

**CHINA CARE FOUNDATION, INC.**

**FINANCIAL STATEMENTS**

December 31, 2006

**CHINA CARE FOUNDATION, INC.**

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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, 2006, 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, 2006, 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.*

November 12, 2007

**CHINA CARE FOUNDATION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
December 31, 2006

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**ASSETS**

Cash and cash equivalents	\$2,033,510
Contributions receivable	99,837
Contributions receivable from Director	156,946
Investments	66,305
Loans receivable, less allowance of \$34,600	11,397
Prepaid expenses	9,711
Office equipment, net of accumulated depreciation of \$11,809	<u>51,564</u>
Total assets	<u>\$2,429,270</u>

**LIABILITIES AND NET ASSETS**

Liabilities	
Accrued expenses	<u>\$ 50,966</u>
Total liabilities	<u>50,966</u>

**NET ASSETS**

Unrestricted	2,267,913
Temporarily restricted	<u>110,391</u>
Total net assets	<u>2,378,304</u>
Total liabilities and net assets	<u>\$2,429,270</u>

See accompanying notes.

**CHINA CARE FOUNDATION, INC.**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2006

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues, gains, and other support</b>			
Contributions	\$2,079,721	\$ 206,406	\$2,286,127
Volunteer fees	37,939	0	37,939
Interest income	42,935	0	42,935
Net unrealized gains on investments	10,515	0	10,515
Net assets released from restrictions	<u>185,172</u>	<u>(185,172)</u>	<u>0</u>
Total revenues, gains and other support	<u>2,356,282</u>	<u>21,234</u>	<u>2,377,516</u>
<b>Expenses</b>			
Program services	1,171,994	0	1,171,994
Management and general	261,044	0	261,044
Fundraising	<u>117,446</u>	<u>0</u>	<u>117,446</u>
Total expenses	<u>1,550,484</u>	<u>0</u>	<u>1,550,484</u>
Change in net assets	805,798	21,234	827,032
Net assets, beginning of year	<u>1,462,115</u>	<u>89,157</u>	<u>1,551,272</u>
Net assets, end of year	<u>\$2,267,913</u>	<u>\$ 110,391</u>	<u>\$2,378,304</u>

See accompanying notes.

**CHINA CARE FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended December 31, 2006

	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	\$369,452	\$ 26,291	\$ 34,117	\$ 0	\$ 9,636	\$ 6,450	\$ 9,636	\$ 455,582	\$ 96,653	\$ 74,162	\$ 626,397
Medical Treatment	0	151,641	0	0	0	0	0	151,641	0	0	151,641
Occupancy	59,471	0	11,079	0	0	0	0	70,550	0	0	70,550
Travel/Transportation	33,576	23,267	14,069	0	0	0	0	70,912	15,877	0	86,789
Printing	0	0	0	0	0	0	0	0	4,439	23,144	27,583
Supplies	57,252	0	21,913	0	0	0	0	79,165	6,663	0	85,828
Grants to others	59,716	0	56,666	103,586	0	54,000	0	273,968	0	8,380	282,348
Bad debts	0	0	0	0	0	11,200	0	11,200	0	0	11,200
Other	23,878	6,379	11,796	0	1,635	0	15,288	58,976	13,813	11,760	84,549
Information Systems	0	0	0	0	0	0	0	0	41,898	0	41,898
Depreciation	0	0	0	0	0	0	0	0	11,809	0	11,809
Legal/Audit/Accounting	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>69,892</u>	<u>0</u>	<u>69,892</u>
	<u>\$603,345</u>	<u>\$207,578</u>	<u>\$149,640</u>	<u>\$103,586</u>	<u>\$ 11,271</u>	<u>\$ 71,650</u>	<u>\$ 24,924</u>	<u>\$1,171,994</u>	<u>\$261,044</u>	<u>\$117,446</u>	<u>\$1,550,484</u>

See accompanying notes.

**CHINA CARE FOUNDATION, INC.**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2006

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<b>Cash flows from operating activities</b>	
Increase in net assets	\$ 827,032
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized appreciation of marketable securities	(10,515)
Increase in provision for doubtful accounts	5,400
Depreciation expense	11,809
Increase in contributions receivable	(63,837)
Increase in contributions receivable from Director	(111,557)
Decrease in grant receivable	30,000
Increase in prepaid expenses	(9,711)
Decrease in loans receivable	12,898
Increase in accrued expenses	50,966
Decrease in due to employee	<u>(28,500)</u>
Net cash provided by operating activities	<u>713,985</u>
<b>Cash flows from investing activities</b>	
Purchase of computer equipment	<u>(17,156)</u>
Net cash used in investing activities	<u>(17,156)</u>
<b>Net increase in cash and cash equivalents</b>	696,829
<b>Cash and cash equivalents</b>	
Beginning of year	<u>1,336,681</u>
End of year	<u><u>\$2,033,510</u></u>

See accompanying notes.

**CHINA CARE FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

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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, Jinnan 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, 2006

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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 and Cash Equivalents

The Foundation maintains its cash balances in checking and savings accounts, as well as money market mutual funds, at a major financial institution. Cash includes amounts held on deposit subject to temporarily restricted donor contributions (see Note 3). 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. Interest income, including interest-equivalent dividends on money market mutual funds, is recognized on the accrual basis.

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, 2006

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

G. Office Equipment

The Foundation capitalizes the acquisitions of office equipment in excess of \$5,000. Office equipment is 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.

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 and excise 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.

J. Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. While FAS 157 does not require any new fair value measurements, for some entities, the application of FAS 157 may change current practice. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The implementation of FAS 157 is not expected to have a material impact on the Foundation's financial statements.

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 \$588,000 for the year ended December 31, 2006. Included in this amount is the \$156,946 reported as Contribution receivable from Director in the accompanying Statement of Financial Position.

**CHINA CARE FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2006

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Note 3. RESTRICTIONS ON NET ASSETS

At December 31, 2006, temporarily restricted net assets (reported as a component of Cash and cash equivalents) are available for the following purposes:

Beijing Children's Home	\$ 27,403
Other Children's Homes	24,988
Complex Surgical Procedure for Chinese Orphan	<u>58,000</u>
	<u>\$110,391</u>

Note 4. 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.