

Combined Financial Statements Together with
Report of Independent Certified Public Accountants

SMILE TRAIN, INC. AND AFFILIATES

June 30, 2016 and 2015

SMILE TRAIN, INC. AND AFFILIATES

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Smile Train, Inc. and Affiliates:

Report on the financial statements

We have audited the accompanying combined financial statements of Smile Train, Inc. and Affiliates (“Smile Train”), which comprise the combined statements of financial position as of June 30, 2016 and 2015, and the related combined statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Smile Train’s preparation and fair presentation of the combined 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 Smile Train’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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Smile Train, Inc. and Affiliates as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplemental Combining Schedule of Financial Position and Combining Schedule of Activities and Changes in Net Assets as of and for the year ended June 30, 2016 are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Grant Thornton LLP

New York, New York
May 11, 2017

SMILE TRAIN, INC. AND AFFILIATES
Combined Statements of Financial Position
As of June 30, 2016 and 2015

ASSETS	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 18,472,484	\$ 11,265,241
Investments	246,551,056	252,119,420
Contributions receivable, net	1,049,642	706,255
Prepaid expenses and other assets	1,115,551	2,319,185
Furniture and equipment, net	<u>935,874</u>	<u>1,113,583</u>
Total assets	<u>\$ 268,124,607</u>	<u>\$ 267,523,684</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Grants and contracts payable	\$ 3,536,464	\$ 5,709,075
Accounts payable and accrued expenses	3,673,342	1,767,940
Deferred rent payable	<u>57,264</u>	<u>85,862</u>
Total liabilities	<u>7,267,070</u>	<u>7,562,877</u>
 NET ASSETS		
Unrestricted	260,246,940	259,364,885
Temporarily restricted	<u>610,597</u>	<u>595,922</u>
Total net assets	<u>260,857,537</u>	<u>259,960,807</u>
Total liabilities and net assets	<u>\$ 268,124,607</u>	<u>\$ 267,523,684</u>

The accompanying notes are an integral part of these combined financial statements.

SMILE TRAIN, INC. AND AFFILIATES
Combined Statement of Activities and Changes in Net Assets
For the year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 86,009,378	\$ 641,704	\$ 86,651,082
Contributions in-kind	63,463,514	-	63,463,514
Investment loss, net	(6,086,977)	-	(6,086,977)
Other income	490,298	-	490,298
Loss in currency transactions	(148,828)	-	(148,828)
Net assets released from restriction:			
Satisfaction of purpose restrictions	<u>627,029</u>	<u>(627,029)</u>	<u>-</u>
Total support and revenue	<u>144,354,414</u>	<u>14,675</u>	<u>144,369,089</u>
EXPENSES			
Program services:			
Treatment	104,565,641	-	104,565,641
Training	1,321,074	-	1,321,074
Public education	<u>12,834,183</u>	<u>-</u>	<u>12,834,183</u>
Total program services	<u>118,720,898</u>	<u>-</u>	<u>118,720,898</u>
Support services:			
Management and general	2,124,721	-	2,124,721
Fundraising	<u>22,626,740</u>	<u>-</u>	<u>22,626,740</u>
Total supporting services	<u>24,751,461</u>	<u>-</u>	<u>24,751,461</u>
Total expenses	<u>143,472,359</u>	<u>-</u>	<u>143,472,359</u>
Changes in net assets	882,055	14,675	896,730
Net assets, beginning of year	<u>259,364,885</u>	<u>595,922</u>	<u>259,960,807</u>
Net assets, end of year	<u>\$ 260,246,940</u>	<u>\$ 610,597</u>	<u>\$ 260,857,537</u>

The accompanying notes are an integral part of this combined financial statement.

SMILE TRAIN, INC. AND AFFILIATES
Combined Statement of Activities and Changes in Net Assets
For the year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 90,412,438	\$ 997,280	\$ 91,409,718
Contributions in-kind	58,492,660	-	58,492,660
Investment income, net	5,138,925	-	5,138,925
Other income	1,534,109	-	1,534,109
Loss in currency transactions	(190,075)	-	(190,075)
Net assets released from restriction:			
Satisfaction of purpose restrictions	<u>1,574,262</u>	<u>(1,574,262)</u>	<u>-</u>
Total support and revenue	<u>156,962,319</u>	<u>(576,982)</u>	<u>156,385,337</u>
EXPENSES			
Program services:			
Treatment	110,731,282	-	110,731,282
Training	1,644,730	-	1,644,730
Public education	<u>8,790,379</u>	<u>-</u>	<u>8,790,379</u>
Total program services	<u>121,166,391</u>	<u>-</u>	<u>121,166,391</u>
Support services:			
Management and general	1,905,360	-	1,905,360
Fundraising	<u>27,014,805</u>	<u>-</u>	<u>27,014,805</u>
Total supporting services	<u>28,920,165</u>	<u>-</u>	<u>28,920,165</u>
Total expenses	<u>150,086,556</u>	<u>-</u>	<u>150,086,556</u>
Changes in net assets	6,875,763	(576,982)	6,298,781
Net assets, beginning of year	<u>252,489,122</u>	<u>1,172,904</u>	<u>253,662,026</u>
Net assets, end of year	<u>\$ 259,364,885</u>	<u>\$ 595,922</u>	<u>\$ 259,960,807</u>

The accompanying notes are an integral part of this combined financial statement.

SMILE TRAIN, INC. AND AFFILIATES
Combined Statement of Functional Expenses
For the year ended June 30, 2016

	Program Services				Supporting Services			
	Treatment	Training	Public Education	Total	Management and General	Fundraising	Total	Total
Grants	\$ 2,185,160	\$ 711,349	\$ 493,770	\$ 3,390,279	\$ -	\$ -	\$ -	\$ 3,390,279
Contracts with treatment partners	96,660,141	-	-	96,660,141	-	-	-	96,660,141
Medical advisory services	144,658	-	-	144,658	-	-	-	144,658
Salaries and employee benefits	1,930,537	383,841	428,673	2,743,051	996,750	3,740,167	4,736,917	7,479,968
Professional fees	1,803,091	63,461	77,642	1,944,194	611,636	169,459	781,095	2,725,289
Rents	437,921	68,363	83,640	589,924	176,890	400,001	576,891	1,166,815
Office expenses	449,917	58,899	72,061	580,877	273,530	371,415	644,945	1,225,822
Repairs and maintenance	251,579	10,748	13,150	275,477	16,715	62,680	79,395	354,872
Travel, food, and other	567,975	871	1,065	569,911	14,846	277,909	292,755	862,666
Printed program material and services	353	-	8,013,735	8,014,088	-	13,008,511	13,008,511	21,022,599
Advertising	7,153	805	3,622,629	3,630,587	-	4,464,001	4,464,001	8,094,588
Depreciation and amortization	127,156	22,737	27,818	177,711	34,354	132,597	166,951	344,662
Total	<u>\$ 104,565,641</u>	<u>\$ 1,321,074</u>	<u>\$ 12,834,183</u>	<u>\$ 118,720,898</u>	<u>\$ 2,124,721</u>	<u>\$ 22,626,740</u>	<u>\$ 24,751,461</u>	<u>\$ 143,472,359</u>

The accompanying notes are an integral part of this combined financial statement.

SMILE TRAIN, INC. AND AFFILIATES
Combined Statement of Functional Expenses
For the year ended June 30, 2015

	Program Services				Supporting Services			
	Treatment	Training	Public Education	Total	Management and General	Fundraising	Total	Total
Grants	\$ 1,511,182	\$ 736,788	\$ 425,536	\$ 2,673,506	\$ -	\$ -	\$ -	\$ 2,673,506
Contracts with treatment partners	102,487,339	-	-	102,487,339	-	-	-	102,487,339
Medical advisory services	328,206	328,206	-	656,412	-	-	-	656,412
Salaries and employee benefits	1,939,964	332,201	405,179	2,677,344	1,070,625	3,124,285	4,194,910	6,872,254
Professional fees	2,476,968	84,116	114,246	2,675,330	374,796	452,460	827,256	3,502,586
Rents	466,405	69,420	94,285	630,110	150,312	362,625	512,937	1,143,047
Office expenses	480,914	59,052	80,204	620,170	244,229	310,238	554,467	1,174,637
Repairs and maintenance	225,942	8,482	11,520	245,944	13,207	44,305	57,512	303,456
Travel, food, and other	681,673	3,630	4,930	690,233	16,107	36,641	52,748	742,981
Printed program material and services	-	-	7,623,465	7,623,465	-	16,129,629	16,129,629	23,753,094
Advertising	-	-	-	-	-	6,435,339	6,435,339	6,435,339
Depreciation and amortization	132,689	22,835	31,014	186,538	36,084	119,283	155,367	341,905
Total	<u>\$ 110,731,282</u>	<u>\$ 1,644,730</u>	<u>\$ 8,790,379</u>	<u>\$ 121,166,391</u>	<u>\$ 1,905,360</u>	<u>\$ 27,014,805</u>	<u>\$ 28,920,165</u>	<u>\$ 150,086,556</u>

The accompanying notes are an integral part of this combined financial statement.

SMILE TRAIN, INC. AND AFFILIATES
Combined Statements of Cash Flows
For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 896,730	\$ 6,298,781
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	344,662	341,905
Net depreciation (appreciation) on investments	12,702,883	729,877
Donated securities	(607,562)	(536,448)
Donated land, furniture and equipment	(64,800)	(97,600)
(Increase) decrease in contributions receivable	(343,387)	800,418
Decrease (increase) in prepaid expenses and other assets	1,203,634	(170,966)
Decrease in grants and contracts payable	(2,172,611)	(2,936,128)
Increase (decrease) in accounts payable and accrued expenses	1,905,402	(408,664)
Decrease in deferred rent payable	(28,598)	(28,666)
	<u>13,836,353</u>	<u>3,992,509</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities	(188,750,470)	(210,608,285)
Proceeds from sale of securities	182,223,513	208,460,925
Purchases of furniture and equipment	(102,153)	(450,400)
	<u>(6,629,110)</u>	<u>(2,597,760)</u>
Net cash used in investing activities		
	<u>7,207,243</u>	<u>1,394,749</u>
Net increase in cash and cash equivalents		
Cash and cash equivalents, beginning of year	<u>11,265,241</u>	<u>9,870,492</u>
Cash and cash equivalents, end of year	<u>\$ 18,472,484</u>	<u>\$ 11,265,241</u>

The accompanying notes are an integral part of these combined financial statements.

SMILE TRAIN, INC. AND AFFILIATES
Notes to Combined Financial Statements
June 30, 2016 and 2015

1. ORGANIZATION

Nature of Operations

Smile Train, Inc. and Affiliates (“Smile Train”) is an international children’s charity with a sustainable approach to a single, solvable problem: cleft lip and palate. Millions of children in developing countries with untreated clefts live in isolation, but more importantly, have difficulty eating, breathing and speaking. Cleft repair surgery is simple, and the transformation is immediate. Our sustainable model provides training, funding and resources to empower local doctors in 85+ developing countries to provide 100%-free cleft repair surgery and comprehensive cleft care in their own communities.

The Smile Train UK (“UK”), a non-profit organization, was incorporated in March 2006 under the laws of the United Kingdom as an affiliate of Smile Train, Inc. The Smile Train UK Trading Company Limited was incorporated in June 2014 under the Companies Act 2006 as a private company that is limited by shares with UK as the sole member.

The Smile Train Canada (“Canada”) was incorporated in July 2008 as a corporation without share capital under the Canada Corporations Act. On July 4, 2015, Smile Train Canada’s charitable status was revoked and the entity was dissolved during fiscal 2016.

The Smile Train India (“India”) was incorporated in August 2009 as a not-for-profit company under Section 25 of the Indian Companies Act 1956 as an affiliate of Smile Train, Inc.

The Smile Train Stiftung (“Germany”) was incorporated in October 2008 under civil law.

The Smile Train, Inc. Beijing Representative Office (“BRO”) was established in December 2013 as a non-governmental organization in China.

Yayasan Smile Train Indonesia (“Indonesia”) was incorporated as a Foundation in October 2014 pursuant to Pancasila and the 1945 Constitution of the Republic of Indonesia.

Smile Train Inc. established a branch office in the International Humanitarian City, Dubai, UAE in December 2014.

Smile Train Philippines Foundation, Inc. (“Philippines”) was incorporated as a non-stock, non-profit organization in April 2016 in accordance with the Corporation Code of the Philippines (Batas Pambansa Blg.68).

UK, Canada, India, Germany, Indonesia, and Philippines’s objectives are congruent with Smile Train’s mission. These objectives are achieved through an ongoing marketing campaign used to raise awareness and receive donations within the United Kingdom, Canada, India, Germany, Indonesia and Philippines. Donations, net of related costs, are then made to Smile Train, which has the infrastructure in place to carry out the collective mission.

Smile Train France (“France”) and Smile Train International, LLC are also affiliates of Smile Train, Inc. France was incorporated in October 2008 as a charity organization under the laws of the country. Smile Train International, LLC was formed in August 2013 exclusively to carry out the charitable and educational purposes of its sole member, Smile Train, Inc. These affiliates did not have any operating activities during the years ended June 30, 2016 and 2015.

SMILE TRAIN, INC. AND AFFILIATES
Notes to Combined Financial Statements
June 30, 2016 and 2015

Tax Status

The IRS has recognized Smile Train, Inc. as a public charity exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the “Code”); Smile Train has likewise obtained exemption from state and local taxes in New York and some other jurisdictions in which it operates.

The Smile Train UK is a registered charity and as such is potentially exempt from taxation on its income and gains, to the extent that they fall within the charity exemptions in the Corporation Tax Act 2010 or Section 256 Taxation of Chargeable Gains Act 1992. During the years ended June 30, 2016 and 2015, a tax charge of \$0 and \$126,819, respectively, arose from the charity’s commercial trading activities. The Smile Train UK is registered with HMRC in the UK for VAT purposes and, in common with many other charities, is unable to recover the majority of VAT that is incurred on purchases of goods and services in the UK. The Smile Train UK Trading Company Limited is a private company and was established to carry the commercial trading activities of its sole member, The Smile Train UK.

The Smile Train Canada was classified as a registered charity as defined in paragraph 149(1)(f) of the Canada Corporations Act (the “Act”) and, therefore, is exempt from income taxes provided that it complies with donation and certain other requirements as specified by the Act.

Smile Train India is registered with the Indian Revenue Service in India but has no taxable income. Donations to this subsidiary are eligible for tax deductibility to the extent of 50% under Section 80G of the Indian Income Tax Act.

According to the certificate from the tax office in Munich, Germany, Smile Train Stiftung is recognized as a charitable foundation. Smile Train Stiftung exclusively and immediately serves non-profitable purposes according to Art. 51 et seqq. of the German fiscal code.

Yayasan Smile Train Indonesia is a non-profit institution in accordance with the Law Number 16 of 2001 as amended by Law Number 28 of 2004 concerning Foundation and all its amendment.

The Smile Train, Inc. Beijing Representative Office is a non-governmental organization and is subject to enterprise income tax and business tax pursuant to the Provisional Regulations of the People’s Republic of China. The BRO has been approved to use the actual income and costs and expenses tax return declaration method of the State Council which results in zero tax liability due to the nature of the BRO’s activities.

Smile Train Philippines Foundation, Inc. is registered as non-stock, non-profit organization, the Foundation falls under Section 30(E) of the Republic Act No. 8424, “An Act Amending the National Internal Revenue Code, as Amended, and for Other Purposes”. The receipts from activities conducted in pursuit of the objectives for which the Foundation was established are exempt from income tax. However, any income arising from its real or personal properties, or from activities conducted for profit, regardless of the disposition made of such income, is subject to income tax.

SMILE TRAIN, INC. AND AFFILIATES
Notes to Combined Financial Statements
June 30, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The classification of Smile Train's net assets are based on the existence or absence of donor imposed restrictions. Amounts for each of the three classes of net assets (unrestricted, temporarily restricted and permanently restricted) are displayed in the accompanying combined statements of financial position and changes in each of those classes of net assets are displayed in the accompanying combining statements of activities and changes in net assets. The combined financial statements of Smile Train have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require Smile Train to report information regarding its combined financial position and activities according to the following net asset classifications:

Unrestricted net assets

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. The unrestricted net assets may be used at the discretion of Smile Train's management and the Board of Directors.

Temporarily restricted net assets

Net assets subject to donor-imposed stipulations that will be met by actions of Smile Train and/or the passage of time.

Permanently restricted net assets

Net assets which include donor-imposed restrictions that stipulate that the resources are to be maintained in perpetuity. Income earned on permanently restricted net assets is available to be used in the unrestricted or temporarily restricted net asset class, based on stipulations by the donors. As of June 30, 2016 and 2015, Smile Train did not have any permanently restricted net assets.

The combined financial statements include the accounts of Smile Train and its affiliates, UK, Canada, India, Germany, Indonesia, and Philippines. All intercompany balances and transactions have been eliminated in combination.

Cash and Cash Equivalents

Smile Train considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents, except for those amounts that are held in the investment portfolio which are considered to be invested for long-term purposes.

Concentrations of Credit

Financial instruments which potentially subject Smile Train to concentrations of credit risk consist primarily of cash and cash equivalents and investments. Smile Train maintains cash and cash equivalents and investments in depository accounts with creditworthy, high-quality financial institutions which, at times, may exceed federally insured limits. Smile Train has not experienced, nor does it anticipate, any losses with respect to such accounts and believes it is not exposed to any significant credit risk related to its cash, cash equivalents or investments.

SMILE TRAIN, INC. AND AFFILIATES
Notes to Combined Financial Statements
June 30, 2016 and 2015

Investments

Investments are measured and reported at fair value. Changes in fair value are reported as net investment income in the accompanying combined statements of activities and changes in net assets.

The fair value of debt and equity securities with a readily determinable fair value is based on quotations obtained from national security exchanges. The fair value of non-U.S. Treasury debt securities is determined by a nationally recognized independent pricing service.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the combined statements of activities in the period in which the securities are sold. Dividends are accrued based on the ex-dividend date. Interest is recognized as earned.

The alternative investments are carried at net asset value (“NAV”) per share as provided by the investment managers as of the reporting date. Smile Train’s management reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining their estimated fair value. Due to the inherent uncertainties of these estimates, these values may differ from the values that would have been reported had a ready market for such investments existed. In 2016 and 2015, these estimated fair values represented approximately 3% of total investments, each year.

All 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 such changes could materially affect the amounts reported in the combined statements of financial position.

Fair Value Measurements

Smile Train accounts for fair value measurements under the accounting standard that establishes a hierarchy for the inputs used to measure fair value based on the nature of the data input which generally range from quoted prices for identical instruments in a principal trading market (Level 1) to estimates determined using related market data (Level 3). Multiple inputs may be used to measure fair value.

- Level 1: Measurements that are most observable are based on quoted prices of identical instruments obtained from principal markets in which they are traded. Closing prices are both readily available and representative of fair value. Market transactions occur with sufficient frequency and volume to ensure liquidity.
- Level 2: Measurements derived indirectly from observable inputs or from quoted prices from markets that are less liquid. Measurements may consider inputs that other market participants would use in valuing a portfolio, quoted market prices for similar securities, interest rates, credit risks, and others.
- Level 3: Measurements that are least observable are estimated from related market data, determined from sources with little or no market activity for comparable contracts, or are positions with longer durations.

Inputs are used in applying the various valuation techniques and broadly refer to the assumption that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price

SMILE TRAIN, INC. AND AFFILIATES
Notes to Combined Financial Statements
June 30, 2016 and 2015

information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by Smile Train's management. Smile Train considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to Smile Train's perceived risk of that instrument.

In 2015, the Financial Accounting Standards Board ("FASB") issued guidance amending the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. The amendments within this update must be applied retrospectively to all periods presented. As such, Smile Train adopted this guidance for the years ended June 30, 2016 and 2015. This new guidance only amended disclosure requirements and did not have any impact on Smile Train's combined statements of financial position or combined statements of activities and changes in net assets for the years presented.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contributions. Conditional promises to give are not included as support until the conditions are met. As of June 30, 2016 and 2015, Smile Train's contributions receivable consisted of unconditional promises to give that are expected to be collected within one year and Smile Train was not aware of any conditional promises.

Surgery Advances

Smile Train advances money to Smile Train partners to either establish or help sustain cleft treatment programs. Surgery advances are included in prepaid expenses and other assets in the accompanying combined statements of financial position.

Furniture and Equipment, net

Smile Train capitalizes expenditures for furniture and equipment and leasehold improvements in excess of \$1,000 which are stated at cost less accumulated depreciation and amortization. Management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered. Depreciation and amortization are calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. The useful lives range from three to five years. Maintenance and repair costs are expensed as incurred.

Grants and Contracts Payable

Grants and contracts payable include all unconditional awards that have been authorized prior to Smile Train's fiscal year end, but remain unpaid as of June 30, 2016 and 2015. Conditional grants are expensed and considered an obligation in the period the conditions are substantially satisfied.

SMILE TRAIN, INC. AND AFFILIATES
Notes to Combined Financial Statements
June 30, 2016 and 2015

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a donor's restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities and changes in net assets as net assets released from restrictions.

Contributions In-Kind

Contributions in-kind include donated services, materials, use of facilities and equipment and are recorded at their fair value on the date of donation. Volunteers have also donated time to Smile Train's program services and fundraising campaigns. These services were not reflected in the accompanying combined statement of activities and changes in net assets because they do not meet the necessary criteria for recognition under US GAAP.

Advertising

Smile Train expenses the cost of advertising as incurred. Advertising expense was \$8,094,588 and \$6,435,339 for the years ended June 30, 2016 and 2015, respectively.

Donated Securities

Donated securities are promptly sold and recorded at their fair values as of the date they are received.

Functional Allocation

The costs of providing program services and other activities of Smile Train have been classified on a functional basis in the combined statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management allocates the direct costs of its operations to its programs and services based upon the percentage of direct labor costs charged to each program and supporting services by Smile Train's staff.

Use of Estimates

The preparation of the combined financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Foreign Currency Translation

The functional currencies for the UK, Canada, India, Germany, Indonesia, and Philippines are the pound sterling, Canadian dollars, Indian rupees, Euros, Indonesian rupiah, and Philippine peso respectively. All elements of the combined financial statements are translated using the appropriate exchange rate. For assets and liabilities, the exchange rate at the date of the combined statement of financial position is used. For support and revenues, expenses, and gains and losses, an appropriately weighted average exchange rate for the period is used to translate those amounts.

Income Taxes

Smile Train, Inc. follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and

SMILE TRAIN, INC. AND AFFILIATES
Notes to Combined Financial Statements
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measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the combined financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

Smile Train, Inc. is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. Smile Train has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. Smile Train has determined that there are no material uncertain tax positions that require recognition or disclosure in the combined financial statements.

Subsequent Events

Subsequent events have been evaluated through May 11, 2017, which is the date the combined financial statements were available to be issued. Smile Train is not aware of any subsequent event that would require recognition or disclosure in the combined financial statements.

3. INVESTMENTS

Investments held by Smile Train are reported at fair value and consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 14,545,783	\$ 11,423,850
Equities - stocks and mutual funds	135,239,227	164,855,339
Fixed income - mutual funds	24,137,103	23,950,831
Real estate - mutual funds	5,694,989	5,132,368
Commodities - mutual funds	757,786	870,270
Arbitrage - mutual funds	4,415,076	4,996,047
Fixed income - government bonds	22,678,672	9,767,310
Fixed income - corporate bonds	32,383,584	23,940,774
Alternative assets - hedge funds	6,698,836	7,182,631
Total investments	<u>\$ 246,551,056</u>	<u>\$ 252,119,420</u>

SMILE TRAIN, INC. AND AFFILIATES
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Investment income (loss), net, for the years ended June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 7,741,987	\$ 7,065,542
Net unrealized and realized (loss) gain on investments	(12,702,883)	(729,877)
Investment fees	(1,126,081)	(1,196,740)
	<u>\$ (6,086,977)</u>	<u>\$ 5,138,925</u>

The following tables provide the fair value hierarchy of Smile Train's investments as of June 30, 2016 and 2015:

	<u>2016</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Cash and cash equivalents				\$ 14,545,783
Equities - stocks:				
Basic materials	\$ 934,693	\$ -	\$ -	934,693
Biotechnology	120,125	-	-	120,125
Consumer - discretionary	7,465,542	-	-	7,465,542
Consumer - staples	5,602,711	-	-	5,602,711
Energy	2,970,197	-	-	2,970,197
Financials	9,246,462	-	-	9,246,462
Healthcare	8,792,645	-	-	8,792,645
Industrials	6,867,466	-	-	6,867,466
Information technology	9,163,603	-	-	9,163,603
Materials	1,438,520	-	-	1,438,520
Services	1,402,716	-	-	1,402,716
Technology	1,307,515	-	-	1,307,515
Telecom services	1,009,153	-	-	1,009,153
Utilities	1,549,071	-	-	1,549,071
Equities - mutual funds:				
Domestic	59,688,973	-	-	59,688,973
International	17,679,835	-	-	17,679,835
Fixed income - mutual funds	24,137,103	-	-	24,137,103
Real estate - mutual funds	5,694,989	-	-	5,694,989
Commodities - mutual funds	757,786	-	-	757,786
Arbitrage - mutual funds	4,415,076	-	-	4,415,076
Fixed income - government bonds	3,198,180	19,480,492	-	22,678,672
Fixed income - corporate bonds	-	32,383,584	-	32,383,584
	<u>\$ 173,442,361</u>	<u>\$ 51,864,076</u>	<u>\$ -</u>	239,852,220
Investments measured at NAV				<u>6,698,836</u>
Total investments				<u>\$ 246,551,056</u>

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Notes to Combined Financial Statements
June 30, 2016 and 2015

	2015			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents				\$ 11,423,850
Equities - stocks:				
Basic materials	\$ 1,709,275	\$ -	\$ -	1,709,275
Biotechnology	168,595	-	-	168,595
Consumer - discretionary	9,528,425	-	-	9,528,425
Consumer - staples	7,393,000	-	-	7,393,000
Energy	4,250,493	-	-	4,250,493
Financials	13,214,377	-	-	13,214,377
Healthcare	10,760,877	-	-	10,760,877
Industrials	9,292,811	-	-	9,292,811
Information technology	11,020,510	-	-	11,020,510
Materials	2,399,112	-	-	2,399,112
Services	1,820,334	-	-	1,820,334
Technology	1,920,582	-	-	1,920,582
Telecom services	797,585	-	-	797,585
Utilities	2,021,517	-	-	2,021,517
Equities - mutual funds:				
Domestic	50,331,730	-	-	50,331,730
International	38,226,116	-	-	38,226,116
Fixed income - mutual funds	23,950,831	-	-	23,950,831
Real estate - mutual funds	5,132,368	-	-	5,132,368
Commodities - mutual funds	870,270	-	-	870,270
Arbitrage - mutual funds	4,996,047	-	-	4,996,047
Fixed income - government bonds	-	9,767,310	-	9,767,310
Fixed income - corporate bonds	-	23,940,774	-	23,940,774
	<u>\$ 199,804,855</u>	<u>\$ 33,708,084</u>	<u>\$ -</u>	244,936,789
Investments measured at NAV				<u>7,182,631</u>
Total Investments				<u>\$ 252,119,420</u>

The fixed income government bonds and fixed income corporate bonds employ a strategy of direct holdings of treasuries and fixed income positions to seek maximum total return consistent with the preservation of capital. The fair value estimates of such fixed income securities are based on observable market information rather than market quotes as of the measurement date. Accordingly, the estimates of fair value for such fixed income securities, are included in the fixed income securities amount disclosed in Level 2 of the hierarchy.

Smile Train's equity securities trade on a major exchange. Accordingly, such equity securities are disclosed in Level 1 of the hierarchy.

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Smile Train invests in one hedge fund. This fund is not available to retail investors and is not publicly traded. The fair value estimates of this investment is based on NAV as provided by the respective investment manager. Because Smile Train uses NAV as a practical expedient for fair value, these investments are excluded from the fair value hierarchy.

Information with respect to redemption terms, strategies, risks and funding commitments for this investment as of June 30, 2016 and 2015 is as follows:

2016							
Strategy	Significant Investment Strategy	NAV in Funds	\$ Amount of Unfunded Commitments	Timing of Draw Down Commitments	Redemption Frequency	Redemption Notice Period	Redemption Restrictions
Citi Hedge Fund (a)	Multi-strategy fund of hedge funds portfolio	\$ 6,698,836	\$ -	None	Quarterly	90 calendar days	N/A

2015							
Strategy	Significant Investment Strategy	NAV in Funds	\$ Amount of Unfunded Commitments	Timing of Draw Down Commitments	Redemption Frequency	Redemption Notice Period	Redemption Restrictions
Citi Hedge Fund (a)	Multi-strategy fund of hedge funds portfolio	\$ 7,182,631	\$ -	None	Quarterly	90 calendar days	N/A

- (a) The Citi hedge fund investment is a concentrated, multi-strategy fund of hedge fund portfolio that seeks to provide investors attractive long-term capital appreciation, with moderate volatility and correlation to the broad equity and fixed income markets. In order to manage the overall volatility of its investments, this series primarily invests with portfolio managers employing different investment strategies. Due to this investment objective, the investment is intended for investors who are willing to subject their principal to increased risk in order to potentially generate a greater rate of return. The investment has provisions for quarterly redemptions provided that notice is made in writing 90 days prior to the applicable withdrawal date.

4. FURNITURE AND EQUIPMENT, NET

Furniture and equipment, net, consisted of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 360,000	\$ 360,000
Furniture and equipment	1,292,684	1,125,731
Leasehold improvements	<u>458,365</u>	<u>458,365</u>
Total	2,111,049	1,944,096
Less: accumulated depreciation	<u>(1,175,175)</u>	<u>(830,513)</u>
Furniture and equipment, net	<u>\$ 935,874</u>	<u>\$ 1,113,583</u>

Depreciation expense was \$344,662 and \$341,905 for the years ended June 30, 2016 and 2015. Smile Train wrote off \$1,036,390 in fully depreciated assets during the year ended June 30, 2015.

SMILE TRAIN, INC. AND AFFILIATES
Notes to Combined Financial Statements
June 30, 2016 and 2015

5. CONTRIBUTIONS IN-KIND

Contributions in-kind consisted of the following for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Grants and contracts with treatment partners	\$ 59,371,836	\$ 57,506,530
Medical advisory services	640,312	561,300
Consulting services	20,988	189,525
Software	64,800	97,600
Advertising	3,365,578	64,000
Medical supplies	-	73,705
Total contributions in-kind	<u>\$ 63,463,514</u>	<u>\$ 58,492,660</u>

Grants and contracts with treatment partners consist of hospitals, doctors, and other providers performing surgeries and related services that are compensated at contract rates that are below the rates they charge based on their respective fee schedules. Smile Train adopted the policy of determining contributions of their services based on the excess of the fair value rates established on their fee schedules over the contract rates negotiated between them and Smile Train.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Treatment program services	\$ 538,025	\$ 512,065
Other	<u>72,572</u>	<u>83,857</u>
	<u>\$ 610,597</u>	<u>\$ 595,922</u>

During the years ended June 30, 2016 and 2015, net assets were released from donor restrictions (by incurring expenses satisfying the restrictions) as follows:

	<u>2016</u>	<u>2015</u>
Treatment program services	\$ 455,744	\$ 1,326,149
Other	<u>171,285</u>	<u>248,113</u>
	<u>\$ 627,029</u>	<u>\$ 1,574,262</u>

SMILE TRAIN, INC. AND AFFILIATES
Notes to Combined Financial Statements
June 30, 2016 and 2015

7. ALLOCATION OF JOINT COSTS

Smile Train conducts direct mail campaigns and print advertising that include a program/educational component, along with the request for contributions. The costs of conducting these joint activities were allocated as follows:

	<u>2016</u>	<u>2015</u>
Program (education)	\$ 7,816,433	\$ 7,426,330
Fundraising	<u>6,000,946</u>	<u>9,797,117</u>
Total joint costs	13,817,379	17,223,447
Direct program	3,828,242	197,135
Direct fundraising	<u>11,471,566</u>	<u>12,767,851</u>
Total	<u>\$ 29,117,187</u>	<u>\$ 30,188,433</u>

8. SPECIAL EVENTS

On October 1, 2015 and May 7, 2016, Smile Train held two events to raise money and awareness for children with clefts. The proceeds of which are included within contributions in the combined statements of activities and changes in net assets. Smile Train received the following proceeds from these special events during the year ended June 30, 2016:

	<u>Gross Proceeds</u>	<u>Direct Costs</u>	<u>Net</u>
World Smile Day	\$ 16,510	\$ (16,527)	\$ (17)
An Evening of Smiles	<u>43,114</u>	<u>(20,057)</u>	<u>23,057</u>
Total	<u>\$ 59,624</u>	<u>\$ (36,584)</u>	<u>\$ 23,040</u>

9. COMMITMENTS AND CONTINGENCIES

Operating Leases

On May 5, 2008, Smile Train entered into a non-cancelable operating lease for its existing office space, the terms of which included the sublet and relocation of its prior New York office space through the expiration of such prior lease. The office lease agreement commenced May 2008 and extends to June 2018.

As of June 30, 2016, the minimum future annual rental payments are as follows:

2017	\$ 955,508
2018	<u>955,508</u>
Total	<u>\$ 1,911,016</u>

Rent expense for Smile Train Inc. and its affiliates was \$1,166,815 and \$1,143,047 for the years ended June 30, 2016 and 2015, respectively.

SMILE TRAIN, INC. AND AFFILIATES
Notes to Combined Financial Statements
June 30, 2016 and 2015

Contingencies

In the normal course of its operations, Smile Train is a party to various legal proceedings and complaints, some of which are covered by insurance. While it is not feasible to predict the ultimate outcomes of such matters, management of Smile Train is not aware of any claims or contingencies that would have a material adverse effect on Smile Train's combined financial position, changes in net assets or cash flows.

10. RETIREMENT PLAN

Smile Train Inc. established a defined contribution retirement plan, which covers all eligible full-time employees. Smile Train matches 100% of employees' contributions up to 6% of an employee's salary. Smile Train's contributions for the years ended June 30, 2016 and 2015, were \$249,116 and \$209,723, respectively.

11. RELATED-PARTY TRANSACTIONS

Smile Train has a contractual agreement with a company to manage the cleft patients database (Smile Train Express) and to maintain Smile Train's medical website, medpro.smiletrain.org. For each of the years ended June 30, 2016 and 2015, Smile Train paid the company \$96,000. The principal shareholder of the company is related to the chairman of the board of directors of Smile Train, who also serves on the board of directors of the company.

SUPPLEMENTARY INFORMATION

SMILE TRAIN, INC. AND AFFILIATES
Combining Schedule of Financial Position
As of June 30, 2016

	Smile Train, Inc.	Smile Train Germany	Smile Train UK	Smile Train UK-TS	Smile Train Canada	Smile Train Indonesia	Smile Train India	Smile Train Philippines	Eliminations	Total
ASSETS										
Cash and cash equivalents	\$ 15,860,109	\$ 135,829	\$ 1,654,987	\$ 134,837	\$ 187	\$ 111,024	\$ 554,261	\$ 21,250	\$ -	\$ 18,472,484
Investments	246,551,056	-	-	-	-	-	-	-	-	246,551,056
Contributions receivable	355,766	-	693,876	-	-	-	-	-	-	1,049,642
Due from affiliates	78,200	-	114,209	-	-	-	-	-	(192,409)	-
Prepaid expenses and other assets	1,093,287	328	18,385	-	-	3,551	-	-	-	1,115,551
Furniture and equipment, net	935,836	-	38	-	-	-	-	-	-	935,874
Total assets	<u>\$ 264,874,254</u>	<u>\$ 136,157</u>	<u>\$ 2,481,495</u>	<u>\$ 134,837</u>	<u>\$ 187</u>	<u>\$ 114,575</u>	<u>\$ 554,261</u>	<u>\$ 21,250</u>	<u>\$ (192,409)</u>	<u>\$ 268,124,607</u>
LIABILITIES AND NET ASSETS										
LIABILITIES										
Grants and contracts payable	\$ 1,971,715	\$ -	\$ -	\$ -	\$ -	\$ 302,239	\$ 1,262,510	\$ -	\$ -	\$ 3,536,464
Accounts payable and accrued expenses	3,091,159	162,749	393,474	20,628	-	5,332	-	-	-	3,673,342
Deferred rent liability	57,264	-	-	-	-	-	-	-	-	57,264
Due to affiliates	-	-	78,200	114,209	-	-	-	-	(192,409)	-
Total liabilities	<u>5,120,138</u>	<u>162,749</u>	<u>471,674</u>	<u>134,837</u>	<u>-</u>	<u>307,571</u>	<u>1,262,510</u>	<u>-</u>	<u>(192,409)</u>	<u>7,267,070</u>
NET ASSETS (DEFICIT)										
Unrestricted	259,159,481	(26,592)	1,993,859	-	187	(192,996)	(708,249)	21,250	-	260,246,940
Temporarily restricted	594,635	-	15,962	-	-	-	-	-	-	610,597
Total net assets (deficit)	<u>259,754,116</u>	<u>(26,592)</u>	<u>2,009,821</u>	<u>-</u>	<u>187</u>	<u>(192,996)</u>	<u>(708,249)</u>	<u>21,250</u>	<u>\$ -</u>	<u>260,857,537</u>
Total liabilities and net assets	<u>\$ 264,874,254</u>	<u>\$ 136,157</u>	<u>\$ 2,481,495</u>	<u>\$ 134,837</u>	<u>\$ 187</u>	<u>\$ 114,575</u>	<u>\$ 554,261</u>	<u>\$ 21,250</u>	<u>\$ (192,409)</u>	<u>\$ 268,124,607</u>

This schedule should be read in conjunction with the accompanying report of independent certified public accounts and the combined financial statements and notes thereto.

SMILE TRAIN, INC. AND AFFILIATES
Combining Schedule of Activities and Changes in Net Assets
For the year ended June 30, 2016

	Smile Train, Inc.			Smile Train UK			Smile Train Canada	Smile Train India	Smile Train Germany	Smile Train Indonesia	Smile Train Philippines	Eliminations	Combined Total		
	Temporarily		Total	Temporarily		Total	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Eliminations	Unrestricted	Temporarily	
	Unrestricted	Restricted		Unrestricted	Restricted									Unrestricted	Restricted
Support and revenue:															
Contributions	\$ 82,129,804	\$ 626,688	\$ 82,756,492	\$ 10,092,534	\$ 15,016	\$ 10,107,550	\$ 4,427	\$ 8,544,319	\$ 3,617,560	\$ 423,045	\$ 21,390	\$ (18,823,701)	\$ 86,009,378	\$ 641,704	\$ 86,651,082
Contributions in-kind	43,090,238	-	43,090,238	424,104	-	424,104	-	16,224,073	-	4,149,203	-	(424,104)	63,463,514	-	63,463,514
Investment income (loss)	(6,086,977)	-	(6,086,977)	-	-	-	-	-	-	-	-	-	(6,086,977)	-	(6,086,977)
Other income	342,319	-	342,319	147,856	-	147,856	5	-	-	118	-	-	490,298	-	490,298
Gains (losses) in currency translations	(11,944)	-	(11,944)	(124,067)	-	(124,067)	(3,731)	15,358	(179)	(24,125)	(140)	-	(148,828)	-	(148,828)
Net assets released from restriction:															
Satisfaction of purpose restriction	624,633	(624,633)	-	2,396	(2,396)	-	-	-	-	-	-	-	627,029	(627,029)	-
Total support and revenue	120,088,073	2,055	120,090,128	10,542,823	12,620	10,555,443	701	24,783,750	3,617,381	4,548,241	21,250	(19,247,805)	144,354,414	14,675	144,369,089
Expenses:															
Program services:															
Treatment	83,422,774	-	83,422,774	7,205,829	-	7,205,829	-	25,402,081	2,641,538	4,717,120	-	(18,823,701)	104,565,641	-	104,565,641
Training	1,321,074	-	1,321,074	-	-	-	-	-	-	-	-	-	1,321,074	-	1,321,074
Public education	12,465,637	-	12,465,637	368,546	-	368,546	-	-	-	-	-	-	12,834,183	-	12,834,183
Total program services	97,209,485	-	97,209,485	7,574,375	-	7,574,375	-	25,402,081	2,641,538	4,717,120	-	(18,823,701)	118,720,898	-	118,720,898
Support services:															
Management and general	1,311,153	-	1,311,153	793,840	-	793,840	62,132	2,856	32,443	45,503	-	(123,206)	2,124,721	-	2,124,721
Fundraising	18,837,924	-	18,837,924	3,004,170	-	3,004,170	(1,509)	87,244	999,809	-	-	(300,898)	22,626,740	-	22,626,740
Total support services	20,149,077	-	20,149,077	3,798,010	-	3,798,010	60,623	90,100	1,032,252	45,503	-	(424,104)	24,751,461	-	24,751,461
Total expenses	117,358,562	-	117,358,562	11,372,385	-	11,372,385	60,623	25,492,181	3,673,790	4,762,623	-	(19,247,805)	143,472,359	-	143,472,359
Change in net assets	2,729,511	2,055	2,731,566	(829,562)	12,620	(816,942)	(59,922)	(708,431)	(56,409)	(214,382)	21,250	-	882,055	14,675	896,730
Net assets, beginning of year	256,429,970	592,580	257,022,550	2,823,421	3,342	2,826,763	60,109	182	29,817	21,386	-	-	259,364,885	595,922	259,960,807
Net assets (deficit), end of year	\$ 259,159,481	\$ 594,635	\$ 259,754,116	\$ 1,993,859	\$ 15,962	\$ 2,009,821	\$ 187	\$ (708,249)	\$ (26,592)	\$ (192,996)	\$ 21,250	\$ -	\$ 260,246,940	\$ 610,597	\$ 260,857,537

This schedule should be read in conjunction with the accompanying report of independent certified public accounts and the combined financial statements and notes thereto.