

SMILE TRAIN, INC. AND AFFILIATES

Combined Financial Statements
For the Years Ended June 30, 2010 and 2009
With Report of Independent Auditors

SMILE TRAIN, INC. AND AFFILIATES
June 30, 2010 and 2009

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Smile Train, Inc. and Affiliates

We have audited the accompanying combined statements of financial position of Smile Train, Inc. and Affiliates (“Smile Train”) as of June 30, 2010 and 2009, and the related combined statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of Smile Train’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Smile Train UK and Smile Train Canada, collectively, the Affiliates, which reflect total assets of \$4,241,588 as of June 30, 2010 and total revenues of \$19,352,584 for the year then ended. We also did not audit the financial statements of Smile Train UK as of June 30, 2009 and for the year then ended, which reflected total assets of \$2,185,305 and total revenues of \$21,828,920. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Smile Train UK and Smile Train Canada, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. We were not engaged to perform an audit of Smile Train’s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the combined financial position of Smile Train Inc. and Affiliates as of June 30, 2010 and 2009, and the combined change in their net assets and their combined cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.



March 29, 2011

SMILE TRAIN, INC. AND AFFILIATES

Combined Statements of Financial Position

As of June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 17,377,866	\$ 12,383,944
Investments	128,390,810	101,730,111
Contributions receivable	347,676	1,548,808
Prepaid and other assets	-	266,141
Security deposit	3,795	28,449
Furniture and equipment, net	<u>302,195</u>	<u>282,364</u>
 Total assets	 <u>\$ 146,422,342</u>	 <u>\$ 116,239,817</u>
 LIABILITIES AND NET ASSETS		
<i>Liabilities</i>		
Grants and contracts payable	\$ 9,495,073	\$ 9,171,325
Accounts payable and accrued expenses	<u>2,325,631</u>	<u>1,046,489</u>
 Total liabilities	 <u>11,820,704</u>	 <u>10,217,814</u>
 <i>Net assets</i>		
Unrestricted	119,688,068	90,686,727
Temporarily restricted	<u>14,913,570</u>	<u>15,335,276</u>
 Total net assets	 <u>134,601,638</u>	 <u>106,022,003</u>
 Total liabilities and net assets	 <u>\$ 146,422,342</u>	 <u>\$ 116,239,817</u>

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

SMILE TRAIN, INC. AND AFFILIATES
 Combined Statements of Activities and Change in Net Assets
 For the Years ended June 30, 2010 and 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Contributions	\$ 119,939,262	\$ 1,690,190	\$ 121,629,452	\$ 88,919,208	\$ 2,540,673	\$ 91,459,881
Contributions in-kind	27,174,216	-	27,174,216	26,792,703	-	26,792,703
Investment gains (losses)	13,195,074	-	13,195,074	(16,524,246)	-	(16,524,246)
Other income	297,493	-	297,493	452,187	-	452,187
<i>Net assets released from restriction</i>						
Satisfaction of purpose restriction	2,111,896	(2,111,896)	-	7,743,012	(7,743,012)	-
Total support and revenue	<u>162,717,941</u>	<u>(421,706)</u>	<u>162,296,235</u>	<u>107,382,864</u>	<u>(5,202,339)</u>	<u>102,180,525</u>
EXPENSES						
Treatment	78,874,765	-	78,874,765	70,607,813	-	70,607,813
Training	2,174,521	-	2,174,521	2,262,976	-	2,262,976
Public education	28,896,759	-	28,896,759	11,603,280	-	11,603,280
Management and general	1,187,089	-	1,187,089	1,384,889	-	1,384,889
Fundraising	22,583,466	-	22,583,466	18,883,454	-	18,883,454
Total expenses	<u>133,716,600</u>	<u>-</u>	<u>133,716,600</u>	<u>104,742,412</u>	<u>-</u>	<u>104,742,412</u>
Change in net assets	29,001,341	(421,706)	28,579,635	2,640,452	(5,202,339)	(2,561,887)
Net assets, beginning of year	<u>90,686,727</u>	<u>15,335,276</u>	<u>106,022,003</u>	<u>88,046,275</u>	<u>20,537,615</u>	<u>108,583,890</u>
Net assets, end of year	<u><u>\$ 119,688,068</u></u>	<u><u>\$ 14,913,570</u></u>	<u><u>\$ 134,601,638</u></u>	<u><u>\$ 90,686,727</u></u>	<u><u>\$ 15,335,276</u></u>	<u><u>\$ 106,022,003</u></u>

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

SMILE TRAIN, INC. AND AFFILIATES

Combined Statements of Cash Flows

For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 28,579,635	\$ (2,561,887)
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities</i>		
Depreciation	163,112	166,534
Unrealized and realized (gains) losses on investments	(11,582,260)	17,667,322
Donated securities	(349,318)	(178,423)
Decrease in contributions receivable	1,201,132	451,192
Decrease in prepaid and other assets and security deposit	290,795	299,218
Increase (decrease) in grants and contracts payable	323,748	(356,392)
Increase in accounts payable and accrued expenses	1,279,142	449,959
	<u>19,905,986</u>	<u>15,937,523</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities	(31,849,444)	(29,191,281)
Proceeds from sale of securities	17,120,323	17,095,081
Purchases of furniture and equipment	(182,943)	(175,846)
	<u>(14,912,064)</u>	<u>(12,272,046)</u>
Net cash used in investing activities	(14,912,064)	(12,272,046)
Net increase in cash and cash equivalents	4,993,922	3,665,477
Cash and cash equivalents, beginning of year	<u>12,383,944</u>	<u>8,718,467</u>
Cash and cash equivalents, end of year	<u><u>\$ 17,377,866</u></u>	<u><u>\$ 12,383,944</u></u>
Supplementary disclosure		
Non-cash transactions (Note 8)		

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

SMILE TRAIN, INC. AND AFFILIATE

Combined Statement of Functional Expenses

For the Year Ended June 30, 2010

	Program Services				Supporting Services			2010 Total
	Treatment	Training	Public Education	Total	Management and General	Fundraising	Total	
Grants	\$ 20,968,751	\$ 233,107	\$ -	\$ 21,201,858	\$ -	\$ -	\$ -	\$ 21,201,858
Contracts with treatment partners	51,854,786	-	-	51,854,786	-	-	-	51,854,786
Symposia	-	908,067	-	908,067	-	-	-	908,067
Medical advisory services	-	750,925	-	750,925	-	-	-	750,925
Salaries and employee benefits	1,971,747	155,081	476,321	2,603,149	184,621	944,222	1,128,843	3,731,992
Professional fees	2,065,684	-	-	2,065,684	601,270	415,769	1,017,039	3,082,723
Rents	442,896	34,835	106,992	584,723	41,470	203,201	244,671	829,394
Office expenses	1,081,438	85,057	261,246	1,427,741	183,416	496,166	679,582	2,107,323
Repair and maintenance	7,609	598	1,838	10,045	712	3,491	4,203	14,248
Travel, food, and other	394,752	-	-	394,752	72,108	59,476	131,584	526,336
Printed program material and services	-	-	21,589,751	21,589,751	-	11,688,509	11,688,509	33,278,260
Loss in currency translation	-	-	-	-	95,336	-	95,336	95,336
Advertising	-	-	6,439,570	6,439,570	-	8,732,670	8,732,670	15,172,240
Depreciation	87,102	6,851	21,041	114,994	8,156	39,962	48,118	163,112
Total	\$ 78,874,765	\$ 2,174,521	\$ 28,896,759	\$ 109,946,045	\$ 1,187,089	\$ 22,583,466	\$ 23,770,555	\$ 133,716,600

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

SMILE TRAIN, INC. AND AFFILIATE

Combined Statement of Functional Expenses

For the Year Ended June 30, 2009

	Program Services				Supporting Services			
	Treatment	Training	Public Education	Total	Management and General	Fundraising	Total	Total
Grants	\$ 12,443,437	\$ 136,927	\$ -	\$ 12,580,364	\$ -	\$ -	\$ -	\$ 12,580,364
Contracts with treatment partners	53,116,017	-	-	53,116,017	-	-	-	53,116,017
Symposia	-	533,560	-	533,560	-	-	-	533,560
Medical advisory services	146,975	1,429,915	-	1,576,890	-	-	-	1,576,890
Salaries and employee benefits	1,635,877	93,976	549,307	2,279,160	219,570	856,100	1,075,670	3,354,830
Professional fees	1,792,051	-	326,983	2,119,034	315,132	369,779	684,911	2,803,945
Rents	345,999	19,877	116,182	482,058	46,441	175,783	222,224	704,282
Office expenses	758,516	43,574	254,700	1,056,790	175,036	385,361	560,397	1,617,187
Repair and maintenance	7,796	447	2,618	10,861	1,046	3,961	5,007	15,868
Travel, food, and other	279,330	-	-	279,330	97,706	4,927	102,633	381,963
Printed program material and services	-	-	10,326,018	10,326,018	-	10,645,206	10,645,206	20,971,224
Advertising	-	-	-	-	-	6,400,771	6,400,771	6,400,771
Loss in currency translation	-	-	-	-	518,977	-	518,977	518,977
Depreciation	81,815	4,700	27,472	113,987	10,981	41,566	52,547	166,534
Total	\$ 70,607,813	\$ 2,262,976	\$ 11,603,280	\$ 84,474,069	\$ 1,384,889	\$ 18,883,454	\$ 20,268,343	\$ 104,742,412

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

SMILE TRAIN, INC. AND AFFILIATES
Notes to Combined Financial Statements
June 30, 2010 and 2009

NOTE 1 ORGANIZATION

Corporate Purposes

Smile Train, Inc. (“Smile Train”) is a non-profit organization dedicated to helping children worldwide who are born with cleft lips and palates. Smile Train’s mission is to provide free cleft surgery for millions of poor children in developing countries and to provide free cleft-related training for doctors and medical professionals until there are no more children who need help and the problem of clefts is completely eradicated.

The Smile Train UK (“UK”), a non-profit organization, was incorporated on March 10, 2006, under the laws of the United Kingdom as an affiliate of Smile Train, Inc.

The Smile Train Canada (“Canada”), was incorporated on July 3, 2008 as a corporation without share capital under the Canada Corporations Act and is classified as a registered charity as defined in paragraph 149(1)(f) of the Act and, therefore, is exempt from income taxes.

Both UK and Canada’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 and Canada. Donations are then made to Smile Train, which has the infrastructure in place to directly meet the charity’s objectives.

Smile Train France and Smile Train Germany are also affiliates of Smile Train, Inc., and have been incorporated as charity organizations under the laws of the respective countries. These affiliates did not have any operating activities during the years then ended.

Tax Status

The IRS has classified Smile Train as a public charity; therefore, Smile Train is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the “Code”).

SMILE TRAIN, INC. AND AFFILIATES
Notes to Combined Financial Statements
June 30, 2010 and 2009

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The combined financial statements of Smile Train have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for non-profit organizations, which require Smile Train to report information regarding its financial position and activities according to the following net asset classifications:

Unrestricted net assets: Consist of resources available for the support of Smile Train's operations. The unrestricted net assets may be used at the discretion of Smile Train's management and the Board of Directors.

Temporarily restricted net assets: Represent amounts restricted by donors and grantors for specific activities of Smile Train or to be used at some future date.

Permanently restricted net assets: Contain donor-imposed restrictions that stipulate that the resources are to be maintained permanently. 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.

Basis of Combination

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

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated assets. 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 statement of activities as net assets released from restrictions.

Contributions and pledges receivable are recorded at fair value upon receipt. Commencing in fiscal 2009, the fair value of long-term contributions receivable is measured based on the present value of future cash flows, with consideration of expectation about possible variations in the amount and/or timing of the cash flows and other specific factors that would be considered by market participants.

SMILE TRAIN, INC. AND AFFILIATES
Notes to Combined Financial Statements
June 30, 2010 and 2009

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

The fair value measurements also consider donors' credit risk. Long-term contributions received prior to fiscal 2009 are measured at fair value based on the present value of cash flows utilizing risk-free discount rates. Amortization of the discount is included in contribution revenue.

Contributions in-kind, donated services, and materials are recorded at their fair value on the date of donation. Other volunteers have also donated significant time to Smile Train's program services and fundraising campaigns. These services were not reflected in the accompanying combined statements of activities because they do not meet the necessary criteria for recognition under GAAP.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Smile Train considers all highly liquid debt investments purchased with original maturities of three months or less to be cash equivalents.

Investments

Investments in mutual funds, equity, and debt securities are carried at their fair values, which are based on published unit values or quoted market prices. Investments in money market funds are carried at cost, which approximates fair value. Donated securities are recorded at their quoted market value on the date received. Investments in alternative assets are carried at values determined by the respective funds' investment advisor.

Interest earned on all investments is recognized as unrestricted revenue unless specifically restricted for use by the donor.

Furniture and Equipment

Smile Train capitalizes expenditures for furniture and equipment in excess of \$1,000. Furniture and equipment are stated at cost less accumulated depreciation. Depreciation of furniture and equipment is provided using the straight-line method over the following estimated useful lives:

Furniture	5 years
Equipment	3 years

Leasehold improvements are amortized over the term of the related lease or the estimated useful life of the improvement, whichever is shorter.

SMILE TRAIN, INC. AND AFFILIATES
Notes to Combined Financial Statements
June 30, 2010 and 2009

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Grants Payable

Grants payable include all unconditional awards that have been authorized prior to the fiscal year-end, but remain unpaid as of the year-end date. Conditional grants are expensed and considered an obligation in the period the conditions are substantially satisfied.

Advertising

Smile Train expenses the cost of advertising as incurred. Advertising expense was \$15,172,240 in 2010 and \$6,400,771 in 2009.

Functional Allocation

The costs of providing program services and other activities of Smile Train have been classified on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management in accordance with grant provisions and/or other equitable bases.

Use of Estimates

The preparation of financial statements in conformity with 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 and Canada are the pound sterling and Canadian dollars, respectively. All elements of the financial statements are translated by using the appropriate exchange rate. For assets and liabilities, the exchange rate at the date of the statement of financial position is used. For revenues, expenses, gains and losses, an appropriately weighted average exchange rate for the period is used to translate those elements.

Recent Accounting Pronouncement

During fiscal 2010, Smile Train adopted the accounting standard which clarifies the accounting for income taxes by prescribing the minimum standard a tax position is required to meet before being recognized in the financial statements. Smile Train believes that it has not taken any uncertain tax positions and the adoption of the accounting standard did not impact the accompanying financial statements.

SMILE TRAIN, INC. AND AFFILIATES
Notes to Combined Financial Statements
June 30, 2010 and 2009

NOTE 3 CONCENTRATIONS OF CREDIT

Smile Train maintains cash and investments in depository accounts which, at times, may exceed federally insured limits. Smile Train has not experienced any losses in such accounts.

Smile Train believes that it is not exposed to any significant credit risk related to its cash, cash equivalents, and investments.

NOTE 4 FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

	2010	2009
Furniture and equipment	\$ 1,085,660	\$ 902,716
Leasehold improvement	<u>127,180</u>	<u>127,180</u>
Total	1,212,840	1,029,896
Less: accumulated depreciation	<u>910,645</u>	<u>747,532</u>
Furniture and equipment—net	<u>\$ 302,195</u>	<u>\$ 282,364</u>

Depreciation expense was \$163,112 and \$166,534 for the years ended June 30, 2010 and 2009, respectively.

NOTE 5 LEASE COMMITMENTS

Smile Train had a non-cancelable lease agreement for its prior New York office space that ended on June 30, 2009 (the prior lease).

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, 2010, the minimum future annual rental payments are as follows:

2011	\$ 703,028
2012	703,028
2013	723,800
2014	723,800
2015	744,572
Thereafter	<u>2,233,717</u>
Total	<u>\$ 5,831,947</u>

Rent expense was \$829,394 and \$704,282 for the years ended June 30, 2010 and 2009, respectively.

SMILE TRAIN, INC. AND AFFILIATES
Notes to Combined Financial Statements
June 30, 2010 and 2009

NOTE 6 INVESTMENTS

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

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 4,353,168	\$ 18,850,000
Equities – stocks and mutual funds	100,202,900	52,330,081
Fixed income – mutual fund	19,497,866	13,962,269
Alternative assets – hedge funds	<u>5,016,043</u>	<u>24,245,911</u>
	129,069,977	109,388,261
Accrued income	<u>104,456</u>	<u>-</u>
Total investments	129,174,433	109,388,261
Liability for unsettled purchases of investments	<u>(783,623)</u>	<u>(7,658,150)</u>
Net	<u>\$ 128,390,810</u>	<u>\$ 101,730,111</u>

Investment gains (losses) consist of the following:

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 1,612,814	\$ 1,143,076
Net unrealized and realized gains (losses) on investments	<u>11,582,260</u>	<u>(17,667,322)</u>
	<u>\$ 13,195,074</u>	<u>\$ (16,524,246)</u>

NOTE 7 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.

SMILE TRAIN, INC. AND AFFILIATES
Notes to Combined Financial Statements
June 30, 2010 and 2009

NOTE 7 FAIR VALUE MEASUREMENTS *(continued)*

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.

The following table provides the fair value hierarchy of Smile Train's financial instruments as of June 30, 2010 and 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2010				
Cash and cash equivalents	\$ 10,235,602	\$ -	\$ -	\$ 10,235,602
<i>Investment:</i>				
Cash and cash equivalents	4,353,168	-	-	4,353,168
<i>Equities – stocks</i>				
Consumer – discretionary	6,274,889	-	-	6,274,889
Consumer – staples	21,377,061	-	-	21,377,061
Energy	5,686,618	-	-	5,686,618
Financials	26,789,236	-	-	26,789,236
Healthcare	10,234,748	-	-	10,234,748
Industrials	5,655,103	-	-	5,655,103
Information technology	9,809,227	-	-	9,809,227
Materials	4,108,172	-	-	4,108,172
<i>Equities – mutual funds</i>				
Domestic	2,188,896	-	-	2,188,896
International	8,078,950	-	-	8,078,950
Fixed income – mutual funds	19,497,866	-	-	19,497,866
<i>Alternative assets – hedge funds</i>				
Equities	-	-	4,339,643	4,339,643
Investment funds	-	-	676,400	676,400
	<u>124,053,934</u>	<u>-</u>	<u>5,016,043</u>	<u>129,069,977</u>
Total	<u>\$ 134,289,536</u>	<u>\$ -</u>	<u>\$ 5,016,043</u>	<u>\$ 139,305,579</u>

SMILE TRAIN, INC. AND AFFILIATES
Notes to Combined Financial Statements
June 30, 2010 and 2009

NOTE 7 FAIR VALUE MEASUREMENTS *(continued)*

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2009				
Cash and cash equivalents	\$ 7,968,756	\$ -	\$ -	\$ 7,968,756
<i>Investments</i>				
Cash and cash equivalents	18,850,000	-	-	18,850,000
<i>Equities – stocks</i>				
Consumer – discretionary	4,159,063	-	-	4,159,063
Consumer – staples	12,905,276	-	-	12,905,276
Energy	2,611,586	-	-	2,611,586
Financials	5,336,019	-	-	5,336,019
Healthcare	2,848,613	-	-	2,848,613
Industrials	4,026,456	-	-	4,026,456
Information technology	7,994,702	-	-	7,994,702
Materials	1,885,196	-	-	1,885,196
<i>Equities – mutual funds</i>				
Domestic	2,869,972	-	-	2,869,972
International	7,693,198	-	-	7,693,198
Fixed income – mutual funds	13,962,269	-	-	13,962,269
<i>Alternative assets – hedge funds</i>				
Equities	-	-	7,934,965	7,934,965
Investment companies	-	-	16,310,946	16,310,946
	<u>85,142,350</u>	<u>-</u>	<u>24,245,911</u>	<u>109,388,261</u>
Total	<u>\$ 93,111,106</u>	<u>\$ -</u>	<u>\$ 24,245,911</u>	<u>\$ 117,357,017</u>

The alternative assets in equity hedge funds are invested in a unit trust that invests in funds focused on investing its assets in funds or accounts managed by independent investment managers specializing in equity investments in specific Asian countries as well as the entire Asian region. While the funds are primarily invested in publicly-traded common stocks and equity-linked instruments, they also may have investments in fixed-income securities, currencies or other financial instruments, and may also hold short positions in any security or instrument.

The alternative assets in investment companies' hedge funds are invested in a fund (the Fund) whose objective is to achieve consistent, absolute returns independent of the broader market movements and generate over the long term returns within a certain range based on the London interbank offered rate. The Fund attempts to achieve this objective primarily by investing in investment companies implementing a variety of strategies in the U.S. and international securities markets. The terms and conditions of those strategies, including provisions for additional contributions and redemptions, are subject to the terms of the respective shareholder agreements. The investments generally have provisions for monthly, quarterly, semi-annual, or annual redemptions, subject to, in some cases, lock-up periods. The Fund is in the process of liquidating and distributing its assets to shareholders.

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NOTE 7 FAIR VALUE MEASUREMENTS *(continued)*

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining their value:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 24,245,911	\$ 33,463,561
Net sales	(19,117,450)	(4,125,340)
Net losses, realized/unrealized	<u>(112,418)</u>	<u>(5,092,310)</u>
Balance as end of year	<u>\$ 5,016,043</u>	<u>\$ 24,245,911</u>

The unrealized loss on investments on alternative assets amounted to \$2,075,031 at June 30, 2010 and \$4,187,406 at June 30, 2009.

NOTE 8 CONTRIBUTIONS IN-KIND

Contributions in-kind consisted of the following:

	<u>2010</u>	<u>2009</u>
Contracts with treatment providers	\$ 26,423,291	\$ 25,010,813
Marketing	-	205,000
Medical advisory services	<u>750,925</u>	<u>1,576,890</u>
Total contributions in-kind	<u>\$ 27,174,216</u>	<u>\$ 26,792,703</u>

Treatment providers 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 rates established on their fee schedules over the contract rates negotiated between them and Smile Train.

NOTE 9 RETIREMENT PLAN

Smile Train 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, 2010 and 2009, were \$107,980 and \$89,478, respectively.

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NOTE 10 RELATED-PARTY TRANSACTIONS

Smile Train has a contractual agreement with Brown Brothers Harriman (BBH) for BBH to provide investment management services to Smile Train. The contract duration is unlimited and the fees range from 0.25% to 0.75% of the fair value of securities, which is deducted against the investment income generated from these securities. For the years ended June 30, 2010 and 2009, the total amount of fees paid to BBH was \$247,098 and \$178,007, respectively. BBH is also the investment advisor to the hedge funds in which Smile Train has investments. A partner at BBH is a member of the board of directors of Smile Train.

Smile Train has a contractual agreement with NeuLion, Inc. (NeuLion) to manage the Cleft Database (Smile Train Express) and to maintain Smile Train's medical website, medpro.smiletrain.org. For the years ended June 30, 2010 and 2009, the amount paid to NeuLion, Inc. was \$108,000 each year. The principal shareholder of NeuLion, Inc. is related to a member of the board of directors of Smile Train.

Smile Train used the services of Salans Attorneys At Law (Salans) to review certain legal matters. For the years ended June 30, 2010 and 2009, the total amount of fees paid to Salans was \$7,953 and \$52,178, respectively. One of the partners of this law firm is a member of the board of directors of Smile Train.

Smile Train used the services of Freakonomics Consulting Group (Freakonomics), a marketing research firm, during fiscal year 2010. The co-founder and the managing partner of Freakonomics is a member of the board of governors of Smile Train. Fees paid to Freakonomics in 2010 were \$236,000. No services were provided in 2009.

Smile Train used the services of Greatest Good, LLC (Greatest Good), a marketing research firm, during fiscal year 2010. The co-founder and the managing partner of Greatest Good is a member of the board of governors of Smile Train. The total fee paid to Greatest Good in 2010 was \$60,000. No services were provided in 2009.

Smile Train used the services of SpencerStuart, a personnel search firm, during fiscal year 2010. A senior director of SpencerStuart is a member of the board of governors of Smile Train. The total fee paid to SpencerStuart in 2010 was \$93,422. No services were provided in 2009.

Smile Train used the services of Otto Creative Marketing Inc. (Otto), a marketing research firm, during fiscal year 2009. The founder of Otto is a member of the board of directors of Smile Train. The total fee paid to Otto in 2009 was \$6,950. No services were provided in 2010.

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NOTE 11 RESTRICTED NET ASSETS

Temporarily Restricted Net Assets

	2010	2009
Temporarily restricted net assets are available as follows:		
Non-program expenses	\$ 12,878,262	\$ 12,878,262
Program services – treatment	2,035,308	2,457,014
	\$ 14,913,570	\$ 15,335,276

The non-program temporarily restricted net assets balance consists of two major donations received during the early years of Smile Train with donors' stipulations that these funds be used to support the organization of Smile Train and its non-program expenses, such as administration and general and fundraising. During fiscal year 2010, all of administration and general and fund raising expenses were paid from unrestricted public support received. Accordingly, none of the net assets restricted for non-program expenses was released during the fiscal year 2010.

During fiscal 2010 and 2009, net assets were released from donor restrictions (by incurring expenses satisfying the restrictions) as follows:

	2010	2009
Non-program expenses	\$ -	\$ 5,123,589
Program services - treatment	2,111,896	2,619,423
Total	\$ 2,111,896	\$ 7,743,012

NOTE 12 ALLOCATION OF JOINT COST

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

	2010	2009
Program (education)	\$ 8,414,405	\$ 2,845,945
Fundraising	3,742,955	2,855,851
Total	\$ 12,157,360	\$ 5,701,796

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NOTE 13 SUBSEQUENT EVENTS

The Smile Train has evaluated subsequent events through March 29, 2011, the date the financial statements were approved for issuance.