

CHINA CARE FOUNDATION, INC.

FINANCIAL STATEMENTS

For the Years Ended December 31, 2008 and 2007

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 statements of financial position of China Care Foundation, Inc. as of December 31, 2008 and 2007, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years 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 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 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 audits provide 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

June 1, 2009

CHINA CARE FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$3,043,708	\$2,781,580
Contributions receivable	53,515	40,716
Contributions receivable from Director and related organizations	409,830	696,615
Investments	515	0
Prepaid expenses and other assets	86,880	16,719
Loans receivable, net of allowance of \$5,000 and \$16,600	7,272	8,771
Office equipment, net of accumulated depreciation of \$54,057 and \$32,933	<u>9,316</u>	<u>30,440</u>
Total assets	<u>\$3,611,036</u>	<u>\$3,574,841</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accrued expenses	<u>\$ 145,770</u>	<u>\$ 98,458</u>
Total liabilities	<u>145,770</u>	<u>98,458</u>
NET ASSETS		
Unrestricted	3,419,471	3,411,931
Temporarily restricted	<u>45,795</u>	<u>64,452</u>
Total net assets	<u>3,465,266</u>	<u>3,476,383</u>
Total liabilities and net assets	<u>\$3,611,036</u>	<u>\$3,574,841</u>

See accompanying notes.

CHINA CARE FOUNDATION, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2008 and 2007

	Year Ended December 31, 2008			Year Ended December 31, 2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support						
Contributions	\$ 2,332,270	\$ 1,126,104	\$ 3,458,374	\$ 2,271,511	\$ 125,039	\$ 2,396,550
Special events						
Event ticket revenue	\$ 738,400			\$ 859,859		
Less: Costs of direct benefit to donors	<u>(389,950)</u>			<u>(348,982)</u>		
Net revenues from special events	348,450	0	348,450	510,877	0	510,877
Interest and other income	43,840	0	43,840	102,591	0	102,591
Net realized and unrealized (loss) on investment	(8)	0	(8)	(868)	0	(868)
Net assets released from restrictions	<u>1,144,761</u>	<u>(1,144,761)</u>	<u>0</u>	<u>170,978</u>	<u>(170,978)</u>	<u>0</u>
Total revenues and other support	<u>3,869,313</u>	<u>(18,657)</u>	<u>3,850,656</u>	<u>3,055,089</u>	<u>(45,939)</u>	<u>3,009,150</u>
Expenses						
Program services	3,040,167	0	3,040,167	1,310,213	0	1,310,213
Management and general	569,792	0	569,792	404,878	0	404,878
Fundraising	<u>251,814</u>	<u>0</u>	<u>251,814</u>	<u>195,980</u>	<u>0</u>	<u>195,980</u>
Total expenses	<u>3,861,773</u>	<u>0</u>	<u>3,861,773</u>	<u>1,911,071</u>	<u>0</u>	<u>1,911,071</u>
Change in net assets	7,540	(18,657)	(11,117)	1,144,018	(45,939)	1,098,079
Net assets:						
Beginning of year	<u>3,411,931</u>	<u>64,452</u>	<u>3,476,383</u>	<u>2,267,913</u>	<u>110,391</u>	<u>2,378,304</u>
End of year	<u>\$ 3,419,471</u>	<u>\$ 45,795</u>	<u>\$ 3,465,266</u>	<u>\$ 3,411,931</u>	<u>\$ 64,452</u>	<u>\$ 3,476,383</u>

See accompanying notes.

CHINA CARE FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2008

	Program Services							Supporting Services			Total	
	Children's Homes	Foster Care	Medical Services	Orphanage/ Foster/Other Support	Adoption Aid	Volunteers	Clubs	Total Program Services	Management and General	Fundraising ⁽¹⁾		Total Supporting Services
Salaries/Contract Labor	\$ 541,304	\$ 145,957	\$ 144,462	\$ 0	\$ 10,342	\$ 33,116	\$ 54,585	\$ 929,766	\$ 326,213	\$ 210,539	\$ 536,752	\$1,466,518
Medical Treatment	0	0	214,141	0	0	0	0	214,141	0	0	0	214,141
Occupancy	74,053	21,096	0	0	0	0	0	95,149	51,046	0	51,046	146,195
Travel/Transportation	44,951	33,768	66,626	0	0	600	9,016	154,961	36,502	0	36,502	191,463
Printing and postage	0	0	0	0	0	0	0	0	1,971	14,927	16,898	16,898
Supplies	110,663	46,390	7,071	0	0	0	0	164,124	2,213	2,596	4,809	168,933
Grants to others	0	199,097	0	1,137,330	63,500	0	0	1,399,927	0	0	0	1,399,927
Information systems	3,308	3,308	3,308	0	0	0	0	9,924	16,657	2,711	19,368	29,292
Professional fees	0	0	0	0	0	0	0	0	101,712	0	101,712	101,712
Depreciation	0	0	0	0	0	0	0	0	21,124	0	21,124	21,124
Bad debt recovery	0	0	0	0	(7,020)	0	0	(7,020)	0	0	0	(7,020)
Special events	0	0	0	0	0	0	0	0	0	2,350	2,350	2,350
Insurance	0	0	0	0	0	0	0	0	4,586	0	4,586	4,586
Other	<u>42,681</u>	<u>22,195</u>	<u>12,569</u>	<u>0</u>	<u>0</u>	<u>856</u>	<u>894</u>	<u>79,195</u>	<u>7,768</u>	<u>18,691</u>	<u>26,459</u>	<u>105,654</u>
	<u>\$ 816,960</u>	<u>\$ 471,811</u>	<u>\$ 448,177</u>	<u>\$1,137,330</u>	<u>\$ 66,822</u>	<u>\$ 34,572</u>	<u>\$ 64,495</u>	<u>\$3,040,167</u>	<u>\$ 569,792</u>	<u>\$ 251,814</u>	<u>\$ 821,606</u>	<u>\$3,861,773</u>

⁽¹⁾ Net of \$389,950 costs of direct benefits to donors separately reported as a reduction of special events revenue.

See accompanying notes.

CHINA CARE FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2007

	Program Services							Supporting Services			Total	
	Children's Homes	Foster Care	Medical Services	Orphanage/ Foster/Other Support	Adoption Aid	Volunteers	Clubs	Total Program Services	Management and General	Fundraising ⁽¹⁾		Total Supporting Services
Salaries/Contract Labor	\$ 339,976	\$ 66,261	\$ 74,621	\$ 0	\$ 10,788	\$ 38,685	\$ 32,158	\$ 562,489	\$ 227,205	\$ 147,499	\$ 374,704	\$ 937,193
Medical Treatment	0	0	197,826	0	0	0	0	197,826	0	0	0	197,826
Occupancy	55,160	15,154	0	0	0	0	0	70,314	0	0	0	70,314
Travel/Transportation	27,003	22,984	42,568	0	0	1,233	139	93,927	7,976	0	7,976	101,903
Printing and postage	0	0	0	0	0	1,915	247	2,162	431	11,816	12,247	14,409
Supplies	48,531	29,239	0	0	0	0	0	77,770	3,630	2,693	6,323	84,093
Grants to others	0	99,535	0	105,613	56,902	0	0	262,050	0	0	0	262,050
Information systems	0	0	0	0	0	0	0	0	26,646	0	26,646	26,646
Professional fees	0	0	0	0	0	0	0	0	98,820	0	98,820	98,820
Depreciation	0	0	0	0	0	0	0	0	21,124	0	21,124	21,124
Bad debts	0	0	0	0	5,255	0	0	5,255	0	0	0	5,255
Special events	0	0	0	0	0	0	0	0	0	12,246	12,246	12,246
Other	10,557	16,862	10,362	0	118	0	521	38,420	19,046	21,726	40,772	79,192
	<u>\$ 481,227</u>	<u>\$ 250,035</u>	<u>\$ 325,377</u>	<u>\$ 105,613</u>	<u>\$ 73,063</u>	<u>\$ 41,833</u>	<u>\$ 33,065</u>	<u>\$1,310,213</u>	<u>\$ 404,878</u>	<u>\$ 195,980</u>	<u>\$ 600,858</u>	<u>\$1,911,071</u>

⁽¹⁾ Net of \$348,982 costs of direct benefits to donors separately reported as a reduction of special events revenue.

See accompanying notes.

CHINA CARE FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows provided by (used in) operating activities		
Change in net assets	\$ (11,117)	\$1,098,079
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized loss on investments	8	868
Donation of stock	(523)	0
(Decrease) in provision for doubtful accounts	(11,600)	(18,000)
Depreciation	21,124	21,124
Decrease (increase) in contributions receivable	(12,799)	59,121
Decrease (increase) in contributions receivable from Director and related organizations	286,785	(539,669)
Decrease in loans receivable	13,099	20,626
(Increase) in prepaid expenses and other assets	(70,161)	(7,008)
Increase in accrued expenses	<u>47,312</u>	<u>47,492</u>
Net cash provided by operating activities	<u>262,128</u>	<u>682,633</u>
Cash flows provided by investing activities		
Proceeds from sale of investments	<u>0</u>	<u>65,437</u>
Net cash provided by investing activities	<u>0</u>	<u>65,437</u>
Net increase in cash and cash equivalents	262,128	748,070
Cash and cash equivalents		
Beginning of year	<u>2,781,580</u>	<u>2,033,510</u>
End of year	<u>\$3,043,708</u>	<u>\$2,781,580</u>

See accompanying notes.

CHINA CARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

China Care Foundation, Inc. (the Foundation), is a not-for-profit organization incorporated in the state of Connecticut in 2000. The purpose, among others, of the Foundation is to provide medical and other assistance to enhance the care of orphans in China and to improve their future prospects.

The Foundation provides services directly and provides funding to other organizations and to individuals caring for foster children in China to assist in the development and growth of foster care for medically 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 medical and other support services for orphans in China in facilities located in Taiyuan, Beijing, Baotou and Baoji. 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 from the Children's Homes; however, certain orphans from outside the Children's Homes are provided medical care through the Foundation's program.

Foster Care Support – Orphans from the Foundation's Children's Homes are placed in foster care, when appropriate; the Foundation monitors their care and provides financial support to the foster parents for the orphan's care. In addition, the Foundation has established a foster home to provide education on a home school basis for orphans whose disabilities prevent them from attending school. The Foundation also works in cooperation with various orphanages to support other foster care programs.

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

Adoption Aid – The Foundation, not providing direct adoption services, 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 the Foundation's Children's Homes.

Clubs – The Foundation assists various schools and universities to form student clubs to involve members in gaining an understanding of the orphans in China and their needs, to conduct fundraising and mentoring activities in the U.S., and to inspire an interest in philanthropy in American youth.

CHINA CARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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. Estimates affect the reported amounts of revenue and expenses during the reporting period; accordingly, 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 considers all short-term highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents. The Foundation maintains its cash balances, including amounts held on deposit subject to temporarily restricted donor contributions (see Note 3.), in checking, savings, and money market mutual funds 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. Interest income, including interest-equivalent dividends on money market mutual funds, is recognized on the accrual basis.

E. Fair Value

Effective January 1, 2008, the Foundation adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurement. FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 requires use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels: quoted market prices in active markets for identical assets or liabilities (Level 1); inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly (Level 2); and unobservable inputs for an asset or liability (Level 3).

The adoption of FAS 157 did not have a material impact on the Foundation's financial statements.

CHINA CARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

F. Loans Receivable

The Foundation provides uncollateralized loans to American families, who have received approval through unaffiliated adoption agencies 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 generally due approximately six months to one year after the family receives the loan proceeds. Interest rates on these loans range from 0% to 3%. The Foundation evaluates individual loan balances and payments over 90 days past due, and a provision for doubtful accounts is estimated based on the amount the Foundation expects to collect on the outstanding loan balances. Loans are charged to doubtful accounts when management has determined that further collection efforts are not warranted.

G. 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.

H. 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 life of three years.

I. 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.

The Foundation's accounting policy is to provide liabilities for uncertain tax positions when a liability is probable and estimable. Management is not aware of any violation of its tax status as an organization exempt from income taxes, nor of any exposure to unrelated business income tax.

J. 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.

CHINA CARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

K. Recently Issued Accounting Pronouncement

In July 2006, FASB issued Interpretation No. 48 (FIN 48) entitled "Accounting For Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109." FIN 48 prescribes the minimum recognition threshold a tax position must meet in connection with accounting for uncertainties in income tax positions taken or expected to be taken by an entity before being measured and recognized in the financial statements. As a nonpublic enterprise, the adoption of FIN 48 by the Foundation is required for fiscal years beginning after December 15, 2008, pursuant to the Foundation's election to defer adoption of FIN 48 in accordance with FASB Staff Position FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises." The implementation of FIN 48 is not expected to have a material impact on the Foundation's financial statements.

L. Allocated Expenses

The Foundation's expenses have been summarized on a functional basis in accordance with generally accepted accounting standards for voluntary health and welfare organizations. Most expenses may be directly identified to their related program or supporting service function, and are recorded accordingly. Indirect expenses have been allocated based on a percentage of each program's direct expenses over total program costs, or other bases considered appropriate given the nature of the expense.

M. Foreign Currency Transactions

The Foundation's functional currency is the U.S. dollar; however, it transacts business in currencies other than the U.S. dollar. Assets and liabilities denominated in currencies other than the U.S. dollar are translated into U.S. dollars at the rates in effect at the date of the statement of financial condition. Income and expense items denominated in currencies other than the U.S. dollar are translated into U.S. dollars at the rates in effect during the period. Gains and losses resulting from the translation to U.S. dollars are reported in income currently.

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 for the benefit 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. The Director, or other organizations under the Director's control, makes various general donations and also makes contributions to the Foundation for the costs incurred by the Foundation for, among others, management and general and fundraising expenses.

Contributions from this Director and the Director's related organizations aggregated approximately \$2,263,100, of which \$1,000,000 was restricted to provide assistance to earthquake victims in China, and \$1,130,800 for the years ended December 31, 2008 and 2007, respectively. Included in these amounts is \$409,830 and \$696,615 reported as Contribution Receivable from Director and related organizations at December 31, 2008 and 2007, respectively, in the accompanying Statements of Financial Position. In addition, during the years ended December 31, 2008 and 2007 the Foundation received contributions of approximately \$47,900 and \$108,000, respectively, from other Directors of the Foundation.

CHINA CARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 3. RESTRICTIONS ON NET ASSETS

At December 31, 2008 and 2007, temporarily restricted net assets (reported as a component of Cash and cash equivalents) are available for the following purposes:

	<u>2008</u>	<u>2007</u>
Children's Homes	\$ 0	\$ 13,105
Surgical Procedures	27,851	51,347
Foster Care	12,000	0
Other	<u>5,944</u>	<u>0</u>
	<u>\$ 45,795</u>	<u>\$ 64,452</u>

Note 4. SPECIAL EVENTS

During the year ended December 31, 2008, the Foundation held two special fund raising events consisting of the following:

	<u>Special Event Revenue</u>	<u>Cost of Benefit to Donors</u>	<u>Net Revenue</u>
Annual Gala dinner	\$ 722,500	\$(360,486)	\$ 362,014
Golf outing	<u>15,900</u>	<u>(29,464)</u>	<u>(13,564)</u>
	<u>\$ 738,400</u>	<u>\$(389,950)</u>	<u>\$ 348,450</u>

During the year ended December 31, 2007, the Foundation held three special fund-raising events consisting of the following:

	<u>Special Event Revenue</u>	<u>Cost of Benefit to Donors</u>	<u>Net Revenue</u>
Annual Gala dinner	\$ 767,000	\$(304,424)	\$ 462,576
Golf outing	75,025	(29,973)	45,052
Marquee dinner	<u>17,834</u>	<u>(14,585)</u>	<u>3,249</u>
	<u>\$ 859,859</u>	<u>\$(348,982)</u>	<u>\$ 510,877</u>

Note 5. IN-KIND CONTRIBUTIONS

During the years ended December 31, 2008 and 2007, the Foundation received in-kind contributions of items for fund-raising auctions with an estimated fair market value of approximately \$288,100 and \$342,570, respectively. These items were sold at auction during the Foundation's special events and the proceeds from such auctions are included in the Foundation's reported contributions for the years ended December 31, 2008 and 2007. During the year ended December 31, 2008, the Foundation received in-kind donations of milk formula powder for use in its programs in China having a fair market value of approximately \$64,100, which is included in the Foundation's reported contributions.

CHINA CARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 6. FAIR VALUE

The following summarizes the Foundation's assets accounted for at fair value at December 31, 2008 using the fair value hierarchy of FAS 157:

<u>Description</u>	December 31, 2008			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment in common stock	\$ <u>515</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>515</u>

Note 7. 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.

Note 8. LEASE COMMITMENT

During 2008, the Foundation entered into an operating agreement to lease office space. The term terminates January 31, 2011. Under the terms of the lease, minimum rent payments are as follows:

<u>Year or Period Ending</u> <u>December 31,</u>	<u>Minimum Rent</u> <u>Payments</u>
2009	\$ 43,790
2010	43,790
2011	<u>3,649</u>
	<u>\$ 91,229</u>

During the year ended December 31, 2008, the Foundation incurred lease expense totaling \$29,193 under this lease and such amount is included in management and general expenses on the statement of activities and changes in net assets.

CHINA CARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 9. SUBSEQUENT EVENT

In March 2009, the Foundation entered into an agreement with Half the Sky Foundation (“HTS”), a California non-profit, public benefit corporation established in 1998 with a mission to help Chinese orphaned children, and which, accordingly, has set up educational and nurture programs throughout China. The principal HTS office to administer programs is located in Beijing, China. Under the terms of the agreement HTS is to, among other things, develop in partnership with the Foundation a new pre-operative/post-operative care residential facility in Beijing, China, to be named The China Care Program at Half the Sky (“TCCP”), for medically fragile orphaned infants and will include a 50 bed pre-operative/post-operative special care unit and a 25 bed family housing unit. Initially, the children served by TCCP will be drawn from the existing Foundation’s children homes. It is anticipated that TCCP will then accept children from HTS centers operating in China and eventually from state run facilities across China. Consistent with this agreement, the Foundation is to close down its physical operations in China and terminate all employee arrangements it has in China which is expected to occur in May 2009 but must be no later than September 30, 2009. Certain Foundation staff and employees are subsequently expected to join TCCP. Under the agreement, subject to certain conditions, the Foundation is to make payments to HTS for unrestricted purposes and other payments restricted for the new facility and for the placement of children. Payments required under the agreement are as follows:

<u>Year</u>	<u>Unrestricted</u>	<u>Restricted for New Facility</u>	<u>Restricted for Child Placement</u>	<u>Total</u>
2009	\$ 750,000	\$1,126,900	\$ 145,800	\$2,022,700
2010	600,000	1,108,400	25,100	1,733,500
2011	600,000	1,129,600	0	1,729,600

Under the terms of the agreement, certain payments were required to be made within five days of the date of the agreement. Accordingly, the Foundation made payments aggregating \$1,081,600 to HTS in March 2009.

The Foundation will continue as an independent 501(c)(3) charitable organization and, in China, will become primarily a grant giving institution consistent with its mission. The Foundation’s management and Directors believe that the agreement with HTS and the establishment of TCCP will enhance the Foundation’s ability to help Chinese orphans.