

**CHINA CARE FOUNDATION, INC.**

**FINANCIAL STATEMENTS**

December 31, 2005

**CHINA CARE FOUNDATION, INC.**

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TABLE OF CONTENTS

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	<u>PAGES</u>
Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 – 9



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
China Care Foundation, Inc.

We have audited the accompanying statement of financial position of China Care Foundation, Inc. as of December 31, 2005, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of China Care Foundation, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of China Care Foundation, Inc. as of December 31, 2005, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Arthur F. Bell, Jr. & Associates, L.L.C.*

September 15, 2006

**CHINA CARE FOUNDATION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
December 31, 2005

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**ASSETS**

Cash	\$1,336,681
Contributions receivable	36,000
Contributions receivable from Director	45,389
Restricted grant receivable	30,000
Investments	55,790
Loans receivable, less allowance of \$29,200	29,695
Other assets	<u>46,217</u>
 Total assets	 <u>\$1,579,772</u>

**LIABILITIES AND NET ASSETS**

Liabilities	
Due to employee	\$ <u>28,500</u>
 Total liabilities	 <u>28,500</u>

**NET ASSETS**

Unrestricted	1,462,115
Temporarily restricted	<u>89,157</u>
 Total net assets	 <u>1,551,272</u>
 Total liabilities and net assets	 <u>\$1,579,772</u>

See accompanying notes.

**CHINA CARE FOUNDATION, INC.**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2005

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**Unrestricted net assets**

Revenues	
Contributions	\$1,348,341
Volunteer fees	25,542
Interest income	6,869
Net assets released from restrictions	<u>115,295</u>

Total revenue and other support 1,496,047

Expenses	
Program services	735,398
Management and general	231,762
Fundraising	<u>138,512</u>

Total expenses 1,105,672

Increase in unrestricted net assets before  
change in fair market value of investments 390,375

Change in fair market value of investments (2,831)

Increase in unrestricted net assets 387,544

**CHANGE IN UNRESTRICTED NET ASSETS**

Net assets, beginning of year 1,074,571

Net assets, end of year \$1,462,115

**Temporarily restricted net assets**

Contributions	204,452
Net assets released from restrictions	<u>(115,295)</u>

Increase in temporarily restricted net assets 89,157

**CHANGE IN TEMPORARILY RESTRICTED NET ASSETS**

Net assets, beginning of year 0

Net assets, end of year \$ 89,157

See accompanying notes.

**CHINA CARE FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended December 31, 2005

	Program Services							Supporting Services			
	Children's Homes	Medical Services	Foster Care Support	Orphanage Support	Other Program Assistance	Adoption Aid	Volunteers	Total Program Services	Management and General	Fundraising	Total
Contract Labor	\$148,075	\$ 25,804	\$ 6,313	\$ 5,312	\$ 0	\$ 5,312	\$ 0	\$190,816	\$162,746	\$ 38,086	\$ 391,648
Medical Treatment	0	122,586	0	0	0	0	0	122,586	0	0	122,586
Occupancy	42,612	4,705	0	0	0	0	0	47,317	13,714	0	61,031
Travel/Transportation	27,642	10,528	0	0	0	0	11,343	49,513	23,727	0	73,240
Printing	0	0	0	0	0	0	0	0	0	24,809	24,809
Supplies	53,807	7,110	0	0	0	0	0	60,917	15,613	4,049	80,579
Documentary	0	0	0	0	0	0	0	0	0	66,228	66,228
Grants to others	0	0	36,375	53,094	42,974	81,000	0	213,443	0	1,200	214,643
Bad debts	0	0	0	0	0	5,050	0	5,050	0	0	5,050
Other	<u>14,079</u>	<u>6,030</u>	<u>7,043</u>	<u>9,644</u>	<u>7,089</u>	<u>0</u>	<u>1,871</u>	<u>45,756</u>	<u>15,962</u>	<u>4,140</u>	<u>65,858</u>
	<u>\$286,215</u>	<u>\$176,763</u>	<u>\$ 49,731</u>	<u>\$ 68,050</u>	<u>\$ 50,063</u>	<u>\$ 91,362</u>	<u>\$ 13,214</u>	<u>\$735,398</u>	<u>\$231,762</u>	<u>\$138,512</u>	<u>\$1,105,672</u>

See accompanying notes.

**CHINA CARE FOUNDATION, INC.**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2005

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<b>Cash flows from operating activities</b>	
Increase in net assets	\$ 476,701
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Decrease in provision for doubtful accounts	5,050
Donation of stock	(26,260)
Unrealized depreciation of marketable securities	2,831
Decrease in loans receivable	3,043
Increase in contributions receivable	(5,374)
Increase in contributions receivable from Director	(45,389)
Increase in grant receivable	(30,000)
Increase in due to employee	<u>28,500</u>
Net cash provided by operating activities	<u>409,102</u>
<b>Cash flows from investing activities</b>	
Purchase of computer equipment	<u>(45,444)</u>
Net cash used in investing activities	<u>(45,444)</u>
<b>Net increase in cash</b>	363,658
<b>Cash</b>	
Beginning of year	<u>973,023</u>
End of year	<u>\$1,336,681</u>

See accompanying notes.

**CHINA CARE FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2005

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Note 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

China Care Foundation, Inc. (the Foundation), is a Connecticut not-for-profit corporation organized in 2000. The purpose among others, of the Foundation is to promote and facilitate adoptions of Chinese children by American families, and provide medical and other assistance to enhance the care of orphans in China.

The Foundation provides services directly and provides funding to other organizations to assist in the development and growth of foster care and handicapped children in China. American families receiving approval to adopt Chinese children are granted financial assistance based on financial need, subject to the Foundation's approval, in the form of direct assistance and/or short-term loans.

The major programs of the Foundation consist of:

Children's Homes – The Foundation operates and provides housing and related support services for orphans in China in facilities located in Taiyuan, Beijing and Baotou. The orphans need specialized care and, in many cases, medical treatment.

Medical Services – The Foundation provides for the general medical treatment, and among other services, specialized medical care consisting of physician services, hospitalizations, surgical procedures, post-hospitalization care, including rehabilitation services. Generally, medical treatment is provided to orphans in the Children's Homes; however, certain orphans from outside the Children's Homes are provided medical care by the Foundation's program.

Foster Care Support – The Foundation places orphans from the Children's Homes in foster care, when appropriate, and monitors their care. Also, the Foundation works in cooperation with various orphanages to support foster care programs. In addition, some orphans have disabilities that prevent them from going to school and teachers go to the foster home to provide education on a home school basis.

Orphanage Support and Other Program Assistance – The Foundation provides grants and other support to various orphanages and other organizations in China to assist them in providing services to orphans.

Adoption Aid – The Foundation provides grants and additional financial aid in the form of low interest loans to help defray the costs to American families of adopting handicapped children from China.

Volunteers – The Foundation sponsors a program to provide the opportunity for volunteers to go to China and work directly with the children in our Children's Homes.

**CHINA CARE FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2005

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Note 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Use of Estimates

The Foundation's financial statements are presented in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

C. Revenue Recognition

The Foundation's primary source of financial support consists of donations from the general public. The Foundation reports contributions as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

All donor-restricted contributions are reported as an increase in temporarily restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

D. Cash

The Foundation maintains its cash balances in checking and savings accounts at a major financial institution. Assets deposited with financial institutions are subject to credit risk. In the event of the financial institution's insolvency, recovery of the Foundation's assets on deposit may be limited to account insurance by the FDIC or other protection afforded such deposits.

E. Loans Receivable

The Foundation provides loans to American families who have been approved to adopt Chinese orphans to help facilitate the adoption process between these families and the Chinese orphans. The loans range in amounts from \$1,000 to \$4,500 with initial installment payments due approximately six months to one year after the family receives the loan proceeds. Interest rates on these loans range from 0% to 3% with interest not accruing until the initial payments are due. Evaluations of individual loan balances and payments are made and a provision for accounts doubtful of collection is estimated based on the amount the Foundation expects to collect on the outstanding loan balances.

F. Investments

Investments in equity securities donated to the Foundation are recorded at the fair market value on the date of contribution based on published price information. The carrying value of all marketable securities (purchased or donated) is based on fair market value on the balance sheet date and changes in unrealized appreciation or depreciation are included in the statement of activities.

**CHINA CARE FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2005

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Note 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Property and Equipment

The Foundation capitalizes the acquisitions of property and equipment in excess of \$5,000. Property and equipment are carried at cost, or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which is generally three years. At December 31, 2005, the Foundation reported \$46,217 of set-up costs for assets to be placed in service in 2006 in other assets in the accompanying Statement of Financial Position.

H. Income Taxes

The Foundation qualifies as a tax-exempt organization under the existing provisions of the Internal Revenue Code Section 501 (c)(3) and its income is generally not subject to Federal or state income taxes.

I. Contributed Services

The cost of professional services, space and similar items contributed to the Foundation is not material and is, therefore, excluded from revenue and expense in the statement of activities.

Note 2. RELATED PARTY CONTRIBUTIONS

A Director of the Foundation has a significant ownership interest in a company that provides administrative services, office supplies and office facilities on behalf of the Foundation. The cost of these donated services, supplies and facilities is not deemed material and therefore, is not reported as revenue and expense in the statement of activities.

Contributions from Directors and their related organizations were approximately \$394,000 for the year ended December 31, 2005. Included in this amount is the \$45,389 reported as Contribution receivable from Director in the accompanying Statement of Financial Position.

Note 3. DUE TO EMPLOYEE

Due to employee consists of a short-term advance from the Executive Director in China. The advance was repaid in February 2006.

**CHINA CARE FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2005

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Note 4. RESTRICTIONS ON NET ASSETS

At December 31, 2005, temporarily restricted net assets are available for the following purposes:

Jinan Children's Home	\$30,000
Volunteer projects	42,721
Sponsor a Child	10,436
Foster Care	<u>6,000</u>
	<u>\$89,157</u>

Note 5. INDEMNIFICATIONS

In the normal course of business, the Foundation enters into contracts and agreements that contain a variety of representations and warranties and which provide general indemnifications. The Foundation's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Foundation that have not yet occurred. The Foundation expects the risk of any future obligations under these indemnifications to be remote.