

CURE INTERNATIONAL, INC.

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

JUNE 30, 2007

CURE INTERNATIONAL, INC.

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TAIT, WELLER & BAKER LLP

Certified Public Accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**The Board of Directors
Cure International, Inc.
Lemoyne, Pennsylvania**

We have audited the accompanying statement of financial position of Cure International, Inc. as of June 30, 2007, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Cure International, Inc.'s 2006 financial statements and, in our report dated October 17, 2006, we expressed an unqualified opinion.

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 Cure International, Inc. as of June 30, 2007, 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.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
September 6, 2007**

CURE INTERNATIONAL, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,319,413	\$ 3,186,225
Investments (<i>Note 2</i>)	2,542,754	1,200,265
Contributions receivable (<i>Note 4</i>)	-	491,672
Prepaid expenses and other assets	420,716	440,678
Advances to field	60,946	-
Accounts receivable - U.S. Government	216,482	-
Patient and other receivables	<u>2,574,268</u>	<u>1,316,330</u>
Total current assets	<u>8,134,579</u>	<u>6,635,170</u>
Inventory of donated medical equipment and supplies	<u>20,676,654</u>	<u>21,523,623</u>
Plant assets, net of accumulated depreciation of \$2,795,423 in 2007 and \$1,843,013 in 2006 (<i>Note 3</i>)	13,128,747	11,396,132
Contributions receivable (<i>Note 4</i>)	<u>1,768,824</u>	<u>1,650,135</u>
	<u>14,897,571</u>	<u>13,046,267</u>
Total assets	<u>\$43,708,804</u>	<u>\$41,205,060</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 3,951,743	\$ 2,216,229
Total liabilities	<u>3,951,743</u>	<u>2,216,229</u>
NET ASSETS		
Unrestricted		
Operations	14,011,230	13,297,612
Donated medical equipment and supplies	<u>20,676,654</u>	<u>21,523,623</u>
Total unrestricted	34,687,884	34,821,235
Temporarily restricted (<i>Note 5</i>)	<u>5,069,177</u>	<u>4,167,596</u>
Total net assets	<u>39,757,061</u>	<u>38,988,831</u>
Total liabilities and net assets	<u>\$43,708,804</u>	<u>\$41,205,060</u>

CURE INTERNATIONAL, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2007 with Summarized Information for 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2007 Totals</u>	<u>2006 Totals</u>
SUPPORT AND REVENUE				
Contributions	\$ 6,183,930	\$ 5,592,187	\$11,776,117	\$ 10,006,140
Contributions – donated medical equipment and supplies and services (<i>Note 6</i>)	7,329,527	-	7,329,527	8,007,573
Contributions – donated use of facilities and land	606,902	-	606,902	683,568
Government grants	1,977,782	-	1,977,782	521,070
Interest and dividends	82,280	-	82,280	281,081
Realized and unrealized (loss) gain in investments	241,302	-	241,302	(27,218)
Patient revenue and other income	<u>13,101,454</u>	<u>-</u>	<u>13,101,454</u>	<u>2,228,824</u>
Total	<u>29,523,177</u>	<u>5,592,187</u>	<u>35,115,364</u>	<u>21,701,038</u>
Net assets released from restrictions (<i>Note 5</i>)	<u>4,809,295</u>	<u>(4,809,295)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>34,332,472</u>	<u>782,892</u>	<u>35,115,364</u>	<u>21,701,038</u>
EXPENSES				
Program Services	<u>32,001,060</u>	<u>-</u>	<u>32,001,060</u>	<u>11,554,340</u>
Supporting Services				
Administration	1,085,113	-	1,085,113	772,409
Fund-raising	<u>1,507,558</u>	<u>-</u>	<u>1,507,558</u>	<u>856,075</u>
Total supporting services	<u>2,592,671</u>	<u>-</u>	<u>2,592,671</u>	<u>1,628,484</u>
Total expenses	<u>34,593,731</u>	<u>-</u>	<u>34,593,731</u>	<u>13,182,824</u>
OTHER CHANGES				
Contribution of hospital facility (<i>Note 1</i>)	-	-	-	4,542,706
Assumption of control of hospital facility (<i>Note 1</i>)	-	-	-	725,812
Change in value – charitable remainder trusts (<i>Note 4</i>)	-	118,689	118,689	187,255
Exchange (loss) gain on consolidation	<u>127,908</u>	<u>-</u>	<u>127,908</u>	<u>(762,290)</u>
CHANGE IN NET ASSETS	(133,351)	901,581	768,230	13,211,697
NET ASSETS				
Beginning of year	<u>34,821,235</u>	<u>4,167,596</u>	<u>38,988,831</u>	<u>25,777,134</u>
End of year	<u>\$ 34,687,884</u>	<u>\$ 5,069,177</u>	<u>\$36,757,061</u>	<u>\$ 38,988,831</u>

CURE INTERNATIONAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2007 with Summarized Information for 2006

	<u>Program Services</u>	<u>Administration</u>	<u>Fund- Raising</u>	<u>2007 Totals</u>	<u>2006 Totals</u>
Salaries and benefits	\$ 9,118,361	\$ 585,668	\$ 853,302	\$ 10,557,331	\$ 5,107,714
Hospital operating costs and other grant support (includes in-kind materials and facilities/land of \$7,516,625 in 2007 and \$2,014,944 in 2006)	20,769,401	-	48,138	20,817,539	6,029,618
Office rent and other expenses	20,366	56,874	5,527	82,767	54,681
Office supplies and equipment	16,051	28,587	23,022	67,660	54,981
Printing, postage and video production	256,460	33,839	147,087	437,386	209,785
Professional fees	67,664	71,138	132,010	270,812	221,966
Telephone expense	14,961	42,259	12,452	69,672	59,555
Travel, meetings and seminars	721,907	55,317	216,988	994,212	750,077
Bank fees	-	22,370	125	22,495	13,030
Depreciation expense	967,771	181,457	60,486	1,209,714	644,167
Miscellaneous	<u>48,118</u>	<u>7,604</u>	<u>8,421</u>	<u>64,143</u>	<u>37,250</u>
Total expenses	<u>\$32,001,060</u>	<u>\$1,085,113</u>	<u>\$1,507,558</u>	<u>\$34,593,731</u>	<u>\$13,182,824</u>

CURE INTERNATIONAL, INC.

STATEMENT OF CASH FLOWS

Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ 768,230	\$13,211,697
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities</i>		
Depreciation and amortization	1,209,714	644,167
Gift-in-kind	(7,329,527)	(8,007,573)
Unrealized (gain) loss on foreign exchange rates	(127,908)	762,290
Realized and unrealized (gain) loss on investments	(241,302)	27,218
Contribution of hospital facility (net of cash)	-	(635,129)
(Increase) decrease in assets		
Prepaid and other assets	19,962	(55,217)
Advances to field	(60,946)	30,000
Other receivables	(1,257,938)	(292,245)
Contributions receivable	372,983	712,466
Inventory of donated medical equipment and supplies	8,176,496	2,722,750
Accounts receivable – U.S. Government	(216,482)	-
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	<u>1,735,514</u>	<u>(71,552)</u>
Net cash provided by operating activities	<u>3,048,796</u>	<u>9,048,872</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(2,649,189)	(4,037,125)
Purchase of plant assets	(2,814,421)	(3,560,561)
Proceeds from the sales of investments	1,548,002	2,809,642
Assumption of control of hospital facility (net of cash)	<u>-</u>	<u>(4,208,135)</u>
Net cash used in investing activities	<u>(3,915,608)</u>	<u>(8,996,179)</u>
Net (decrease) increase in cash and cash equivalents	(866,812)	52,693
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>3,186,225</u>	<u>3,133,532</u>
End of year	<u>\$ 2,319,413</u>	<u>\$ 3,186,225</u>

CURE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ACTIVITIES

Cure International, Inc. (“*CURE*”) is a not-for-profit, interdenominational organization that establishes hospitals in developing countries with a primary focus on the physically disabled child. CURE is devoted to implementing “Centers of Excellence”, bringing the latest techniques in cost effective medical care and organization to developing countries with a focus on excellence in patient care, compassion, training and in the quality of equipment and facilities. To that end, CURE has four main areas of focus; hospital management; financial support and partnering; sending key personnel; and training local doctors, nurses, and administrators.

BASIS OF PRESENTATION

The financial statements include the accounts of CURE, CURE International (UK) and hospital organizations controlled by CURE through Board of Directors/Governors and their economic interest in each hospital. The hospital organizations controlled by CURE are the Children’s Orthopedic Hospital of Uganda (“*Uganda*”), Beit Trust Cure Hospital (“*Malawi*”), Beit – CURE Hospital (“*Zambia*”), Cure International Center for Orthopedic Specialties (“*Dominican Republic*”), Cure International Afghanistan (“*Afghanistan*”), AIC CURE Hospital of Kenya (“*AIC CURE*”) and Oasis Hospital in the United Arab Emirates (“*UAE*”) (see below). These hospital organizations own and operate hospital facilities within the respective countries, except Afghanistan which operates from a government owned facility (*See Note 3*). In addition, at June 30, 2007, CURE has hospitals under construction in Ethiopia, Egypt and Honduras.

On May 19, 2006, the UAE was donated to CURE by The Evangelical Arab Mission. For the year ended June 30, 2006, the UAE was consolidated as of June 30, 2006 since activity from operations from May 19, 2006, the date of donation, to June 30, 2006 was not material to the financial statements. For the year ended June 30, 2007, the activity from operations was included in the financial statements from July 1, 2006 to June 30, 2007. As a result, the amount of revenues and expenses in the Statement of Activity and Changes in Net Assets increased significantly from 2006 to 2007.

The financial statements are presented in U.S. dollars. The financial records of these controlled organizations are kept in local currencies. Assets, liabilities and net assets are translated at year-end rates of exchange; revenue and expenses are translated at the average rates of exchange during the year.

ACCOUNTING ESTIMATES

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

ALLOCATION OF EXPENSES

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

CURE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2007 and 2006

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include money market funds and certificates of deposit with maturities of three months or less.

CONCENTRATION OF CREDIT RISK

CURE occasionally maintains deposits in excess of federally insured limits. Statement of Financial Accounting Standards No. 107 identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high quality financial institutions.

INVESTMENTS

CURE records its investments in securities at fair value.

PLANT ASSETS

Property, plant and equipment are recorded at cost. Plant assets are depreciated over their estimated useful lives using the straight-line method of depreciation – 5 to 30 years.

DONATED MEDICAL EQUIPMENT, SUPPLIES AND FACILITIES

Inventory of donated medical equipment and supplies is valued at its estimated fair value at date of receipt. Donated supplies are removed from inventory at the time of use or at the time of shipment to partner agencies of such goods at values assigned on the date of receipt. Donated medical equipment is amortized over the estimated useful life after commencement of use of such equipment based on the assigned value on date of receipt. CURE has also received, at no cost, the use of a hospital building and parcels of land to construct hospital buildings. These contributed facilities and land are recognized at the estimated fair rental value of such property.

NET ASSETS

CURE reports its resources, according to externally (donor) imposed restrictions, in the following net asset categories.

Unrestricted net assets include the following:

- ◆ ***Operations*** – Net assets attributable to operations include the revenues and expenses associated with the principal mission of CURE.
- ◆ ***Donated Medical Equipment and Supplies*** – Donated medical equipment and supplies are stated at fair value on the date of gift.

Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met.

CURE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2007 and 2006

CONTRIBUTIONS

CURE records unconditional promises to give (pledges) as a receivable and revenue in the year pledged net of the discount to present value of the future cash flows. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are then classified to unrestricted net assets and reported in the statement of activities as “*net assets released from restrictions.*”

INCOME TAXES

Under provisions of the Internal Revenue Code Section 501(c)(3) and the applicable income tax regulations, CURE is exempt from taxes on income. Therefore, no provision for income taxes has been made.

PRIOR YEAR INFORMATION

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with CURE’s audited financial statements for the year ended June 30, 2006, from which the summarized information was derived.

(2) INVESTMENTS

Investments at June 30, 2007 consisted of the following:

	<u>Cost</u>	<u>Market</u>
Mutual Funds	\$ 109,040	\$ 173,754
Common Stock	<u>2,186,496</u>	<u>2,369,000</u>
	<u>\$2,295,536</u>	<u>\$2,542,754</u>

CURE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2007 and 2006

(3) PLANT ASSETS

Plant assets consist of the following at June 30:

	<u>2007</u>	<u>2006</u>
U.S. Headquarters		
Land and building	\$ 572,708	\$ 551,907
Furniture and equipment	282,827	315,909
Overseas Hospitals		
Land and building	8,704,580	6,234,141
Furniture and equipment	4,783,777	4,167,626
Hospitals under construction	<u>1,580,278</u>	<u>1,969,562</u>
	15,924,170	13,239,145
Less accumulated depreciation	<u>2,795,423</u>	<u>1,843,013</u>
	<u>\$13,128,747</u>	<u>\$11,396,132</u>

Hospitals in Afghanistan, Kenya, Malawi and Uganda operate under ground leases which expire between 2048 and 2099.

In addition, the Government of the United Arab Emirates approved a grant in the amount of \$36,760,500 (135 million Dhs.) to the General Health Authority for the hospital construction project of UAE. The construction project and related costs are subject to the approval of the Project Committee, established by the Government of the United Arab Emirates. As such, UAE records the construction costs and the related contribution in-kind when such expenses have been incurred.

(4) CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are included in the financial statements as contributions receivable. These contributions receivable are recorded after discounting to the present value of the future cash flows. The contributions receivable are expected to be realized as follows:

	<u>2007</u>	<u>2006</u>
In less than one year	\$ -	\$ 491,672
Charitable remainder trusts *	<u>1,768,824</u>	<u>1,650,135</u>
Contributions receivable	<u>\$1,768,824</u>	<u>\$2,141,807</u>

* *Charitable remainder trusts were established by related parties.*

CURE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2007 and 2006

(5) NET ASSETS

Temporarily restricted net assets at June 30, 2007 and 2006 are available for the following purpose:

	<u>2007</u>	<u>2006</u>
Hospital construction	\$3,300,353	\$2,517,461
Use in future periods – charitable remainder trusts	<u>1,768,824</u>	<u>1,650,135</u>
	<u>\$5,069,177</u>	<u>\$4,167,596</u>

During the year ended June 30, 2007, net assets were released from donor restrictions by incurring expenses for missionary, program and capital expenditures of \$4,809,295.

(6) CONTRIBUTIONS – DONATED MEDICAL EQUIPMENT AND SUPPLIES AND SERVICES

Contributions of donated medical equipment and supplies and services consist of the following at June 30:

	<u>2007</u>	<u>2006</u>
Medical and hospital equipment and supplies	\$6,694,527	\$7,857,573
Administrative services	300,000	150,000
Construction services	<u>335,000</u>	<u>-</u>
	<u>\$7,329,527</u>	<u>\$8,007,573</u>

(7) RELATED PARTY TRANSACTIONS

CURE received contributions of approximately \$3,067,000 in 2007 and \$3,788,000 in 2006 from its President and family members.

(8) PENSION PLANS

CURE has a Simplified Employee Pension Plan covering all full-time employees, excluding foreign nationals, who have attained the age of 21 and have completed six months of service. CURE makes contributions to the plan on a discretionary basis based on a percentage of the employees compensation established by the Board of Directors. Total expense charged for contributions to the plan was approximately \$130,251 and \$71,000 for the years ended June 30, 2007 and 2006, respectively.

In addition, CURE has a 403(b) plan for employee contributions. CURE does not contribute to this plan.

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