

Christel House International, Inc.

Accountants' Report and Financial Statements

December 31, 2007
(Income Tax Basis)

Christel House International, Inc.

December 31, 2007

Contents

Independent Accountants' Report.....	1
---	----------

Financial Statements - Income Tax Basis

Statements of Financial Position	2
Statements of Activities.....	3
Statements of Cash Flows	4
Notes to Financial Statements	5-14

Supplementary Information - Income Tax Basis

Statement of Functional Expenses.....	15
---------------------------------------	----



Independent Accountants' Report

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

We have audited the accompanying income tax basis statement of financial position of Christel House International, Inc. (CHI) as of December 31, 2007, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the CHI'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.

As described in Note 1, the financial statements have been prepared on the accounting basis used for income tax purposes, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Christel House International, Inc. as of December 31, 2007, and the changes in its net assets and its cash flows for the year then ended, on the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information 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 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.

BKD, LLP

August 19, 2008

Christel House International, Inc.
Statement of Financial Position
December 31, 2007
(Income Tax Basis)
(Amounts in Thousands)

Assets

Cash and cash equivalents	\$ 14,629	
Investment income receivable	47	
Investments	18,246	
Contributions receivable	203	
Other assets	186	
Bond issue costs, net	221	
Rental property - Christel House Academy	13,126	
Property and equipment	<u>236</u>	
Total assets		<u><u>\$ 46,894</u></u>

Liabilities

Accounts payable	\$ 85	
Accrued payroll and other	275	
Bonds payable	<u>11,820</u>	
Total liabilities		<u>\$ 12,180</u>

Net Assets

Unrestricted	7,518	
Temporarily restricted	<u>27,196</u>	
Total net assets		<u><u>34,714</u></u>
Total liabilities and net assets		<u><u>\$ 46,894</u></u>

Christel House International, Inc.

Statement of Activities Year Ended December 31, 2007 (Income Tax Basis) (Amounts in Thousands)

	Unrestricted	Temporarily Restricted	Total
Revenue, Gains and Other Support			
Contributions	\$ 761	\$ 11,053	\$ 11,814
In-kind contributions	176	2,136	2,312
Special events (net of expenses of \$271)	654	-	654
Investment income (net of expenses of \$71)	1,114	-	1,114
Rental income - Christel House Academy	1,180	-	1,180
	3,885	13,189	17,074
Net assets released from restrictions	4,591	(4,591)	-
Total revenue, gains and other support	8,476	8,598	17,074
Expenses			
Program services			
Grants	5,357	-	5,357
Academics	1,695	-	1,695
	7,052	-	7,052
Management and general	803	-	803
Fund raising	811	-	811
Total expenses	8,666	-	8,666
Change in Net Assets From Operations	(190)	8,598	8,408
Other Gains and Losses			
Realized gain on investments	1,097	-	1,097
Unrealized loss on investments	(547)	-	(547)
	650	-	650
Change in Net Assets	360	8,598	8,958
Net Assets, Beginning of Year	7,158	18,598	25,756
Net Assets, End of Year	\$ 7,518	\$ 27,196	\$ 34,714

Christel House International, Inc.

Statement of Cash Flows Year Ended December 31, 2007 (Income Tax Basis) (Amounts in Thousands)

Operating Activities		
Change in net assets	\$	8,958
Items not requiring (providing) cash		
Depreciation		387
Amortization of bond issue costs		15
Realized gain on sale of investments		(1,097)
Unrealized loss on investments		547
Changes in		
Investment income receivable		(36)
Contributions receivable		1,584
Other assets		(48)
Accounts payable		(97)
Accrued payroll and other		50
Net cash provided by operating activities		<u>10,263</u>
	\$	
Investing Activities		
Purchase of investments		(15,613)
Proceeds from sale of investments		9,997
Purchase of property and equipment		<u>(30)</u>
Net cash used in investing activities		(5,646)
Financing Activity - bond principal payments		<u>(570)</u>
Net Increase in Cash and Cash Equivalents		4,047
Cash and Cash Equivalents, Beginning of Year		<u>10,582</u>
Cash and Cash Equivalents, End of Year		<u>\$ 14,629</u>
Supplemental Cash Flows Information		
Interest paid	\$	442

Christel House International, Inc.

Notes to Financial Statements

December 31, 2007

(Income Tax Basis)

(Amounts in Thousands)

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

General

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

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

Income Tax Basis of Accounting

CHI prepares its financial statements on the accounting basis used for income tax purposes. This basis differs from accounting principles generally accepted in the United States of America in that the financial operations for the affiliated entities are not combined and consolidated in these financial statements.

Affiliated Entities

CHI operates nonresidential learning centers for underserved children and provides a holistic approach to child development. The children are enrolled at CHI 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, CHI has established learning centers in India, Mexico, Venezuela, South Africa and the United States and currently serves over 2,500 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. CHI 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 CHI learning centers.

Christel House International, Inc.

Notes to Financial Statements December 31, 2007 (Income Tax Basis) (Amounts in Thousands)

Use of Estimates

The preparation of financial statements in conformity with the income tax basis of accounting 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.

Cash and Cash Equivalents

CHI considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2007, cash equivalents consisted primarily of money market funds and bond funds. At December 31, 2007, CHI's cash accounts exceeded federally insured (FDIC) limits by approximately \$14,387.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments consist of investments in limited partnerships, venture capital funds, and equity holdings without a readily determinable market value and are carried at cost. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Property and Equipment

Property and equipment are depreciated on a 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.

Notes to Financial Statements December 31, 2007 (Income Tax Basis) (Amounts in Thousands)

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by CHI has been limited by donors to a specific time period or purpose. Temporarily restricted net assets include \$26,936 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 CHI as well as that of the affiliated learning centers. In addition, this balance may be used to fund future operating shortfalls of the affiliated entities.

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 statements 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, CHI receives in-kind contributions of goods from various donors. It is the policy of CHI 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, 2007, \$2,312 was received in in-kind contributions. Included in this amount is the fair market value of the Founder's residence, \$2,100, which was donated to CHI in early 2007, as described in Note 9.

Grant Making

Unconditional grants are recognized as expenses in the period approved.

Income Taxes

Christel House International, Inc. is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law.

Christel House International, Inc.

Notes to Financial Statements December 31, 2007 (Income Tax Basis) (Amounts in Thousands)

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the 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 CHI personnel.

Note 2: Change in Basis of Accounting

In previous years, CHI prepared its financial statements using accounting principles generally accepted in the United States of America. In 2007, CHI adopted the basis of accounting used for income tax reporting as the basis for its financial statements. Accordingly, as a result of the differences described in Note 1 between the income tax basis and accounting principles generally accepted in the United States of America, net assets at the beginning of 2007 are approximately \$6,700 lower than the amounts previously reported.

Note 3: Investments

Investments are as follows:

Equity securities	\$	8,764
Government debt securities		2,432
Treasury obligations		110
Mutual funds		1,513
Money market		690
Alternative investments (at cost)		4,737
		<hr/>
	\$	18,246
		<hr/> <hr/>

The following schedule summarizes the investment return and its classification in the statements of activities.

Dividends and interest (net of expenses of \$71)	\$	1,114
Net realized gains		1,097
Net unrealized losses		(547)
		<hr/>
Total return on investments	\$	1,664
		<hr/> <hr/>

Christel House International, Inc.

Notes to Financial Statements December 31, 2007 (Income Tax Basis) (Amounts in Thousands)

Note 4: Contributions Receivable - Temporarily Restricted

Contributions of \$203 are receivable at December 31, 2007. The entire amount is due within one year and is deemed fully collectible.

Note 5: Rental Property - Christel House Academy

During 2002, 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 7, 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. Prior to the signed lease agreement, the Academy paid rent on a month-to-month basis beginning in September 2002. Future rent payments due from the Academy are shown below. All 2007 rent payments were made by December 31.

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

Buildings	\$	12,118
Land improvements		179
		<u>12,297</u>
Accumulated depreciation		(1,404)
		<u>10,893</u>
Land		<u>2,233</u>
	\$	<u>13,126</u>

Future lease payments due from Christel House Academy, Inc. at December 31, 2007 were:

2008	\$	1,072
2009		1,061
2010		1,057
2011		1,044
2012		1,034
Thereafter		<u>9,878</u>
	\$	<u>15,146</u>

Christel House International, Inc.
Notes to Financial Statements
December 31, 2007
(Income Tax Basis)
(Amounts in Thousands)

Note 6: Property and Equipment

CHI's property and equipment are as follows:

Leasehold improvements	\$ 243
Furniture and equipment	121
Computer hardware	638
	1,002
Accumulated depreciation	(766)
	\$ 236

Note 7: 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, 2007 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, 2007 was 3.44%. CHI pays the remarketing agent an annual fee of 0.75% 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.
Notes to Financial Statements
December 31, 2007
(Income Tax Basis)
(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, 2007 were \$221.

The future maturities of bonds payable are as follows:

2008	\$	585
2009		605
2010		620
2011		645
2012		660
Thereafter		8,705
		<hr/>
	\$	11,820
		<hr/> <hr/>

Interest expense for the years ended December 31, 2007 was \$434.

Note 8: Leases

Noncancellable operating leases for office space expire in various years through 2014. CHI 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 years ended December 31, 2007 was \$176. Rent expense is recognized on a straight-line basis.

Future minimum lease payments at December 31, 2007, were:

2008	\$	167
2009		162
2010		158
2011		159
2012		159
Later years		239
		<hr/>
	\$	1,044
		<hr/> <hr/>

Christel House International, Inc.

Notes to Financial Statements December 31, 2007 (Income Tax Basis) (Amounts in Thousands)

Note 9: Related Party Transactions

During 2007, CHI received \$12,813 in contributions from Christel DeHaan, its Founder, President and Chief Executive Officer. This amount includes the contribution in early 2007 of the Founder's Zionsville, Indiana residence, which was subsequently sold to an unrelated party for approximately \$2,100.

In 2007, CHI expensed \$1,358 in payroll related costs that were originally paid by CD Enterprises, Ltd. (CDE), a related party. Included in these expenses was \$55 for CHI employer contributions to CDE's 401(k) plan. As of December 31, 2007, CHI had an outstanding liability balance of \$158 related to these payroll costs, which is include in accrued payroll and other on the statement of financial position.

As discussed in Note 5, CHI leases property to the Christel House Academy, Inc., and also provides grants to several affiliates.

Note 10: Net Assets

Temporarily Restricted Net Assets

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

Contributions restricted for periods after December 31	\$ 27,139
Teacher exchange program	18
Educational programs	16
Learning center programs and services	9
Other programs	14
	<hr/>
	\$ 27,196
	<hr/>

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.

Notes to Financial Statements December 31, 2007 (Income Tax Basis) (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.

Time restrictions	\$ 4,233
Nutritional and medical programs	66
Educational programs	267
Other programs	25
	<hr/>
	\$ 4,591
	<hr/> <hr/>

Note 11: Concentration

CHI received approximately 88% of its contribution revenue from the Founder in 2007.

Note 12: Commitments and Contingencies

CHI 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 CHI. Events could occur that would change this estimate materially in the near term.

Note 13: Affiliated Entities (Unaudited)

Net assets of CHI's affiliated entities as of December 31, 2007 were as follows:

Christel House Academy	\$ 532
Christel House Europe (United Kingdom)	191
Christel House India	1,574
Christel House de Mexico, A.C.	3,055
Christel House South Africa	260
Christel House Venezuela, A.C.	997
	<hr/>
	\$ 6,609
	<hr/> <hr/>

Christel House International, Inc.

Notes to Financial Statements

December 31, 2007

(Income Tax Basis)

(Amounts in Thousands)

Christel House International, Inc. provided the following grants to these affiliated entities during 2007:

Christel House Academy	\$	679
Christel House Europe (United Kingdom)		56
Christel House India		787
Christel House de Mexico, A.C.		913
Christel House South Africa		1,887
Christel House Venezuela, A.C.		<u>1,035</u>
	\$	<u><u>5,357</u></u>

Each of these entities is a separately incorporated not-for-profit organization and is governed by separate boards of directors within their respective countries. CHI has an economic interest in all of these entities and has control over a majority of these entities.

Supplementary Information

Christel House International, Inc.

Statement of Functional Expenses

Year Ended December 31, 2007

(Income Tax Basis)

(Amounts in Thousands)

	Program Service Expenses			Supporting Services		Total Expenses
	Grants	Academics	Total Program Services	Management and General	Fundraising	
Salaries and benefits	\$ -	\$ 667	\$ 667	\$ 343	\$ 405	\$ 1,415
Grants	5,357	-	5,357	-	-	5,357
Outside services	-	18	18	183	91	292
Advertising and marketing	-	-	-	-	110	110
Travel	-	44	44	50	42	136
Rent and facilities	-	76	76	78	47	201
Depreciation and amortization	-	346	346	39	2	387
Interest expense/amortization	-	541	541	-	-	541
Other	-	3	3	110	114	227
Total expenses	<u>\$ 5,357</u>	<u>\$ 1,695</u>	<u>\$ 7,052</u>	<u>\$ 803</u>	<u>\$ 811</u>	<u>\$ 8,666</u>