

Combined Financial Statements and  
Supplementary Information Together with  
Report of Independent Certified Public Accountants

**SMILE TRAIN, INC. AND AFFILIATES**

June 30, 2019 and 2018

# SMILE TRAIN, INC. AND AFFILIATES

## TABLE OF CONTENTS

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|   | <b>Page(s)</b> |
|---|----------------|
| Report of Independent Certified Public Accountants  | 1 - 2          |
| Combined Financial Statements:  |                |
| Combined Statements of Financial Position as of June 30, 2019 and 2018                      | 3              |
| Combined Statement of Activities and Changes in Net Assets for the year ended June 30, 2019 | 4              |
| Combined Statement of Activities and Changes in Net Assets for the year ended June 30, 2018 | 5              |
| Combined Statement of Functional Expenses for the year ended June 30, 2019                  | 6              |
| Combined Statement of Functional Expenses for the year ended June 30, 2018                  | 7              |
| Combined Statements of Cash Flows for the years ended June 30, 2019 and 2018                | 8              |
| Notes to Combined Financial Statements  | 9 - 25         |
| Supplementary Information:  |                |
| Combining Schedule of Financial Position as of June 30, 2019                                | 27             |
| Combining Schedule of Activities and Changes in Net Assets for the year ended June 30, 2019 | 28             |

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**GRANT THORNTON LLP**

757 Third Ave., 9th Floor  
New York, NY 10017

**D** +1 212 599 0100

**F** +1 212 370 4520

**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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 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  
June 30, 2020

**SMILE TRAIN, INC. AND AFFILIATES**  
**Combined Statements of Financial Position**  
**As of June 30, 2019 and 2018**

| <b>ASSETS</b>                                    | <b>2019</b>           | <b>2018</b>           |
|--|-----------------------|-----------------------|
| Cash and cash equivalents                        | \$ 17,366,165         | \$ 7,810,399          |
| Investments - board-designated operating reserve | 93,592,048            | 90,184,563            |
| Investments - board-designated endowment fund    | 212,184,623           | 208,885,326           |
| Contributions receivable                         | 1,196,198             | 1,788,216             |
| Prepaid expenses and other assets                | 1,848,816             | 1,611,452             |
| Property and equipment, net                      | <u>20,269,755</u>     | <u>20,514,933</u>     |
| Total assets                                     | <u>\$ 346,457,605</u> | <u>\$ 330,794,889</u> |
| <br><b>LIABILITIES AND NET ASSETS</b>            |                       |                       |
| <b>LIABILITIES</b>                               |                       |                       |
| Grants and contracts payable                     | \$ 3,928,902          | \$ 3,283,202          |
| Accounts payable and accrued expenses            | <u>4,318,201</u>      | <u>5,497,296</u>      |
| Total liabilities                                | <u>8,247,103</u>      | <u>8,780,498</u>      |
| <br><b>NET ASSETS</b>                            |                       |                       |
| Without donor restrictions                       |                       |                       |
| Board-designated, operating reserve              | 93,592,048            | 90,184,563            |
| Board-designated, endowment fund                 | 212,184,623           | 208,885,326           |
| Undesignated                                     | <u>31,725,871</u>     | <u>21,782,438</u>     |
| Total without donor restrictions                 | 337,502,542           | 320,852,327           |
| With donor restrictions                          | <u>707,960</u>        | <u>1,162,064</u>      |
| Total net assets                                 | <u>338,210,502</u>    | <u>322,014,391</u>    |
| Total liabilities and net assets                 | <u>\$ 346,457,605</u> | <u>\$ 330,794,889</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, 2019

|                                       | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Total</u>          |
|---------------------------------------|---------------------------------------|------------------------------------|-----------------------|
| <b>SUPPORT AND REVENUE</b>            |                                       |                                    |                       |
| Contributions                         | \$ 79,107,673                         | \$ 6,918,834                       | \$ 86,026,507         |
| Contributions in-kind                 | 74,646,447                            | -                                  | 74,646,447            |
| Investment income, net                | 11,687,184                            | -                                  | 11,687,184            |
| Other income                          | 249,252                               | -                                  | 249,252               |
| Loss in currency transactions         | (37,442)                              | -                                  | (37,442)              |
| Net assets released from restriction: |                                       |                                    |                       |
| Satisfaction of purpose restrictions  | <u>7,372,938</u>                      | <u>(7,372,938)</u>                 | <u>-</u>              |
| Total support and revenue             | <u>173,026,052</u>                    | <u>(454,104)</u>                   | <u>172,571,948</u>    |
| <b>EXPENSES</b>                       |                                       |                                    |                       |
| Program services:                     |                                       |                                    |                       |
| Treatment                             | 106,695,261                           | -                                  | 106,695,261           |
| Training                              | 1,319,863                             | -                                  | 1,319,863             |
| Public education                      | <u>21,203,060</u>                     | <u>-</u>                           | <u>21,203,060</u>     |
| Total program services                | <u>129,218,184</u>                    | <u>-</u>                           | <u>129,218,184</u>    |
| Support services:                     |                                       |                                    |                       |
| Management and general                | 3,106,265                             | -                                  | 3,106,265             |
| Fundraising                           | <u>24,051,388</u>                     | <u>-</u>                           | <u>24,051,388</u>     |
| Total supporting services             | <u>27,157,653</u>                     | <u>-</u>                           | <u>27,157,653</u>     |
| Total expenses                        | <u>156,375,837</u>                    | <u>-</u>                           | <u>156,375,837</u>    |
| Changes in net assets                 | 16,650,215                            | (454,104)                          | 16,196,111            |
| Net assets, beginning of year         | <u>320,852,327</u>                    | <u>1,162,064</u>                   | <u>322,014,391</u>    |
| Net assets, end of year               | <u>\$ 337,502,542</u>                 | <u>\$ 707,960</u>                  | <u>\$ 338,210,502</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, 2018**

|                                       | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Total</u>          |
|---------------------------------------|---------------------------------------|------------------------------------|-----------------------|
| <b>SUPPORT AND REVENUE</b>            |                                       |                                    |                       |
| Contributions                         | \$ 82,862,924                         | \$ 2,037,517                       | \$ 84,900,441         |
| Contributions in-kind                 | 82,200,140                            | -                                  | 82,200,140            |
| Investment income, net                | 23,418,970                            | -                                  | 23,418,970            |
| Other income                          | 264,368                               | -                                  | 264,368               |
| Loss in currency transactions         | (68,221)                              | -                                  | (68,221)              |
| Net assets released from restriction: |                                       |                                    |                       |
| Satisfaction of purpose restrictions  | <u>1,496,145</u>                      | <u>(1,496,145)</u>                 | <u>-</u>              |
| Total support and revenue             | <u>190,174,326</u>                    | <u>541,372</u>                     | <u>190,715,698</u>    |
| <b>EXPENSES</b>                       |                                       |                                    |                       |
| Program services:                     |                                       |                                    |                       |
| Treatment                             | 112,972,813                           | -                                  | 112,972,813           |
| Training                              | 1,777,330                             | -                                  | 1,777,330             |
| Public education                      | <u>24,347,651</u>                     | <u>-</u>                           | <u>24,347,651</u>     |
| Total program services                | <u>139,097,794</u>                    | <u>-</u>                           | <u>139,097,794</u>    |
| Supporting services:                  |                                       |                                    |                       |
| Management and general                | 3,201,336                             | -                                  | 3,201,336             |
| Fundraising                           | <u>24,468,676</u>                     | <u>-</u>                           | <u>24,468,676</u>     |
| Total supporting services             | <u>27,670,012</u>                     | <u>-</u>                           | <u>27,670,012</u>     |
| Total expenses                        | <u>166,767,806</u>                    | <u>-</u>                           | <u>166,767,806</u>    |
| Changes in net assets                 | 23,406,520                            | 541,372                            | 23,947,892            |
| Net assets, beginning of year         | <u>297,445,807</u>                    | <u>620,692</u>                     | <u>298,066,499</u>    |
| Net assets, end of year               | <u>\$ 320,852,327</u>                 | <u>\$ 1,162,064</u>                | <u>\$ 322,014,391</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, 2019**

|  | Program Services      |                     |                      |                       | Supporting Services    |                      |                      |                       |
|--|-----------------------|---------------------|----------------------|-----------------------|------------------------|----------------------|----------------------|-----------------------|
|  | Treatment             | Training            | Public Education     | Total                 | Management and General | Fundraising          | Total                | Total                 |
| Grants                                   | \$ 2,758,443          | \$ 767,720          | \$ 575,617           | \$ 4,101,780          | \$ -                   | \$ 11,627            | \$ 11,627            | \$ 4,113,407          |
| Contracts with treatment partners        | 96,828,287            | -                   | -                    | 96,828,287            | -                      | 4,218                | 4,218                | 96,832,505            |
| Medical advisory services                | 1,500,486             | -                   | -                    | 1,500,486             | -                      | -                    | -                    | 1,500,486             |
| Salaries and employee benefits           | 2,210,412             | 367,042             | 563,780              | 3,141,234             | 1,896,096              | 4,865,848            | 6,761,944            | 9,903,178             |
| Professional fees                        | 1,616,781             | 56,411              | 72,221               | 1,745,413             | 563,548                | 517,543              | 1,081,091            | 2,826,504             |
| Rents                                    | 122,192               | 10,521              | 13,470               | 146,183               | 247,951                | 84,484               | 332,435              | 478,618               |
| Office expenses                          | 380,587               | 54,232              | 69,431               | 504,250               | 216,139                | 463,819              | 679,958              | 1,184,208             |
| Repairs and maintenance                  | 208,184               | 12,531              | 16,043               | 236,758               | 38,596                 | 95,360               | 133,956              | 370,714               |
| Travel, food, and other                  | 759,122               | 1,540               | 1,972                | 762,634               | 7,272                  | 273,722              | 280,994              | 1,043,628             |
| Marketing and fundraising infrastructure | 24                    | -                   | 7,794,214            | 7,794,238             | 5,197                  | 12,343,572           | 12,348,769           | 20,143,007            |
| Advertising                              | 57,745                | -                   | 12,032,470           | 12,090,215            | -                      | 5,013,403            | 5,013,403            | 17,103,618            |
| Depreciation and amortization            | 252,998               | 49,866              | 63,842               | 366,706               | 131,466                | 377,792              | 509,258              | 875,964               |
| Total                                    | <u>\$ 106,695,261</u> | <u>\$ 1,319,863</u> | <u>\$ 21,203,060</u> | <u>\$ 129,218,184</u> | <u>\$ 3,106,265</u>    | <u>\$ 24,051,388</u> | <u>\$ 27,157,653</u> | <u>\$ 156,375,837</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, 2018**

|  | Program Services      |                     |                      |                       | Supporting Services    |                      |                      |                       |
|--|-----------------------|---------------------|----------------------|-----------------------|------------------------|----------------------|----------------------|-----------------------|
|  | Treatment             | Training            | Public Education     | Total                 | Management and General | Fundraising          | Total                | Total                 |
| Grants                                   | \$ 2,278,482          | \$ 1,142,272        | \$ 542,965           | \$ 3,963,719          | \$ -                   | \$ 3,500             | \$ 3,500             | \$ 3,967,219          |
| Contracts with treatment partners        | 103,239,154           | -                   | -                    | 103,239,154           | -                      | -                    | -                    | 103,239,154           |
| Medical advisory services                | 1,392,920             | -                   | -                    | 1,392,920             | -                      | -                    | -                    | 1,392,920             |
| Salaries and employee benefits           | 2,060,841             | 425,016             | 555,245              | 3,041,102             | 1,840,568              | 4,712,420            | 6,552,988            | 9,594,090             |
| Professional fees                        | 2,052,143             | 49,805              | 58,306               | 2,160,254             | 697,349                | 486,677              | 1,184,026            | 3,344,280             |
| Rents                                    | 456,087               | 80,827              | 94,623               | 631,537               | 350,515                | 587,000              | 937,515              | 1,569,052             |
| Office expenses                          | 360,801               | 52,299              | 61,226               | 474,326               | 228,139                | 432,933              | 661,072              | 1,135,398             |
| Repairs and maintenance                  | 306,981               | 8,542               | 10,000               | 325,523               | 33,618                 | 59,365               | 92,983               | 418,506               |
| Travel, food, and other                  | 727,703               | 1,763               | 2,064                | 731,530               | 4,893                  | 294,651              | 299,544              | 1,031,074             |
| Marketing and fundraising infrastructure | 2,871                 | -                   | 8,307,713            | 8,310,584             | -                      | 13,047,973           | 13,047,973           | 21,358,557            |
| Advertising                              | 3,711                 | -                   | 14,695,834           | 14,699,545            | 446                    | 4,727,386            | 4,727,832            | 19,427,377            |
| Depreciation and amortization            | 91,119                | 16,806              | 19,675               | 127,600               | 45,808                 | 116,771              | 162,579              | 290,179               |
| <b>Total</b>                             | <b>\$ 112,972,813</b> | <b>\$ 1,777,330</b> | <b>\$ 24,347,651</b> | <b>\$ 139,097,794</b> | <b>\$ 3,201,336</b>    | <b>\$ 24,468,676</b> | <b>\$ 27,670,012</b> | <b>\$ 166,767,806</b> |

*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, 2019 and 2018**

|  | <u>2019</u>          | <u>2018</u>         |
|--|----------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                      |                     |
| Changes in net assets  | \$ 16,196,111        | \$ 23,947,892       |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: |                      |                     |
| Depreciation and amortization  | 875,964              | 290,179             |
| Loss on sale of land   | -                    | 135,160             |
| Net appreciation on investments  | (5,935,832)          | (17,760,418)        |
| Donated securities   | (731,679)            | (947,274)           |
| Decrease (increase) in contributions receivable  | 592,018              | (684,949)           |
| Increase in prepaid expenses and other assets  | (237,364)            | (153,036)           |
| Increase (decrease) in grants and contracts payable  | 645,700              | (1,062,675)         |
| (Decrease) increase in accounts payable and accrued expenses                                 | (1,179,095)          | 1,738,696           |
| Decrease in deferred rent payable  | -                    | (28,632)            |
|  | <u>10,225,823</u>    | <u>5,474,943</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                      |                     |
| Purchases of securities  | (292,662,747)        | (178,159,674)       |
| Proceeds from sale of securities   | 292,623,476          | 173,536,541         |
| Proceeds from sale of land   | -                    | 276,840             |
| Purchases of property and equipment  | <u>(630,786)</u>     | <u>(3,197,318)</u>  |
|  | <u>(670,057)</u>     | <u>(7,543,611)</u>  |
| Net cash used in investing activities  |                      |                     |
|  | 9,555,766            | (2,068,668)         |
| Net increase (decrease) in cash and cash equivalents   |                      |                     |
| Cash and cash equivalents, beginning of year   | <u>7,810,399</u>     | <u>9,879,067</u>    |
| Cash and cash equivalents, end of year   | <u>\$ 17,366,165</u> | <u>\$ 7,810,399</u> |
| Supplemental disclosure of cash flow information:  |                      |                     |
| Capital expenditures included in accounts payable  | <u>\$ -</u>          | <u>\$ 433,555</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, 2019 and 2018**

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#### **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. Many children with clefts around the world live in isolation, but more importantly, have difficulty eating, breathing, hearing 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 90+ developing countries to support 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 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).

Associação Smile Train Brasil (“Brazil”) was incorporated in June 2015 as a private, non-profit organization, organized under Brazilian Laws for charitable and philanthropic purposes.

Fundación Smile Train Mexico, AC (“Mexico”), was incorporated in February 2017 as a Civil Association (charitable organization) under the laws of Mexico.

UK, India, Germany BRO, Indonesia, Philippines, Brazil and Mexico’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, India, Germany, Indonesia, Philippines, Brazil and Mexico. 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, INC. AND AFFILIATES**

## **Notes to Combined Financial Statements**

### **June 30, 2019 and 2018**

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Smile Train Real Estate LLC (“Real Estate”) was formed in March 2017 for the purpose of holding certain real estate assets, which were transferred to Real Estate from Smile Train, Inc. during the year ended June 30, 2017. Real Estate is a disregarded entity for tax purposes with Smile Train, Inc. being its sole corporate member. The net assets of Real Estate are reflected within the net assets and activities of Smile Train, Inc. on the accompanying combining schedules of financial position and activities and changes in net assets.

Smile Train France (“France”), Smile Train International, LLC, and The Smile Train Canada Foundation (“Canada Foundation”) 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. Canada Foundation was incorporated in September 2016 as a corporation without share capital under the Canada Corporations Act. These affiliates did not have any operating activities during the years ended June 30, 2019 and 2018.

#### **Tax Status**

The Internal Revenue Service 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, 2019 and 2018, no tax charges arose from the charity’s commercial trading activities. 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.

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 Foundations and all its amendment.

The Smile Train, Inc. Beijing Representative Office (“BRO”) 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, INC. AND AFFILIATES**

## **Notes to Combined Financial Statements**

### **June 30, 2019 and 2018**

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Smile Train Philippines Foundation, Inc. is registered as a non-stock, non-profit organization, governed 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 Philippines 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 Mexico has been authorized as a non-profit entity (donataria autorizada) by the Tax Service Administration (Servicio de Administracion Tributaria) and its revenue is exempt from income tax.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Presentation**

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (“ASU 2016-14”). The ASU amends the current reporting model for not-for-profit organizations and requires certain additional disclosures. The significant changes include:

- Requiring the presentation of two net asset classes classified as “net assets without donor restrictions” and “net assets with donor restrictions”;
- Modifying the presentation of underwater endowment funds and related disclosures;
- Requiring the use of the placed in service approach to recognize the satisfaction of restrictions on gifts used to acquire or construct long-lived assets, absent explicit donor stipulations otherwise;
- Requiring that all not-for-profits present an analysis of expenses by function and nature in a separate statement or in the notes to the financial statements;
- Requiring disclosure of quantitative and qualitative information on liquidity;
- Presenting investment return net of external and direct internal investment expenses; and
- Modifying other financial statement reporting requirements and disclosures intended to increase the usefulness to the reader.

**SMILE TRAIN, INC. AND AFFILIATES**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

Smile Train adopted ASU 2016-14 as of and for the year ended June 30, 2019. A presentation of net assets as previously reported as of June 30, 2018 and 2017, and as required under ASU 2016-14 follows:

|                        | <b>June 30, 2018</b>                  |                                   |                                |                       |
|------------------------|---------------------------------------|-----------------------------------|--------------------------------|-----------------------|
|                        | <b>Presentation under ASU 2016-14</b> |                                   |                                |                       |
|                        | <b>As Previously Presented</b>        | <b>Without Donor Restrictions</b> | <b>With Donor Restrictions</b> | <b>Total</b>          |
| Net assets:            |                                       |                                   |                                |                       |
| Unrestricted           | \$ 320,852,327                        | \$ 320,852,327                    | \$ -                           | \$ 320,852,327        |
| Temporarily restricted | 1,162,064                             | -                                 | 1,162,064                      | 1,162,064             |
| Total net assets       | <u>\$ 322,014,391</u>                 | <u>\$ 320,852,327</u>             | <u>\$ 1,162,064</u>            | <u>\$ 322,014,391</u> |

|                        | <b>June 30, 2017</b>                  |                                   |                                |                       |
|------------------------|---------------------------------------|-----------------------------------|--------------------------------|-----------------------|
|                        | <b>Presentation under ASU 2016-14</b> |                                   |                                |                       |
|                        | <b>As Previously Presented</b>        | <b>Without Donor Restrictions</b> | <b>With Donor Restrictions</b> | <b>Total</b>          |
| Net assets:            |                                       |                                   |                                |                       |
| Unrestricted           | \$ 297,445,807                        | \$ 297,445,807                    | \$ -                           | \$ 297,445,807        |
| Temporarily restricted | 620,692                               | -                                 | 620,692                        | 620,692               |
| Total net assets       | <u>\$ 298,066,499</u>                 | <u>\$ 297,445,807</u>             | <u>\$ 620,692</u>              | <u>\$ 298,066,499</u> |

The classification of Smile Train’s net assets are based on the existence or absence of donor-imposed restrictions. Amounts for each of the two classes of net assets (with donor restrictions and without donor restrictions) 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 (“U.S. GAAP”), which require Smile Train to report information regarding its combined financial position and activities according to the following net asset classifications:

Net Assets without Donor Restrictions

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 net assets without donor restrictions may be used at the discretion of Smile Train’s management and the Board of Directors.

At the June 5, 2018 meeting of the Smile Train Board of Directors, the Board by resolution established a “Quasi-Endowment Fund using all funds in excess of \$90 million currently held in Smile Train’s general portfolio.” At that same meeting, it was also resolved that 1 to 1.5 years of all-in operating budget would be maintained as an operating reserve, and that the operating reserve would not invest in alternative investments in order to ensure liquidity and minimize volatility. The Investment Committee of the Board

# SMILE TRAIN, INC. AND AFFILIATES

## Notes to Combined Financial Statements

### June 30, 2019 and 2018

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of Directors is currently considering a spending policy, which is to be determined at a future Board meeting.

#### Net Assets with Donor Restrictions

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

Net assets which include donor-imposed restrictions that stipulate that the resources are to be maintained in perpetuity. Income earned on such net assets is available to be used in the net assets with and net assets without donor restrictions class, based on stipulations by the donors. As of June 30, 2019 and 2018, Smile Train did not have any such net assets.

The combined financial statements include the accounts of Smile Train and its affiliates, UK, India Germany, Indonesia, Philippines, Brazil and Mexico. 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.

#### **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

# SMILE TRAIN, INC. AND AFFILIATES

## Notes to Combined Financial Statements

### June 30, 2019 and 2018

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values that would have been reported had a ready market for such investments existed. In 2019 and 2018, these estimated fair values represented approximately 2% 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 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.

#### **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, 2019, and 2018, Smile Train's contributions receivable



# **SMILE TRAIN, INC. AND AFFILIATES**

## **Notes to Combined Financial Statements**

### **June 30, 2019 and 2018**

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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.

#### **Property and Equipment, net**

Smile Train capitalizes property and equipment in excess of \$1,000, which are stated at cost less accumulated depreciation and amortization, including costs incurred related to the purchase and renovation of its condominium. 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 3 to 39 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, 2019 and 2018. Conditional grants are expensed and considered an obligation in the period the conditions are substantially satisfied.

#### **Contributions**

Contributions received are recorded as net assets with or without donor restrictions, 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) net assets with donor restrictions are reclassified to net assets without donor restrictions 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 U.S. GAAP.

#### **Advertising**

Smile Train expenses the cost of advertising as incurred. Advertising expense was \$17,103,618 and \$19,427,377 for the years ended June 30, 2019 and 2018, respectively.

Smile Train received donated print, radio, online banners and television public service announcements with a fair value of \$11,654,445 and \$14,276,043 for the years ended June 30, 2019 and 2018, respectively. Such amounts, which are based upon information provided by third-party media services, are recorded at their estimated fair value determined on the date of contribution and are reported as contributions in-kind

# **SMILE TRAIN, INC. AND AFFILIATES**

## **Notes to Combined Financial Statements**

### **June 30, 2019 and 2018**

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and public education program expense on the accompanying combined statements of activities and functional expenses.

#### **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 U.S. 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, India, Germany, Indonesia, Philippines, Brazil and Mexico are the pound sterling, Indian rupees, Euros, Indonesian rupiah, Philippine peso, Brazilian real and Mexican 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 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.

# SMILE TRAIN, INC. AND AFFILIATES

## Notes to Combined Financial Statements

### June 30, 2019 and 2018

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#### **New Pronouncements**

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which requires organizations to determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. If the agreement (or a referenced document) includes both, the recipient is not entitled to the transferred assets (or a future transfer of assets) until it has overcome the barriers in the agreement. For recipients, the amendments are effective for annual periods beginning after December 15, 2018 (i.e., Smile Train's fiscal year 2020). Smile Train is currently evaluating the impact this standard will have on the combined financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statements of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for Smile Train for fiscal year 2022. Smile Train is in the process of evaluating the impact this standard will have on the combined financial statements.

#### **Reclassifications**

Certain accounts in the prior year combined financial statements have been reclassified for comparative purposes to conform with the presentation in the current year combined financial statements. These reclassifications have no effect on previously reported change in net assets.

#### **Subsequent Events**

Subsequent events have been evaluated through June 30, 2020, which is the date the combined financial statements were available to be issued.

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. Smile Train is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on Smile Train's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impact on Smile Train's donors, employees and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact Smile Train's combined financial position and combined changes in net assets and cash flows is uncertain, and the accompanying combined financial statements include no adjustments relating to the effects of this pandemic.

Smile Train is not aware of any other material subsequent events that would require recognition or disclosure in the combined financial statements.

**SMILE TRAIN, INC. AND AFFILIATES**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

**3. INVESTMENTS**

Investments, held in Smile Train's board-designated operating reserve and endowment fund at June 30, 2019, and undesignated at June 30, 2018, are reported at fair value and consisted of the following:

|                                    | <u>2019</u>           | <u>2018</u>           |
|------------------------------------|-----------------------|-----------------------|
| Cash and cash equivalents          | \$ 60,597,818         | \$ 67,146,827         |
| Equities - stocks and mutual funds | 140,499,531           | 148,104,996           |
| Fixed income - mutual funds        | 12,934,806            | 10,117,145            |
| Real estate - mutual funds         | 2,108,654             | 1,767,634             |
| Commodities - mutual funds         | 326,440               | 1,785,239             |
| Fixed income - government bonds    | 48,729,607            | 31,252,671            |
| Fixed income - corporate bonds     | 33,431,523            | 32,577,884            |
| Alternative assets - hedge funds   | 7,148,292             | 6,317,493             |
| Total investments                  | <u>\$ 305,776,671</u> | <u>\$ 299,069,889</u> |

The following tables provide the fair value hierarchy of Smile Train's investments as of June 30, 2019 and 2018:

|                                 | <u>2019</u>           |                      |                | <u>Total</u>          |
|---------------------------------|-----------------------|----------------------|----------------|-----------------------|
|                                 | <u>Level 1</u>        | <u>Level 2</u>       | <u>Level 3</u> |                       |
| Cash and cash equivalents       |                       |                      |                | \$ 60,597,818         |
| Equities - stocks               | \$ 81,295,514         | \$ -                 | \$ -           | 81,295,514            |
| Equities - mutual funds:        |                       |                      |                |                       |
| Domestic                        | 46,328,728            | -                    | -              | 46,328,728            |
| International                   | 12,875,289            | -                    | -              | 12,875,289            |
| Fixed income - mutual funds     | 12,934,806            | -                    | -              | 12,934,806            |
| Real estate - mutual funds      | 2,108,654             | -                    | -              | 2,108,654             |
| Commodities - mutual funds      | 326,440               | -                    | -              | 326,440               |
| Fixed income - government bonds | -                     | 48,729,607           | -              | 48,729,607            |
| Fixed income - corporate bonds  | -                     | 33,431,523           | -              | 33,431,523            |
| Total                           | <u>\$ 155,869,431</u> | <u>\$ 82,161,130</u> | <u>\$ -</u>    | 298,628,379           |
| Investments measured at NAV     |                       |                      |                | <u>7,148,292</u>      |
| Total investments               |                       |                      |                | <u>\$ 305,776,671</u> |

**SMILE TRAIN, INC. AND AFFILIATES**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

|                                 | <b>2018</b>           |                      |                | <b>Total</b>          |
|---------------------------------|-----------------------|----------------------|----------------|-----------------------|
|                                 | <b>Level 1</b>        | <b>Level 2</b>       | <b>Level 3</b> |                       |
| Cash and cash equivalents       |                       |                      |                | \$ 67,146,827         |
| Equities - stocks               | \$ 85,729,255         | \$ -                 | \$ -           | 85,729,255            |
| Equities - mutual funds:        |                       |                      |                |                       |
| Domestic                        | 48,469,000            | -                    | -              | 48,469,000            |
| International                   | 13,906,741            | -                    | -              | 13,906,741            |
| Fixed income - mutual funds     | 10,117,145            | -                    | -              | 10,117,145            |
| Real estate - mutual funds      | 1,767,634             | -                    | -              | 1,767,634             |
| Commodities - mutual funds      | 1,785,239             | -                    | -              | 1,785,239             |
| Fixed income - government bonds | -                     | 31,252,671           | -              | 31,252,671            |
| Fixed income - corporate bonds  | -                     | 32,577,884           | -              | 32,577,884            |
| Total                           | <u>\$ 161,775,014</u> | <u>\$ 63,830,555</u> | <u>\$ -</u>    | 292,752,396           |
| Investments measured at NAV     |                       |                      |                | <u>6,317,493</u>      |
| Total investments               |                       |                      |                | <u>\$ 299,069,889</u> |

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

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 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, 2019 and 2018 is as follows:

| 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 | \$ 7,148,292 | \$ -                              | None                            | Quarterly            | 90 calendar days         | N/A                     |

**SMILE TRAIN, INC. AND AFFILIATES**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

| 2018                |  |              |                                   |                                 |                      |                          |                         |
|---------------------|--|--------------|-----------------------------------|---------------------------------|----------------------|--------------------------|-------------------------|
| 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 | \$ 6,317,493 | \$ -                              | 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. PROPERTY AND EQUIPMENT, NET**

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

|                                | <u>2019</u>          | <u>2018</u>          |
|--------------------------------|----------------------|----------------------|
| Condominium and improvements   | \$ 19,613,906        | \$ 19,588,334        |
| Furniture and equipment        | 1,930,189            | 2,301,018            |
| Leasehold improvements         | -                    | 458,365              |
| Total                          | <u>21,544,095</u>    | <u>22,347,717</u>    |
| Less: accumulated depreciation | <u>(1,274,340)</u>   | <u>(1,832,784)</u>   |
| Property and equipment, net    | <u>\$ 20,269,755</u> | <u>\$ 20,514,933</u> |

Depreciation and amortization expense was \$875,964 and \$290,179 for the years ended June 30, 2019 and 2018, respectively.

In April 2017, Smile Train purchased a condominium in New York, New York, which serves as Smile Train's new headquarters, at a purchase price of \$16,807,507. Construction of the new office space was completed in May 2018.

**SMILE TRAIN, INC. AND AFFILIATES**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

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**5. CONTRIBUTIONS IN-KIND**

Contributions in-kind consisted of the following for the years ended June 30, 2019 and 2018:

|  | <u>2019</u>          | <u>2018</u>          |
|--|----------------------|----------------------|
| Grants and contracts with treatment partners | \$ 61,423,832        | \$ 66,351,388        |
| Medical advisory services                    | 1,341,327            | 1,287,059            |
| Consulting services                          | -                    | 11,843               |
| Software                                     | 218,000              | -                    |
| Office                                       | -                    | 25,000               |
| Marketing                                    | 8,032                | -                    |
| Advertising                                  | 11,654,445           | 14,453,057           |
| Medical supplies                             | 811                  | 71,793               |
| Total contributions in-kind                  | <u>\$ 74,646,447</u> | <u>\$ 82,200,140</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. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions as of June 30, 2019 and 2018 are as follows:

|                            | <u>2019</u>       | <u>2018</u>         |
|----------------------------|-------------------|---------------------|
| Treatment program services | \$ 705,460        | \$ 1,160,064        |
| Other                      | 2,500             | 2,000               |
|                            | <u>\$ 707,960</u> | <u>\$ 1,162,064</u> |

During the years ended June 30, 2019 and 2018, net assets were released from donor restrictions (by incurring expenses satisfying the restrictions) as follows:

|                            | <u>2019</u>         | <u>2018</u>         |
|----------------------------|---------------------|---------------------|
| Treatment program services | \$ 7,301,546        | \$ 1,342,145        |
| Other                      | 71,392              | 154,000             |
|                            | <u>\$ 7,372,938</u> | <u>\$ 1,496,145</u> |

**SMILE TRAIN, INC. AND AFFILIATES**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

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**7. BOARD-DESIGNATED ENDOWMENT FUND**

On September 17, 2010, the State of New York enacted the New York Prudent Management of Institutional Funds Act (“NYPMIFA”). NYPMIFA applies to board-designated endowments and, among other things, updates requirements governing investment conduct, expenditure of funds, delegation of management and investment, and release or modification of restrictions. Accounting guidance issued by the FASB addresses the disclosure of endowment funds and addresses the net asset classification of board-designated endowment funds for organizations subject to the State enacted Prudent Management of Institutional Funds Act.

A key component of this guidance is a requirement to classify the portion of an endowment fund that is not classified as restricted net assets held in perpetuity as restricted net assets until appropriated for expenditure. In addition, the FASB issued guidance requiring new disclosures about an organization’s board-designated endowment funds.

**Interpretation of Relevant Law**

Smile Train’s Board of Directors has interpreted the NYPMIFA as requiring Smile Train, to act in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in making determinations to appropriate or accumulate endowment funds, taking into account both its obligations to preserve the value of the endowment and its obligation to use the endowment to achieve the purposes for which it was donated. Smile Train classifies the funds in the board-designated endowment fund as net assets without donor restrictions.

Changes in endowment net assets for the years ended June 30, 2019 are as follows:

|  | <u>2019</u>                           | <u>2018</u>                           |
|--|---------------------------------------|---------------------------------------|
|  | <b>Without Donor<br/>Restrictions</b> | <b>Without Donor<br/>Restrictions</b> |
| Endowment net assets, beginning of year    | \$ 208,885,326                        | \$ -                                  |
| Net appreciation (realized and unrealized) | 8,299,297                             | -                                     |
| Transfer in/(out), net                     | <u>(5,000,000)</u>                    | <u>208,885,326</u>                    |
| Endowment net assets, end of year          | <u>\$ 212,184,623</u>                 | <u>\$ 208,885,326</u>                 |

Endowment activity for the year ended June 30, 2018 consisted entirely of a transfer of \$208,885,326 made into the board-designated endowment (formed during June 2018), which is classified as net assets without donor restrictions.



**SMILE TRAIN, INC. AND AFFILIATES**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

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**8. 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>2019</u>          | <u>2018</u>          |
|---------------------|----------------------|----------------------|
| Program (education) | \$ 7,645,105         | \$ 8,307,713         |
| Fundraising         | <u>5,345,415</u>     | <u>5,370,147</u>     |
| Total joint costs   | 12,990,520           | 13,677,860           |
| Direct program      | 12,239,348           | 14,702,417           |
| Direct fundraising  | <u>12,016,757</u>    | <u>12,405,659</u>    |
| Total               | <u>\$ 37,246,625</u> | <u>\$ 40,785,936</u> |

**9. SPECIAL EVENTS**

Smile Train held three events and two events during fiscal years 2019 and 2018, respectively, 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.

Proceeds received from these special events during the years ended June 30, 2019 and 2018 are as follows:

|                       | <u>2019</u>               |                         |                   |
|-----------------------|---------------------------|-------------------------|-------------------|
|                       | <u>Gross<br/>Proceeds</u> | <u>Direct<br/>Costs</u> | <u>Net</u>        |
| 20th Anniversary Gala | \$ 1,140,554              | \$ (691,553)            | \$ 449,001        |
| Cocktails for a Cause | 27,674                    | (10,964)                | 16,710            |
| World Smile Day       | <u>56,325</u>             | <u>(29,516)</u>         | <u>26,809</u>     |
| Total                 | <u>\$ 1,224,553</u>       | <u>\$ (732,033)</u>     | <u>\$ 492,520</u> |
|                       | <u>2018</u>               |                         |                   |
|                       | <u>Gross<br/>Proceeds</u> | <u>Direct<br/>Costs</u> | <u>Net</u>        |
| World Smile Day       | \$ 65,445                 | \$ (28,530)             | \$ 36,915         |
| Ella's Gala           | <u>102,664</u>            | <u>(51,326)</u>         | <u>51,338</u>     |
| Total                 | <u>\$ 168,109</u>         | <u>\$ (79,856)</u>      | <u>\$ 88,253</u>  |

**SMILE TRAIN, INC. AND AFFILIATES**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

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**10. COMMITMENTS AND CONTINGENCIES**

**Operating Leases**

Smile Train has entered into various non-cancelable operating leases for its existing office locations, which expire at various dates through fiscal 2023.

As of June 30, 2019, the minimum future annual rental payments are as follows for the years ending June 30:

|      |                  |
|------|------------------|
| 2020 | \$ 70,104        |
| 2021 | 7,536            |
| 2022 | 7,237            |
| 2023 | <u>3,290</u>     |
|      | <u>\$ 88,167</u> |

Rent expense for Smile Train Inc. and its affiliates was \$478,618 and \$1,569,052 for the years ended June 30, 2019 and 2018, respectively.

**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.

**11. 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, 2019 and 2018, were \$314,062 and \$303,723, respectively.

**12. 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, 2019 and 2018, 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 served on the board of directors of the company, through May 2018, when the company was sold.

**SMILE TRAIN, INC. AND AFFILIATES**  
**Notes to Combined Financial Statements**  
**June 30, 2019 and 2018**

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**13. LIQUIDITY AND AVAILABILITY OF RESOURCES**

As of June 30, 2019, the following financial assets could readily be made available within one year of the combined statement of financial position date to meet general expenditures:

|   |                          |
|---|--------------------------|
| Cash and cash equivalents   | \$ 17,366,165            |
| Investments   | 305,776,671              |
| Contributions receivable  | <u>1,196,198</u>         |
| <br>Total financial assets  | <br><u>324,339,034</u>   |
| <br>Contractual or donor-imposed restrictions:  |                          |
| Purpose or time restricted gifts  | (707,960)                |
| <br>Board designations:   |                          |
| Endowment funds   | (212,184,623)            |
| Operating reserve   | <u>(93,592,048)</u>      |
| Financial assets available to meet cash needs for<br>general expenditures within one year | <br><u>\$ 17,854,403</u> |

Smile Train examines liquidity required to meet its ongoing operating expenses regularly, considering all expenditures related to ongoing activities over a twelve-month period. Smile Train has an operating reserve that had a balance of approximately \$93.6 million at June 30, 2019. This is a governing board-designated reserve to fund operating needs with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity requirement. The target for this reserve is a total of \$90 million, which was determined based on management's judgment about the appropriate amount of funds to have set aside in addition to working capital. Additionally, Smile Train has board-designated endowment funds, as described in Note 7. Although Smile Train does not intend to receive disbursements from the operating reserve or board-designated endowment fund, these amounts could be made available to Smile Train through Board resolution. Contributions receivable are expected to be collected within one year.

## **SUPPLEMENTARY INFORMATION**

**SMILE TRAIN, INC. AND AFFILIATES**  
**Combining Schedule of Financial Position**  
**As of June 30, 2019**

|  | Smile Train, Inc.     | Smile Train UK      | Smile Train UK-TS | Smile Train Brazil | Smile Train India   | Smile Train Germany | Smile Train Indonesia | Smile Train Philippines | Smile Train Mexico | Eliminations       | Total                 |
|--|-----------------------|---------------------|-------------------|--------------------|---------------------|---------------------|-----------------------|-------------------------|--------------------|--------------------|-----------------------|
| <b>ASSETS</b>                                    |                       |                     |                   |                    |                     |                     |                       |                         |                    |                    |                       |
| Cash and cash equivalents                        | \$ 14,049,741         | \$ 1,437,855        | \$ 44,314         | \$ 222,309         | \$ 1,148,391        | \$ 220,574          | \$ 212,615            | \$ 19,400               | \$ 10,966          | \$ -               | \$ 17,366,165         |
| Investments - board designated operating reserve | 93,592,048            | -                   | -                 | -                  | -                   | -                   | -                     | -                       | -                  | -                  | 93,592,048            |
| Investments - board designated endowment fund    | 212,184,623           | -                   | -                 | -                  | -                   | -                   | -                     | -                       | -                  | -                  | 212,184,623           |
| Contributions receivable                         | 943,982               | 43,164              | -                 | -                  | 199,340             | -                   | -                     | 9,712                   | -                  | -                  | 1,196,198             |
| Due from affiliates                              | 64,061                | -                   | -                 | -                  | 4,276               | -                   | -                     | -                       | -                  | (68,337)           | -                     |
| Prepaid expenses and other assets                | 1,684,377             | 92,934              | -                 | 3,960              | 24,277              | 26,159              | 8,924                 | 8,185                   | -                  | -                  | 1,848,816             |
| Property and equipment, net                      | 20,262,248            | 229                 | -                 | -                  | 5,364               | 544                 | -                     | 1,370                   | -                  | -                  | 20,269,755            |
| <b>Total assets</b>                              | <b>\$ 342,781,080</b> | <b>\$ 1,574,182</b> | <b>\$ 44,314</b>  | <b>\$ 226,269</b>  | <b>\$ 1,381,648</b> | <b>\$ 247,277</b>   | <b>\$ 221,539</b>     | <b>\$ 38,667</b>        | <b>\$ 10,966</b>   | <b>\$ (68,337)</b> | <b>\$ 346,457,605</b> |
| <b>LIABILITIES AND NET ASSETS</b>                |                       |                     |                   |                    |                     |                     |                       |                         |                    |                    |                       |
| <b>LIABILITIES</b>                               |                       |                     |                   |                    |                     |                     |                       |                         |                    |                    |                       |
| Grants and contracts payable                     | \$ 2,842,234          | \$ -                | \$ -              | \$ 113,817         | \$ 729,847          | \$ -                | \$ 239,831            | \$ -                    | \$ 3,173           | \$ -               | \$ 3,928,902          |
| Accounts payable and accrued expenses            | 2,999,201             | 516,255             | 8,629             | 33,771             | 668,409             | 47,157              | 36,360                | 7,379                   | 1,040              | -                  | 4,318,201             |
| Due to affiliates                                | 3,308                 | 48,515              | 16,514            | -                  | -                   | -                   | -                     | -                       | -                  | (68,337)           | -                     |
| <b>Total liabilities</b>                         | <b>5,844,743</b>      | <b>564,770</b>      | <b>25,143</b>     | <b>147,588</b>     | <b>1,398,256</b>    | <b>47,157</b>       | <b>276,191</b>        | <b>7,379</b>            | <b>4,213</b>       | <b>(68,337)</b>    | <b>8,247,103</b>      |
| <b>NET ASSETS (DEFICIT)</b>                      |                       |                     |                   |                    |                     |                     |                       |                         |                    |                    |                       |
| <b>Without donor restrictions</b>                |                       |                     |                   |                    |                     |                     |                       |                         |                    |                    |                       |
| Board-designated, operating reserve              | 93,592,048            | -                   | -                 | -                  | -                   | -                   | -                     | -                       | -                  | -                  | 93,592,048            |
| Board-designated, endowment fund                 | 212,184,623           | -                   | -                 | -                  | -                   | -                   | -                     | -                       | -                  | -                  | 212,184,623           |
| Undesignated                                     | 30,536,827            | 965,959             | 19,171            | 78,681             | (41,985)            | 194,908             | (65,731)              | 31,288                  | 6,753              | -                  | 31,725,871            |
| <b>Total without donor restrictions</b>          | <b>336,313,498</b>    | <b>965,959</b>      | <b>19,171</b>     | <b>78,681</b>      | <b>(41,985)</b>     | <b>194,908</b>      | <b>(65,731)</b>       | <b>31,288</b>           | <b>6,753</b>       | <b>-</b>           | <b>337,502,542</b>    |
| <b>With donor restrictions</b>                   | <b>622,839</b>        | <b>43,453</b>       | <b>-</b>          | <b>-</b>           | <b>25,377</b>       | <b>5,212</b>        | <b>11,079</b>         | <b>-</b>                | <b>-</b>           | <b>-</b>           | <b>707,960</b>        |
| <b>Total net assets (deficit)</b>                | <b>336,936,337</b>    | <b>1,009,412</b>    | <b>19,171</b>     | <b>78,681</b>      | <b>(16,608)</b>     | <b>200,120</b>      | <b>(54,652)</b>       | <b>31,288</b>           | <b>6,753</b>       | <b>-</b>           | <b>338,210,502</b>    |
| <b>Total liabilities and net assets</b>          | <b>\$ 342,781,080</b> | <b>\$ 1,574,182</b> | <b>\$ 44,314</b>  | <b>\$ 226,269</b>  | <b>\$ 1,381,648</b> | <b>\$ 247,277</b>   | <b>\$ 221,539</b>     | <b>\$ 38,667</b>        | <b>\$ 10,966</b>   | <b>\$ (68,337)</b> | <b>\$ 346,457,605</b> |

*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, 2019**

|   | Smile Train, Inc. |              |                | Smile Train UK |              |              | Smile Train UK | Smile Train Brazil |              |               | Smile Train India |              |               | Smile Train Germany |              |               | Smile Train Indonesia |            |               | Smile Train Philippines |           |                 | Smile Train Mexico | Eliminations  | Combined Total |       |              |
|---|-------------------|--------------|----------------|----------------|--------------|--------------|----------------|--------------------|--------------|---------------|-------------------|--------------|---------------|---------------------|--------------|---------------|-----------------------|------------|---------------|-------------------------|-----------|-----------------|--------------------|---------------|----------------|-------|--------------|
|   | Without Donor     | With Donor   | Total          | Without Donor  | With Donor   | Total        | Without Donor  | Without Donor      | With Donor   | Without Donor | With Donor        | Total        | Without Donor | With Donor          | Total        | Without Donor | With Donor            | Total      | Without Donor | With Donor              | Total     | Without Donor   | Eliminations       | Without Donor | With Donor     | Total |              |
|   | Restrictions      | Restrictions |                | Restrictions   | Restrictions |              | Restrictions   | Restrictions       | Restrictions | Restrictions  | Restrictions      |              | Restrictions  | Restrictions        |              | Restrictions  | Restrictions          |            | Restrictions  | Restrictions            |           | Restrictions    |                    | Restrictions  | Restrictions   |       | Restrictions |
| Support and revenue:                    |                   |              |                |                |              |              |                |                    |              |               |                   |              |               |                     |              |               |                       |            |               |                         |           |                 |                    |               |                |       |              |
| Contributions                           | \$ 77,880,296     | \$ 2,710,905 | \$ 80,591,201  | \$ 7,416,445   | \$ 119,428   | \$ 7,535,873 | \$ -           | \$ 1,056,999       | \$ 8,309,488 | \$ 3,892,261  | \$ 12,201,749     | \$ 3,351,920 | \$ 92,672     | \$ 3,444,592        | \$ 3,624,441 | \$ 87,381     | \$ 3,711,822          | \$ 188,342 | \$ 16,187     | \$ 204,529              | \$ 44,231 | \$ (22,764,489) | \$ 79,107,673      | \$ 6,918,834  | \$ 86,026,507  |       |              |
| Contributions in-kind                   | 47,117,622        | -            | 47,117,622     | 576,604        | -            | 576,604      | -              | 3,511,969          | 18,427,171   | -             | 18,427,171        | -            | -             | -                   | 5,483,316    | -             | 5,483,316             | -          | -             | -                       | 106,369   | (576,604)       | 74,646,447         | -             | 74,646,447     |       |              |
| Investment income                       | 11,687,184        | -            | 11,687,184     | -              | -            | -            | -              | -                  | -            | -             | -                 | -            | -             | -                   | -            | -             | -                     | -          | -             | -                       | -         | -               | 11,687,184         | -             | 11,687,184     |       |              |
| Other income                            | 210,042           | -            | 210,042        | 484            | -            | 484          | 32,350         | 632                | 4,583        | -             | 4,583             | -            | -             | -                   | 1,160        | -             | 1,160                 | 1          | -             | 1                       | -         | -               | 249,252            | -             | 249,252        |       |              |
| (Loss) gain in currency transactions    | 7,586             | -            | 7,586          | (44,791)       | -            | (44,791)     | (182)          | 262                | 4,020        | -             | 4,020             | (3,702)      | -             | (3,702)             | (2,025)      | -             | (2,025)               | 1,214      | -             | 1,214                   | 176       | -               | (37,442)           | -             | (37,442)       |       |              |
| Net assets released from restriction:   |                   |              |                |                |              |              |                |                    |              |               |                   |              |               |                     |              |               |                       |            |               |                         |           |                 |                    |               |                |       |              |
| Satisfaction of purpose restriction     | 3,149,900         | (3,149,900)  | -              | 77,857         | (77,857)     | -            | -              | -                  | 3,965,232    | (3,965,232)   | -                 | 87,460       | (87,460)      | -                   | 76,302       | (76,302)      | -                     | 16,187     | (16,187)      | -                       | -         | -               | -                  | 7,372,938     | (7,372,938)    | -     |              |
| Total support and revenue               | 140,052,630       | (438,995)    | 139,613,635    | 8,026,599      | 41,571       | 8,068,170    | 32,168         | 4,569,862          | 30,710,494   | (72,971)      | 30,637,523        | 3,435,678    | 5,212         | 3,440,890           | 9,183,194    | 11,079        | 9,194,273             | 205,744    | -             | 205,744                 | 150,776   | (23,341,093)    | 173,026,052        | (454,104)     | 172,571,948    |       |              |
| Expenses:                               |                   |              |                |                |              |              |                |                    |              |               |                   |              |               |                     |              |               |                       |            |               |                         |           |                 |                    |               |                |       |              |
| Program services:                       |                   |              |                |                |              |              |                |                    |              |               |                   |              |               |                     |              |               |                       |            |               |                         |           |                 |                    |               |                |       |              |
| Treatment                               | 78,656,575        | -            | 78,656,575     | 4,539,510      | -            | 4,539,510    | -              | 4,406,704          | 30,069,216   | -             | 30,069,216        | 2,374,008    | -             | 2,374,008           | 9,140,762    | -             | 9,140,762             | 121,372    | -             | 121,372                 | 151,603   | (22,764,489)    | 106,695,261        | -             | 106,695,261    |       |              |
| Training                                | 1,319,863         | -            | 1,319,863      | -              | -            | -            | -              | -                  | -            | -             | -                 | -            | -             | -                   | -            | -             | -                     | -          | -             | -                       | -         | -               | 1,319,863          | -             | 1,319,863      |       |              |
| Public education                        | 21,053,951        | -            | 21,053,951     | -              | -            | -            | -              | -                  | -            | -             | -                 | 149,109      | -             | 149,109             | -            | -             | -                     | -          | -             | -                       | -         | -               | 21,203,060         | -             | 21,203,060     |       |              |
| Total program services                  | 101,030,389       | -            | 101,030,389    | 4,539,510      | -            | 4,539,510    | -              | 4,406,704          | 30,069,216   | -             | 30,069,216        | 2,523,117    | -             | 2,523,117           | 9,140,762    | -             | 9,140,762             | 121,372    | -             | 121,372                 | 151,603   | (22,764,489)    | 129,218,184        | -             | 129,218,184    |       |              |
| Support services:                       |                   |              |                |                |              |              |                |                    |              |               |                   |              |               |                     |              |               |                       |            |               |                         |           |                 |                    |               |                |       |              |
| Management and general                  | 2,244,921         | -            | 2,244,921      | 436,535        | -            | 436,535      | 3,226          | 69,970             | 220,298      | -             | 220,298           | 163,377      | -             | 163,377             | 93,377       | -             | 93,377                | 42,810     | -             | 42,810                  | 12,466    | (180,715)       | 3,106,265          | -             | 3,106,265      |       |              |
| Fundraising                             | 20,256,450        | -            | 20,256,450     | 3,168,861      | -            | 3,168,861    | -              | 27,066             | 210,106      | -             | 210,106           | 681,778      | -             | 681,778             | 47,686       | -             | 47,686                | 47,474     | -             | 47,474                  | 7,856     | (395,889)       | 24,051,388         | -             | 24,051,388     |       |              |
| Total support services                  | 22,501,371        | -            | 22,501,371     | 3,605,396      | -            | 3,605,396    | 3,226          | 97,036             | 430,404      | -             | 430,404           | 845,155      | -             | 845,155             | 141,063      | -             | 141,063               | 90,284     | -             | 90,284                  | 20,322    | (576,604)       | 27,157,653         | -             | 27,157,653     |       |              |
| Total expenses                          | 123,531,760       | -            | 123,531,760    | 8,144,906      | -            | 8,144,906    | 3,226          | 4,503,740          | 30,499,620   | -             | 30,499,620        | 3,368,272    | -             | 3,368,272           | 9,281,825    | -             | 9,281,825             | 211,656    | -             | 211,656                 | 171,925   | (23,341,093)    | 156,375,837        | -             | 156,375,837    |       |              |
| Change in net assets                    | 16,520,870        | (438,995)    | 16,081,875     | (118,307)      | 41,571       | (76,736)     | 28,942         | 66,122             | 210,874      | (72,971)      | 137,903           | 67,406       | 5,212         | 72,618              | (98,631)     | 11,079        | (87,552)              | (5,912)    | -             | (5,912)                 | (21,149)  | -               | 16,650,215         | (454,104)     | 16,196,111     |       |              |
| Net assets (deficit), beginning of year | 319,792,628       | 1,061,834    | 320,854,462    | 1,084,266      | 1,882        | 1,086,148    | (9,771)        | 12,559             | (252,859)    | 98,348        | (154,511)         | 127,502      | -             | 127,502             | 32,900       | -             | 32,900                | 37,200     | -             | 37,200                  | 27,902    | -               | 320,852,327        | 1,162,064     | 322,014,391    |       |              |
| Net assets (deficit), end of year       | \$ 336,313,498    | \$ 622,839   | \$ 336,936,337 | \$ 965,959     | \$ 43,453    | \$ 1,009,412 | \$ 19,171      | \$ 78,681          | \$ (41,985)  | \$ 25,377     | \$ (16,608)       | \$ 194,908   | \$ 5,212      | \$ 200,120          | \$ (65,731)  | \$ 11,079     | \$ (54,652)           | \$ 31,288  | \$ -          | \$ 31,288               | \$ 6,753  | \$ -            | \$ 337,502,542     | \$ 707,960    | \$ 338,210,502 |       |              |

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