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Board of Directors 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, 2012, 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 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
- 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

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 proposed and management recorded one adjustment during the audit in relation to the accounting for a Christel House Dropout Recover School grant.

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

Listed below are 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, 2012, 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

OTHER MATTERS

We observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the combined and consolidated financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the combined and consolidated financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements.

Advance Funding to Affiliates

In order to take advantage of favorable exchange rates, CHI has advanced significant funding to affiliates over the past couple of years. An unfavorable change in the economic or governmental climate of these countries may lead to an adverse effect. We recommend drafting policies detailing conditions under which advance funding would be considered, factors to be considered during the decision making process and the documentation and approvals required to authorize transfers.

Management's Response: Management agrees with the recommendation of formalizing the advanced funding decision-making process. Such policy will be developed for consideration by the Board of Directors in connection with the August 2013 meeting.

Christel House Academy (CHA) and Christel House Dropout Recover School (DORS)

During 2012, certain grants were applied for by CHI and passed through to CHA and DORS. Other grants were awarded directly to these individual entities and, therefore, are not reflected as contributions on the books and records of CHI. As the activities of CHA and DORS continue to expand, we recommend establishing policies and procedures to ensure these financial transactions are properly recorded in accordance with generally accepted accounting principles. CHI should be sure to evaluate grant agreements with the criteria outlined in ASC 958 Topic 605 to ensure it is appropriate to reflect a contribution on CHI's records as opposed to a liability for agency funds to be transferred to a recipient organization.

Management's Response: During August 2013, CHI financial management will meet with BKD to thoroughly understand grant revenue recognition criteria and establish appropriate policies to strengthen the review of grant receipts ensuring proper recording under generally accepted accounting principles.

FUTURE ACCOUNTING CONSIDERATIONS

AICPA Audit and Accounting Guide Not-for-Profit Entities - Overhaul Project

The Financial Reporting Executive Committee, the Not-for-Profit Entities Expert Panel and the Not-for-Profit Guide Task Force have released a draft of a new comprehensive revised Audit and Accounting Guide *Not-for-Profit Entities*. Enhancements are being made to improve user understanding and minimize diversity in practice. Some of the more significant changes in the draft include:

- A greatly expanded chapter about reporting relationships with other entities, including relationships with not-for-profit and for-profit corporations, limited liability partnerships, general partnerships and financially interrelated entities.
- New sections about reporting and measuring noncash gifts, including gifts-in-kind; contributions of fundraising materials, informational materials, advertising and media time or space; below-market interest rate loans; and bargain purchases.
- A new chapter was added on program-related investments and microfinance loans.
- New guidance for reporting the expiration of donor-imposed restrictions.
- Expanded discussion about the legal and regulatory environment in which not-for-profit organizations operate.

Once revisions are made based on feedback provided during the comment period, a final guide will be issued.

Financial Accounting Foundation Private Company Council and Not-for-Profit Advisory Committee

In May 2012, the Financial Accounting Foundation (FAF) announced establishment of the Private Company Council (PCC), a new body tasked specifically to improve the process of setting U.S. generally accepted accounting principles (GAAP) for private companies, which currently includes not-for-profit organizations.

For private companies that produce GAAP-based financial statements, the PCC will determine whether exceptions and modifications to existing nongovernmental U.S. GAAP are required to address the needs of users of private company financial statements and will advise the Financial Accounting Standards Board (FASB) on whether and when to modify U.S. GAAP for private companies. The PCC will serve as the primary advisory body to FASB on the appropriate treatment for private companies for items under active consideration on FASB's technical agenda.

The PCC and FASB will agree on criteria for determining whether and when exceptions or modifications to U.S. GAAP are warranted for private companies. The PCC will develop, deliberate on and formally vote on proposed exceptions or modifications to U.S. GAAP and present them to FASB for endorsement. Differences in financial reporting between existing U.S. GAAP will be evaluated, particularly in areas of recognition and measurement, using the agreed-upon criteria. Assuming endorsement, FASB will issue an Accounting Standards Update (ASU), describing amendments to the Accounting Standards Codification (ASC), and the exceptions or modifications will be incorporated into U.S. GAAP.

In addition to the newly established PCC, the FASB Not-for-Profit Advisory Committee continues to meet to discuss matters specific to not-for-profit organizations. Discussion topics have included:

- Definition of a nonpublic entity
- Proposed liquidity risk disclosures
- Accounting for government assistance
- Financial reporting projects on other financial communications and financial statements

We will continue to keep Christel House apprised of these matters as discussions progress.

Management's written responses to the other matters identified in our audit have not been subjected to the auditing procedures applied in the audit of the combined and consolidated financial statements, and accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Board of Directors 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

August 19, 2013

Christel House®
International

Transforming Lives

August 19, 2013

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, 2012 and 2011. We confirm that we are responsible for the fair presentation of the 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 30, 2012, for the preparation and fair presentation of the 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 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 reviewed and approved a draft of the financial statements and related notes referred to above. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

5. 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.

   (e) All significant contracts and grants.

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

7. 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.

8. 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.

9. 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.

10. 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.

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 Organization may deal if the Organization 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 Organization.

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 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.

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

    (h) Guarantees, whether written or oral, under which the Organization 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 combined and consolidated financial statements.

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 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 combined and consolidated financial statements, we acknowledge we will make the audited 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 for 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 2012 and 2011 for operations was $3,569,107 and $9,525,025, respectively, and the ending balance of the Founder's temporarily restricted contributions for operations is $21,687,362 and $18,555,692, respectively.

Christel DeHaan, President and Founder

Joe Schneider, Senior Vice President and
Chief Financial Officer

Becky Hawkins, Accounting Manager