

Board of Directors, Finance and Audit 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, 2020, 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***

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

- Accounting for Paycheck Protection Program loan

## ***Management Judgments and Accounting Estimates***

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

- Fair value of investments
- Estimated useful lives of property and equipment and rental property
- 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. A misstatement is a difference between the amount, classification, presentation or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework. 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 Written Material Communications**

The only other material 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, 2020, 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 audit 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 on a timely basis.

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 material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **FUTURE ACCOUNTING CONSIDERATIONS**

### **Lease Accounting Standard**

FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, the long-awaited standard on lease accounting. The FASB has issued various ASUs since that date related to Topic 842 as well seeking to clarify guidance and provide more transition relief in certain areas.

Under the 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 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.

### Effective Dates

- 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 final leases standard will be effective\* for fiscal years beginning after December 15, 2018 including interim periods within those fiscal years.

\* Upon the issuance of ASU 2020-05 on June 3, 2020, public not-for-profit organizations that have not yet issued (or made available to issue) financial statements reflecting the adoption of the leases guidance are required to apply the standard for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

- Upon the issuance of ASU 2020-05 on June 3, 2020, all other entities are currently required to adopt Topic 842 for fiscal years beginning after December 15, 2021, and for interim periods within fiscal years beginning after December 15, 2022. Early application is permitted.

## Implementation

The approved delay by FASB of the effective date of the new leases standard (ASC 842) by one year for private companies and non-profit organizations is welcome relief.

However, there are certain lease implementation items to get moving on sooner rather than later:

1. Educate yourself and key stakeholders about ASC 842
  - a. Check out [www.bkd.com](http://www.bkd.com) for BKD Thoughtware resources, including articles and webinars related to the new standard and the related implementation efforts
2. Early Decision Points:
  - a. Transition method
  - b. Practical expedients and accounting policy elections
3. Accumulate the population of potential leases
4. Communicate with lenders – expected impact of ASC 842 on existing debt covenants?
5. Systems analysis – Do you need lease software? If so, vendor selection takes time
6. Start developing the processes and controls necessary for effective implementation of the ASC 842 as well as the ongoing accounting requirements

### **ASU 2020-07, Topic 958: *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets***

On September 17, 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, Topic 958: *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* to increase the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. The standard requires contributed nonfinancial assets to be presented on a separate line item in the statement of activities, segregated apart from contributions of cash and other financial assets. Additionally, disclosure requirements have been amended to require a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets, as well as specific disclosure requirements for each category recognized. The amendments in this Update should be applied on a retrospective basis and are effective for annual periods beginning after June 15, 2021. Early adoption is permitted.

This communication is intended solely for the information and use of management, the Board of Directors, the Finance and Audit 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 16, 2021

*Representation of:*

Christel House International, Inc.  
10 West Market Street, Suite 1990  
Indianapolis, Indiana

*Provided to:*

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

The undersigned (“We”) are providing this letter in connection with BKD’s audits of our combined and consolidated financial statements as of and for the years ended December 31, 2020 and 2019.

Our representations are current and effective as of the date of BKD’s report: September 16, 2021.

Our engagement with BKD is based on our contract for services dated: November 18, 2020.

**Our Responsibility and Consideration of Material Matters**

We confirm that we are responsible for the fair presentation of the combined and consolidated financial statements subject to BKD’s report 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.

**Confirmation of Matters Specific to the Subject Matter of BKD’s Report**

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 contract, 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:
  - a. Internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
  - b. Internal control to prevent and detect fraud.

3. We have reviewed and approved a draft of the combined and consolidated financial statements and related notes referred to above, which you prepared in connection with your audit of our combined and consolidated financial statements. We acknowledge that we are responsible for the fair presentation of the combined and consolidated financial statements and related notes.
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.
  - 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 or summaries of actions of recent meetings for which minutes have not yet been prepared. All unsigned copies of minutes provided to you are copies of our original minutes approved by the governing body, if applicable, and maintained as part of our records.
  - 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 our 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 fraudulent financial reporting or misappropriation of assets involving:
  - a. Management or employees who have significant roles in internal control, or
  - b. Others, where activities of others 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 entity received in communications from employees, customers, regulators, suppliers, or others.
10. We have assessed the risk that the combined and consolidated financial statements may be materially misstated as a result of fraud and disclosed to you any such risk identified.

11. 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 related party 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 entity may deal if the entity can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the entity.

12. 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 statement of financial position 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 entity is contingently liable.
13. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
14. We have no reason to believe the entity 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.
15. We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the combined and consolidated 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.
16. 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.

17. Except as disclosed in the combined and consolidated financial statements, the entity 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.
18. 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 that 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 that 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.
19. 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.
20. 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.
21. With respect to any nonattest services you have provided us during the year, including typing and formatting the combined and consolidated financial statements:
  - 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 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.
22. We have notified you of any instances of noncompliance with applicable disclosure requirements of the SEC Rule 15c2-12 and applicable state laws.
23. 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.



24. 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.
25. We acknowledge the entity is not a conduit debt obligor whose debt securities are listed, quoted, or traded on an exchange or an over-the-counter market. As a result, we acknowledge the entity does not meet the definition of a “public entity” under generally accepted accounting principles for certain accounting standards.
26. 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 combined and consolidated financial 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.
27. We have evaluated whether there are conditions or events known or reasonably knowable, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year of the date of this letter without consideration of potential mitigating effects of management’s plans not yet fully implemented and concluded substantial doubt does not exist.
28. We acknowledge the current economic volatility presents difficult circumstances and challenges for the not-for-profit organizations. Not-for-profit organizations are potentially facing declines in the fair values of investments and other assets, declines in the contributions, constraints on liquidity, difficulty obtaining financing, etc. We understand the values of the assets and liabilities recorded in the combined and consolidated financial statements could change rapidly, resulting in material future adjustments to asset values, allowances for contributions receivable, etc., that could negatively impact the Organization’s ability to maintain sufficient liquidity.

We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the Organization’s combined and consolidated financial statements. Further, management and the Board are solely responsible for all aspects of managing the entity, including questioning the quality and valuation of investments and other assets, reviewing allowances for uncollectible amounts, evaluating capital needs and liquidity plans, etc.

29. With regards to our loan obtained under the “*first draw*” Paycheck Protection Program (created under the CARES Act of 2020 and extended under the *2021 Consolidated Appropriations Act*) (PPP-1 or First Draw), dated April 20, 2020, we represent the following:
- a. At the time of the loan application, the current economic uncertainty that existed made this loan request necessary to support the entity’s ongoing operations. In making this assessment, we considered the nature of our business activities at the time of the loan application and our ability to access other sources of liquidity that could have been sufficient to support ongoing operations.
  - b. The entity, when considered together with all its affiliates (using the affiliate determinations required by the PPP-1), had fewer than 500 employees at the date of the loan application.
    - i. In addition, we have determined the number of full-time equivalent employees on payroll (at the time of the application) in a manner that is consistent with the clarification guidance released by the Small Business Administration.
  - c. We have not received more than one loan under the First Draw Paycheck Protection Program. In addition, we have confirmed with our affiliated entities (using the affiliate determinations required by the PPP-1) that the total of any PPP loans received by us and by those affiliates under the First Draw program does not exceed \$20 million in the aggregate.
  - d. We have not used the proceeds from the PPP-1 loan for expenditures that were covered by other funding sources, *i.e.*, government grants or contracts.
  - e. With regards to our decision to recognize the loan proceeds as a grant that is expected to be forgiven, we are not aware of any information that would preclude the loan from being forgiven. In addition, we conclude that it is probable that any conditions attached to the assistance will be met and the assistance will be received. Once there is reasonable assurance that the conditions will be met, the earnings impact of the grant is recorded on a systematic basis over the period in which we recognized as expense, the related costs for which the grant is intended to compensate.
  - f. With regards to our decision to recognize the loan proceeds as a grant that is expected to be forgiven, we are not aware of any information that would preclude the loan from being forgiven. In addition, to the extent revenue has been recognized related to the loan, we have met the measurable barriers, *i.e.*, full-time equivalent and salary reduction requirements, and incurred eligible expenditures in accordance with PPP regulations.
  - g. The funds received under this loan have only been used:
    - i. To retain workers and maintain payroll;
    - ii. To make mortgage interest, lease, and utility payments;
    - iii. To pay for worker protection costs related to COVID-19;
    - iv. To pay for uninsured property damage costs caused by looting or vandalism during 2020; or
    - v. Certain supplier costs and operational expenses, as specifically allowed for under the Second Draw PPP loan.
  - h. We have not spent more than 40 percent of the loan amount for nonpayroll costs.

DocuSigned by:

*Bart Peterson*

9/16/2021

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Bart Peterson, President and Chief  
Executive Officer  
bpeterson@christelhouse.org

DocuSigned by:

*Joe Schneider*

9/20/2021

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Joe Schneider, Senior Vice President and  
Chief Financial Officer  
jschneider@christelhouse.org

DocuSigned by:

*Becky Hawkins*

9/16/2021

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Becky Hawkins, Vice President and  
Controller  
bhawkins@christelhouse.org