

W. A. LEONARD & COMPANY, P.C.

*Certified Public Accountants*

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1500 Boston-Providence Highway  
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October 30, 2006

Ms. Qionglin Zhou  
The Newton Chinese Language School, Inc.  
P. O. Box 2661  
Woburn, MA 01888

RE: June 30, 2006 Financial Statements.

Enclosed herewith, please find four copies of the financial statements for the fiscal year ended June 30, 2006 for your review and consideration.

Should you have any questions, please do not hesitate to call.  
Hope all is well with you.

Cordially,

W.A. Leonard and Company, P.C.  
Certified Public Accountants

WAL/11

The Newton Chinese Language School, Inc.  
Financial Statements  
June 30, 2006 and 2005

Prepared by  
W.A. Leonard and Company, P.C.  
Certified Public Accountants

**The Newton Chinese Language School, Inc.**

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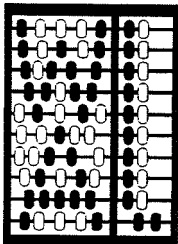
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Board of Directors  
The Newton Chinese Language School, Inc.  
P.O. Box 2661  
Woburn, MA 01888

Ladies & Gentlemen:

We have reviewed the accompanying statements of financial position of The Newton Chinese Language School, Inc., (a nonprofit corporation) as of June 30, 2006 and 2005, and the related statements of activities and statements of cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of The Newton Chinese Language School, Inc..

A review consists principally of inquiries of Organization personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles.

Respectfully submitted,

W. A. Leonard & Company, P.C.  
Certified Public Accountants

October 27, 2006  
Norwood, Massachusetts

## Financial Statements

## Exhibit A

**The Newton Chinese Language School, Inc.**  
**Statements of Financial Position**  
**As of June 30, 2006 and 2005**

	2006	2005
<b>Assets</b>		
Current Assets		
Cash - Unrestricted	\$ 171,126	\$ 143,357
Total Current Assets	<u>\$ 171,126</u>	<u>\$ 143,357</u>
Property and Equipment		
Office Equipment	\$ 9,527	\$ 4,812
Less: Accumulated Depreciation	<u>(3,376)</u>	<u>(2,214)</u>
Net Property and Equipment	<u>\$ 6,151</u>	<u>\$ 2,598</u>
Total Assets	<u><u>\$ 177,277</u></u>	<u><u>\$ 145,955</u></u>
<b>Liabilities and Net Assets</b>		
Current Liabilities		
Accrued Expense	\$ 2,100	\$ 2,000
Total Current Liabilities	<u>\$ 2,100</u>	<u>\$ 2,000</u>
Total Liabilities	<u>\$ 2,100</u>	<u>\$ 2,000</u>
Net Assets		
Unrestricted	<u>\$ 175,177</u>	<u>\$ 143,955</u>
Total Net Assets	<u>\$ 175,177</u>	<u>\$ 143,955</u>
Total Liabilities and Net Assets	<u><u>\$ 177,277</u></u>	<u><u>\$ 145,955</u></u>

See Accompanying Notes and Accountants' Report

## Exhibit B

**The Newton Chinese Language School, Inc.**  
**Statements of Activities**  
**For Years Ended June 30, 2006 and 2005**

	2006	2005
Changes in Unrestricted Net Assets		
Revenue and Support		
Net Tuition and Fees	\$ 292,604	\$ 243,031
Student Activities	8,732	6,543
Other Contributions	18,287	12,610
Miscellaneous Income	2,645	0
Interest Income	<u>5,825</u>	<u>2,073</u>
Total Unrestricted Revenue and Support	\$ 328,093	\$ 264,257
Expenses		
Program Services Expenses:		
Academic Programs	\$ 292,752	\$ 239,757
Student Activities	<u>2,952</u>	<u>3,815</u>
Total Program Services Expenses	\$ 295,704	\$ 243,572
Supporting Services Expenses:		
General and Administrative	<u>1,167</u>	<u>538</u>
Total Expenses	<u>\$ 296,871</u>	<u>\$ 244,110</u>
<b>Increase in Unrestricted Net Assets</b>	<b><u>\$ 31,222</u></b>	<b><u>\$ 20,147</u></b>
Changes in Temporarily Restricted Net Assets		
Net Assets at Beginning of Years	<u>\$ 143,955</u>	<u>\$ 123,808</u>
Net Assets at End of Years	<u><u>\$ 175,177</u></u>	<u><u>\$ 143,955</u></u>

See Accompanying Notes and Accountants' Report

**Exhibit C**

**The Newton Chinese Language School, Inc.  
Statements of Cash Flows  
For Years Ended June 30, 2006 and 2005**

	2006	2005
Cash Flows From Operating Activities:		
Net Income (Loss)	\$ 31,223	\$ 20,147
Adjustments to reconcile Net Income		
Depreciation	1,162	875
Accrued Expense	100	0
Total Adjustments	<u>\$ 1,262</u>	<u>\$ 875</u>
Net Cash Provided By (Used in)		
Operating Activities	\$ 32,485	\$ 21,022
Cash Flows From Investing Activities:		
Acquisition of Equipment	<u>\$ (4,716)</u>	<u>\$ (592)</u>
Net Cash Provided By (Used in)		
Investing Activities	<u>\$ (4,716)</u>	<u>\$ (592)</u>
Net Increase in Cash	\$ 27,769	\$ 20,430
Cash, Beginning of Years	<u>143,357</u>	<u>122,927</u>
Cash, End of Years	<u><u>\$ 171,126</u></u>	<u><u>\$ 143,357</u></u>
Supplemental Disclosures:		
Interest Paid During Period	<u>\$ 0</u>	<u>\$ 0</u>
Income Taxes Paid During Period	<u>\$ 0</u>	<u>\$ 0</u>

See Accompanying Notes and Accountants' Report

**Notes to the Financial Statements**

**The Newton Chinese Language School, Inc.**  
**Notes to the Financial Statements**  
**June 30, 2006**

Note 1 - Nature of Activities and Summary of Significant Accounting Policies

- A. Nature of Activities - The Newton Chinese Language School, Inc. (the School) is a not-for-profit organization incorporated on November 2, 2001, under the laws of the Commonwealth of Massachusetts. The School operates a private language educational institution in the City of Newton for the purpose of promoting and preserving the Chinese culture and tradition. Prior to commencing operations, the School was administered by the Greater Boston Chinese Cultural Association, Inc.
- B. Basis of Accounting - The School prepares its financial statements in accordance with generally accepted accounting principles, which involves the application of accrual accounting; consequently, revenues are recognized when earned, and expenses are recognized when incurred.
- C. Basis of Presentation - In accordance with SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*, the School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The School has no permanently restricted net assets.
- D. Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.
- E. Equipment and Depreciation - Acquisitions of equipment and costs that materially prolong the useful lives of assets are capitalized. Depreciation is being provided by use of the straight-line method over the estimated useful lives of the related assets.
- F. Donated services - No amounts have been reflected in the statements for donated services because they did not meet the criteria for recognition under SFAS No. 116. Management estimates that volunteers helping in the academic programs donated approximately 3,500 hours to the School in 2006.

**The Newton Chinese Language School, Inc.**  
**Notes to the Financial Statements**  
**June 30, 2006**  
**(Continued)**

- G. Significant Leases - Effective on September 1, 2002, the School entered into a one year lease to rent facilities from the City of Newton. Said lease has been renewed in subsequent periods. Annual rental payments to the Newton Public Schools total \$23,837 and \$20,505 per annum for the years ended June 30, 2006 and 2005. For the period ending June 30, 2007, the rental stipend will be \$32,685, plus other maintenance fees. The lease is renewed on an annual basis and will expire on June 30, 2007.
- H. Contributions - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.
- I. Income Taxes - The Newton Chinese School, Inc. is a not-for-profit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

Note 2 - Equipment

Equipment as of June 30, 2006 and 2005 is summarized as follows:

	2006	2005
Equipment & Furniture-At Cost	\$9,527	\$4,812
Accumulated Depreciation	(3,376)	(2,214)
	-----	-----
Equipment - Net	\$6,151	\$2,598
	=====	=====
Depreciation Expense	<u>\$1,162</u>	<u>\$ 875</u>

Note 3 - 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 in proportion to the programs and supporting services benefited.

Note 4 - Cash Balances

Certain cash balances maintained by the School exceed the limit of insurance coverage provided by the Federal Deposit Insurance Corporation. Management is of the opinion that the risk of loss is minimal.

**The Newton Chinese Language School, Inc.**  
**Notes to the Financial Statements**  
**June 30, 2006**  
**(Continued)**

Note 5 - Compensated Absences

The School operates without employees. All officers are volunteer members. Certain individuals are paid stipends for services rendered to the School, however they are not deemed to be employees and correspondingly are only paid when services are rendered. Therefore, the School has not established an accrual for compensated absences.

Note 6 - Financial Statement Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified as follows:

Unrestricted Net Assets - net assets that are not subject to donor imposed restrictions.

Temporarily Restricted Net Assets - net assets subject to explicit or implicit donor imposed stipulations that may or will be met either by actions of the Organization and/or by passage of time.

Permanently Restricted Net Assets - net assets subject to donor imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Sources of Income - Revenues are derived from tuition, fees, student activities, interest income and contributions.

Note 7 - Subsequent Event

Subsequent to year end, the United States Treasury - Internal Revenue Service notified the entity that an examination was to be conducted relative to the tax return submitted for the period ended June 30, 2004. While the results of said examination have not been received in writing as of the date of this report, the Auditor stated that there would be no adjustments made to the original filing.