

**FINANCIAL STATEMENTS
AND
AUDIT REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

**U.S.-CHINA SERVICE CENTER
(d.b.a. CHINESE CIVIC CENTER)**

December 31, 2005

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
U.S. – China Service Center
d.b.a. Chinese Civic Center

We have audited the accompanying statements of financial position of U.S.-China Service Center, d.b.a. Chinese Civic Center (a nonprofit organization) as of December 31, 2005, and the related statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Center'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 Chinese Civic Center as of December 31, 2005 and the changes 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Liao, Kin + Company, P.C.

Houston, Texas
March 17, 2006

FINANCIAL STATEMENTS

US-CHINA SERVICE CENTER
d.b.a. CHINESE CIVIC CENTER
STATEMENT OF FINANCIAL POSITION
December 31, 2005

ASSETS

CURRENT ASSETS

Cash and cash equivalents <i>(Notes B)</i>	\$ 43,221
Accounts receivable	16,183
Inventory	300
Prepaid expense	<u>9,371</u>
Total current assets	69,075

PROPERTY AND EQUIPMENT *(Note B)*

Building	\$ 875,501
Furniture and equipment	15,850
Library (books, videos, and CD's)	81,477
Building improvement	108,012
Parking lots	8,020
Less: Accumulated depreciation	<u>(120,587)</u>
Total property and equipment	<u>968,273</u>

Total assets \$ 1,037,348

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accrued liabilities	\$ 34,466
Security deposits	493
Current portion of mortgage payable	<u>13,000</u>
Total current liabilities	47,959

LONG-TERM LIABILITIES

Mortgage payable, less current portion <i>(Note D)</i>	276,564
Notes payable <i>(Note D)</i>	<u>220,000</u>
Total liabilities	<u>544,523</u>

NET ASSETS

Unrestricted	490,725
Temporarily restricted <i>(Note C)</i>	<u>2,100</u>
Total net assets	<u>492,825</u>

Total liabilities and net assets \$ 1,037,348

See accompanying notes and accountants' report.

US-CHINA SERVICE CENTER
d.b.a. CHINESE CIVIC CENTER
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUES			
Contributions	\$ 25,620	\$ 30,962	\$ 56,582
Contributions in kind	14,850		14,850
Culture Arts Council of Houston and Harris County	5,550	-	5,550
State employee charitable campaign	1,615	-	1,615
Special events	160,254	-	160,254
Building usage	60,388	-	60,388
Library	12,608	-	12,608
Interest	217	-	217
Other	2,949	-	2,949
Net assets released from restrictions	814	(814)	-
Total public support and revenue	<u>284,865</u>	<u>30,148</u>	<u>315,013</u>
EXPENSES			
Program expenses			
Library	39,663	-	39,663
Charities	-	28,048	28,048
Total program expenses	39,663	28,048	67,711
Special events	155,628	-	155,628
Building expenses	81,780	-	81,780
General and administrative	29,442	-	29,442
Loss on thief	7,500	-	7,500
Total expenses	<u>314,013</u>	<u>28,048</u>	<u>342,061</u>
CHANGE IN NET ASSETS	(29,148)	2,100	(27,048)
NET ASSETS, beginning of year	512,454	-	512,454
Prior year adjustments	7,419	-	7,419
NET ASSETS, end of year	<u>\$ 490,725</u>	<u>\$ 2,100</u>	<u>\$ 492,825</u>

See accompanying notes and accountants' report.

**US-CHINA SERVICE CENTER
d.b.a. CHINESE CIVIC CENTER
STATEMENT OF CASH FLOWS
Year Ended December 31, 2005**

CASH FLOWS FROM OPERATING ACTIVITIES

Decrease in net assets	\$ (27,048)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	20,868
Prior period adjustment	11,001
Change in operating assets and liabilities:	
Increase in accounts receivable	(12,373)
Increase in inventory	(300)
Increase in prepaid expenses	(9,371)
Decrease in accrued liabilities	<u>(10,369)</u>
Net cash used by operating activities	<u>(27,592)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Increase in building improvement	(64,190)
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CASH FLOWS FROM FINANCING ACTIVITIES

Payment to long-term debt	<u>(9,029)</u>
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Net decrease in cash and cash equivalents	(100,811)
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Cash and cash equivalents:

Beginning of year	<u>144,032</u>
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End of year	<u>\$ 43,221</u>
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Supplementary disclosure of cash flows information:

Mortgage Interest expense	<u>\$ 18,107</u>
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Supplementary disclosure of non-cash information:

Interest expense was donated as charitable contribution by lenders	<u>\$ 14,850</u>
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See accompanying notes and accountants' report.

**U.S. – CHINA SERVICE CENTER
(d.b.a. CHINESE CIVIC CENTER)**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2005**

NOTE A – REPORTING ENTITY AND DESCRIPTION OF ORGANIZATION

The U.S. – China Service Center, d.b.a. Chinese Civic Center (the Center), is a non-profit corporation, established in 1995 under the laws of the State of Texas. It was registered as a 501(c)(3) organization, effective December 11, 1995.

Mission

The Center's mission is to provide culture, informational and educational services, to promote cultural diversity and mutual understanding for the Chinese American community and other ethnic communities in the Houston area. For the last few years, the Center has been operating in a rented facility. In October 2004, the Center acquired a permanent place located at the southwest of Houston, Texas. The Center is supported by its members, other individuals, and corporation donors, and also provides spaces for many community groups for their regular activities and group meetings. The Center has operated a public Chinese library with over 35,000 Chinese language titles and 1,000 patrons. A public elected board of directors, all unpaid volunteers, runs the Center.

People we serve

The majority of people who frequent the Chinese Civic Center are immigrants of Chinese descendents from mainland China, Vietnam, Cambodia, Laos, Thailand, Hong Kong, and other areas of Southeast Asia. Many of new immigrants speak little English. The Center is often the first place they interact with others and find information for their new life in America. Seniors and youth account for the majority of these groups. Other groups served are well educated in the United States. Groups such as Yellow River Chorus and Women's Chorus use the Center to practice their Chinese Cultural and English songs. Groups such as Sino-Professional Club, Chinese American Professionals in Science and Technology, many Alumni organizations, Chinese American Petroleum Association, etc. use the Center for their group meetings and various events. The Center is also a congregating place, for cultural and educational programs for many visiting delegations from Mainland China when they seek to reach the Houston Chinese community.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

U.S. – CHINA SERVICE CENTER
(d.b.a. CHINESE CIVIC CENTER)

NOTES TO FINANCIAL STATEMENTS-continued

Method of accounting

The financial statements of the Center have been prepared utilizing the accrual basis of accounting.

Financial statement presentation

The Center has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. At December 31, 2005, the Center had no permanently restricted net assets.

Contributions

The Center accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board in SFAS No. 116, "Accounting for Contributions Received and Contributions made," whereby contributions received and contribution made are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

Donated services and materials

A substantial number of volunteers have donated their time and performed various tasks that assist the Center with specific programs and fund-raising activities. The value of those services has not been reflected in the accompanying financial statements, since the volunteers' time does not meet the criteria for revenue recognition.

Cash and cash equivalents

For the purpose of the statements of cash flows, the Center considers cash and cash equivalents to include short-term, highly liquid investments with maturities at date of purchase of three months or less.

U.S. – CHINA SERVICE CENTER
(d.b.a. CHINESE CIVIC CENTER)

NOTES TO FINANCIAL STATEMENTS-continued

Property and equipment

Property and equipment are stated at original cost if purchased and at fair market value if donated. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives, using MACRS method or straight-line method depending on the type of property. The Center periodically reviews its carry value of long-lived assets. If the carrying value of assets is deemed impaired and may not be recoverable, the Statement of Financial Accounting Standard Board No. 121, *Accounting for the Impairment of long-lived Assets and for long-lived Assets to Be Disposed of*, will be followed for recognition and measurement on such impairment.

Federal Income tax

The Center is exempt from income taxes under Section 501(c)(3) and Section 501(c)(4) of the U.S. Internal Revenue Code and comparable state income taxes law except unrelated business income that will be filed as required. The Center has also been classified as a public supported organization, which is not a private foundation within the meaning of Section 509 (a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could vary from the estimates that were used.

NOTE C – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are for specific contribution not completely distributed at December 31, 2005. At December 31, 2005, there is a balance of contribution in the amount of \$2,100 with donor restrictions for charity usage.

NOTE D – NOTES PAYABLE

The Center is in debt to MetroBank, with balance of \$289,564. The promissory note was amortized for 20 years at Wall Street Journal prime rate, with principal and interest payment around \$2,541 per month, secured by certain real property and the improvement, and will be matured on October 10, 2009.

**U.S. – CHINA SERVICE CENTER
(d.b.a. CHINESE CIVIC CENTER)**

NOTES TO FINANCIAL STATEMENTS-continued

The Center also made promissory notes to its members with interest at Internal Revenue Service published interest rate, which will mature in 5 or 10 years from note date. The interest will be automatically donated to the operation of the Chinese Civic Center. Current total balance of these notes is \$220,000. The interest classified as donation was in the amount of \$14,850 in 2005.

NOTE E - RELATED PARTY TRANSACTIONS

The Center is in debt to its members (see Note D), majority of them are current board members. Total board member's debt was \$150,000 at December 31, 2005.

NOTE F – PRIOR YEAR ADJUSTMENT

The Center made prior year adjustments that were due to the correction of accumulated depreciation, overstated utility expense in 2004, and previous unrecorded donation in kind.

Accumulated depreciation	\$3,582.
Utility expense	(3,501.)
Donation in kind	<u>(7,500.)</u>
Net change	<u>(\$7,419.)</u>

NOTE G - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

SUPPLEMENTARY INFORMATION

US-CHINA SERVICE CENTER
d.b.a. CHINESE CIVIC CENTER
SCHEDULE OF FUNCTIONAL EXPENSES
December 31, 2005

	Total							
	Library	Charity	Program Expenses	Special Event	Building Expenses	General and Administrative	Other	Total
Bank service charge	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 239	\$ -	\$ 239
Cleaning/disposal	2,660	-	2,660	1,330	7,979	1,330	-	13,299
Consulting	-	-	-	-	1,170	-	-	1,170
Contributions	-	28,048	28,048	-	-	-	-	28,048
Depreciation	4,174	-	4,174	2,087	12,520	2,087	-	20,868
Insurance	477	-	477	238	1,430	238	-	2,383
Interest expense	2,970	-	2,970	1,485	8,910	1,485	-	14,850
Mortgage interest	3,621	-	3,621	1,811	10,864	1,811	-	18,107
Moving	-	-	-	-	-	5,800	-	5,800
Payroll taxes	909	-	909	1,134	1,134	2,266	-	5,443
Repairs & maintenance	1,938	-	1,938	970	5,817	970	-	9,695
Salaries & wages	11,884	-	11,884	2,273	2,273	4,546	-	20,976
Securities	288	-	288	144	864	144	-	1,440
Special event expenses	-	-	-	139,076	-	-	-	139,076
Supplies & expense	1,685	-	1,685	218	1,311	3,331	-	6,545
Taxes & license	1,472	-	1,472	736	4,418	736	-	7,362
Telephone	-	-	-	333	333	666	-	1,332
Utilities	7,585	-	7,585	3,793	22,757	3,793	-	37,928
Loss on thief	-	-	-	-	-	-	7,500	7,500
TOTAL EXPENSES	\$ 39,663	\$ 28,048	\$ 67,711	\$ 155,628	\$ 81,780	\$ 29,442	\$ 7,500	\$ 342,061

See accompanying notes and accountants' report.