

CHINA CARE FOUNDATION, INC.

FINANCIAL STATEMENTS

For the Years Ended December 31, 2007 and 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 statements of financial position of China Care Foundation, Inc. as of December 31, 2007 and 2006, 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, 2007 and 2006, 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.

October 3, 2008

CHINA CARE FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents	\$2,781,580	\$2,033,510
Contributions receivable	40,716	99,837
Contributions receivable from Director and related organizations	696,615	156,946
Investments	0	66,305
Prepaid expenses and other assets	16,719	9,711
Loans receivable, net of allowance of \$16,600 and \$34,600	8,771	11,397
Office equipment, net of accumulated depreciation of \$32,933 and \$11,809	<u>30,440</u>	<u>51,564</u>
Total assets	<u>\$3,574,841</u>	<u>\$2,429,270</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accrued expenses	<u>\$ 98,458</u>	<u>\$ 50,966</u>
Total liabilities	<u>98,458</u>	<u>50,966</u>
NET ASSETS		
Unrestricted	3,411,931	2,267,913
Temporarily restricted	<u>64,452</u>	<u>110,391</u>
Total net assets	<u>3,476,383</u>	<u>2,378,304</u>
Total liabilities and net assets	<u>\$3,574,841</u>	<u>\$2,429,270</u>

See accompanying notes.

CHINA CARE FOUNDATION, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2007 and 2006

	Year Ended December 31, 2007			Year Ended December 31, 2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support						
Contributions	\$2,271,511	\$ 125,039	\$2,396,550	\$2,079,721	\$ 206,406	\$2,286,127
Special events						
Event ticket revenue	\$ 859,859					
Less: Costs of direct benefit to donors	<u>(348,982)</u>					
Net revenues from special events	510,877	0	510,877	0	0	0
Volunteer fees	0	0	0	37,939	0	37,939
Interest and other income	102,591	0	102,591	42,935	0	42,935
Net realized and unrealized gain/(loss) on investment	(868)	0	(868)	10,515	0	10,515
Net assets released from restrictions	<u>170,978</u>	<u>(170,978)</u>	<u>0</u>	<u>185,172</u>	<u>(185,172)</u>	<u>0</u>
Total revenues and other support	<u>3,055,089</u>	<u>(45,939)</u>	<u>3,009,150</u>	<u>2,356,282</u>	<u>21,234</u>	<u>2,377,516</u>
Expenses						
Program services	1,310,213	0	1,310,213	1,171,994	0	1,171,994
Management and general	404,878	0	404,878	261,044	0	261,044
Fundraising	<u>195,980</u>	<u>0</u>	<u>195,980</u>	<u>117,446</u>	<u>0</u>	<u>117,446</u>
Total expenses	<u>1,911,071</u>	<u>0</u>	<u>1,911,071</u>	<u>1,550,484</u>	<u>0</u>	<u>1,550,484</u>
Change in net assets	1,144,018	(45,939)	1,098,079	805,798	21,234	827,032
Net assets:						
Beginning of year	<u>2,267,913</u>	<u>110,391</u>	<u>2,378,304</u>	<u>1,462,115</u>	<u>89,157</u>	<u>1,551,272</u>
End 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>

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	<u>10,557</u>	<u>16,862</u>	<u>10,362</u>	<u>0</u>	<u>118</u>	<u>0</u>	<u>521</u>	<u>38,420</u>	<u>19,046</u>	<u>21,726</u>	<u>40,772</u>	<u>79,192</u>
	<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.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2006

	Program Services							Supporting Services			Total	
	Children's Homes	Medical Services	Foster Care Support	Orphanage Support	Other Program Assistance	Adoption Aid	Volunteers	Total Program Services	Management and General	Fundraising		Total Supporting Services
Contract labor	\$369,452	\$ 26,291	\$ 34,117	\$ 0	\$ 9,636	\$ 6,450	\$ 9,636	\$ 455,582	\$ 96,653	\$ 74,162	\$170,815	\$ 626,397
Medical treatment	0	151,641	0	0	0	0	0	151,641	0	0	0	151,641
Occupancy	59,471	0	11,079	0	0	0	0	70,550	0	0	0	70,550
Travel/Transportation	33,576	23,267	14,069	0	0	0	0	70,912	15,877	0	15,877	86,789
Printing	0	0	0	0	0	0	0	0	4,439	23,144	27,583	27,583
Supplies	57,252	0	21,913	0	0	0	0	79,165	6,663	0	6,663	85,828
Grants to others	59,716	0	56,666	103,586	0	54,000	0	273,968	0	8,380	8,380	282,348
Information systems	0	0	0	0	0	0	0	0	41,898	0	41,898	41,898
Professional fees	0	0	0	0	0	0	0	0	69,892	0	69,892	69,892
Depreciation	0	0	0	0	0	0	0	0	11,809	0	11,809	11,809
Bad debts	0	0	0	0	0	11,200	0	11,200	0	0	0	11,200
Other	<u>23,878</u>	<u>6,379</u>	<u>11,796</u>	<u>0</u>	<u>1,635</u>	<u>0</u>	<u>15,288</u>	<u>58,976</u>	<u>13,813</u>	<u>11,760</u>	<u>25,573</u>	<u>84,549</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>\$378,490</u>	<u>\$1,550,484</u>

See accompanying notes.

CHINA CARE FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows provided by (used in) operating activities		
Change in net assets	\$1,098,079	\$ 827,032
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized (gain)/loss on investments	868	(10,515)
(Decrease) increase in provision for doubtful accounts	(18,000)	5,400
Depreciation	21,124	11,809
Decrease (increase) in contributions receivable	59,121	(63,837)
(Increase) in contributions receivable from Director and related organizations	(539,669)	(111,557)
Decrease in grant receivable	0	30,000
Decrease in loans receivable	20,626	12,898
(Increase) in prepaid expenses and other assets	(7,008)	(9,711)
Increase in accrued expenses	47,492	50,966
Decrease in due to employee	<u>0</u>	<u>(28,500)</u>
Net cash provided by operating activities	<u>682,633</u>	<u>713,985</u>
Cash flows provided by (used in) investing activities		
Proceeds from sale of investments	65,437	0
Purchase of computer equipment	<u>0</u>	<u>(17,156)</u>
Net cash provided by (used in) investing activities	<u>65,437</u>	<u>(17,156)</u>
Net increase in cash and cash equivalents	748,070	696,829
Cash and cash equivalents		
Beginning of year	<u>2,033,510</u>	<u>1,336,681</u>
End of year	<u>\$2,781,580</u>	<u>\$2,033,510</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 promote and facilitate adoptions of Chinese children by American families.

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. During 2006, the Foundation also operated facilities in Jinnan. 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.

CHINA CARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2007

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. 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.

CHINA CARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2007

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

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.

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 life of 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.

In July 2006, the 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. Adoption of FIN 48 was required for fiscal years beginning after December 15, 2006. However, on February 1, 2008, the FASB issued FASB Staff Position (FSP) FIN 48-2 entitled "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises" (FSP FIN 48-2) which deferred the effective date of FIN 48, for nonpublic enterprises included within the scope of FSP FIN 48-2, to the annual financial statements for fiscal years beginning after December 15, 2007. The Foundation has elected to defer implementation of FIN 48 until January 1, 2008, in accordance with the provisions of FSP FIN 48-2. The implementation of FIN 48 is not expected to have a material impact on the Foundation's financial statements.

CHINA CARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2007

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

K. 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.

L. Reclassifications

Certain reclassifications were made to the 2006 financial statements to conform to the 2007 presentation. These reclassifications had no impact on the change in net assets previously reported.

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 their related organizations aggregated approximately \$1,130,800 and \$588,000 for the years ended December 31, 2007 and 2006, respectively. Included in these amounts is \$696,615 and \$156,946 reported as Contribution Receivable from Director and related organizations at December 31, 2007 and 2006, respectively, in the accompanying Statements of Financial Position. In addition, during the year ended December 31, 2007 the Foundation received contributions of approximately \$108,000 from other Directors of the Foundation.

Note 3. RESTRICTIONS ON NET ASSETS

At December 31, 2007 and 2006, temporarily restricted net assets (reported as a component of Cash and cash equivalents) are available for the following purposes:

	<u>2007</u>	<u>2006</u>
Children's Homes	\$ 13,105	\$ 52,391
Surgical Procedures	<u>51,347</u>	<u>58,000</u>
	<u>\$ 64,452</u>	<u>\$ 110,391</u>

CHINA CARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2007

Note 4. SPECIAL EVENTS

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>

During the year ended December 31, 2006, the Foundation received approximately \$676,000 related to special events sponsored by others for the benefit of the Foundation. Such support and revenue is reported in contributions for the year ended December 31, 2006.

Note 5. IN-KIND CONTRIBUTIONS

During the year ended December 31, 2007, the Foundation received in-kind contributions of items for fund-raising auctions with an estimated fair market value of \$342,570. These items were sold at auction during the Foundation's special events at or exceeding the estimated fair market value, and the proceeds from such auctions are included in the Foundation's reported contributions for the year ended December 31, 2007.

Note 6. 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 7. SUBSEQUENT EVENT

In March 2008, the Foundation entered into an operating lease agreement for administrative office space. The lease term covers two years nine months with monthly rental payments of \$3,649 commencing May 1, 2008.