

THE SMILE TRAIN UK
TRUSTEES' REPORT AND ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2012
Charity Registration No. 1114748
Company Registration No. 05738962 (England and Wales)

GRANT THORNTON UK LLP
Grant Thornton House
Melton Street, Euston Square
London, NW1 2EP

THE SMILE TRAIN UK

LEGAL AND ADMINISTRATIVE INFORMATION

Trustees	P Ma R Price Removed – 10 September 2012 M Schell Removed – 10 September 2012 R Toth H Brown E F Monopoli E. Long Appointed – 10 September 2012
Secretary	P Ma
Charity number	1114748
Company number	05738962
Principal address	41 Madison Avenue 28th Floor New York NY 10010
Registered office	C/O Bates Wells & Braithwaite London LLP 2-6 Cannon Street London EC4M 6YH
Auditors	Grant Thornton UK LLP Grant Thornton House Melton Street, Euston Square London, NW1 2EP
Bankers	HSBC Plc 80 Queen Victoria Street London EC4N 4TR
Solicitors	Bates Wells & Braithwaite London LLP 2-6 Cannon Street London EC4M 6YH

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THE SMILE TRAIN UK

TRUSTEES' REPORT

FOR THE YEAR ENDED 30 JUNE 2012

The Trustees, who are also the directors of The Smile Train UK (the 'Charity') for the purposes of company law, submit their annual report and the audited financial statements of the Charity for the year ended 30 June 2012.

The Trustees confirm that the annual report and financial statements of the Charity have been prepared in accordance with the accounting policies set out in note 1 to the financial statements and comply with the Charity's Memorandum and Articles of Association, the Companies Act 2006 and the Statement of Recommended Practice (SORP), "Accounting and Reporting by Charities", issued in March 2005.

The information on page 2 regarding the Charity, its Trustees, Officers, Legal and Administrative information forms part of this report. The Trustees' report is also the directors' report required by s417 of the Companies Act 2006.

The Charity is taking advantage of small company exemptions in order not to disclose the Charity's use of financial instruments, key performance indicators and non-financial key performance indicators.

Structure, governance and management

Management of the Charity

The Board of Trustees (which has a minimum of three) is the body responsible for the management of the Charity. The Board meets periodically as needed and aims to meet quarterly each year. The responsibility for the day to day activities of the Charity is undertaken by P Ma, R Toth and G Domfeh who are all employees of Smile Train, Inc. However, none of these three receive any remuneration from the Charity for this work. P Ma and R Toth are also Trustees of the Charity. In addition, there are three Trustees who are not on the Board of Smile Train, Inc. nor are they paid employees or consultants of Smile Train, Inc. This governance arrangement is in accordance with the Articles of Association of the Charity. All major decisions regarding the Charity are approved by the Charity's Board of Trustees.

Smile Train, Inc. is a US-based non-profit organisation headquartered in New York City. Its offices are located at 41 Madison Avenue, New York, NY 10010. Smile Train, Inc. and the Charity are dedicated to helping children worldwide who are born with cleft lips and palates. This is stated in the Charity's Objects. Smile Train, Inc. has charitable affiliates operating in Canada, Germany and India. Smile Train, Inc. and the Charity share common goals, objectives and management team. The Charity benefits from a number of donated services from Smile Train, Inc. including the time of Smile Train, Inc. employees, for which the Charity is not invoiced. Further details of these donated services are provided in note 4 of the financial statements.

Smile Train, Inc. is the sole company law member of the Charity. The Charity is therefore a subsidiary of Smile Train, Inc. although the Board of Trustees of the Charity are responsible for its day to day management. Smile Train, Inc. is controlled by a Board of Directors who have nominated Roy Reichbach, a Director of Smile Train, Inc., as their authorised representative for all dealings with the Charity as sole member. There is no ultimate controlling party of Smile Train, Inc.

The Board of Trustees of the Charity together with their professional advisors have reviewed the payment and level of fees paid to B Mullaney and D Greenwood, former Trustees, in the years ended 30 June 2011, 30 June 2010, 30 June 2008 and 30 June 2007. As a result of their review, the Trustees have been advised that the fees paid were not appropriate, and were paid in breach of the Charity's Memorandum and Articles of Association. The Charity Commission has granted consent to proceedings against B Mullaney for the sum of £633,509. The Trustees, with the help of their legal advisers, will be seeking to recover the fees from B Mullaney in full. As with all litigation proceedings the outcome is uncertain although there is a good prospect of success. Accordingly, no debtor has been included within the financial statements. Instead, it has been treated as a contingent asset and a disclosure in this regard has been made in Note 6 of the financial statements. Additional information regarding this issue is included in Note 5 of the financial statements.

THE SMILE TRAIN UK

TRUSTEES' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2012

Governing document

The Charity is a charitable company limited by guarantee and is governed by its Memorandum and Articles of Association, as amended by special resolutions dated 23 March 2006 and 29 August 2012.

There is currently one member who agrees to contribute £1 in the event of the Charity winding up.

The Charity is a registered charity with the Charity Commission (Charity registration no. 1114748).

Appointment and election of Trustees

Trustees shall be appointed by resolution of the sole member for a renewable term of three years.

None of the Trustees has any beneficial interest in the Charity and none is a member of the Charity.

The Trustees, who are also the directors for the purpose of company law, and who served during the year were:

P Ma
R Toth
H Brown
E F Monopoli

The Trustees, who are also the directors for the purpose of company law, and who were appointed or removed after the year ended 30 June 2012 were:

E. Long	Appointed – 10 September 2012
R Price	Removed – 10 September 2012
M Schell	Removed – 10 September 2012

Induction and training of Trustees

Once appointed, Trustees are briefed on their legal obligations under charity and company law, provided with a copy of the Memorandum and Articles of Association of the Charity and the current budget and updated on the business plan and recent financial performance of the Charity. Trustees are encouraged to attend appropriate external training events where these will facilitate the undertaking of their role.

Risk management

We are committed to a policy of identifying, monitoring and managing the risks that might adversely affect the activities in which we are involved. In this context, risk is defined as the potential to fail to achieve the Charity's objectives and for loss, financial and reputational, inherent in the environment in which we operate and in the nature of the transactions undertaken.

There has been in place throughout the year an on-going process for identifying, evaluating and managing the significant risks faced by the Charity which has been regularly reviewed by the Trustees. Appropriate actions have been put in place to mitigate the exposure to and the consequences of these risks.

THE SMILE TRAIN UK

TRUSTEES' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2012

Objectives and activities

As stated in the Memorandum and Articles of Association, the objectives of the Charity are:

1. to relieve the suffering of children with cleft lips or palates or both;
2. to advance the education and training of the public, including doctors, nurses and medical support staff in all matters relating to cleft lip and palate surgery and treatment and the support of those with this condition; and;
3. to promote research into and the knowledge and study of the cause, improvement and application of treatments, cures and other medicinal agents, methods and processes that may relieve the suffering of those with cleft lips and palates.

The Trustees have paid due regard to guidance on public benefit issued by the Charity Commission in deciding what activities the Charity should undertake and believe that in reading the Trustees' report in totality that any reader would be satisfied the objectives of the Charity have been achieved through the performance of the various worthwhile causes.

These objectives are achieved through on-going direct mail and print advertising campaigns used to advance the education of the public and raise awareness of cleft lips and palates. These campaigns are also targeted at raising donations within the UK. Donations, net of related expenses, are then made to Smile Train, Inc. who has the infrastructure in place to directly carry out the Charity's objectives. Smile Train, Inc.'s mission is to help poor children in countries in need around the world who suffer from cleft lip and palate, by providing free surgery, free training for doctors and related research. It is estimated that there are more than one million children suffering with unrepaired clefts.

Throughout the year staff employed by Smile Train, Inc. provide management and operational oversight and various marketing and administrative services. These services are not paid for by the Charity. The value of these donated services is £168,284 (2011: £163,705) and this has been included within the Statement of Financial Activities.

Achievements and performance

During the year the Charity paid £7,248,706 (2011: £7,760,309) in program activities cost (See Note 4). Of this amount, the Charity spent £3,447,895 (2011: £2,968,878) on public education and awareness in the UK and donated the remaining £3,800,811 (2011: £4,791,047) to Smile Train, Inc. to fund cleft lip and palate treatment in countries in need around the world.

Through its public education and awareness initiatives the Charity believes it has reached approximately 4.6m households in 2012 and has successfully brought attention to the cause of cleft lip and palate, help to prevent clefts, how to repair clefts and the prevalence of this birth defect in developing countries. The Charity benefits from its relationship with Smile Train, Inc. by leveraging management, operational support and, administration as well as its contractual relationships with Smile Train, Inc. partner hospitals. The Charity donates funds to Smile Train, Inc. for surgeries primarily in India and South Asia.

We have referred to Smile Train, Inc.'s surgeries in India and South Asia but Smile Train, Inc. undertakes a number of other activities. Below are examples of some of the work undertaken by Smile Train, Inc. around the world which is part funded by the Charity. More details and the annual report can be found on Smile Train, Inc.'s website www.smiletrain.org.

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TRUSTEES' REPORT (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2012

Surgeries Performed

Smile Train, Inc., its affiliates and the Charity provided 122,487 (2011:117,190) free cleft surgeries for poor children around the world. Of this total, the Charity funded approximately 24,000 (2011: 31,000) free cleft surgeries through Smile Train, Inc. partner hospitals for children primarily in India and South Asia. These children otherwise might never have received treatment for their cleft lip and palate. The reason for the decline in the number of surgeries funded by the Charity in FY 12 compared to FY 11 was that in FY12, the Charity made investments in marketing and fundraising strategies to expand and build a solid donor base for future stewardship. This resulted in less net revenue being raised in FY12 compared to FY11 and therefore the Charity had less to contribute to cleft surgeries.

Free cleft surgeries were delivered in 2012 by Smile Train, Inc. partner hospitals in the following parts of the world:

51,235	India & South Asia
27,165	China
7,025	Latin America
10,507	Africa
8,111	Indonesia
5,197	Philippines
3,781	Vietnam, Cambodia, Thailand, Laos and Myanmar
1,572	Russia
<u>7,894</u>	the "Rest of the World"

122,487 Total

In addition to the surgeries performed, Smile Train, Inc. provides the following charitable activities.

Partners

The key to helping more children is adding partners who can provide the free cleft surgeries that these children need. Smile Train, Inc. is always searching for new partners who have the experience, talent and infrastructure to provide safe and high quality cleft lip and palate surgery.

At the end of 2012 fiscal year, there were more than 1,100 Smile Train, Inc. partner hospitals around the world.

Grants awarded

In addition to the partner programs that deliver the majority of free cleft surgeries that Smile Train, Inc. provides, the following grants are also awarded to hundreds of doctors, hospitals, charities and organisations who help poor children suffering with clefts.

Education and Training Grants

Smile Train, Inc. supported the following educational and training conferences in 2012 fiscal year:

October 2011 - Congreso Nacional de la Asociacion Mexicana de LPH

250 Mexican cleft medical professionals gathered for this annual cleft lip and palate conference. In attendance were students, nurses, social workers, residents, speech pathologists, psychologists, orthodontists and all types of cleft surgeons.

December 2011 - 5th Annual Conference of the Palestinian Cleft Society

The goal of the conference was to help the local cleft medical professionals, including surgeons, anaesthesiologists, speech therapists, dentists, and orthodontists to learn techniques of successful cleft care teams. This has helped about 100 local medical professionals become more autonomous and better able to care for local patients.

January 2012 – Indian Cleft Society Conference (Indocleftcon)

The Indian Society of Cleft Lip Palate & Craniofacial Anomalies (ISCLPCA) is the only official body representing multi-disciplinary cleft care professionals in India and the annual meeting provides an educational experience for all types of cleft care providers with an internationally-known faculty. More than 500 cleft medical professional gathered for this annual conference.

THE SMILE TRAIN UK

TRUSTEES' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2012

April 2012 – 69th Annual American Cleft Palate-Craniofacial Association Meeting (ACPA)

Smile Train Inc. supported partners from around the world to attend the ACPA annual cleft meeting in San Jose, California. The conference focus was on ensuring excellence in cleft care and the use of technology. More than 15 partners were able to attend this premiere cleft conference with support from Smile Train, Inc.

May 2012 - 8th Congress & 16th Annual Scientific Meeting of Indonesia Association of Plastic Reconstructive and Aesthetic Surgeons (INAPRAS)

A total of 200 surgeons participated in this first Smile Train Congress of Cleft Doctors in Indonesia. World-renowned cleft surgeons presented the latest surgical techniques and skills for cleft surgery, as well as conducted a live cleft surgery for participants.

Mission Group Grants

Mission Group Grants allow Smile Train, Inc. to go to places in the world where there are no doctors and few, if any, hospitals. In places like these, the only way to help poor children is through sending a traditional team of doctors and nurses with equipment for a relatively short mission. Smile Train, Inc. works with and supports major medical mission organisations from around the world.

Ancillary Care Grants

Every child with a cleft needs not only cleft surgery, but also a whole range of other types of care, such as speech therapy, orthodontics, dentistry, ear, nose and throat (ENT) services, etc. Ancillary Care grants augment and enhance the free cleft surgery programs and help these children learn how to eat and speak properly, etc.

Medical Exchange Grants

There is an acute shortage of doctors in many developing countries. Smile Train, Inc. developed a Medical Exchange Program for doctors to go to a developing country to help children and train local doctors.

Equipment Grants

These grants assist hospitals in purchasing much needed equipment such as surgical instruments and anaesthesia machines for the operating room.

Financial review

We have set out the full details of our income and expenditure in the statement of financial activities (SOFA) on page 10. The Charity income for the year, principally representing income from donors was £10.7m (2011: £11.8m). Total resources expended, principally representing program costs, were £11.1m (2011: £11.4m). As a result, we recorded net outgoing resources of negative £0.4m (2011: Net incoming resources of £0.4m). Unrestricted funds balance at the end of the 2012 fiscal year stood at £0.5m (2011: £0.8m).

Funds

The Charity holds two types of fund - Restricted Funds and Unrestricted Funds.

Restricted Funds are those funds for which the original donors specified, directly or indirectly, the purposes for which they wanted the money to be used. The Trustees manage these funds but are governed by the donors' wishes as to how the funds are utilised. During the year ended 30 June 2012, such restricted donations were all spent in accordance with the donors' directions.

Unrestricted Funds are those funds for which the original donors did not give any particular instructions as to how they wished the funds spent. These funds are allocated by the Trustees at their discretion. At the end of the year, the value of these funds stood at £0.6m.

THE SMILE TRAIN UK

TRUSTEES' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2012

Reserves policy

In reviewing the risks faced by the Charity and its operational plans for the forthcoming period, the Trustees have decided that it is appropriate that the Charity holds reserves of £150,000. This is equivalent to twelve months administrative expenditure. The Trustees have decided that the balance should be held in a designated reserve and this is presented as such on the face of the balance sheet. The Trustees consider that reserves at this level will ensure that in the event of a significant drop in funding, they will be able to continue the Charity's current administrative functions while consideration is given to ways in which additional funds may be raised. This level of reserves has been maintained throughout the year. As there are funds of £479,317 held in excess of this level, these can be available for use in both unrestricted and designated funds to be spent on generating voluntary income and charitable activities. The reserve policy is reviewed annually by the Trustees (See Page 16).

Plans for the future

Thanks to the generosity of our donors, Smile Train, Inc., its affiliates and the Charity, during fiscal year 2012, were able to provide more than 122,000 free cleft surgeries for poor children, train a record number of doctors and grow our programmes in every aspect all over the world.

For fiscal year 2013, the Charity plans to refine and enhance marketing and fundraising campaigns to engage new and current donors and continue to grow the supporter base. The Charity will continue to raise funds to help grow cleft treatment programs provided by Smile Train, Inc. and generate awareness and public education about the problems of clefts.

In fiscal year 2013, donations from the Charity to Smile Train, Inc. will be made under a Deed of Grant agreed between the two parties which outline Smile Train, Inc.'s reporting obligations to the Charity.

While Smile Train, Inc. and the Charity were busy doing all of these things this past year, an estimated 170,000 children were born with clefts in the developing world. Without intervention, these children have little prospect of ever receiving the cleft surgery they so desperately need.

Their families, often living on less than £1 a day are too poor to ever afford surgery. Their local doctors and hospitals are too poor to afford free surgery programmes. And their government may not consider the problem of clefts a high priority when compared to other life threatening afflictions.

Smile Train, Inc. and the Charity care about these children and with the continued support of our donors, Smile Train, Inc. and the Charity will keep working hard to grow our programmes, train more doctors, find more partners and help more children.

In addition to providing much needed surgery, Smile Train, Inc. is delivering programmes to address more comprehensive care, to include speech therapy, orthodontics and tertiary care.

The Charity will continue to support Smile Train, Inc. to meet its objectives for the future.

Auditors

Shelley Stock Hutter LLP, the Charity's auditors for the previous financial year resigned from office in accordance with section 516 of the Companies Act 2006 on 24 October 2012. In the letter of resignation they confirmed that, in accordance with section 519 of the Companies Act 2006 there were no circumstances connected with their ceasing to hold office which they considered should be brought to the attention of the members or creditors of the Charity. A resolution proposing that Grant Thornton UK LLP be appointed as auditors of the Charity was passed by the sole member on 27 November 2012.

THE SMILE TRAIN UK

STATEMENT OF TRUSTEES' RESPONSIBILITIES

The Trustees (who are also the directors of the Charity for the purposes of company law) are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Trustees to prepare financial statements for each financial year. Under that law the trustees have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Charity and of the incoming resources and application of resources, including the income and expenditure, of the Charity for that period. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Charity will continue in business.

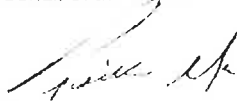
The Trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the Charity's transactions and disclose with reasonable accuracy at any time the financial position of the Charity and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustees confirm that:

- so far as each Trustee is aware, there is no relevant audit information of which the Charity's auditor is unaware; and
- the Trustees have taken all the steps that they ought to have taken as Trustees in order to make themselves aware of any relevant audit information and to establish that the Charity's auditor is aware of that information.

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the Charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the board of Trustees



P Ma
Trustee

Date: *March 13, 2012*

THE SMILE TRAIN UK

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE SMILE TRAIN UK

We have audited the accounts of The Smile Train UK for the year ended 30 June 2012 which comprise of the Statement of Financial Activities and the Balance Sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Charity's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Charity's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Charity and its members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustees and auditors

As explained more fully in the Trustees' Responsibilities Statement set out on page 7, the Trustees (who are also the directors of the Charity for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of the audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Charity's affairs as at 30 June 2012 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

THE SMILE TRAIN UK

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF THE SMILE TRAIN UK

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Grant Thornton UK LLP

**Carol Rudge
Senior Statutory Auditor**

**Grant Thornton UK LLP
Grant Thornton House
Melton Street, Euston Square
London, NW1 2EP**

Date: 13 March 2013

THE SMILE TRAIN UK

STATEMENT OF FINANCIAL ACTIVITIES INCLUDING INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 30 JUNE 2012

		Unrestricted	Restricted	Total	RESTATED
	Notes	funds	funds	2012	Total
		£	£	£	2011
					£
<u>Incoming Resources:</u>					
Voluntary income	2	10,424,415	57,433	10,481,848	11,636,544
Gift In Kind	2	168,284	-	168,284	163,705
List rental and other income	3	82,476	-	82,476	367
Total incoming resources		10,675,175	57,433	10,732,608	11,800,616
<u>Resources Expended</u>					
Costs of generating funds					
Costs of generating voluntary income	4	3,611,927	-	3,611,927	3,057,554
Charitable activities					
Total programme costs	4	7,190,960	57,746	7,248,706	7,760,309
Governance costs					
	4	234,431	-	234,431	259,281
Other resources expended -					
Payments to Trustees	5	-	-	-	297,822
Total resources expended		11,037,318	57,746	11,095,064	11,374,966
Net incoming/(outgoing) resources		(362,143)	(313)	(362,456)	425,650
Net movement in funds		(362,143)	(313)	(362,456)	425,650
Fund balances at 1 July 2011		991,460	313	991,773	566,123
Fund balances at 30 June 2012		629,317	-	629,317	991,773

The statement of financial activities also complies with the requirements for an income and expenditure account under the Companies Act 2006.

THE SMILE TRAIN UK

BALANCE SHEET

AS AT 30 JUNE 2012

	Notes	£	2012 £	£	2011 £
Current assets					
Debtors	8	236,365		290,706	
Cash at bank and in hand		611,406		796,428	
Security Deposit		3,300		-	
			<u>851,071</u>	<u>1,087,134</u>	
Creditors: amounts falling due within one year					
	9	(221,754)		(95,361)	
Total assets less current liabilities			<u>629,317</u>		<u>991,773</u>
Income funds					
Restricted funds	10		-		313
Unrestricted funds:					
Designated funds	11		150,000		150,000
Other charitable funds			479,317		841,460
			<u>629,317</u>		<u>991,773</u>

The accounts were approved by the Board on: *13. MARCH 2013*

P Ma
Trustee



R Toth
Trustee



Company Registration No. 05738962

THE SMILE TRAIN UK

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2012

1 Accounting policies

1.1 Basis of preparation

The accounts have been prepared under the historical cost convention.

The Charity has taken advantage of the exemption in Financial Reporting Standard No 1 from the requirement to produce a cash flow statement on the grounds that it is a small Charity.

The accounts have been prepared in accordance with applicable United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice), the Statement of Recommended Practice, "Accounting and Reporting by Charities", issued in March 2005 and the Companies Act 2006.

After making appropriate enquiries of senior management, the Trustees have reasonable expectation that the Charity has adequate resources to continue its activities for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The SOFA figures for fiscal year 2011 have been represented to more accurately reflect the treatment of the payments made previously to the former trustees and the gift in kind donated by Smile Train, Inc. This has no impact on the net incoming resources for 2011. See notes 5 and 6.

1.2 Incoming resources

Donations, legacies and other forms of voluntary income are recognised as incoming resources when the Charity is entitled to the income, except insofar as they are incapable of financial measurement.

The Charity benefits from services donated to it by Smile Train, Inc. These donated services are recognised within the Statement of Financial Activities and are valued at the actual cost incurred by Smile Train, Inc.

1.3 Resources expended

All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to that category.

Costs of generating funds are those incurred in attracting voluntary income.

Governance costs are those incurred in connection with administration of the charity and compliance with statutory requirements.

Programme costs reflect the costs associated with funding surgeries through Smile Train, Inc. and the production of printed public educational material and services to raise awareness both of which are considered to further the Charity's objectives. When educational material is distributed as part of a joint-purpose mailing, the costs are allocated across the expenditure categories on the basis of word count.

1.4 Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. All differences are included in net outgoing resources.

1.5 Funds

Restricted funds are subject to specific conditions by donors as to how they may be used. The purposes and uses of the restricted funds are set out in the notes to the accounts.

Designated funds comprise funds which have been set aside at the discretion of the Trustees for specific purposes. The purposes and uses of the designated funds are set out in the notes to the accounts.

THE SMILE TRAIN UK

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2012

2 Voluntary income

	Unrestricted funds	Restricted funds	Total 2012	Total 2011
	£	£	£	£
Donations and gifts	10,424,415	57,433	10,481,848	11,636,544
Gifts In Kind – services provided by Smile Train, Inc.	168,284	-	168,284	163,705
Total	10,592,699	57,433	10,650,132	11,800,249

Gift in Kind is management, operational oversight, administrative, marketing and fundraising services provided by Smile Train Inc. staff to the Charity at no cost.

As of balance sheet date the Charity is not aware of and has not been notified of any legacies that should be disclosed.

3 List Rental

In FY 12, list rental income was £82,467 (2011:nil) for which corporation tax of 20% (£16,495) is payable .

THE SMILE TRAIN UK

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2012

4 Total resources expended

	Staff costs £	Other costs £	Total 2012 £	Total 2011 £
Costs of generating funds				
Advertising and fundraising costs	59,158	3,419,758	3,478,916	2,946,890
Gift In Kind – Services provided by Smile Train, Inc.	133,011	-	133,011	110,664
	<u>192,169</u>	<u>3,419,758</u>	<u>3,611,927</u>	<u>3,057,554</u>
Charitable activities				
Program costs	-	3,800,811	3,800,811	4,791,431
Printed educational materials and services	-	3,447,895	3,447,895	2,968,878
	<u>-</u>	<u>7,248,706</u>	<u>7,248,706</u>	<u>7,760,309</u>
Governance costs:				
Staff cost	29,535	-	29,535	14,558
Audit fees	-	48,589	48,589	28,125
Legal fees	-	33,527	33,527	2,397
Gift In kind – services provided by Smile Train, Inc.	35,273	-	35,273	53,041
Other administrative expenses	-	87,507	87,507	161,160
	<u>64,808</u>	<u>169,623</u>	<u>234,431</u>	<u>259,281</u>
Total	<u>256,977</u>	<u>10,838,087</u>	<u>11,095,064</u>	<u>11,077,144</u>

The Charity staff costs relate to work carried out on the marketing and fundraising strategies, the cultivation of major donors and the management of the donation processing, direct marketing and media placement suppliers. Two thirds of staff compensation has been allocated to advertising and fundraising Costs while one third is allocated to Governance costs.

Donations made to Smile Train, Inc. of £3,800,811 (2011: £4,791,047) are included in program costs for direct inclusion in their program expenses.

Gift in Kind is management, operational oversight, administrative, marketing and fundraising services provided by Smile Train Inc. staff to the Charity at no cost.

THE SMILE TRAIN UK
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2012

5 Trustees

In the years ended 30 June 2007, 30 June 2008, 30 June 2010 and 30 June 2011, B Mullaney received payments totalling £633,509 as a non-employee consultant. D Greenwood was also paid as a non-employee consultant and received payments totalling £60,155 in the years ended 30 June 2010 and 30 June 2011. D Greenwood, was appointed as a trustee in 2010, and received the fee of £45,138 in 2010 prior to her appointment. These individuals were responsible for developing the overall marketing and fundraising strategy and the cultivation of major donors within the UK. B Mullaney and D Greenwood ceased to be Trustees on 28 March 2011 and 14 February 2011 respectively.

The current Trustees have been advised that the fees paid were not appropriate, and were paid in contravention of the Charity's Memorandum and Articles of Association. On this basis, the current Trustees have taken legal advice and have received Charity Commission consent to recover the fees paid to B Mullaney in the years ended 30 June 2011 (£282,805), 30 June 2010 (£156,624), 30 June 2008 (£97,043) and 30 June 2007 (£97,037). The current Trustees will not seek to recover the sum of £15,017 from D Greenwood in relation to the year ended 30 June 2011 as they have been advised that the costs of recovery would be disproportionate and Charity Commission consent for recovery has therefore not been granted. The Trustees, with the help of their legal advisers, will be seeking to recover the fees from B Mullaney in full. As with all litigation proceedings the outcome is uncertain although there is a good prospect of success. Accordingly, no debtor has been included within the financial statements. Instead, it has been treated as a contingent asset.

During the year ended June 30, 2012, none of the trustees received compensation for his or her services and none was reimbursed travelling expenses by the Charity as these expenses were reimbursed by Smile Train, Inc.

6 Contingent Asset

As per note 5, the charity is seeking to reclaim payments made to Trustees in the past. As the outcome of these legal proceedings is uncertain, the balance has not been included as a debtor but disclosed as a contingent asset.

7 Employees

Number of employees

There were three employees throughout the year (2011: 1).

Employment costs	2012	2011
	£	£
Wages and salaries	82,235	52,500
Employee Benefits NI	6,458	5,733
	<u>88,693</u>	<u>58,233</u>

There were no employees whose annual remuneration was £60,000 or more.

8 Debtors

	2012	2011
	£	£
Prepayments and accrued income	<u>236,365</u>	<u>290,706</u>

THE SMILE TRAIN UK

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2012

9 Creditors: amounts falling due within one year	2012	2011
	£	£
Amounts owed to group undertakings	28,924	40,207
Accruals	176,335	55,154
Due to HMRC (Corporation Tax)	16,495	-
	<u>221,754</u>	<u>95,361</u>

10 Restricted funds

The income funds of the Charity include restricted funds comprising the following unexpended balances of donations and grants held on trust for specific purposes:

	Movement in funds			Balance at 30 June 2012
	Balance at 1 July 2011	Incoming resources	Resources expended	
	£	£	£	£
Restricted donations	313	57,433	(57,746)	-
	<u>313</u>	<u>57,433</u>	<u>(57,746)</u>	<u>-</u>

Donations received are recorded as unrestricted or restricted, depending on the nature of the donor's restriction. All donor restricted donations are recorded as restricted income if the donation is received with donor conditions that restrict its use.

11 Designated funds

The income funds of the charity include the following designated funds which have been set aside out of unrestricted funds by the Trustees for specific programmatic purposes:

	Movement in funds			Balance at 30 June 2012
	Balance at 1 July 2011	Incoming resources	Resources expended	
	£	£	£	£
Designated reserve	150,000	-	-	150,000
	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>150,000</u>

The reserves policy as decided by the Trustees is outlined in the Trustees' Annual Report at page 6.

THE SMILE TRAIN UK

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2012

12 Analysis of net assets between funds

	Unrestricted funds	Designated funds	Total
	£	£	£
Fund balances at 30 June 2012 are represented by:			
Current assets	701,071	150,000	851,071
Creditors: amounts falling due within one year	(221,754)		(221,754)
	<u>479,317</u>	<u>150,000</u>	<u>629,317</u>

13 Related parties

During the year, Smile Train, Inc. the sole member of The Smile Train UK (the 'Charity'), was repaid the sum of £40,207 (2011: £1,852,478) owed by the Charity to Smile Train, Inc. as at 30 June 2011. Smile Train, Inc. also paid expenses totalling £1,997 (2011: £40,207) on behalf of the Charity during the year and that amount was still owed to Smile Train, Inc. as at 30 June 2012.

In addition, the Charity donated and paid £3,800,811 (2011: £4,791,047) to Smile Train, Inc. for inclusion in their jointly-stated charitable activities.

Smile Train, Inc. is the sole company law member of the Charity. The Charity is therefore a subsidiary of Smile Train, Inc. although the Board of Trustees of the Charity are responsible for its day to day management. Smile Train, Inc. is controlled by a Board of Trustees who have nominated Roy Reichbach, a Director of Smile Train, Inc. as their authorised representative for all dealings with the Charity as sole member. There is no ultimate controlling party of Smile Train, Inc.