

CHRIS KIDS GROUP

COMBINED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2010 AND 2009

CHRIS KIDS GROUP
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INDEPENDENT AUDITOR'S REPORT

To the Boards of Directors of
CHRIS Kids, Inc. and related entities:

We have audited the accompanying combined statements of financial position of CHRIS Kids Group, the Organization, (as defined in Note 1) as of December 31, 2010 and 2009 and the related combined statements of activities, functional expenses, and cash flows for the years then ended. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of CHRIS Kids Group as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Brooks, McGinnis & Company, LLC

Atlanta, Georgia
April 18, 2011

CHRIS KIDS GROUP
 COMBINED STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
Cash and cash equivalents	\$ 3,576,975	\$ 1,354,399
Grants and contracts receivable	431,150	430,692
Accounts receivable, net	45,877	-
Pledges receivables, net	228,281	74,444
Prepaid expenses and other current assets	44,951	22,576
Property and equipment in service, net	8,094,428	1,885,591
Property and improvements not used in operation, net	502,694	345,027
Property and improvements held for sale, net	91,495	264,921
Construction in progress	767,924	5,240,933
Deferred loan costs, net of \$3,388 and \$1,173 in accumulated amortization	40,910	30,107
Other assets	52,993	5,230
Total assets	\$ 13,877,678	\$ 9,653,920

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 92,082	\$ 333,972
Accrued expenses and other liabilities	222,827	191,955
Notes payable	6,333,030	4,959,603
Other liabilities	-	1,200
Total liabilities	6,647,939	5,486,730
Commitments and contingencies		
Net Assets:		
Unrestricted :		
Available for operations	865,675	(410,210)
Expended for property and equipment, net of debt	4,014,304	3,198,537
Total unrestricted net assets	4,879,979	2,788,327
Temporarily restricted	2,349,760	1,378,863
Total net assets	7,229,739	4,167,190
Total liabilities and net assets	\$ 13,877,678	\$ 9,653,920

The accompanying notes are an integral part of these financial statements.

CHRIS KIDS GROUP
 COMBINED STATEMENTS OF ACTIVITIES
 FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Changes in unrestricted net assets:		
Revenues, gains and support:		
Grants and contracts	\$ 5,604,569	\$ 4,326,021
Contributions	809,701	678,751
Counseling Center revenue net of allowance	934,785	804,065
In-kind Donations	195,255	156,296
Interest income	437	3,940
Special event revenue, net of \$196,527 and \$448,144 in direct expenses for 2010 and 2009, respectively	74,967	153,511
Rent on real property	245,313	24,125
Gain on disposal of vehicles	2,200	-
Other income	20,634	40,460
Total revenues	7,887,861	6,187,169
Net assets released from restrictions	1,058,898	203,188
Total unrestricted revenues, gains and support	8,946,759	6,390,357
Expenses:		
Program services:		
Residential services	4,885,812	4,129,740
Community programs	573,430	209,965
Counseling center	1,370,577	1,124,127
Total program services	6,829,819	5,463,832
Supporting services:		
Management and general	885,807	787,854
Fundraising	269,036	248,449
Total expenses	7,984,662	6,500,135
Increase (decrease) in unrestricted net assets	962,097	(109,778)
Changes in temporarily restricted net assets:		
Contributions	3,159,350	506,784
Net assets released from restrictions	(1,058,898)	(203,188)
Increase in temporarily restricted net assets	2,100,452	303,596
Increase in net assets	3,062,549	193,818
Net assets, beginning of year	4,167,190	3,973,372
Net assets, end of year	\$ 7,229,739	\$ 4,167,190

The accompanying notes are an integral part of these financial statements.

CHRIS KIDS GROUP
 COMBINED STATEMENT OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Residential Services</u>	<u>Community Programs</u>	<u>Counseling Center</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 2,697,705	\$ 426,719	\$ 833,067	\$ 3,957,491	\$ 415,954	\$ 140,386	\$ 4,513,831
Benefits and payroll taxes	426,338	62,103	121,415	609,856	113,083	24,086	747,025
Total payroll expense	<u>3,124,043</u>	<u>488,822</u>	<u>954,482</u>	<u>4,567,347</u>	<u>529,037</u>	<u>164,472</u>	<u>5,260,856</u>
Rent and building maintenance	386,471	6,490	73,182	466,143	10,321	29,687	506,151
Depreciation and amortization	392,484			392,484			392,484
Direct care	314,643	14,659	18,515	347,817	610	2,025	350,452
Legal and accounting	2,395			2,395	103,099	240	105,734
Licenses	100			100			100
Property taxes	27,716			27,716			27,716
Equipment leases and repairs	24,208	24	10,165	34,397	37,614	5,639	77,650
Vehicle maintenance, repair and parking	136,268	12,375	24,226	172,869	6,312	3,152	182,333
Supplies	14,714	269	11,406	26,389	5,051	1,208	32,648
Postage	1,925	756	271	2,952	3,092	4,071	10,115
Telephone	38,250	14,542	13,195	65,987	7,029	2,780	75,796
Utilities	130,737	663	3,006	134,406	611	1,078	136,095
Special needs	3,012			3,012	110		3,122
Promotions	725	13		738	1,033	3,116	4,887
Insurance	70,455			70,455	3,995		74,450
Interest	23,293		224	23,517	37,220		60,737
Training	3,230	15,746	4,184	23,160	5,848	618	29,626
Consulting	21,353	16,925	2,017	40,295	98,312	30,461	169,068
Dues and subscriptions	7,185		134	7,319	9,742	970	18,031
Professional medical	2,536		251,102	253,638			253,638
Management fees	17,833			17,833			17,833
Security and monitoring	65,416			65,416			65,416
Rent expense - staff	8,370			8,370			8,370
Bad debt expense	21,086			21,086			21,086
Other	<u>47,364</u>	<u>2,146</u>	<u>4,468</u>	<u>53,978</u>	<u>26,771</u>	<u>19,519</u>	<u>100,268</u>
Total expenses	<u>\$ 4,885,812</u>	<u>\$ 573,430</u>	<u>\$ 1,370,577</u>	<u>\$ 6,829,819</u>	<u>\$ 885,807</u>	<u>\$ 269,036</u>	<u>\$ 7,984,662</u>

The accompanying notes are an integral part of these financial statements.

CHRIS KIDS GROUP
 COMBINED STATEMENT OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED DECEMBER 31, 2009

	Residential Services	Community Programs	Counseling Center	Total Program	Management and General	Fundraising	Total
Salaries and wages	\$ 2,688,361	\$ 164,531	\$ 684,458	\$ 3,537,350	\$ 431,953	\$ 127,250	\$ 4,096,553
Benefits and payroll taxes	411,512	16,718	98,512	526,742	101,889	29,466	658,097
Total payroll expense	<u>3,099,873</u>	<u>181,249</u>	<u>782,970</u>	<u>4,064,092</u>	<u>533,842</u>	<u>156,716</u>	<u>4,754,650</u>
Rent and building maintenance	168,020	7,500	87,013	262,533	2,046	29,040	293,619
Depreciation and amortization	137,973			137,973			137,973
Direct care	230,463	5,794	1,690	237,947	120	545	238,612
Legal and accounting	750			750	59,675	1,162	61,587
Property taxes	16,727			16,727			16,727
Equipment leases and repairs	18,356		10,893	29,249	42,172	4,650	76,071
Vehicle maintenance, repair and parking	196,088	13,784	23,482	233,354	4,847	1,396	239,597
Supplies	9,740	1,301	11,247	22,288	4,215	3,376	29,879
Postage	562	8	72	642	5,008	15,603	21,253
Telephone	46,495	130	5,016	51,641	5,830	4,226	61,697
Utilities	53,857	144	5,805	59,806	6,747	4,884	71,437
Special needs	14,622		40	14,662	8,919	34	23,615
Promotions				-		1,993	1,993
Insurance	86,762			86,762	3,975		90,737
Interest	21,241			21,241	24,226		45,467
Training	4,361	55	3,791	8,207	15,231	2,235	25,673
Consulting	8,305		1,615	9,920	40,465		50,385
Dues and subscriptions	2,976		309	3,285	2,519	203	6,007
Professional medical	1,200		188,365	189,565			189,565
Other	<u>11,369</u>		<u>1,819</u>	<u>13,188</u>	<u>28,017</u>	<u>22,386</u>	<u>63,591</u>
Total expenses	<u>\$ 4,129,740</u>	<u>\$ 209,965</u>	<u>\$ 1,124,127</u>	<u>\$ 5,463,832</u>	<u>\$ 787,854</u>	<u>\$ 248,449</u>	<u>\$ 6,500,135</u>

The accompanying notes are an integral part of these financial statements.

CHRIS KIDS GROUP
 COMBINED STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Cash flows from operating activities:		
Increase in net assets	\$ 3,062,549	\$ 193,818
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	392,484	137,973
Donated equipment	-	(22,884)
Gain on disposal of vehicles	(2,200)	-
Pledges and contributions receivable	(2,842,397)	(325,645)
Changes in assets and liabilities:		
(Increase) decrease:		
Grants and contracts receivable	(458)	16,855
Accounts receivable	(45,877)	-
Prepaid expenses	(22,375)	29,249
Other assets	(47,763)	825
Increase (decrease):		
Accounts payable	71,868	(67,039)
Accrued expenses	29,393	(113,620)
Security deposit	(1,200)	-
Total adjustments	(2,468,525)	(344,286)
Net cash provided by (used in) operating activities	594,024	(150,468)
Cash flows from investing activities:		
Proceeds from sale of donated stocks	-	121
Debt issue costs	-	(31,280)
Proceeds from vehicle	2,200	-
Purchase of property and equipment	(2,110,985)	(4,799,822)
Net cash used in investing activities	(2,108,785)	(4,830,981)
Cash flows from financing activities:		
Contributions and pledge receipts restricted for long term purposes/capital campaign	2,688,560	338,989
Deferred loan closing costs	(12,367)	-
Increase (decrease) in construction accounts payable	(312,279)	312,279
Principal payments on debt	(68,785)	(830,275)
Borrowings on debt and line of credit	1,442,208	4,096,592
Net cash provided by financing activities	3,737,337	3,917,585
Net increase (decrease) in cash and cash equivalents	2,222,576	(1,063,864)
Cash and cash equivalents, beginning of year	1,354,399	2,418,263
Cash and cash equivalents, end of year	\$ 3,576,975	\$ 1,354,399
Supplemental cash flow information:		
Cash paid for interest	\$ 57,779	\$ 45,467

The accompanying notes are an integral part of these financial statements.

CHRIS KIDS GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

1. Nature of Organization and Significant Accounting Policies

The combined financial statements of the CHRIS Kids Group (the Organization) include the accounts of CHRIS Kids, Inc., CHRIS Homes Properties, Inc. and CHRIS Properties Graham Circle, Inc. which are financially interrelated. All significant inter-company accounts and transactions have been eliminated. CHRIS Kids, Inc. is a nationally accredited nonprofit 501(c)(3) organization whose mission is to heal children, strengthen families and build community. CHRIS Kids, Inc. exists to improve the lives of children and strengthen families through innovative services that inspire hope and create self sufficiency. It accomplishes this purpose through a continuum of services and partnerships designed to unlock the potential in every man, woman and child; to fill gaps in services; and to foster individual accountability. CHRIS Homes Properties, Inc. is a nonprofit 501(c)(2) organization that owns residential rental properties and vehicles that are leased to CHRIS Kids, Inc. CHRIS Properties Graham Circle, Inc. is a nonprofit 501(c)(2) organization that holds title to a fully furnished, EarthCraft certified, affordable housing apartment complex for CHRIS Kids, Inc. to utilize for the client population of single and parenting youth who have aged out of foster care, who are aging out of foster care or who are homeless. Life changing services were provided to 1,465 individuals during 2010.

- The CHRIS Counseling Center provides mental health and substance abuse counseling to children, youth, adults and their families through in clinic and in community services. Therapists with specialized training in Trauma Focused Cognitive Behavior Therapy help clients face, recover and heal from past sexual abuse, physical abuse and/or other traumatic events. In 2010, 9,164 sessions were provided by the CHRIS Counseling Center to 630 individuals.
- The Keeping Families Together Programs kept children safe and strengthened 89% of the children and families who received services. Almost 500 individuals were helped.
- The JourneyZ Program for abused and neglected children with severe emotional and behavior problems who are in foster care or other state systems delivered residential services in eight six bed Group Homes located in neighborhoods in the community.
- The TransitionZ Program for single and parenting youth, ages 17-24, who are aging out of foster care or who are homeless provides the array of counseling, case management, life skills, job coaching and support services that these young adults need to achieve self sufficiency. The TransitionZ Program is located at Summit Trail, CHRIS Kids' supportive housing apartment complex which opened in April 2010.
 - These programs helped 186 unduplicated youth with significant challenges and academic deficits achieve their goals. In addition two spouses and 12 children belonging to residents of TransitionZ at Summit Trail benefited from services and support.
- Through a contract with the State Department of Behavioral Health and Developmental Disabilities, CHRIS Kids, Inc. is participating in a federal demonstration project as a Care Management Entity (CME) in a community based program designed to help children who qualify for psychiatric hospitalization receive the treatment and services they need while

CHRIS KIDS GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

1. Nature of Organization and Significant Accounting Policies - Continued

remaining in their own homes in the community. Parents may chose to participate in this program to help them strengthen their families and learn how to better support and access services for their child while keeping them at home, avoiding or shortening costly psychiatric hospitalizations. The statewide program was launched in 2010.

- CHRIS Kids, Inc. is also a founding member of a Georgia based collaborative network, the Multi Agency Alliance for Children (MAAC) which was founded in 1995 to create a seamless continuum of services for youth that utilized the resources and services of its member organizations. MAAC is a nationally accredited network.

CHRIS Kids, Inc. received approximately 59% and 46% of its funding primarily through fee for service contracts with the State of Georgia, the federal government and various local governmental agencies for the years ended December 31, 2010 and 2009, respectively.

The funding levels from the State of Georgia have decreased annually through 2010 beginning on July 1, 2005. Changes in payment methodology by the Georgia Department of Human Services over multiple years, the unbundling of payment for residential services required by Medicaid, reductions in funding through the Promoting Safe and Stable Families programs, cutbacks in funding for special programs like the summer camp CHRIS Kids, Inc. operates for special needs children, and reductions in referrals for residential care are factors in decreasing funding levels for services to highly troubled children and youth. Additionally, the changes CHRIS Kids, Inc. was required to make in order to continue services were costly and involve ensuring compliance with multiple regulatory bodies on an on-going basis. These changes created a much larger gap between reimbursement for services and the cost to deliver those services. CHRIS Kids Inc.'s management and its board implemented plans to increase revenues and control costs, in light of those changing external factors. These adjustments during 2010 and 2009 resulted in reducing the amount of uncompensated care to \$1,165,288 for the year ending December 31, 2010, down from \$1,830,653 for the year ending December 31, 2009. Development efforts continue to expand to meet the need to fund uncompensated services as does exploration in to areas of earned revenue potential.

The Organization presents its combined financial statements in accordance with generally accepted accounting principles (GAAP). Under GAAP, CHRIS Kids Group is required to report 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) based upon the existence or absence of donor-imposed restrictions. The Organization had no permanently restricted net assets at December 31, 2010 or 2009.

Basis of Accounting

The accounts are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. This basis of accounting requires recording revenues and gains when earned and expenses and losses when incurred.

CHRIS KIDS GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

1. Nature of Organization and Significant Accounting Policies - Continued

Contributions

In accordance with GAAP, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Time and capital donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Other restricted contributions received and spent within the year are presented as unrestricted contributions.

Donated Equipment, Material, Supplies and Services

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

All non-cash gifts (other than personal services) are recorded at their estimated fair value at date of receipt. Contributions of food, clothing, medical items, personal care supplies, event auction items and other special needs items valued at \$223,245 and \$376,550, respectively, have been reflected in the statements of activities for the years ending December 31, 2010 and 2009, respectively. Donated services are recognized at fair value if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Organization received donated computer equipment of \$22,884 for the year ended December 31, 2009. The Organization also recorded \$40,542 and \$23,413 in donated legal services for the years ending December 31, 2010 and 2009, respectively. No amounts have been recognized in the financial statements for general volunteer services, since these services received do not meet the GAAP criteria noted above.

Property and Equipment

Property and equipment are stated at cost or estimated fair value at time of donation. Depreciation is computed by the straight-line method over the estimated useful lives as follows:

Buildings and improvements	5 - 30 years
Furniture, fixtures and equipment	3 - 7 years
Vehicles	3 years

CHRIS KIDS GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

1. Nature of Organization and Significant Accounting Policies - Continued

Property and Equipment - Continued

The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000.

Income Taxes

Each corporation comprising CHRIS Kids Group is exempt from income taxes under either Section 501(c)(2) or Section 501(c)(3) of the Internal Revenue Code, as amended, and classified by the Internal Revenue Service as other than a private foundation. Accordingly, no provisions for federal and state income taxes have been recorded in the accompanying financial statements. In addition, the Organization believes that it has appropriate support for any tax positions taken, and as such does not have any uncertain tax positions that are material to the financial statements.

Functional 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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all cash investments and highly liquid investments with maturities of three months or less to be cash equivalents. Cash and cash equivalents consist primarily of demand deposits with a single financial institution. The balances in the Organization's bank accounts, as reflected in the bank's records, are insured by the Federal Deposit Insurance Corporation (FDIC) at December 31, 2010 and 2009 up to \$250,000. The organization primarily has its demand deposits with institutions that participate in the FDIC Transaction Account Guarantee Program, which provides 100% coverage on non-interest bearing accounts through December 31, 2012. At December 31, 2010 and 2009, the Organization's accounts were covered under the FDIC limit and the Transaction Account Guarantee Program.

CHRIS KIDS GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

1. Nature of Organization and Significant Accounting Policies - Continued

Allowance for Doubtful Accounts

The Organization uses an allowance method to determine uncollectible unconditional promises to give as well as fee for service billing, grants and contracts receivable, as well as tenant rents receivable. The allowance is based on prior years' experience and management's analysis of specific promises made and amounts billed and to be reimbursed. At December 31, 2010 and 2009, the allowance for doubtful accounts had a balance of \$29,913 and \$9,229, respectively.

Deferred Loan Costs

Deferred loan costs are amortized over the duration of the related loan. The life of the loans currently range from 3 to 5 years. In 2010 and 2009, amortization charged to expense was \$2,215 and \$3,684, respectively.

Long-Lived Assets and Impairment Analysis

The Organization evaluates its recoverability of its long-lived assets held for use in operations and not in service, including real estate, for indicators of impairment and if impaired, records such assets at the lower of cost or fair value as described in generally accepted accounting principles. GAAP requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. If impairment is indicated, the carrying amount of the asset is written down to fair value. In the opinion of management, no long lived-assets were impaired as of December 31, 2010 and 2009.

Fair Value of Financial Instruments

Cash and cash equivalents, accounts receivable, prepaid expenses, other current assets, accounts payable, and accrued expenses are carried at amounts which approximate their fair value due to the short-term nature of these instruments. Debt is carried at amounts which are expected to be paid which approximates fair value.

Recently Issued Accounting Standards

On January 1, 2009, the Organization adopted Accounting Standards Update 2009-06, *Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*, which clarifies the accounting for uncertainty in income tax positions recognized in accordance with U.S. GAAP. It provides guidance on when tax positions are recognized in an entity's financial statements and how these values of these positions are determined.

CHRIS KIDS GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

1. Nature of Organization and Significant Accounting Policies - Continued

Recently Issued Accounting Standards - Continued

On July 1, 2009, the Organization adopted ASC 820 for fair value measurements for financial assets and financial liabilities.

In May 2009, the FASB issued ASC 820, *Subsequent Events*. ASC 820 establishes general standards of accounting for and disclosures of events that occur after the statement of financial position date but before financial statements are issued or are available to be issued. The provisions of this statement are effective for interim and annual periods ending after June 15, 2009. The Organization adopted ASC 820, effective December 31, 2009.

Reclassifications

Certain amounts previously reported have been reclassified to conform to the current year financial statement presentation.

Subsequent Events

Management has evaluated events and transactions which occurred through April 18, 2011 which was the date the financial statements were available to be issued.

2. Grants and Contracts Receivable and Related Receivables

Receivables arise from fees for services provided under and, to a lesser extent reimbursements owed through, these government contracts. CHRIS Kids, Inc.'s ability to collect amounts due is affected by the outside agencies' acceptance of reimbursable expenses and performance-based outcomes, which meet contract requirements.

CHRIS KIDS GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

2. Grants and Contracts Receivable and Related Receivables – Continued

Grants and contracts receivable owed to CHRIS Kids Group are as follows at December 31:

	2010	2009
Due from:		
DHR contracts	\$ 216,778	\$ 202,794
Georgia Department of Juvenile Justice	16,748	27,650
Keeping Families Together Contracts - DeKalb and Fulton Counties	8,946	4,086
Fulton County CCCF Wraparound	2,250	4,314
Regional MHDDAD Board	30,288	30,288
Various other DFCS county offices	1,999	2,297
Lifeskills/Case management	1,879	4,759
Medicaid/CMO billing	15,122	21,547
Multi-Agency Alliance for Children	86,428	83,460
Other contracts and receivables	50,712	49,497
Total grants and contracts receivable	\$ 431,150	\$ 430,692

3. Accounts Receivable, Net

Accounts receivable, net consists of amounts due from the Georgia Department of Community Affairs (DCA) related to the construction and conversion of the Summit Trail Apartments. Additionally, accounts receivable includes rental assistance payments due from the Atlanta Housing Authority (AHA) as well as tenant rents receivable, net of an allowance for doubtful accounts.

Accounts receivable consists of the following at December 31, 2010:

Due from DCA	\$ 41,726
Due from AHA	1,901
Due from tenants	11,246
	54,873
Less: allowance for uncollectible accounts	(8,996)
Accounts receivable, net	\$ 45,877

CHRIS KIDS GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

4. Capital Campaign

At the request of the State of Georgia for more group homes, CHRIS Kids, Inc. began a \$5.5 million capital campaign in 2005 to expand residential services for children in foster care and for homeless youth and youth aging out of foster care; to fund renovations to existing group homes; to establish a maintenance/operating reserve; and to purchase land to meet campaign goals. Subsequently, new State leadership was elected and dramatic changes in policy and direction in child welfare and mental health began to occur, along with decreased funding, as previously discussed. These changes, coupled with the 2006 findings of a Medicaid audit of the Georgia system, dictated significantly altered funding streams and fewer referrals for residential care. In order to be fiscally responsible, Board and management suspended the original capital campaign in 2007 to ensure that campaign goals were in line with environmental changes and to assess how best to utilize the assets purchased. Capital campaign funds were expensed to meet the established purchase, renovation, maintenance and operating goals while CHRIS Kids, Inc. worked with the State to determine future directions. It became clear that not only did the state recognize a huge need for housing and resources to help youth who were aging out of care, there were a large number of homeless youth in the community, many of whom had aged out of foster care. Discussions ensued with the Department of Community Affairs, the Division of Family and Children Services, within the homeless community and with the Board as it assessed the best use for the land purchased prior to suspension of the capital campaign.

The 2009 Graham Circle Campaign for \$12.1 million was created out of these discussions and the land and funds raised during the initial effort were applied to this project. Public funding of \$5.2 million for the project was secured from the Georgia Department of Community Affairs, and the Atlanta Development Authority Homeless Opportunities Fund. During 2010, the Organization successfully secured gifts and pledges to meet the charitable balance remaining and to leverage a Kresge challenge grant of \$800,000 and two capping foundation grants in the amount of 1,550,000 to complete this \$12.1 million capital project. As of December 31, 2010 and 2009, \$6,867,315 and \$4,123,000, respectively, had been collected on the capital campaign.

5. Pledges Receivable, Net

The amounts due from United Way of Metropolitan Atlanta at December 31, 2010 and 2009 represent the balance of the Organization's allocated funding for the periods ending June 30, 2010 and June 30, 2009. Donor designations to United Way may vary; however, differences between the amounts collected and allocated from United Way have historically been insignificant. Accordingly, no provision is made for uncollectible amounts regarding amounts due from United Way of Metropolitan of Atlanta.

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5. Pledges Receivable, Net – Continued

Unconditional pledges receivable consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
United Way of Metropolitan Atlanta	\$ 33,300	\$ 36,006
Capital Campaign	215,898	47,667
	<u>249,198</u>	<u>83,673</u>
Less: allowance for uncollectible accounts	(20,917)	(9,229)
Net unconditional promises to give	<u>\$ 228,281</u>	<u>\$ 74,444</u>

6. Property and Equipment in Service, Net

Components of property and equipment in service consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Land	\$ 447,550	\$ 110,050
Residential rental property and improvements	8,192,147	1,331,090
Property to be refurbished and expanded	-	1,117,969
Furniture and equipment	822,610	318,171
Vehicles	219,240	281,528
	<u>9,681,547</u>	<u>3,158,808</u>
Total property and equipment at cost		
Less accumulated depreciation	(1,587,119)	(1,273,217)
Property and equipment, net	<u>8,094,428</u>	<u>1,885,591</u>
Construction in progress - The Saftey Net Project	767,924	5,240,933
	<u>8,862,352</u>	<u>7,126,524</u>
Total property and equipment		

The Organization's property and equipment, excluding land values, has been insured for approximately \$2,291,150. For the years ended December 31, 2010 and 2009, depreciation expense for all properties was \$390,920 and \$134,289, respectively.

CHRIS KIDS GROUP
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7. Property and Equipment Not Used In Operations, Net

In response to the requests from the Georgia Department of Human Resources in 2002 to open three new group homes, CHRIS Kids Group put a plan in place to meet these requests.

Accordingly, two homes were purchased as was requested. Initially due to governmental priority changes as well as zoning and licensing delays and/or suspension, these properties were utilized as rental property until governmental priorities and direction became clear. During 2008, the state made a decision to reduce capacity and determined additional homes were not needed. Total rental income for 2010 and 2009 was \$18,550 and \$24,125, respectively and this is based on three rental properties in 2010 and two rental properties in 2009.

During 2007 pre-development planning work began on the apartment complex to get it ready for its intended use. It was planned that this specific property will be placed in service during 2009 and was moved to the property and equipment in service category - property to be refurbished and expanded during the year ended December 2007. Due to financing and permitting delays the property was placed in service in 2010.

Components of property and equipment not used in operations consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Land	\$ 159,836	\$ 125,000
Residential rental property and improvements	<u>405,738</u>	<u>251,459</u>
Total property and improvements not used in operations at cost	565,574	376,459
Less accumulated depreciation	<u>(62,880)</u>	<u>(31,432)</u>
Property and improvements not used in operations, net	<u>\$ 502,694</u>	<u>\$ 345,027</u>

CHRIS KIDS GROUP
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8. Property and Improvements Held for Sale, Net

For the year ended December 31, 2009, CHRIS Kids Group listed two homes for sale. Rezoning for these homes was not pursued and the homes were listed due to the state's decision to reduce capacity. During 2010, a group home closed in 2009 was listed for sale and was rented to a third party. Therefore, this home has been moved to the property not used in operations category. Components of property held for sale operations consist of the following at December 31:

	2010	2009
Land	\$ 19,295	\$ 54,131
Residential rental property and improvements	120,006	274,286
Total property and improvements held for sale at cost	139,301	328,417
Less accumulated depreciation	(47,806)	(63,496)
Property and improvements held for sale, net	\$ 91,495	\$ 264,921

9. Operating Lease Commitments

CHRIS Kids Group leases office equipment under an arrangement that qualifies as a non-cancelable operating lease. In addition, CHRIS Kids Group has a long-term lease for administrative office space that extends through July 2011 with an initial base rent of \$14,275 per month and gradually increases to \$18,403 per month. The annual minimum lease payments for all these leases are as follows:

<u>Year ended December 31,</u>	
2011	\$ 180,345
2012	39,819
2013	32,733
2014	3,462
	\$ 256,359

Total rental and lease expense for all leases for the years ended December 31, 2010 and 2009, including several month-to-month leases, was \$286,198 and \$318,204, respectively.

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10. Notes Payable

A summary of debt is as follows at December 31:

	<u>2010</u>	<u>2009</u>
Bank debt:		
CHRIS Homes Properties, Inc's notes payable:		
5.1% fixed rate term note, due in monthly installments of \$5,484, including principal and interest through September 20,2015; collateralized by all assets held by CHRIS Homes Properties, Inc.	\$ 818,030	\$ -
Variable rate note based on LIBOR plus 3.5%, due in monthly fixed principal installments of \$6,555, plus interest, through June 30, 2009; At December 31, 2009 and 2008, the interest rate was 3.731% and 3.961%, respectively, and is collateralized by all assets held by CHRIS Homes Properties, Inc.	-	504,115
Variable rate real estate note based on prime rate, due in monthly fixed principal installments of \$2,778, plus interest, through September 30, 2009; At December 31, 2009, the interest rate was 3.25%; collateralized by five homes and related improvements	-	264,329
6.5% fixed rate real estate note, due in monthly installments of \$1,078, including principal and interest through September 3, 2009; collateralized by one home that is available for sale	-	94,567
Total bank debt	<u>818,030</u>	<u>863,011</u>
Other debt:		
CHRIS Properties Graham Circle's notes payable:		
Due to Georgia Department of Community Affairs for Home Investment Partnership Program	3,800,000	2,381,592
Due to City of Atlanta for Home Investment Partnership Program	1,400,000	1,400,000
Due to Federal Home Loan Bank of Atlanta for Affordable Housing Program	<u>315,000</u>	<u>315,000</u>
Total notes payable	<u>\$ 6,333,030</u>	<u>\$ 4,959,603</u>

CHRIS KIDS GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS
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10. Notes Payable - Continued

Bank Debt

All three bank notes from the prior year matured in September 2009 and were not renewed by the bank as of December 31, 2009. Management was informed by the bank that they needed to seek new financing as a result of the bank merging with a larger bank. During 2010 regular payments of principal and interest were made as though the loan was in effect as described above. In September 2010, the Organization negotiated with another bank to refinance these three notes into one fixed rate note.

During 2009, the Organization entered into a new loan agreement with the Georgia Department of Community Affairs, Georgia Housing and Finance Authority unit (DCA). The principal sum is \$3,800,000, with no interest charged on the outstanding principal balance from the date of each advance. This was converted to a permanent loan at substantial completion in April 2010. The collateral on this loan is the real property, additions, fixtures, personal property and rental assets. The loan will mature on April 1, 2031, payable over 240 months after the conversion date. The scheduled payments will pay down approximately \$760,000 of the loan and the balloon amount of approximately \$3,040,000 will be forgiven as long as the project is in compliance with the home rental term compliance requirements. At December 31, 2010 and 2009, \$3,800,000 and \$2,381,592, respectively, was due to DCA on this loan.

In addition during 2009, the Organization received a loan (grant) from the City of Atlanta. The principal sum at December 31, 2010 and 2009 is \$1,400,000. The funds are dedicated to the project as a grant with no interest paid on the outstanding principal balance as long as the Organization provides services to the planned population for the next ten years. Therefore, no payment will be made unless the project is not in compliance with the compliance requirements for providing housing to this population. The collateral on this loan is the real property associated with the project. The City of Atlanta's security deed is subordinate to the DCA's.

Finally, during 2009, the Organization entered into a new loan with the Federal Home Loan Bank of Atlanta. The principal sum at December 31, 2010 and 2009 is \$315,000 under the Affordable Housing Program. The funds are dedicated to the project as a grant, with no interest charged on the outstanding principal balance. Therefore, no payment will be made as long as the project is in compliance with the requirements of the affordable housing program agreement and application for the next 15 years.

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 NOTES TO COMBINED FINANCIAL STATEMENTS
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10. Notes Payable - Continued

Aggregate principal maturities of debt subsequent to December 31, 2010 are as follows:

Year ending December 31,	
2011	\$ 101,398
2012	118,515
2013	117,439
2014	116,278
2015	604,038
Thereafter, of which approximately \$4,755,000 is potentially forgivable	5,275,362
	\$ 6,333,030

11. Commitments and Contingencies

Certain grants and contracts often require the fulfillment of certain conditions as set forth in the instrument or agreement. Failure to fulfill the conditions could result in the return of funds to the grantors. Although the return of funds is a possibility, management of CHRIS Kids Group deems the contingency unlikely. The grants and contracts are subject to audit by the grantor, or in the case of federal funds, the federal government. They have the authority to determine liabilities or limit or suspend participation in the various sponsored programs.

Additionally, the Organization signed a contract during December 2010 with CC Design for furniture, fixtures and equipment for the Counseling and Education Building that is currently under construction. Half of the \$385,232 contract was paid in 2010, with the remaining balance of \$192,616 to be paid upon completion of construction in June 2011.

During 2009 and 2010, problems in the United States and global credit markets related initially to subprime mortgages, mortgage-backed securities and commercial paper have resulted in illiquidity in the trade of these investments and in credit markets in general. As a result of several high-profile investment and commercial bank failures, these problems have affected the broader U.S. and global equity markets, as well as consumer confidence. The current impact on CHRIS Kids Group of these problems has been the inability of prospective buyers of the homes not used in operations and listed for sale to obtain financing required to purchase a new home. It is uncertain how this downturn and its effect on consumer confidence may affect the operations and levels of grant funding and fee for service payment from State of Georgia agencies for nonprofit organizations in the near future.

CHRIS KIDS GROUP
 NOTES TO COMBINED FINANCIAL STATEMENTS
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12. Retirement Plan

CHRIS Kids Group has a tax-deferred annuity program for its employees. Under the plan, CHRIS Kids Group matches 50 percent of a qualifying employee's contribution to the plan up to six percent of employee's salary. CHRIS Kids Group suspended its match for the majority of 2009. The total employer contributions to the plan during 2010 and 2009 were \$15,353 and \$3,373, respectively.

13. Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of funds the Organization has received subject to donor-imposed restrictions consisting of the following at December 31:

	2010	2009
United Way of Metropolitan Atlanta	\$ 33,300	\$ 36,006
Capital improvements	2,316,460	1,342,857
Total temporarily restricted net assets	\$ 2,349,760	\$ 1,378,863

14. Net Assets Released from Restrictions

Temporarily restricted net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	2010	2009
United Way	\$ 69,305	\$ 76,877
Pledges restricted for community programs:		
Capital campaign:	767,856	106,311
Home improvements	221,737	20,000
Net assets released from restrictions	\$ 1,058,898	\$ 203,188