OPERATION SMILE, INC.

Consolidated Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

OPERATION SMILE, INC.

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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Board of Directors
Operation Smile, Inc.:

We have audited the accompanying consolidated financial statements of Operation Smile, Inc., which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 the entity'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Operation Smile, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Norfolk, Virginia
December 15, 2014

OPERATION SMILE, INC.

Consolidated Statements of Financial Position

June 30, 2014 and 2013

Assets		2014	2013
Cash	$	5,362,732	5,439,932
Investments		386,030	1,689,482
Prepaid expenses		206,872	181,026
Mission advances and other receivables		372,930	255,297
Inventories		3,255,751	5,419,218
Contributions receivable, net (note 2)		8,951,967	15,828,884
Property and equipment, net (notes 3, 5, 10 and 11)		20,082,693	18,815,081
Total assets	$	38,618,975	47,628,920
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	4,359,586	4,120,197
Obligation to spin-off organization (note 1)		1,488,070	—
Deferred revenue		266,573	194,125
Line of credit (note 10)		300,000	—
Capital lease obligations (notes 3 and 5)		140,210	67,669
Long-term debt (note 11)		9,275,033	9,467,575
Total liabilities		15,829,472	13,849,566
Net assets:			
Unrestricted		14,593,420	19,206,835
Temporarily restricted (note 6)		8,196,083	14,572,519
Total net assets		22,789,503	33,779,354
Commitments and contingencies (notes 5, 6, 10 and 11)			
Total liabilities and net assets	$	38,618,975	47,628,920

See accompanying notes to consolidated financial statements.

OPERATION SMILE, INC.

Consolidated Statements of Activities

Years ended June 30, 2014 and 2013

	2014			2013		
	Unrestricted net assets	**Temporarily restricted net assets**	**Total**	**Unrestricted net assets**	**Temporarily restricted net assets**	**Total**
Revenues:						
Contributions (note 9)	$ 36,107,737	19,349,378	55,457,115	36,019,018	13,497,803	49,516,821
Gifts-in-kind (note 4)	2,511,969	—	2,511,969	2,228,823	—	2,228,823
Contributed services (note 4)	27,050,589	—	27,050,589	26,424,721	—	26,424,721
Program service revenue	542,233	—	542,233	687,755	—	687,755
Foreign currency transaction gains, net	19,798	—	19,798	4,017	—	4,017
Other income, net	13,481	—	13,481	40,831	—	40,831
Net assets released from restrictions (note 7)	25,725,814	(25,725,814)	—	16,669,916	(16,669,916)	—
Total revenues	91,971,621	(6,376,436)	85,595,185	82,075,081	(3,172,113)	78,902,968
Expenses:						
Program services :						
Medical missions (note 4)	46,700,927	—	46,700,927	39,057,337	—	39,057,337
Education and sustainability	16,931,414	—	16,931,414	15,195,423	—	15,195,423
Total program services	63,632,341	—	63,632,341	54,252,760	—	54,252,760
Supporting services:						
Fund-raising	15,724,447	—	15,724,447	16,248,847	—	16,248,847
Administration	17,228,248	—	17,228,248	6,940,449	—	6,940,449
Total supporting services	32,952,695	—	32,952,695	23,189,296	—	23,189,296
Total expenses	96,585,036	—	96,585,036	77,442,056	—	77,442,056
Change in net assets	(4,613,415)	(6,376,436)	(10,989,851)	4,633,025	(3,172,113)	1,460,912
Net assets at beginning of year	19,206,835	14,572,519	33,779,354	14,573,810	17,744,632	32,318,442
Net assets at end of year	$ 14,593,420	8,196,083	22,789,503	19,206,835	14,572,519	33,779,354

See accompanying notes to consolidated financial statements.

OPERATION SMILE, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ (10,989,851)	1,460,912
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	712,948	599,847
Loss on disposal of equipment	5,479	48,076
Equipment donation to program countries	7,751	15,502
Net realized and unrealized gains on investments	(3,284)	(637)
Net use of in-kind donations of supplies and inventory	2,080,489	1,452,132
Changes in operating assets and liabilities:		
Prepaid expenses	(25,846)	178,235
Mission advances and other receivables	(117,633)	(178,378)
Contributions receivable, net	6,876,917	(1,683,544)
Inventories	82,978	143,970
Accounts payable and accrued expenses	239,389	(2,893,501)
Obligation to spin-off organization	1,488,070	—
Deferred revenue	72,448	(123,562)
Net cash provided by (used in) by operating activities	429,855	(980,948)
Cash flows from investing activities:		
Purchases of property and equipment, including capitalized interest costs	(1,864,825)	(3,081,247)
Purchases of investments	(119)	(198)
Proceeds from sales and maturities of investments	1,306,855	1,354,944
Net cash used in investing activities	(558,089)	(1,726,501)
Cash flows used in financing activities:		
Borrowings on long-term debt	8,500,000	1,337,423
Principal payments on long-term debt	(8,692,542)	—
Net borrowings on line of credit	300,000	—
Principal payments on capital lease obligations	(56,424)	(17,204)
Net cash provided by financing activities	51,034	1,320,219
Net decrease in cash	(77,200)	(1,387,230)
Cash at beginning of year	5,439,932	6,827,162
Cash at end of year	$ 5,362,732	5,439,932
Supplemental cash flow information:		
Cash paid for interest, net of capitalized interest	$ 371,422	312,148

See disclosure of noncash items in note 4.

See accompanying notes to consolidated financial statements.

OPERATION SMILE, INC.

Consolidated Statements of Functional Expenses

Years ended June 30, 2014 and 2013

2014

	Program services			Supporting services			
	Medical missions	**Education and sustainability**	**Total**	**Fund-raising**	**Administration**	**Total**	**Total expenses**
Grants	$ 5,996,814	6,147,592	12,144,406	—	—	—	12,144,406
Salaries and benefits	2,196,732	1,972,299	4,169,031	2,445,481	2,520,813	4,966,294	9,135,325
Professional services	596,120	1,362,787	1,958,907	1,004,204	1,705,399	2,709,603	4,668,510
Advertising and promotion	77,027	359,782	436,809	1,146,963	80,672	1,227,635	1,664,444
Supplies and equipment	1,678,415	229,171	1,907,586	387,038	1,186,937	1,573,975	3,481,561
Mission supplies	5,102,164	5,887	5,108,051	—	—	—	5,108,051
Occupancy	267,112	73,414	340,526	76,912	214,652	291,564	632,090
Travel and conferences	3,088,401	1,171,735	4,260,136	326,179	285,528	611,707	4,871,843
Interest	4,498	2,172	6,670	1,747	363,005	364,752	371,422
Depreciation	308,721	111,814	420,535	42,964	249,449	292,413	712,948
Insurance	65,628	3,282	68,910	3,398	34,537	37,935	106,845
Other mission expense	235,649	—	235,649	—	—	—	235,649
Fundraising	—	—	—	10,266,026	—	10,266,026	10,266,026
Public education and awareness	—	5,473,484	5,473,484	—	521,721	521,721	5,995,205
Contributed services	27,050,589	—	27,050,589	—	—	—	27,050,589
Bad debt	—	—	—	—	9,976,692	9,976,692	9,976,692
Other	33,057	17,995	51,052	23,535	88,843	112,378	163,430
Total expenses	$ 46,700,927	16,931,414	63,632,341	15,724,447	17,228,248	32,952,695	96,585,036

2013

	Program services			Supporting services			
	Medical missions	**Education and sustainability**	**Total**	**Fund-raising**	**Administration**	**Total**	**Total expenses**
Grants	$ 1,349,430	5,012,901	6,362,331	—	—	—	6,362,331
Salaries and benefits	2,079,824	1,714,772	3,794,596	2,438,740	2,477,281	4,916,021	8,710,617
Professional services	542,463	1,233,577	1,776,040	1,078,810	1,406,881	2,485,691	4,261,731
Advertising and promotion	63,359	132,531	195,890	1,061,974	97,297	1,159,271	1,355,161
Supplies and equipment	1,170,809	310,520	1,481,329	433,137	1,114,083	1,547,220	3,028,549
Mission supplies	4,530,135	5,619	4,535,754	—	—	—	4,535,754
Occupancy	289,192	39,690	328,882	100,093	224,652	324,745	653,627
Travel and conferences	2,488,391	994,023	3,482,414	326,636	267,539	594,175	4,076,589
Interest	3,852	1,561	5,413	1,015	305,720	306,735	312,148
Depreciation	112,961	18,758	131,719	—	468,128	468,128	599,847
Insurance	36,459	1,613	38,072	861	52,654	53,515	91,587
Other mission expense	323,841	—	323,841	—	—	—	323,841
Fundraising	—	—	—	10,776,024	—	10,776,024	10,776,024
Public education and awareness	—	5,301,206	5,301,206	—	455,891	455,891	5,757,097
Contributed services	26,022,319	402,402	26,424,721	—	—	—	26,424,721
Other	44,302	26,250	70,552	31,557	70,323	101,880	172,432
Total expenses	$ 39,057,337	15,195,423	54,252,760	16,248,847	6,940,449	23,189,296	77,442,056

See accompanying notes to consolidated financial statements.

(1) Nature of Organization and Summary of Significant Accounting Policies

(a) Nature of Organization

Operation Smile, Inc. (Operation Smile or OSI) is a 501c(3) not-for-profit voluntary health and welfare organization whose principal purpose is to perform life-changing reconstructive surgery on children with facial deformities such as cleft lips and cleft palates in developing countries and the United States. Operation Smile is the largest volunteer-based charity providing free cleft surgeries for children around the world, and is a leading advocate for medical education and training to impact universal surgery practices and related public health initiatives to build long-term self-sufficiency in developing countries. The organization's activities also focus on community-based education and training, nutrition, research, as well as post-operative and comprehensive care.

In May 2010, OS HQ, LLC, a wholly owned subsidiary of Operation Smile, was formed to hold the assets and liabilities for a new global center located in Virginia Beach, Virginia.

In July 2003, Operation Smile Foundation, Inc. (the Foundation), also a 501c(3) organization, became active. The purpose of the Foundation was to provide long-term financial support and fundraising capabilities to Operation Smile. In July 2013, Operation Smile and the Foundation ceased to be affiliated entities. On July 11, 2013, OSI effectuated a spin-off of the Foundation to a nonaffiliated organization. As part of the agreement to spin-off the Foundation, OSI agreed to pay $3,500,000 in cash plus another $500,000 in inventory and supplies. Through June 30, 2014, $2,511,930 had been paid. Two remaining annual installments of cash are due on December 31, 2014 and 2015.

Through June 30, 2014, OSI had seven active chapter organizations throughout the United States and four representative offices in international countries, and their activities have been included in the accompanying consolidated financial statements. Effective July 2014, the chapters were closed and their activities began being supported directly out of OSI's global center. The accompanying consolidated financial statements do not include the accounts of OSI affiliates in international countries. OSI has international foundations that host mission teams, which are responsible for all in-country mission logistics. International foundations may also raise funds and awareness to support programs in international countries.

(b) Basis of Presentation

The accompanying consolidated financial statements include the accounts of Operation Smile (including its wholly owned subsidiary, OS HQ, LLC) for 2014. For 2013, the consolidated financial statements include the accounts of Operation Smile (including its wholly owned subsidiary, OS HQ, LLC) and the Foundation. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Contributions

Contributions of cash and other assets, including unconditional promises to give, are recognized as revenue when the gifts are received by the OSI. Contributions of other assets are recorded at their fair value at the date of the gift and classified in the statement of activities based on the existence of donor-imposed restrictions on the contributions. Unconditional promises to give that are expected to

(Continued)

be collected within one year are recorded on the date of gift at net realizable value which approximates fair value. OSI uses present value techniques to measure the fair value on the date of gift of unconditional promises to give that are expected to be collected in future years. The discount rates used to compute the discounts on those amounts are determined at the time the unconditional promises to give are initially recognized and are not revised subsequently. Amortization of the discounts is recorded as additional contribution revenues in accordance with the donor-imposed restrictions on the contributions. Gifts whose restrictions are met in the same fiscal year as their receipt are reported as unrestricted contribution revenue. Conditional promises to give are not recognized as revenues until such time as the conditions are substantially met.

(d) Cash

Cash consists primarily of cash in banks. Cash in banks exceeded federally insured limits at both June 30, 2014 and 2013.

(e) Investments

Investment securities consist of money market funds held in investment broker accounts. The net realized and unrealized gains and losses on investments are reflected in other income (expense), net, in the accompanying consolidated statements of activities.

(f) Prepaid Expenses

Prepaid expenses are stated at cost less applicable amortization and include expenses prepaid for events that will occur in the next fiscal year and for insurance premiums, which are expensed over their estimated useful lives using the straight-line method.

(g) Inventories

Inventories consist primarily of supplies to be used for medical missions. Purchased inventory is valued at cost on the date of purchase. Donated inventory is valued at fair value on the date of receipt. Both are accounted for on the first-in, first-out basis, and to the extent fair value is lower on the date of the consolidated statement of financial position, the value assigned at the date of purchase or donation is reduced accordingly.

(h) Property and Equipment

Property and equipment are stated at cost except for donated equipment, artwork, and land, which are stated at fair value at the date of receipt. Medical equipment and furniture, fixtures, and office equipment are depreciated using the straight-line method over estimated useful lives ranging from 3 to 10 years. No provision for depreciation is made on land or artwork. Additionally, no provision for depreciation is made on work in process until such time as the relevant assets are completed and placed into service. Buildings and building improvements are depreciated using the straight-line method over their estimated useful lives of 40 years. Total depreciation expense for the years ended June 30, 2014 and 2013 was $712,948 and $599,847, respectively.

(i) Deferred Revenue

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

(j) Classification of Net Assets

OSI's net assets are grouped into the following three net asset classes:

Unrestricted Net Assets – Unrestricted net assets generally result from contributions and other revenues not subject to donor-imposed or time restrictions.

Temporarily Restricted Net Assets – Temporarily restricted net assets generally result from contributions and other revenues whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of OSI pursuant to those stipulations.

Permanently Restricted Net Assets – Permanently restricted net assets result from contributions whose use by the organization is limited by donor stipulation that neither expire by passage of time nor can be fulfilled or otherwise removed by OSI. There were no permanently restricted net assets at June 30, 2014 or 2013.

(k) Functional Expenses

OSI allocates its expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly. Other expenses that are common to several functions are allocated based on various statistical bases, such as content, time, and purpose.

(l) Joint Cost Allocation

OSI incurred expenses that were identifiable with a particular function but served joint purposes. Expenses related to certain events, donor communication, and program materials jointly support medical missions, education and sustainability, fundraising, and administration and were allocated by their function classification as follows for the years ended June 30, 2014 and 2013:

		2014	**2013**
Medical missions	$	29,490	70,230
Education and sustainability		6,421,526	5,885,166
Fund-raising		10,543,561	9,827,863
Administration		750,887	1,076,129
Total joint costs	$	17,745,464	16,859,388

(m) Capitalized Interest Costs

OSI's policy is to capitalize interest cost incurred on debt during the construction of major capital projects exceeding one year in duration. The construction of the new global center was completed in fiscal year 2013; therefore, no interest was capitalized during fiscal year 2014. A reconciliation of total interest cost to "Interest" as reported in the consolidated statement of functional expenses for 2013 is as follows:

		2013
Interest cost capitalized	$	132,898
Interest cost charged to income		312,148
Total interest cost	$	445,046

(n) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(o) Fair Value Measurements

OSI utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to OSI at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

OSI's investments represent the financial assets that are accounted for at fair value on a recurring basis. At June 30, 2014 and 2013, the carrying value of all the investments was considered to be the fair value determined using Level 1 inputs in the fair value hierarchy. There were no transfers in and out of Levels 1, 2 or 3 for the years ended June 30, 2014 and 2013.

(p) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. As of June 30, 2014 and 2013, there was no indication of impairment. Any assets to be disposed of within the next fiscal year would be separately presented in the consolidated statements of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the consolidated statements of financial position.

(2) Contributions Receivable

Contributions receivable at June 30, 2014 and 2013 are expected to be received as follows:

		2014	2013
Within one year	$	5,096,015	4,127,017
From one to five years		4,215,010	11,892,210
		9,311,025	16,019,227
Less discount to present value at rates, which range from 0.10% to 3.29%		359,058	190,343
	$	8,951,967	15,828,884

(3) Property and Equipment

Property and equipment consist of the following at June 30, 2014 and 2013:

		2014	2013
Work in process		1,200	7,751
Medical equipment		3,112,276	2,689,312
Furniture, fixtures, and office equipment		2,417,561	1,528,482
Buildings		14,952,301	14,932,143
Building improvements		623,205	634,681
Land		3,094,293	3,094,293
Artwork		222,497	210,347
		24,423,333	23,097,009
Less accumulated depreciation		4,340,640	4,281,928
Property and equipment, net	$	20,082,693	18,815,081

As of June 30, 2014 and 2013, furniture, fixtures, and office equipment recorded under capital leases have a cost basis of $220,401 and $91,436 and related accumulated amortization of $48,408 and $23,767 for a net book value of $171,993 and $67,669, respectively.

(Continued)

(4) Contributed Services and Gifts-in-Kind

OSI's medical missions are staffed by volunteer surgical teams. In addition, when patients require treatment in the United States under the World Care Program, the hospital stay and related services are fully or partially donated by the hospitals and physicians. Services are also contributed within the United States for medical and dental care. These donated medical services are recorded at their estimated fair values and are classified as contributed services revenues and medical missions expenses in the accompanying consolidated statements of activities. Such services amounted to $27,050,589 and $26,424,721 in 2014 and 2013, respectively. OSI's medical missions are staffed by volunteer administrative support staff. These administrative personnel services are not recorded in the accompanying consolidated financial statements.

Donated mission supplies are received throughout the year for use in the overall Operation Smile mission, are recorded at their estimated fair values, and are classified as gifts-in-kind revenues in the accompanying consolidated statements of activities. Such donations amounted to $2,483,546 and $2,203,196 in 2014 and 2013, respectively. These supplies are expensed as they are used on missions and are classified as medical missions expenses in the accompanying consolidated statements of activities. Use of donated mission supplies amounted to $4,564,035 and $3,655,328 in 2014 and 2013, respectively.

Other donated non-mission supplies amounted to $28,423 and $25,627 in 2014 and 2013, respectively.

(5) Leases

OSI is obligated under capital and operating leases for certain equipment.

Future minimum lease payments under the operating leases and the present value of future minimum capital lease payments as of June 30, 2014 are as follows:

	Capital leases	Operating leases
Year ending June 30:		
2015	$ 82,860	60,593
2016	55,337	43,746
2017	20,669	43,712
2018	5,881	20,738
Total minimum lease payments	164,747	$ 168,789
Less amount representing interest	24,537	
Present value of net minimum lease payments	140,210	
Less current maturities of capital lease obligations	44,967	
Capital lease obligations, excluding current maturities	$ 95,243	

Total rent expense was $176,875 and $316,287 in 2014 and 2013, respectively.

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2014 and 2013:

		2014	2013
Care centers	$	187,578	314,109
Domestic programs		23,955	43,505
Fellowships		111,112	271,412
Global education and sustainability		237,418	15,187
International programs		1,085,700	886,583
Research		198,597	38,383
Other programs		86,622	109,309
Total purpose restricted		1,930,982	1,678,488
Total time restricted		6,265,101	12,894,031
Total temporarily restricted net assets	$	8,196,083	14,572,519

(7) Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses to satisfy the restricted purpose or by occurrence of other events specified by the donors. Total net assets released were $25,725,814 and $16,669,916 for the years ended June 30, 2014 and 2013, respectively.

(8) Retirement Savings Plan

OSI has a 401(k) retirement savings plan. Employees are eligible to participate beginning as of the first of the quarter following four months of employment. OSI matches a portion of the employee contributions and makes a safe harbor contribution on behalf of each employee. OSI's contributions to the retirement savings plans for the years ended June 30, 2014 and 2013 were $494,188 and $493,372, respectively.

(9) Related-Party Transactions

OSI recognized contributions from its Board of Directors and respective committee members of $2,271,470 and $116,894 for the years ended June 30, 2014 and 2013, respectively. Some board members may contribute directly to independent, affiliated Operation Smile international foundations.

(10) Revolving Line of Credit

In December 2013, OSI entered into a line of credit agreement with a financial institution to provide for borrowings up to $2,000,000. The line of credit bears interest payable monthly at the rate of LIBOR + 2.5% and expires in December 2014. OSI had $300,000 outstanding on the line of credit at June 30, 2014, which was secured by the OSI global center property.

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(11) Long-Term Debt

Long-term debt at June 30, 2014 and 2013 consists of the following:

		2014	2013
Promissory note in the amount of $8,500,000, interest at LIBOR + 2.25%, payable in 83 monthly installments of $37,932 (principal and interest) beginning January 2014 through November 2020 and a balloon payment of remaining principal due in December 2020	$	8,375,033	—
Nonrevolving construction loan up to $8,500,000, 5.5% interest; refinanced on an amortizing basis in December 2013		—	8,467,575
Noninterest bearing promissory note		900,000	1,000,000
Total long-term debt	$	9,275,033	9,467,575

In December 2013, OSI issued a promissory note to a financial institution which provided proceeds of $8,500,000 used primarily to refinance the nonrevolving construction loan entered into in July 2011. The note is secured by the OSI global center property. The promissory note requires OSI to maintain a minimum debt service coverage ratio, as defined, as well as a $500,000 compensating balance to be held by the financial institution while the loan is outstanding. The note is callable at the lender’s option any time beginning December 30, 2018. At the end of the five-year term, one two-year extension will be available subject to certain conditions, as defined. Principal reductions over the next year are estimated to be approximately $250,000.

In September 2011, OSI obtained $1,000,000 cash and entered into an interest-free promissory note for the same amount for expansion of its global direct response program. Repayment of the note began in November 2013.

(12) Subsequent Events

OSI has evaluated subsequent events from the consolidated statement of financial position date through December 15, 2014, the date these consolidated financial statements were available to be issued, and determined there are no other items to disclose.