

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, 2017, 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 combined and consolidated financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the combined and consolidated 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 audited combined and consolidated 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

Combined and Consolidated 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 disclosure
- Principles of combination and consolidation
- Related parties

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 the Christel House's application of accounting principles:

- No matters are reportable

Other Material Written Communications

The only other material written communication 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, 2017, 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 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 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 Releases NFP Accounting Standard for Financial Reporting (December 31, 2018)

Accounting Standards Update (ASU) 2016-14 changes requirements for financial statements and notes of all not-for-profit (NFP) entities and is effective for fiscal years beginning after December 15, 2017 (Christel House's December 31, 2018 financial statements). Early adoption is permitted and should be applied on a retrospective basis; however, NFP's have the option in the year adopted to omit certain disclosures shown in comparative financials.

A summary of the changes by financial statement area is as follows:

Statement of financial position:

- The NFP statement of financial position will distinguish between two new classes of net assets — those with donor-imposed restrictions and those without. The ASU retains the current requirements to provide information on the nature and amount of different types of donor restrictions in the notes to the financial statements.
- Underwater donor-restricted endowment funds are to be shown within the donor-restricted fund class. This is a change from the previously required classification as unrestricted.

Statement of activities:

- The standard requires NFPs to report expenses by both nature and function, either on the face of the statement of activities, as a separate statement or within the notes.
- NFPs are required to use the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset, in the absence of explicit donor stipulations. This eliminates the option to release the donor-imposed restriction over the estimated useful life of the acquired asset.
- Investment income will be shown net of external and direct internal investment expenses. There is no longer a requirement to include a disclosure of those netted expenses.

Statement of cash flows:

- A NFP can continue to choose to use either the indirect or direct method of reporting to present operating cash flows. If the direct method is used, there is no longer a requirement to present or disclose cash flows using the indirect (reconciliation) method.

Notes to the financial statements:

- FASB requires enhanced quantitative and qualitative disclosures to provide additional information useful in assessing liquidity and cash flows, including a description of the time horizon used to manage its liquidity and near-term availability and demands for cash as of the reporting date.
- Provide disclosures on amounts and purposes of governing board or self-imposed designations and appropriations as of the end of the period.

For many NFPs, adoption of the ASU will result in significant changes to financial reporting and disclosures which likely will require significant hours to implement correctly. Management should examine its current reporting system to identify what changes are necessary to comply with the new standard for both its internal and external reporting requirements. Based on your financial statement reporting changes, BKD will need to spend additional time in formatting these changes within our audit reporting system if you outsource your annual report and disclosure preparation to BKD. We will be available to assist converting Christel House's combined and consolidated financial statements to the new model and preparing the new disclosures. This standard will also more than likely result in the need for further consultative advice during implementation and such advice may lead to additional hours on the part of BKD.

FASB Issues New Revenue Recognition Standard (December 31, 2019)

The model for revenue recognition is changing with FASB's release on May 28, 2014, of ASU 2014-09, *Revenue from Contracts with Customers* (the ASU). Since 2008, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have been working jointly on developing a single principles-based model for recognizing revenue. The goal of the final standard is to improve consistency of requirements, comparability of revenue recognition practices and usefulness of disclosures.

The ASU applies to all contracts with customers, other than those within the scope of other standards, such as leases, insurance, financing arrangements, financial instruments and guarantees (other than product or service warranties). The ASU does not apply to other parties to a contract who are not customers.

The core principle of the new model is that an entity would recognize revenue as it transfers goods or services to customers in an amount that reflects the consideration it expects to receive. In order to achieve that core principle, an entity would apply a five-step model.

The five-step application is as follows:

- Step 1: Identify the contract with a customer
- Step 2: Identify the separate performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the separate performance obligations in the contract
- Step 5: Recognize revenue when (or as) performance obligations are satisfied

Outlined below are the significant changes to expect from the new revenue recognition standard.

Under the Current Guidance

1. There are several requirements for recognizing revenue, including many that are industry-specific.
2. Most companies provide little disclosure information about revenue contracts; disclosures usually relate to accounting policies and segment reporting.
3. Some goods or services promised to a customer in a contract might represent separate obligations to the customer but could be determined to not be distinct revenue generating transactions.
4. In a multiple deliverable arrangement, the amount of consideration allocated to a delivered item is limited to the amount that is not contingent on the future delivery of goods or services.
5. Accounting for variable consideration varies from industry to industry.

Under the New Guidance

1. There will be consistent principles, regardless of industry, for recognizing revenue.
2. There is now a cohesive set of disclosure requirements. These disclosures will provide users of the financial statements with quantitative and qualitative information regarding revenue recognition policies and how they are applied.
3. Organizations will need to go through the five-step process outlined above.
4. Organizations will determine the transaction price. The transaction price will then be allocated to each performance obligation, except when a discount or some sort of variable consideration can be attributed entirely to one or more performance obligations in the contract.
5. Variable consideration will be included in the transaction price as long as it is deemed probable that a significant reversal of revenue will not occur. The new model includes consideration for various types of variable consideration, such as rebates, discounts, bonuses or a right of return.

Entities can apply the new standard using either the full retrospective method—including the optional application of certain practical expedients—or use an alternative transition method. The alternative transition method requires an entity to apply the new guidance only to contracts in process under legacy U.S. generally accepted accounting principles (GAAP) at the date of initial application and recognize the cumulative effect of adoption as an adjustment to the opening balance of net assets in the year of initial application. An entity choosing to apply the alternative transition method would not restate comparative years, but it would be required to provide additional disclosures in the initial year of adoption.

For public business entities, not-for-profit entities that have issued, or is a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market, and employee benefit plans that file financial statements within the U.S. Securities and Exchange Commission, the standard will be effective for annual reporting periods beginning on or after December 15, 2017. For all other entities, the standard will be effective for annual reporting periods beginning on or after December 15, 2018 (Christel House’s December 31, 2019 financial statements). Early application is permitted only as of annual reporting periods beginning after December 15, 2016.

Effective implementation of this standard will require:

- Evaluating current controls and policies for revenue recognition and recommended enhancements needed to implement the ASU
- Evaluating and documenting new and revised controls and policies for recognition of revenues under the ASU
- Evaluating current method for calculating and recognizing revenues
- Reviewing and documenting any changes from the previous method needed to implement the ASU
- Reviewing and calculating the retrospective or modified-retrospective effect of adoption of the ASU
- Drafting of the required disclosures

Statement of Cash Flows Changes (December 31, 2019)

The FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires balances generally described as restricted cash or restricted cash equivalents (hereinafter referred to as “restricted cash”) to be included with other cash and cash equivalent balances when reconciling beginning and end of the period balances on the statement of cash flows (SCF). Put simply, this ASU sets the standard that cash is cash, regardless of whether it is unrestricted or restricted. As such, the SCF should explain the changes in the combined total of unrestricted and restricted cash and cash equivalent balances, regardless of their classification on the statement of financial position. This may be a significant change for some organizations that hold uninvested cash in their investment portfolio. In such situations, the cash balances included in investments or assets limited as to use on the statement of financial position will not change. However, these balances should be combined with other unrestricted cash balances and shown together on the SCF. Bond reserve funds also often include cash and cash equivalents. This ASU does not provide a definition for restricted cash or restricted cash equivalents and has no impact on the classification of cash or cash equivalents on the statement of financial position.

The amendments of this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019 (Christel House's December 31, 2019 financial statements). Early adoption is permitted, including adoption in an interim period. The amendment should be applied using a retrospective transition method for all periods presented.

FASB Issues Guidance on Accounting for Contributions (December 31, 2019)

The Financial Accounting Standards Board clarified guidance on determining whether a transaction with a resource provider, e.g., the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The new guidance requires all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional.

If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, *Revenue from Contracts with Customers*, or other topics. The guidance clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, i.e., the transaction is nonexchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional.

FASB expects that the improved guidance will result in more grants and contracts being accounted for as contributions (often conditional contributions) than under former guidance. Because of this, it believes the clarifying guidance about whether a contribution is conditional or unconditional, which affects the timing of revenue recognition, is important. Both the recipient and resource provider would equally apply the guidance.

The standard is effective for periods beginning after June 15, 2018 for public companies or a not-for-profit organization that has issued, or is a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market; effective for calendar year 2019 for all other entities. Resource providers will have an additional year to implement requirements. Early adoption would be permitted irrespective of early adoption of Topic 606.

Changes to the Method of Accounting for Leases Under U.S. Generally Accepted Accounting Principles (GAAP) (December 31, 2020)

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 statement of financial position 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 combined and consolidated financial statements so that users can understand more about the nature of Christel House's leasing activities.

For public business entities, the final lease 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 (Christel House's December 31, 2020 financial statements). Early application is permitted.

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

October 10, 2018