restrictions	With Donor restrictions
Amount require to be held in perpetuity by donor	\$ -	\$ 1,060,000
Accumulated investment gains	-	-
Total Endowment Funds	\$ -	\$ 1,060,000

Changes in endowment net assets during the year ended June 30, 2024 are as follows:

	Without Donor restrictions	With Donor restrictions
Balance, June 30, 2023	\$ 61,033	\$ 1,060,000
Investment income, net	-	73,047
Expenditures	(61,033)	(73,047)
Balance, June 30, 2024	\$ -	\$ 1,060,000

9. 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 plan for the year ended June 30, 2024, were \$930,032 and are included in salaries and benefits in the statement of functional expenses.

Operation Smile, Inc.

Notes to Consolidated Financial Statements

10. Related Party Transactions

OSI receives contributions from, and makes grants to, affiliated organizations in Canada, Sweden, Ireland, United Kingdom, Italy, Australia, Switzerland, and Norway (the Partner Countries) to enable clinical care and medical education activities as well as fundraising and public awareness initiatives to support those activities. Total contributions from, and grants to, these affiliates during the year ended June 30, 2024, were \$26,645,326 and \$2,205,643, respectively. At June 30, 2024, contributions receivable included \$142,857 related to Partner Countries and accounts payable and accrued expenses included \$291,797 related to Partner Countries.

OSI recognized contributions from its board of directors, respective committee members, officers, and relatives of those charged with governance of \$205,757 for the year ended June 30, 2024.

11. Revolving Line of Credit

OSI has 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 the American Interbank Offered Rate (AMERIBOR) + 2.5% and is due upon demand. There was no outstanding balance on the line of credit at June 30, 2024.

12. 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 can 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 \$450,077 for the year ended June 30, 2024. This amount was contributed by independent donors within China during fiscal year 2024. Approximately \$425,000 was spent within China from the Special Fund during fiscal year 2024, of which \$403,600 represented medical programs and other programmatic expenses.

Operation Smile, Inc.

Notes to Consolidated Financial Statements

13. Liquidity and Availability

As of June 30, 2024, 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	\$	74,184,859
Investments		11,561,175
Contributions receivable, net		7,633,307
Contributions receivable, Partner Countries		142,857
Charitable remainder trusts		4,468,238
Total Financial Assets		97,990,436
Adjustments for amounts not available for general expenditure within one year:		
Net assets with donor restrictions		(21,595,103)
Total Financial Assets Available for General Expenditures Within One Year	\$	76,395,333

As part of OSI's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. To assist with this policy, OSI maintains access to a \$5,000,000 line of credit, which it may draw upon in case of an unanticipated liquidity event.

14. Subsequent Events

OSI has evaluated subsequent events from the consolidated statement of financial position date through April 30, 2025, the date these consolidated financial statements were available to be issued and determined there are no other items to disclose.