

Christel House International, Inc. and Affiliates

Accountants' Report and Combined
and Consolidated Financial Statements

December 31, 2009

Christel House International, Inc. and Affiliates

December 31, 2009

Contents

Independent Accountants' Report on Combined and Consolidated Financial Statements and Supplementary Information.....	1
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Combined and Consolidated Financial Statements

Statement of Financial Position.....	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5-20

Supplementary Information

Combining and Consolidating Statement of Financial Position.....	21
Combining and Consolidating Statement of Activities.....	22
Combining and Consolidating Statement of Functional Expenses.....	23

Independent Accountants' Report on Combined and Consolidated Financial Statements and Supplementary Information

Board of Directors
Christel House International, Inc. and Affiliates
Indianapolis, Indiana

We have audited the accompanying combined and consolidated statement of financial position of Christel House International, Inc. and Affiliates (Christel House) as of December 31, 2009, and the related combined and consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Christel House'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 combined and consolidated financial statements referred to above present fairly, in all material respects, the financial position of Christel House International, Inc. and Affiliates as of December 31, 2009, and the results of its operations 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 combined and consolidated financial statements taken as a whole. The accompanying supplementary information, including the combining and consolidating information, is presented for purposes of additional analysis and is not a required part of the basic combined and consolidated financial statements. The combining and consolidating information is presented for purposes of additional analysis of the combined and consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual entities. Such information has been subjected to the procedures applied in the audits of the basic combined and consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relations to the basic combined and consolidated financial statements taken as a whole.

BKD_{LLP}

September 30, 2010

Christel House International, Inc. and Affiliates
Combined and Consolidated Statement of Financial Position
December 31, 2009
(Amounts in Thousands)

		<u>2009</u>
Assets		
Cash and cash equivalents		
Unrestricted	\$	3,915
Temporarily restricted		681
Investments		
Unrestricted		990
Temporarily restricted		28,730
Accounts receivable		269
Contributions receivable		3,142
Other assets		196
Bond issue costs, net		192
Rental property - Christel House Academy		12,502
Property and equipment		<u>11,203</u>
Total assets		<u>\$ 61,820</u>
Liabilities		
Accounts payable	\$	588
Accrued payroll and other		992
Bonds payable		<u>10,630</u>
Total liabilities		\$ 12,210
Net Assets		
Unrestricted		17,157
Temporarily restricted		<u>32,453</u>
Total net assets		<u>49,610</u>
Total liabilities and net assets		<u>\$ 61,820</u>

Christel House International, Inc. and Affiliates
Combined and Consolidated Statement of Activities
Year Ended December 31, 2009
(Amounts in Thousands)

	Unrestricted	Temporarily Restricted	Total
Revenue, Gains and Other Support			
Contributions	\$ 784	\$ 3,850	\$ 4,634
In-kind contributions	356	-	356
Special events (net of expenses of \$232)	585	-	585
Grant income	545	104	649
Investment income (net of expenses of \$58)	878	-	878
Rental income - Christel House Academy	914	-	914
Other	16	-	16
	4,078	3,954	8,032
Net assets released from restrictions	7,594	(7,594)	-
Total revenue, gains and other support	11,672	(3,640)	8,032
Expenses			
Program services			
Grants	888	-	888
Academics	8,792	-	8,792
	9,680	-	9,680
Management and general	1,289	-	1,289
Fund raising	1,511	-	1,511
Total expenses	12,480	-	12,480
Change in Net Assets From Operations	(808)	(3,640)	(4,448)
Other Gains and Losses			
Gain on sale of property	113	-	113
Realized loss on investments	(3,198)	-	(3,198)
Unrealized gain on investments	3,192	-	3,192
Foreign currency translation adjustment	3,054	-	3,054
	3,054	-	3,054
Change in Net Assets	2,353	(3,640)	(1,287)
Net Assets, Beginning of Year	14,804	36,093	50,897
Net Assets, End of Year	\$ 17,157	\$ 32,453	\$ 49,610

Christel House International, Inc. and Affiliates
Combined and Consolidated Statement of Cash Flows
Year Ended December 31, 2009
(Amounts in Thousands)

		<u>2009</u>	
Operating Activities			
Change in net assets	\$	(1,287)	
Items not requiring (providing) cash			
Depreciation		919	
Amortization of bond issue costs		15	
Gain on disposal of property and equipment		(113)	
Foreign currency translation adjustment		(3,054)	
Realized loss on sale of investments		3,198	
Unrealized gain on investments		(3,192)	
Changes in			
Contributions receivable		(2,384)	
Other assets		381	
Accounts payable		245	
Accrued payroll and other		378	
Net cash used in operating activities		<u>378</u>	\$ (4,894)
Investing Activities			
Purchase of investments		(23,857)	
Proceeds from sale of investments		8,770	
Proceeds from the sale of property and equipment		276	
Purchase of property and equipment		(2,736)	
Net cash used in investing activities			(17,547)
Financing Activity - bond principal payments			(605)
Effect of Exchange Rate Changes on Cash and Cash Equivalents			<u>1,765</u>
Net Decrease in Cash and Cash Equivalents			(21,281)
Cash and Cash Equivalents, Beginning of Year			<u>25,877</u>
Cash and Cash Equivalents, End of Year	\$		<u>4,596</u>
Supplemental Cash Flows Information - interest paid	\$		161

Christel House International, Inc. and Affiliates
Notes to Combined and Consolidated Financial Statements
December 31, 2009
(Amounts in Thousands)

Note 1: Nature of Operations and Summary of Significant Accounting Policies

General

Christel House International, Inc. (CHI) and Affiliates (collectively known as “Christel House”) is a not-for-profit organization (501(c)(3)) whose principal activity is to support educational efforts, primarily through grant-making. Christel House International was established in 1998 and developed learning centers in India, Mexico, Venezuela, South Africa and the United States. The mission of Christel House is to give impoverished children the tools and training to become self-sufficient, contributing members of society.

Christel House operates nonresidential learning centers for underserved children and provides a holistic approach to child development. The children are enrolled at Christel House learning centers in a formal, structured educational curriculum taught by qualified instructors. The curriculum is designed for mastery of basic skills in reading, writing and math. The curriculum supplements this core knowledge with classes in English as a second language, computer skills, character development, life skills, and arts and cultural activities. Since its founding in 1998, Christel House has established learning centers in India, Mexico, Venezuela, South Africa and the United States and currently serves over 3,000 children worldwide. Medical needs affecting a child’s ability to learn are identified and intervention programs implemented. Outcomes and progress of all programs are monitored for success, with the ultimate goal for each child to become a self-sufficient, productive member of society. The CHI Scholars program operates in Serbia where children have access to education, but lack the funds for book fees, study fees and vocational training. Christel House also operates its European fundraising activities through London-based, Christel House Europe.

Parents, family members and other caregivers are also offered education programs to improve parenting and life skills. These programs are designed to reinforce the gains made by the children at Christel House learning centers.

The revenues and support are derived principally from contributions and income from special events.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Christel House International, Inc. and Affiliates
Notes to Combined and Consolidated Financial Statements
December 31, 2009
(Amounts in Thousands)

Principles of Combination and Consolidation

For 2009, Christel House prepared its financial statements in accordance with accounting principles generally accepted in the United States of America. Accordingly, the financial operations of the international affiliates are combined and consolidated in these financial statements. Previously, Christel House prepared its financial statements on the accounting basis used for income tax purposes, and as such, the audited financial statements did not include the financial activities of the international affiliates.

Christel House International, Inc. presents combined and consolidated financial statements that include the financial information of the following affiliated organizations:

- Christel House International, Inc.
- Christel House India
- Christel House de Mexico, A.C.
- Christel House Europe
- Christel House South Africa
- Christel House Venezuela, A.C.

Each of the entities is a separately incorporated not-for-profit organization and is governed by a board of directors within their respective countries. Christel House International, Inc. has an economic interest in all of these entities and has control over a majority of these entities, within the meaning of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*.

In addition, Christel House International provides management and financial support to Christel House Academy (Academy), an affiliated charter school located in Indianapolis, Indiana. The financial information related to the Academy is not consolidated in these financial statements as the Academy is not under the control of CHI within the meaning of FASB ASC Topic 958, *Not-For-Profit Entities*.

The December 31 net asset balances of the affiliated consolidated organizations are as follows:

	2009
Christel House de Mexico, A.C.	\$ 3,009
Christel House Venezuela, A.C.	1,529
Christel House India	1,695
Christel House South Africa	6,418
Christel House Europe (United Kingdom)	42
	\$ 12,693

All material interorganizational accounts and transactions have been eliminated in combination and consolidation.

Christel House International, Inc. and Affiliates
Notes to Combined and Consolidated Financial Statements
December 31, 2009
(Amounts in Thousands)

Cash and Cash Equivalents

Christel House considers all liquid investments with original maturities of three months or less to be cash equivalents. The financial institution holding Christel House International, Inc.'s cash accounts is participating in the FDIC's Transaction Account Guarantee Program. Under the FDIC program, through June 30, 2010, all noninterest-bearing accounts are fully guaranteed by the FDIC for the entire amount in the account. The FDIC's insurance limits increased to \$250,000 for interest-bearing accounts through December 31, 2013.

At December 31, 2009, cash equivalents consisted primarily of money market funds and bond funds. The balance in excess of insured amounts was approximately \$1,544. Additionally, at December 31, 2009, the funds held outside the United States were \$2,711 and are not insured by the FDIC.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are also valued at fair value. Investment return includes dividend, interest and other investment income and realized and unrealized gains and losses on investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the combined and consolidated statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line basis or alternative depreciation system over the estimated useful life of assets as follows:

	<u>Years</u>
Buildings	40
Improvements	15 - 20
Furniture and equipment	5 - 7
Computer hardware	3 - 5

Christel House International, Inc. and Affiliates
Notes to Combined and Consolidated Financial Statements
December 31, 2009
(Amounts in Thousands)

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by Christel House has been limited by donors to a specific time period or purpose. Temporarily restricted net assets at December 31, 2009 include \$28,584 donated by Christel DeHaan, CHI's Founder, President and Chief Executive Officer. This balance is restricted for payment of future general and administrative expenses of Christel House. In addition, this balance may be used to fund future operating shortfalls of Christel House.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined and consolidated statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

In-Kind Contributions

In addition to receiving cash contributions, Christel House receives in-kind contributions of goods from various donors. It is the policy of Christel House to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount. For the year ended December 31, 2009, \$280 was received in in-kind contributions.

Grant Making

Unconditional grants are recognized as expenses in the period approved.

Christel House International, Inc. and Affiliates
Notes to Combined and Consolidated Financial Statements
December 31, 2009
(Amounts in Thousands)

Foreign Currency Translation

Christel House considers US Dollars its functional currency as a substantial portion of Christel House's business activities are based in US Dollars. Transactions involving foreign currencies are translated at the approximate rates of exchange existing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the year end are retranslated at the approximate rates of exchange at that date. Gains and losses relating to foreign currency translations are recorded in the statement of activities as a component of the change in net assets. The combined and consolidated financial statements include foreign affiliates. Their assets and liabilities are translated into US Dollars at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at the average exchange rate during the year.

Income Taxes

Christel House International, Inc. is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and a similar provision of state law. Christel House de Mexico, A.C., Christel House Europe, Christel House South Africa, Christel House de Venezuela, A.C. and Christel House India are tax-exempt entities. Christel House International, Inc. is not considered to be a private foundation.

Uncertain Tax Positions

During 2009, Christel House adopted the provisions of ASC Topic 740, *Income Taxes*, concerning the accounting and disclosures for uncertain tax positions, previously deferred by ASC 740-10-65. As part of the implementation of this standard, management evaluated its current tax positions and determined the adoption of this standard had no material impact on the financial statements of Christel House. For Christel House International, Inc., the tax years still subject to examination by taxing authorities in the United States are years subsequent to 2005.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the combined and consolidated statement of activities. Certain costs have been allocated among the grants, academic programs and other program services, management and general, and fund raising categories based upon actual expenditures and cost allocations estimated by Christel House personnel.

Subsequent Events

Subsequent events have been evaluated through September 30, 2010, which is the date the combined and consolidated financial statements were available to be issued.

Christel House International, Inc. and Affiliates
Notes to Combined and Consolidated Financial Statements
December 31, 2009
(Amounts in Thousands)

Christel House Venezuela has entered into discussions with an education-based not-for-profit organization seeking a collaboration to reduce the expense structure of Christel House Venezuela. The details of this proposed collaboration have yet to be finalized.

Note 2: Investments and Investment Return

Investments are as follows:

	2009
Equity securities	\$ 4,694
Government debt securities	2,868
Treasury obligations	81
Money market funds	16,645
Alternative investments	5,432
	\$ 29,720

The following schedule summarizes the investment return and its classification in the combined and consolidated statement of activities.

	2009
Investment income (net of expenses of \$58)	\$ 878
Net realized losses	(3,198)
Net unrealized gains	3,192
Total return on investments	\$ 872

Christel House International, Inc. and Affiliates
Notes to Combined and Consolidated Financial Statements
December 31, 2009
(Amounts in Thousands)

Alternative Investments

Alternative investments held at December 31, 2009 consist of the following:

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity and debt long/short hedge funds (A)	\$ 724	\$ -	Monthly	30 days
Distressed debt funds (B)	1,665	-	Not eligible	N/A
Real estate funds (C)	72	-	Not eligible	N/A
Private investment partnership funds (D)	1,529	-	Quarterly	45 days
Multi-asset fund (E)	1,442	-	Daily	None required

- (A) This category includes investments in hedge funds that take both long and short positions, invested in securities traded on domestic and foreign exchanges and over-the-counter as well as securities for which there is no public market. The fair values of the investments in this category have been estimated using the net asset values per share as reported by the fund administrator.
- (B) This category includes investments in funds that invest primarily in distressed debt situations, including well-collateralized distressed senior secured loan obligations where the fund can influence the outcome of events. The fund seeks to invest in situations that reflect a discount to the underlying collateral value, enterprise value or both, with the intent of recovering substantial premiums to acquisition prices. Distributions from each fund will be made as the underlying investments of the funds are liquidated. The fund term will end on the seventh anniversary of the final closing date of the Partnership, subject to extension by the directors for up to two additional one-year periods. The fair values of the investments in this category have been estimated using Christel House's ownership interest in partners' capital as reported by the fund administrators.

Christel House International, Inc. and Affiliates
Notes to Combined and Consolidated Financial Statements
December 31, 2009
(Amounts in Thousands)

- (C) This category includes several real estate funds that invest primarily in U.S. commercial real estate. The primary focus of the fund is to provide mezzanine financing for commercial buildings, single family lot development and condominium development. Investments are concentrated in the metropolitan areas of Indiana, Illinois, Ohio, North Carolina and Florida. These investments can never be redeemed with the funds. Distributions from each fund will be made as the underlying investments of the funds are liquidated. The fund term will end on the seventh anniversary of the final closing date of the Partnership, subject to extension by the directors for up to two additional one-year periods. The fair values of the investments in this category have been estimated using Christel House's ownership interest in partners' capital as reported by the fund administrators.
- (D) This category includes several private investment partnerships funds that invest in various industries and sectors or markets. In addition, certain investment partners invest in investment funds that utilize short positions, leverage (including margin borrowing), options, futures, commodities and other derivatives and may invest in non-U.S. securities and illiquid securities. The fair values of the investments in this category have been estimated using Christel House's ownership interest in partners' capital as reported by the fund administrators.
- (E) This category includes investments in acquired funds, common and preferred stocks, real estate investment trusts, high yield bonds, securities issued or guaranteed by the U.S. Government, corporate bonds and short-term money markets. The fair values of the investments in this category have been estimated using the net asset values per share as reported by the fund administrator.

Note 3: Contributions Receivable - Temporarily Restricted

	2009
Due within one year	\$ 843
Due in one to five years	2,499
	3,342
Discount	(200)
	\$ 3,142

Discount rates ranged from 1.95% to 2.87% for 2009.

Christel House International, Inc. and Affiliates
Notes to Combined and Consolidated Financial Statements
December 31, 2009
(Amounts in Thousands)

Note 4: Rental Property - Christel House Academy

During 2002, Christel House International, Inc. (CHI) acquired and renovated an educational facility, Christel House Academy. In December 2002, CHI agreed to lease this facility to Christel House Academy, Inc. (Academy), a charter school in the Indianapolis area. The Academy is a separately incorporated, not-for-profit organization that is not controlled by CHI. The Academy receives public support from the State of Indiana as well as contributions from CHI. As discussed more fully in Note 6, CHI issued \$14,000 of bonds to assist in the financing and construction of Christel House Academy.

The lease entered into between CHI and the Academy is for a term of 20 years commencing on March 1, 2003. Future rent payments due from the Academy are shown below. All 2009 rent payments were received by December 31.

Property rented to Christel House Academy, Inc. for the operation of the charter school is as follows:

	2009
Buildings	\$ 12,118
Land improvements	179
	12,297
Accumulated depreciation	(2,028)
	10,269
Land	2,233
	\$ 12,502

Future lease payments due from Christel House Academy, Inc. at December 31, 2009 were:

2010	\$ 1,010
2011	1,044
2012	1,034
2013	1,023
2014	1,012
Thereafter	7,842
	\$ 12,965

Christel House International, Inc. and Affiliates
Notes to Combined and Consolidated Financial Statements
December 31, 2009
(Amounts in Thousands)

Note 5: Property and Equipment

Christel House's property and equipment are as follows:

	2009
Buildings	\$ 9,121
Land	681
Leasehold improvements	267
Furniture and equipment	1,559
Computer hardware	1,292
Computer software	206
Books and educational materials	401
Motor vehicles	293
Works in progress	1,169
	14,989
Accumulated depreciation	(3,786)
	\$ 11,203

Note 6: Bonds Payable

The Indiana Development Finance Authority issued its \$14,000 Variable Rate Demand Educational Facilities Revenue Bonds, Series 2003 (Christel House, Inc. Project) (2003 Bonds) in February 2003. The proceeds from the 2003 Bonds were loaned to CHI for acquisition, construction, installation and equipping of the Christel House Academy. Principal on this loan is due annually on February 1, and interest is due monthly on the first day of each month. The interest rate mode at December 31, 2009 was weekly, and the interest rate is reset on a weekly basis by the remarketing agreement. CHI can periodically elect to change the interest rate modes as specified in the trust indenture. The interest rate in effect at December 31, 2009 was .55%. CHI pays the remarketing agent an annual fee of 0.075% of the outstanding principal balance on the loan. The 2003 Bonds mature February 1, 2023. CHI has agreed to redeem these bonds in the principal amounts and on the dates set forth in the reimbursement agreement with the bank. Furthermore, CHI has the option to redeem or repay these bonds prior to maturity, partially or in full, subject to the redemption terms and pricing set forth in the trust indenture.

The 2003 Bonds are secured by a reimbursement agreement and an irrevocable letter of credit in a maximum amount up to \$14,173, which expires February 15, 2013. The reimbursement agreement and letter of credit are secured by a "Continuing Guaranty Agreement" which is in effect for the term of the reimbursement agreement. The guarantor is Christel DeHaan, President, CEO and Founder of Christel House International, Inc. The guarantor must submit certain reports attesting to the Guarantor's net marketable asset position being at least 2.0 times the outstanding principal amount of the bonds. There are also other covenants with which the guarantor has agreed to comply. The beneficiary and trustee, Fifth Third Bank, holds the option to extend the expiration date of this letter of credit. This letter of credit will be reduced as the bond principal is repaid. There is an annual letter of credit fee of 0.68% of the outstanding principal balance. If the letter of credit is exercised, repayment is due on demand.

Christel House International, Inc. and Affiliates
Notes to Combined and Consolidated Financial Statements
December 31, 2009
(Amounts in Thousands)

Issuance costs in the amount of \$293 were capitalized during 2003 and are being amortized over 20 years. Unamortized issuance costs as of December 31, 2009 were \$192.

The future maturities of bonds payable are as follows:

2010	\$	620
2011		645
2012		660
2013		680
2014		700
Thereafter		<u>7,325</u>
	<u>\$</u>	<u>10,630</u>

Interest expense for the year ended December 31, 2009 was \$185.

Note 7: Leases

Noncancellable operating leases for office space expire in various years through 2014. Christel House is required to pay all executory costs (property taxes, maintenance and insurance). CHI's lease for office space includes an option to terminate the lease provided CHI pays a termination fee at least 30 days prior to termination. Rent expense for the year ended December 31, 2009 was \$195. Rent expense is recognized on a straight-line basis.

Future minimum lease payments at December 31, 2009, were:

2010	\$	167
2011		166
2012		163
2013		163
2014		<u>81</u>
	<u>\$</u>	<u>740</u>

Christel House International, Inc. and Affiliates
Notes to Combined and Consolidated Financial Statements
December 31, 2009
(Amounts in Thousands)

Note 8: Related Party Transactions

During 2009, CHI received \$1,840 in contributions from Christel DeHaan, its Founder, President and Chief Executive Officer.

In 2009, CHI expensed \$1,359 in payroll related costs that were originally paid by CD Enterprises, Ltd. (CDE), a related party. Included in these expenses was \$49 for CHI employer contributions to CDE's 401(k) plan for the year ended December 31, 2009. As of December 31, 2009, CHI had an outstanding liability balance of \$213 related to these payroll costs, which is included in accrued payroll and other on the combined and consolidated statement of financial position.

As discussed in Note 4, Christel House leases property to the Christel House Academy, Inc., and also provides grants to several affiliates.

Note 9: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	2009
Contributions restricted for periods after December 31	\$ 28,950
Capital projects	3,144
Learning center programs and services	224
Nutritional support	43
Parent workshops	5
Other programs	87
	\$ 32,453

Each year, CHI releases funds to cover all management and general expenses and fundraising expenses. In addition, funds are released to cover any shortfall in funding for programs and services. Annual funds released from restrictions are not to exceed amounts approved in the annual budget. One hundred percent of the contributions received from donors other than the Founder are solely applied to programs and services benefiting the children.

Christel House International, Inc. and Affiliates
Notes to Combined and Consolidated Financial Statements
December 31, 2009
(Amounts in Thousands)

Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2009
Time restrictions	\$ 6,906
Nutritional and medical programs	98
Educational programs	564
Parent workshops	4
Other programs	22
	\$ 7,594

Note 10: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying combined and consolidated statement of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy.

Cash Equivalents

Christel House's cash equivalents consist of money market mutual funds that have quoted market prices available in an active market and are classified within Level 1 of the valuation hierarchy.

Christel House International, Inc. and Affiliates
Notes to Combined and Consolidated Financial Statements
December 31, 2009
(Amounts in Thousands)

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity securities, government debt securities and money market mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For investments, other than alternative investments, the inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. These Level 2 securities include government debt obligations and treasury obligations. Level 2 investments also include certain alternative investments that are measured and can be redeemed at net asset value in the near term. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. For alternative investments that do not have sufficient activity or liquidity within the fund, the net asset value (or its equivalent) provided by the fund is utilized, as practical expedient, to determine fair value alternative investments are classified within Level 3 of the valuation hierarchy if they cannot be redeemed at net asset value at the measurement date. These Level 3 securities include certain alternative investments.

The following table presents the fair value measurements of assets recognized in the accompanying combined and consolidated statements of financial position, measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2009:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents				
Money market mutual funds	\$ 1,860	\$ 1,860	\$ -	\$ -
Investments				
Equity securities	4,694	4,694	-	-
Government debt securities	2,868	575	2,293	-
Treasury obligations	81	-	81	-
Money market mutual funds	16,645	16,645	-	-
Equity and debt long/short hedge funds	724	-	724	-
Distressed debt funds	1,665	-	-	1,665
Real estate funds	72	-	-	72
Private investment partnership funds	1,529	-	1,529	-
Multi-asset fund	1,442	-	1,442	-
Total assets	<u>\$ 31,580</u>	<u>\$ 23,774</u>	<u>\$ 6,069</u>	<u>\$ 1,737</u>

Christel House International, Inc. and Affiliates
Notes to Combined and Consolidated Financial Statements
December 31, 2009
(Amounts in Thousands)

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying combined and consolidated statement of financial position using significant unobservable (Level 3) inputs:

	Alternative Investments
Balance, January 1, 2009	\$ 2,248
Total realized and unrealized gains	(125)
Purchases	58
Sales	(444)
Balance, December 31, 2009	\$ 1,737

Realized and unrealized gains and losses for items reflected in the table above are included in the change in net assets in the statement of activities as follows:

	Change in Net Assets From Operations	Other Gains and Losses
Total gains and losses	\$ (10)	\$ (115)
Change in unrealized gains or losses relating to assets still held at the statement of financial position date	-	(115)

Note 11: Concentration

Christel House received approximately 37% of its contribution revenue from the Founder in 2009.

Note 12: Commitments and Contingencies

Christel House is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of Christel House. Events could occur that would change this estimate materially in the near term.

As of December 31, 2009, Christel House had commitments for the construction of a high school building to open in Fall of 2010, for Christel House Academy totaling approximately \$3,000.

Christel House International, Inc. and Affiliates
Notes to Combined and Consolidated Financial Statements
December 31, 2009
(Amounts in Thousands)

Note 13: Current Economic Conditions

The current protracted economic decline continues to present not-for-profit organizations with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, and declines in contributions. The financial statements have been prepared using values and information currently available to Christel House.

In addition, given the volatility of current economic conditions, the values of assets recorded in the combined and consolidated financial statements could change rapidly, resulting in material future adjustments in investment values that could negatively impact Christel House.

Supplementary Information

Christel House International, Inc. and Affiliates
Combining and Consolidating Statement of Financial Position
December 31, 2009
(Amounts in Thousands)

	Christel House International, Inc.	Christel House de Mexico, A.C.	Christel House Venezuela, A.C.	Christel House India	Christel House South Africa	Christel House Europe	Eliminations	Total
Assets								
Cash and cash equivalents								
Unrestricted	\$ 1,295	\$ 26	\$ 64	\$ 20	\$ 166	\$ 46	\$ 2,298	\$ 3,915
Restricted	590	12	-	35	44	-	-	681
Investments								
Unrestricted	575	122	186	-	107	-	-	990
Restricted	28,697	33	-	-	-	-	-	28,730
Accounts receivable	213	750	346	-	1,258	-	(2,298)	269
Contributions receivable	2,907	-	-	235	-	-	-	3,142
Other assets	42	32	74	48	-	-	-	196
Bond issue costs, net	192	-	-	-	-	-	-	192
Rental property - Christel House Academy	12,502	-	-	-	-	-	-	12,502
Property and equipment	1,281	2,103	1,321	1,404	5,094	-	-	11,203
	<u>\$ 48,294</u>	<u>\$ 3,078</u>	<u>\$ 1,991</u>	<u>\$ 1,742</u>	<u>\$ 6,669</u>	<u>\$ 46</u>	<u>\$ -</u>	<u>\$ 61,820</u>
Total assets								
Liabilities								
Accounts payable	\$ 391	\$ 8	\$ 29	\$ 8	\$ 152	\$ -	\$ -	\$ 588
Accrued payroll and other	356	61	433	39	99	4	-	992
Bonds payable	10,630	-	-	-	-	-	-	10,630
Total liabilities	<u>11,377</u>	<u>69</u>	<u>462</u>	<u>47</u>	<u>251</u>	<u>4</u>	<u>-</u>	<u>12,210</u>
Net Assets								
Unrestricted	4,823	2,964	1,529	1,425	6,374	42	-	17,157
Temporarily restricted	32,094	45	-	270	44	-	-	32,453
Total net assets	<u>36,917</u>	<u>3,009</u>	<u>1,529</u>	<u>1,695</u>	<u>6,418</u>	<u>42</u>	<u>-</u>	<u>49,610</u>
Total liabilities and net assets	<u>\$ 48,294</u>	<u>\$ 3,078</u>	<u>\$ 1,991</u>	<u>\$ 1,742</u>	<u>\$ 6,669</u>	<u>\$ 46</u>	<u>\$ -</u>	<u>\$ 61,820</u>

Christel House International, Inc. and Affiliates
Combining and Consolidating Statement of Activities
Year Ended December 31, 2009
(Amounts in Thousands)

	Christel House International, Inc.	Christel House de Mexico, A.C.	Christel House Venezuela, A.C.	Christel House India	Christel House South Africa	Christel House Europe	Eliminations	Total
Revenue, Gains and Other Support								
Contributions	\$ 4,034	\$ 232	\$ 63	\$ 115	\$ 175	\$ 15	\$ -	\$ 4,634
Direct contributions	53	32	45	85	138	-	(353)	-
CHI Funding	-	1,360	1,404	343	3,294	69	(6,470)	-
In-kind contributions	172	11	74	25	58	16	-	356
Special events (net of expenses of \$232)	449	39	36	16	24	21	-	585
Grants	17	44	-	237	351	-	-	649
Investment income (net of expenses of \$58)	782	10	42	3	41	-	-	878
Rental income - Christel House Academy	914	-	-	-	-	-	-	914
Other	-	-	-	-	16	-	-	16
Total revenue, gains and other support	<u>6,421</u>	<u>1,728</u>	<u>1,664</u>	<u>824</u>	<u>4,097</u>	<u>121</u>	<u>(6,823)</u>	<u>8,032</u>
Expenses								
Program services								
Grants	7,419	4	-	-	-	288	(6,823)	888
Academics	1,334	1,266	2,891	740	2,561	-	-	8,792
	<u>8,753</u>	<u>1,270</u>	<u>2,891</u>	<u>740</u>	<u>2,561</u>	<u>288</u>	<u>(6,823)</u>	<u>9,680</u>
Management and general	661	108	339	72	86	23	-	1,289
Fund raising	936	116	136	147	114	62	-	1,511
Total expenses	<u>10,350</u>	<u>1,494</u>	<u>3,366</u>	<u>959</u>	<u>2,761</u>	<u>373</u>	<u>(6,823)</u>	<u>12,480</u>
Change in Net Assets From Operations	(3,929)	234	(1,702)	(135)	1,336	(252)	-	(4,448)
Other Gains and Losses								
Gain (loss) on sale of property	-	136	(20)	(6)	3	-	-	113
Realized loss on investments	(3,198)	-	-	-	-	-	-	(3,198)
Unrealized gain on investments	3,192	-	-	-	-	-	-	3,192
Foreign currency translation adjustment	-	102	1,883	59	989	21	-	3,054
Change in Net Assets	(3,935)	472	161	(82)	2,328	(231)	-	(1,287)
Net Assets, Beginning of Year	<u>40,852</u>	<u>2,537</u>	<u>1,368</u>	<u>1,776</u>	<u>4,091</u>	<u>273</u>	<u>-</u>	<u>50,897</u>
Net Assets, End of Year	<u>\$ 36,917</u>	<u>\$ 3,009</u>	<u>\$ 1,529</u>	<u>\$ 1,694</u>	<u>\$ 6,419</u>	<u>\$ 42</u>	<u>\$ -</u>	<u>\$ 49,610</u>

Christel House International, Inc. and Affiliates
Combining and Consolidating Statement of Functional Expenses
Year Ended December 31, 2009
(Amounts in Thousands)

	<u>Program Service Expenses</u>			<u>Supporting Services</u>		<u>Total Expenses</u>
	<u>Grants</u>	<u>Academics</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries and benefits	\$ -	\$ 4,391	\$ 4,391	\$ 770	\$ 895	\$ 6,056
Direct grants	888	-	888	-	-	888
Outside services	-	410	410	148	118	676
Course materials/supplies	-	504	504	-	-	504
Medicine/laboratories	-	43	43	-	-	43
Nutritional support	-	912	912	-	-	912
Sales and marketing	-	15	15	9	302	326
Travel and entertainment	-	31	31	54	49	134
Vehicle/transportation expense	-	442	442	3	2	447
Rent and facilities	-	601	601	127	75	803
Depreciation and amortization	-	863	863	52	4	919
Interest expense/bond fees	-	288	288	-	-	288
Other	-	292	292	126	66	484
	<u>\$ 888</u>	<u>\$ 8,792</u>	<u>\$ 9,680</u>	<u>\$ 1,289</u>	<u>\$ 1,511</u>	<u>\$ 12,480</u>