BKD LLP
CPAs & Advisors
201 N. Illinois Street, Suite 700 // P.O. Box 44998 // Indianapolis, IN 46244-0998
317.383.4000 // fax 317.383.4200 // bkd.com

Board of Directors; Finance, Audit and Compensation Committee and Management
Christel House International, Inc. and Affiliates
Indianapolis, Indiana

As part of our audit of the combined and consolidated financial statements of Christel House International, Inc. (CHI) and Affiliates (collectively known as "Christel House") as of and for the year ended December 31, 2015, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the combined and consolidated financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

Christel House's significant accounting policies are described in Note 1 of the combined and consolidated audited financial statements.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- The fair value of investments
- The estimated useful lives of property and equipment and rental property
- The allocation of functional expenses

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Fair value disclosures
- Principles of combination and consolidation
- Related parties
- Subsequent events

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the combined and consolidated financial statements from being materially misstated. We did not propose any adjustments as a result of our audit.

Auditor's Judgments About the Quality of the Entity's Accounting Principles

During the course of the audit, we made the following observations regarding Christel House's application of accounting principles:

- No matters are reportable

Other Material Written Communications

The only other material written communications between management and us related to the audit is the management representation letter, a copy of which is attached.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the combined and consolidated financial statements of Christel House as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered Christel House's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined and consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Christel House's internal control. Accordingly, we do not express an opinion on the effectiveness of Christel House's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of Christel House's combined and consolidated financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Christel House's combined and consolidated financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. Material weaknesses may exist that have not been identified.

FUTURE ACCOUNTING CONSIDERATIONS

FASB Proposes Significant Changes to NFP Financial Reporting

In April 2015, the Financial Accounting Standards Board (FASB) proposed significant changes to not-for-profit financial reporting by issuing proposed Accounting Standards Update (ASU), *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities*. The objective of this project is to re-examine existing standards for financial statement presentation by not-for-profit (NFP) entities, with a focus on improving net asset classification requirements and information provided in financial statements and notes about liquidity, financial performance and cash flows. The comment period ended in August 2015. Since then, FASB has conducted outreach roundtable sessions, summarized the feedback and developed a two-phased redeliberation plan.

The first phase of redeliberations is expected to be completed in 2016. Resolutions made by the board during the first phase, thus far, include the following:

- Combining temporarily and permanently restricted net assets into one category called net assets with donor restrictions and renaming unrestricted net assets to net assets without donor restrictions.
- Disclosing amounts and purposes of board-designated net assets either on the face of the financial statements or in the notes.
- Classifying the underwater portions of donor endowments in net assets with donor restrictions rather than the current unrestricted category. In addition, several new disclosures for underwater endowments have been added.
- Requiring the placed-in-service approach and eliminating the over-time approach for expirations of restrictions to acquire or construct long-lived assets.
- Not requiring use of the direct method of presenting operating cash flows.
- Requiring presentation of all expenses by both functional and natural classification in one location in the financial statements or footnotes.

The effective date of the first phase is expected to be January 1, 2018, and interim periods thereafter with early adoption permitted. Entities will be required to apply the guidance retrospectively for all periods presented.

The second workstream includes redeliberation of other proposed changes that involve consideration of alternatives suggested by stakeholders the board did not previously consider or are related to similar issues being addressed in other projects. FASB has not posted an estimated completion date for the second workstream, which includes:

- Statement of cash flows - realignment of certain line items
- Operating measures - all other elements of the proposal

FASB Issues New Lease Accounting Standard

On February 25, 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842),* the long-awaited new standard on lease accounting.

Under the new ASU, lessees will recognize lease assets and liabilities on their balance sheet for all leases with terms of more than 12 months. The new lessee accounting model retains two types of leases, and is consistent with the lessee accounting model under existing GAAP. One type of lease (finance leases) will be accounted for in substantially the same manner as capital leases are accounted for today. The other type of lease (operating leases) will be accounted for (both in the income statement and statement of cash flows) in a manner consistent with today's operating leases. Lessor accounting under the new standard is fundamentally consistent with existing GAAP.

Lessees and lessors would be required to provide additional qualitative and quantitative disclosures to help financial statement users assess the amount, timing, and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an organization's leasing activities.

For public business entities, the final leases standard will be effective for fiscal years beginning after December 15, 2018 including interim periods within those fiscal years. For all other entities, the final leases standard will be effective for fiscal years beginning after December 15, 2019 and interim periods thereafter. Early application is permitted.

ASU 2015-07*, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*

U.S. generally accepted accounting principles (U.S. GAAP) allows a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value (NAV) per share (or its equivalent). These investments are currently required to be categorized in the fair value hierarchy as Level 2 or Level 3, depending on if and when the investment is redeemable. For investments redeemable at a future date, classification within the fair value hierarchy is based on interpretation of the length of time, resulting in diversity in practice.

To address the diversity of classification based on judgment, Accounting Standards Update (ASU) 2015-07 eliminates the requirement that investments valued using the NAV practical expedient be categorized as Level 2 or 3 within the fair value hierarchy. However, these investments will still need to be included in the description and total fair value columns of the table so the basic financial statements and the table reconcile. The amendments also remove the requirement to make certain disclosures for all investments eligible to be measured at fair value using the NAV practical expedient. Instead, only investments that are measured at fair value using the NAV practical expedient are required to make the disclosures.

The guidance in ASU 2015-07 applies to all entities, including employee benefit plans that elect to measure the fair value of an investment using the NAV practical expedient.

The ASU is effective for public business entities for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early application is permitted. The amendments should be applied retrospectively. The investments for which fair value is measured using the NAV practical expedient should be removed from the Level 2 or 3 categorization within the fair value hierarchy for all periods presented in the financial statements.

This communication is intended solely for the information and use of management; the Board of Directors; the Audit, Finance and Compensation Committee and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

September 8, 2016

Christel House®
International

Transforming Lives

September 8, 2016

BKD, LLP
Certified Public Accountants
201 North Illinois Street, Suite 700
Indianapolis, IN 46204

We are providing this letter in connection with your audits of our combined and consolidated financial statements as of and for the years ended December 31, 2015 and 2014. We confirm that we are responsible for the fair presentation of the combined and consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated November 24, 2015, for the preparation and fair presentation of the combined and consolidated financial statements in accordance with accounting principles generally accepted in the United States of America.

2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of combined and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

4. We have provided you with:

   (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the combined and consolidated financial statements such as records, documentation and other matters.

Suite 1990 | 10 West Market Street | Indianapolis, IN 46204-2973 USA
Tel: 317.464.2030 | Fax: 317.464.2039
www.christelhouse.org

(b) Additional information that you have requested from us for the purpose of the audit.

(c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

(d) All minutes of directors' meetings held through the date of this letter.

(e) All significant contracts and grants.

5. All transactions have been recorded in the accounting records and are reflected in the combined and consolidated financial statements.

6. We have informed you of all current risks of a material amount that are not adequately prevented or detected by Organization procedures with respect to:

(a) Misappropriation of assets.

(b) Misrepresented or misstated assets, liabilities or net assets.

7. We understand the potential penalties for failure to disclose reportable tax transactions to the taxing authorities and have fully disclosed to BKD any and all known reportable tax transactions.

8. We have no knowledge of any known or suspected:

(a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.

(b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the combined and consolidated financial statements.

9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, customers, regulators, suppliers or others.

10. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term <u>related party</u> refers to an affiliate; management, and members of their immediate families, subsidiaries accounted for by the equity method; and any other party with which the Organization may deal if the Organization can significantly influence, or be influenced by, the management or operating policies of the other. The term <u>affiliate</u> refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the Organization.

11. Except as reflected in the combined and consolidated financial statements, there are no:

    (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.

    (b) Material transactions omitted or improperly recorded in the financial records.

    (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.

    (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the combined and consolidated financial statements.

    (e) Agreements to purchase assets previously sold.

    (f) Restrictions on cash balances or compensating balance agreements.

    (g) Guarantees, whether written or oral, under which the Organization is contingently liable.

12. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing combined and consolidated financial statements.

13. We have no reason to believe the Organization owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.

14. We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the financial statements. We have not sought or received attorney's services related to pending or threatened litigation or claims during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought.

15. Adequate provisions and allowances have been accrued for any material losses from:

    (a) Uncollectible receivables, including pledges.

    (b) Purchase commitments in excess of normal requirements or above prevailing market prices.

16. Except as disclosed in the combined and consolidated financial statements, the Organization has:

    (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.

    (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the combined and consolidated financial statements.

17. The combined and consolidated financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

18. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the combined and consolidated financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.

19. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.

20. With respect to any nonattest services you have provided us during the year:

    (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.

    (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.

    (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.

    (d) We have evaluated the adequacy of the services performed and any findings that resulted.

21. We are an organization exempt from income tax under Section 501(c) of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the combined and consolidated financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.

22. We have identified to you any activities conducted having both fund raising and program or management and general components (joint activities) and have allocated the costs of any joint activities in accordance with the provisions of FASB ASC 958-720-45.

23. With regard to supplementary information:

    (a) We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.

    (b) We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.

    (c) The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period.

    (d) We believe the significant assumptions or interpretations underlying the measurement and/or presentation of the supplementary information are reasonable and appropriate.

    (e) If the supplementary information is not presented with the audited financial combined and consolidated statements, we acknowledge we will make the audited combined and consolidated financial statements readily available to intended users of the supplementary information no later than the date such information and the related auditor's report are issued.

24. We agree with the classification and release of net assets as reflected in the combined and consolidated financial statements. In particular, the temporarily restricted net assets provided by the Founder the future operations are restricted by time and purpose, and are fairly stated. On an annual basis, net assets used in operations are released to cover management and general expenses, fundraising expenses, and any shortfall between outside contributions received and program services expenses. The total amount of the Founder's contributions released in 2015 for operations was $7,167,569 and the ending balance of the Founder's temporarily restricted contributions for operations is $28,462,514.

Christel DeHaan, President and Founder

Joe Schneider, Senior Vice President and
Chief Financial Officer

Becky Hawkins, Accounting Manager