

CHINA CARE FOUNDATION, INC.

FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 and 2008

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, 2009 and 2008, 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, 2009 and 2008, 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.

August 25, 2010

CHINA CARE FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$1,289,223	\$3,043,708
Contributions receivable	34,654	53,515
Contributions receivable from Director and related organizations	340,324	409,830
Investments	0	515
Prepaid expenses and other assets	27,298	86,880
Loans receivable, net of allowance of \$1,000 and \$5,000	836	7,272
Office equipment, net of accumulated depreciation of \$63,373 and \$54,057	<u>0</u>	<u>9,316</u>
Total assets	<u>\$1,692,335</u>	<u>\$3,611,036</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accrued expenses	\$ 28,789	\$ 145,770
Grant payable	<u>33,500</u>	<u>0</u>
Total liabilities	<u>62,289</u>	<u>145,770</u>
NET ASSETS		
Unrestricted	1,613,678	3,419,471
Temporarily restricted	<u>16,368</u>	<u>45,795</u>
Total net assets	<u>1,630,046</u>	<u>3,465,266</u>
Total liabilities and net assets	<u>\$1,692,335</u>	<u>\$3,611,036</u>

See accompanying notes.

CHINA CARE FOUNDATION, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2009 and 2008

	Year Ended December 31, 2009			Year Ended December 31, 2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support						
Contributions	\$ 1,561,524	\$ 215,061	\$ 1,776,585	\$ 2,332,270	\$ 1,126,104	\$ 3,458,374
Special events						
Event ticket revenue	\$ 408,115			\$ 738,400		
Less: Costs of direct benefit to donors	<u>(327,113)</u>			<u>(389,950)</u>		
Net revenues from special events	81,002	0	81,002	348,450	0	348,450
Interest and other income	5,335	0	5,335	43,840	0	43,840
Net realized and unrealized (loss) on investment	(9)	0	(9)	(8)	0	(8)
Net assets released from restrictions	<u>244,488</u>	<u>(244,488)</u>	<u>0</u>	<u>1,144,761</u>	<u>(1,144,761)</u>	<u>0</u>
Total revenues and other support	<u>1,892,340</u>	<u>(29,427)</u>	<u>1,862,913</u>	<u>3,869,313</u>	<u>(18,657)</u>	<u>3,850,656</u>
Expenses						
Program services	3,136,544	0	3,136,544	3,040,167	0	3,040,167
Management and general	315,393	0	315,393	569,792	0	569,792
Fundraising	<u>246,196</u>	<u>0</u>	<u>246,196</u>	<u>251,814</u>	<u>0</u>	<u>251,814</u>
Total expenses	<u>3,698,133</u>	<u>0</u>	<u>3,698,133</u>	<u>3,861,773</u>	<u>0</u>	<u>3,861,773</u>
Change in net assets	(1,805,793)	(29,427)	(1,835,220)	7,540	(18,657)	(11,117)
Net assets:						
Beginning 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>
End of year	<u>\$ 1,613,678</u>	<u>\$ 16,368</u>	<u>\$ 1,630,046</u>	<u>\$ 3,419,471</u>	<u>\$ 45,795</u>	<u>\$ 3,465,266</u>

See accompanying notes.

CHINA CARE FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2009

	Program Services			Supporting Services			Total
	China Programs	Clubs and Volunteers	Total Program Services	Management and General	Fundraising ⁽¹⁾	Total Supporting Services	
Salaries/Contract Labor	\$ 525,229	\$ 91,191	\$ 616,420	\$ 148,602	\$ 159,667	\$ 308,269	\$ 924,689
Medical Treatment	96,370	0	96,370	0	0	0	96,370
Occupancy	47,837	0	47,837	25,855	25,855	51,710	99,547
Travel/Transportation	49,112	12,948	62,060	15,150	1,328	16,478	78,538
Printing and postage	0	8,606	8,606	713	16,571	17,284	25,890
Supplies	54,213	0	54,213	347	3,215	3,562	57,775
Grants to others	2,211,720	0	2,211,720	0	0	0	2,211,720
Information systems	5,146	8,147	13,293	7,220	19,552	26,772	40,065
Professional fees	0	0	0	99,454	0	99,454	99,454
Depreciation	0	0	0	9,316	0	9,316	9,316
Special events	0	0	0	0	12,500	12,500	12,500
Insurance	0	0	0	4,228	0	4,228	4,228
Other	<u>25,135</u>	<u>890</u>	<u>26,025</u>	<u>4,508</u>	<u>7,508</u>	<u>12,016</u>	<u>38,041</u>
	<u>\$3,014,762</u>	<u>\$ 121,782</u>	<u>\$3,136,544</u>	<u>\$ 315,393</u>	<u>\$ 246,196</u>	<u>\$ 561,589</u>	<u>\$3,698,133</u>

⁽¹⁾ Net of \$327,113 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, 2008

	Program Services			Supporting Services			Total	
	China Programs ⁽²⁾	Clubs and Volunteers ⁽³⁾	Adoption Aid	Total Program Services	Management and General	Fundraising ⁽¹⁾		Total Supporting Services
Salaries/Contract Labor	\$ 831,723	\$ 87,701	\$ 10,342	\$ 929,766	\$ 326,213	\$ 210,539	\$ 536,752	\$1,466,518
Medical Treatment	214,141	0	0	214,141	0	0	0	214,141
Occupancy	95,149	0	0	95,149	51,046	0	51,046	146,195
Travel/Transportation	145,345	9,616	0	154,961	36,502	0	36,502	191,463
Printing and postage	0	0	0	0	1,971	14,927	16,898	16,898
Supplies	164,124	0	0	164,124	2,213	2,596	4,809	168,933
Grants to others	1,336,427	0	63,500	1,399,927	0	0	0	1,399,927
Information systems	9,924	0	0	9,924	16,657	2,711	19,368	29,292
Professional fees	0	0	0	0	101,712	0	101,712	101,712
Depreciation	0	0	0	0	21,124	0	21,124	21,124
Bad debt recovery	0	0	(7,020)	(7,020)	0	0	0	(7,020)
Special events	0	0	0	0	0	2,350	2,350	2,350
Insurance	0	0	0	0	4,586	0	4,586	4,586
Other	<u>77,445</u>	<u>1,750</u>	<u>0</u>	<u>79,195</u>	<u>7,768</u>	<u>18,691</u>	<u>26,459</u>	<u>105,654</u>
	<u>\$2,874,278</u>	<u>\$ 99,067</u>	<u>\$ 66,822</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.

⁽²⁾ China Programs is the aggregate of the 2008 program services previously reported separately as Children's Homes, Foster Care, Medical Services and Orphanage/Foster/Other Support program expenses.

⁽³⁾ Clubs and Volunteers is the aggregate of the 2008 program services previously reported separately as Clubs and Volunteers program expenses.

See accompanying notes.

CHINA CARE FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows provided by (used in) operating activities		
Change in net assets	\$(1,835,220)	\$ (11,117)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized loss on investments	9	8
Donation of stock	(491)	(523)
(Decrease) in provision for doubtful accounts	(4,000)	(11,600)
Depreciation	9,316	21,124
Decrease (increase) in contributions receivable	18,861	(12,799)
Decrease in contributions receivable from Director and related organizations	69,506	286,785
Decrease in loans receivable	10,436	13,099
Decrease (increase) in prepaid expenses and other assets	59,582	(70,161)
Increase (decrease) in accrued expenses	(116,981)	47,312
Increase in grant payable	<u>33,500</u>	<u>0</u>
Net cash provided by (used in) operating activities	<u>(1,755,482)</u>	<u>262,128</u>
Cash flows provided by investing activities		
Proceeds from sale of investments	<u>997</u>	<u>0</u>
Net cash provided by investing activities	<u>997</u>	<u>0</u>
Net increase (decrease) in cash and cash equivalents	(1,754,485)	262,128
Cash and cash equivalents		
Beginning of year	<u>3,043,708</u>	<u>2,781,580</u>
End of year	<u>\$ 1,289,223</u>	<u>\$3,043,708</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 Foundation's mission is to give special needs Chinese orphans the opportunity for a better life and to empower young people to use their abilities and creativity to improve the lives of the children in need.

In March 2009, the Foundation entered into an agreement with Half the Sky Foundation ("HTS"), a California 501(c)(3) tax exempt not-for-profit public benefit corporation established in 1998, with a mission to enrich the lives and enhance the prospects of orphaned children in China, whereby it would partner with HTS to establish The China Care Program at Half the Sky ("CCH"), a program, providing necessary surgery or medical treatment and pre-operative/post-operative care for fragile infants with urgent medical needs. Under the terms of the agreement, the children from the Foundation's existing children's homes and other programs were transferred to CCH. This transition occurred during March 2009 through July 2009. Consistent with the agreement, the Foundation has ceased its physical operations in China and terminated all operations-related employee arrangements in China. The Foundation incurred approximately \$123,800 of severance expense associated with the termination of employee arrangements, which is included in the Statement of Functional Expenses as Salaries/Contract Labor expense of the China Programs.

Prior to the HTS transition, the Foundation generally provided all medical and other care services directly. Subsequent to that time and under the terms of the agreement with HTS, the Foundation has certain commitments to HTS for both unrestricted purposes and others restricted for CCH and for the placement of children as further discussed in Note 7, to provide substantially all services in China.

The major components of CCH and other programs of the Foundation consist of:

Children's Homes – The Foundation, operated and provided housing and related medical and other support services for orphans in China in facilities located in Taiyuan, Beijing, Baotou and Baoji through May 2009, and subsequently through CCH in Beijing. The orphans need specialized care and, in most cases, medical treatment.

Medical Services – The Foundation, through May 2009 and subsequently through HTS provides for general medical treatment, and among other services, specialized medical care consisting of physician services, hospitalizations, surgical procedures, pre and post-hospitalization care, including rehabilitation services for children in China. Generally, medical treatment was provided to orphans from the Foundation's Children's Homes before May 2009. Starting in May 2009, HTS has continued to provide such medical services through CCH, which is substantially funded by the Foundation.

Foster Care Support – Prior to May 2009, certain orphans from the Foundation's Children's Homes in China were placed in foster care, when appropriate. The Foundation monitored their care and provided financial support to the foster parents for the orphan's care. In May 2009, HTS assumed the responsibility to support and monitor their care.

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

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

A. Organization (continued)

Orphanage Support and Other Assistance – Prior to May 2009, the Foundation provided 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 – Prior to 2009, the Foundation, provided 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. For the year ended December 31, 2009, the Foundation did not provide any adoption financial aid and no longer supports this program.

Clubs and 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 prior to May 2009, and subsequently, in CCH. In addition, the Foundation assists various schools and universities to form student clubs to involve members in understanding the situation of 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.

B. Method of Reporting

The Foundation's financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). 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.

Effective July 1, 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), referred to as FASB ASC or the Codification, became the single source of U.S. GAAP for interim and annual periods ending after September 15, 2009. Existing accounting standards are incorporated into the Codification and standards not incorporated into the codification are considered nonauthoritative.

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.

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

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

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

Prior to 2009, the Foundation provided uncollateralized loans to American families who adopted Chinese orphans. 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.

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 statement of financial position date and change in unrealized appreciation or depreciation are included in the statement of activities. The Foundation's investments are reported at fair value as Level 1 assets in the fair value hierarchy framework established under U.S. GAAP.

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. The Foundation's accounting policy is to provide liabilities for uncertain tax provisions when required under U.S. GAAP. Management has determined that the Foundation had no uncertain tax positions that would require financial statement recognition and is not aware of any violations of its tax status as an organization exempt from income taxes, nor of any exposure to unrelated business income tax.

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

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

H. Income Taxes (continued)

Effective January 1, 2009, the Foundation adopted FASB Interpretation No. 48 (FIN 48) entitled "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109". FIN 48, which is now incorporated in the Codification in Topics 740, *Income Taxes*; 805, *Business Combinations*; and 835, *Interest*, 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. The adoption of this accounting pronouncement had no impact on the Foundation's financial statements.

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. 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.

K. Foreign Currency Transactions

The Foundation's functional currency is the U.S. dollar; however, prior to May 2009 it transacted 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.

L. Recently Issued Accounting Pronouncements

In May 2009, the FASB issued FASB Statement No. 165, "Subsequent Events" (FAS 165) which establishes general standards of accounting for and disclosure of events that occur after the date of the statement of financial position but before the financial statements are issued or are available to be issued. FAS 165, which is now incorporated in the Codification in the *Subsequent Events* Topic, is effective for interim and annual periods ending after June 15, 2009 and is applied prospectively. The adoption of this accounting pronouncement did not have a material impact on the Foundation's financial statements.

M. Reclassification

Certain amounts in the 2008 financial statements were reclassified to conform with the 2009 presentation.

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

Note 2. RELATED PARTY CONTRIBUTIONS

A Director of the Foundation has a significant ownership interest in a company that provides certain administrative and other services for the benefit of the Foundation. The cost of these donated services 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 substantially all of the costs incurred by the Foundation for, among others, management and general overhead and fundraising expenses.

Contributions from this Director and the Director's related organizations aggregated approximately \$916,300 and \$2,263,100 for the years ended December 31, 2009 and 2008, respectively. Included in these amounts is \$340,324 and \$409,830 reported as Contribution Receivable from Director and related organizations at December 31, 2009 and 2008, respectively, in the accompanying Statements of Financial Position. In addition, during the years ended December 31, 2009 and 2008 the Foundation received contributions of approximately \$37,800 and \$47,900, respectively, from other Directors of the Foundation.

Note 3. RESTRICTIONS ON NET ASSETS

At December 31, 2009 and 2008, temporarily restricted net assets (reported as a component of Cash and cash equivalents) are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Surgical Procedures	\$ 16,368	\$ 27,851
Foster Care	0	12,000
Other	<u>0</u>	<u>5,944</u>
	<u>\$ 16,368</u>	<u>\$ 45,795</u>

Note 4. IN-KIND CONTRIBUTIONS

During the years ended December 31, 2009 and 2008, the Foundation received in-kind contributions of items for fund-raising auctions with an estimated fair market value of approximately \$251,300 and \$288,100, 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, 2009 and 2008. During the years ended December 31, 2009 and 2008, the Foundation received in-kind donations of milk formula powder for use in its China programs having a fair market value of approximately \$18,200 and \$64,100, respectively, which is included in the Foundation's reported contributions.

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

Note 5. ALLOCATION OF JOINT COSTS

The Foundation's personnel conduct activities that may benefit more than one program or support service. Such Foundation activities include requests for contributions, as well as program and management and general components, including special events. The costs of conducting the activities include joint costs, which are not specifically attributable to particular components of the activities. These joint costs were allocated to the various programs or support services based on time spent estimates, or other appropriate statistics. Such joint costs, as included in the appropriate program or support service in the schedule of functional expenses, totaled \$241,851 and \$344,226 for the years ended December 31, 2009 and 2008, respectively as follows:

	<u>2009</u>	<u>2008</u>
China Programs	\$ 8,148	\$ 52,983
Clubs and Volunteers Program	62,513	87,700
Adoption Aid Program	0	10,342
Management and General	45,437	41,066
Fundraising	<u>125,753</u>	<u>152,135</u>
	<u>\$ 241,851</u>	<u>\$ 344,226</u>

Note 6. LEASE COMMITMENT

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

Year or Period Ending <u>December 31,</u>	Minimum Rent <u>Payments</u>
2010	\$ 43,790
2011	<u>3,649</u>
	<u>\$ 47,439</u>

During the years ended December 31, 2009 and 2008, the Foundation incurred lease expense totaling \$43,790 and \$29,193, respectively, under this lease and such amounts are included in management and general expenses on the statements of activities and changes in net assets.

Note 7. CONDITIONAL PROMISES TO GIVE

During 2009 and under the terms of the agreement with HTS as discussed in Note 1., the Foundation made payments to HTS aggregating \$2,022,700 which was comprised of \$750,000 for unrestricted purposes; \$1,126,900 restricted for CCH; and \$145,800 restricted for child placements.

Future payments required under the HTS agreement, contingent to certain conditions, are as follows:

	<u>Unrestricted</u>	Restricted for <u>CCH</u>	Restricted for <u>Child Placement</u>	<u>Total</u>
2010	\$ 600,000	\$1,108,400	\$ 25,100	\$1,733,500
2011	600,000	1,129,600	0	1,729,600

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

Note 7. CONDITIONAL PROMISES TO GIVE (CONTINUED)

The Foundation also entered into an agreement in June 2009 with New Hope Foundation Limited ("Hope"), a registered charitable institution with offices located in Hong Kong and Beijing, China, to assume temporary foster care responsibility of certain children from the Foundation's foster care homes. Under the terms of the agreement, the Foundation will make payments to cover the estimated cost of basic care for the children over eighteen months, as well as payments for unrestricted purposes. In 2009, the Foundation granted to Hope \$100,500, comprised of \$80,400 restricted for foster care support and \$20,100 for unrestricted purposes, of which \$33,500 is payable at December 31, 2009. Future payments required under the agreement in 2010 include \$80,400 restricted for foster care support and \$20,100 for unrestricted purposes.

Note 8. 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 9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 25, 2010; the date the financial statements were available to be issued and determined that there were no subsequent events that required disclosure.