

DRAFT

[DATE]

**To the Board of Trustees
The Episcopal Church
in the Diocese of El Camino Real
Salinas, California**

We are pleased to present this report related to our audit of the consolidated financial statements of The Episcopal Church in the Diocese of El Camino Real (the Diocese) for the year ended December 31, 2019. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for The Episcopal Church in the Diocese of El Camino Real's financial reporting process.

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication with Those Charged with Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are, significant and relevant to your responsibility to oversee the financial reporting process.

Our Responsibilities with Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated December 9, 2019. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication dated December 9, 2019 regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Diocese. Following is a description of the significant accounting policies that were initially selected during the year.

In May 2014, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606)*. This new standard redefines revenue recognition around the instance of transfer of control, rather than the transfer of risks and rewards, and provides recognition guidance in instances of variable consideration, licenses and contract costs. The Diocese adopted this guidance on January 1, 2019 using the modified retrospective approach. Analysis of various provisions of this standard resulted in no significant changes in the way the Diocese recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

The Diocese has adopted Accounting Standards Update (ASU) No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* as management believes the standard improves the usefulness and understandability of the Diocese's financial reporting. The adoption of this standard resulted in no significant changes in the way the Diocese recognizes revenue.

Significant or Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Recent Accounting Pronouncements

On February 25, 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Non-public entities are required to adopt the standard for reporting periods beginning after December 15, 2020. All entities may elect to early-adopt. The core principle of the new leases standard is that lessees should recognize assets and liabilities arising from all leases, except for leases with a lease term of 12 months or less. The Diocese has no plan for early implementation of this Statement.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)*. The amendments in this Update modify the disclosure requirements on fair value measurements, including the removal of the requirement to disclose: 1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; 2) the policy for timing of transfers between levels; 3) the valuation processes for Level 3 fair value measurements; 4) for nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. In lieu of a rollforward for Level 3 fair value measurement, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Diocese has no plan for early implementation of this Statement.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates.

Audit Adjustments

Audit adjustments proposed by us and recorded by the Diocese are shown on the attached "Adjusting Journal Entries" and "Reclassification Journal Entries."

Uncorrected Misstatements

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Departure From the Auditor's Standard Report

A basis for qualified opinion paragraph was added to our report to emphasize the condition which led to the qualification of our opinion. As more fully described in Note 1 to the consolidated financial statements, the Diocese has not provided for the recognition of depreciation over the estimated useful lives of its buildings. Accounting principles generally accepted in the United States of America require recognition of depreciation over the estimated useful lives of buildings. The effects on the consolidated financial statements of the failure to recognize depreciation for its buildings have not been determined.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed with Management

We had numerous discussions and exchanges of e-mails during the audit process with Brian Nordwick, Administrator with regard to delays we experienced receiving timely and accurate documentation in order to complete the audit.

Significant Difficulties Encountered in Performing the Audit

During the audit we encountered significant delays in the receipt of requested audit documentation. Additionally, certain audit documentation was inaccurate and required revision resulting in additional delays. As a result, the completion of audit procedures and the overall audit was delayed and resulted in incremental audit fees.

Letter Communicating Significant Deficiencies and Material Weaknesses in Internal Control Over Financial Reporting

We have separately communicated any significant deficiencies, material weaknesses, or other identified deficiencies in internal control over financial reporting during our audit of the financial statements, in a letter dated [DATE].

Certain Written Communications Between Management and Our Firm

We have requested certain representations from management that are included in the management representation letter dated [DATE].

This report is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the Diocese.

Sincerely,

Hayashi Wayland

Attachments: Adjusting Journal Entries
 Reclassification Journal Entries

The Episcopal Church in the Diocese of I

AJE

Year End: December 31, 2019

Adjusting Journal Entries

Date: 1/1/2019 To 12/31/2019

Account No: AJE-01 To AJE-99

Number	Date	Name	Account No	Debit	Credit	Amount	Chg Net Income (Loss)
Net Income (Loss) Before Adjustments						498,937.00	
AJE-01	12/31/2019	Pledges Receivable	000000-12100 1	61,990.00			
AJE-01	12/31/2019	Discount on Pledges Receivable	000000-12101 1		963.00		
AJE-01	12/31/2019	Allowance on Pledges Receivable	000000-12102 1		1,240.00		
AJE-01	12/31/2019	Fair Share Receivables	000000-13100 1	30,116.00			
AJE-01	12/31/2019	Undesignated Net Assets	000000-35000 1		30,116.00		
AJE-01	12/31/2019	Undesignated Net Assets	000000-35000 1		59,787.00		
To establish the Fair Share and Bishop Appeals pledge balances at 12/31/18. CLIENT DOES NOT BOOK THIS ENTRY				92,106.00	92,106.00	0.00	498,937.00
AJE-02	12/31/2019	Pledges Receivable	000000-12100 1		51,000.00		
AJE-02	12/31/2019	Discount on Pledges Receivable	000000-12101 1	963.00			
AJE-02	12/31/2019	Allowance on Pledges Receivable	000000-12102 1		9,750.00		
AJE-02	12/31/2019	Fair Share Receivables	000000-13100 1	32,466.00			
AJE-02	12/31/2019	Fair Share Cash Basis Prev Year	000000-40010 1		32,466.00		
AJE-02	12/31/2019	Debts Forgiven	000000-87100 OAO	9,287.00			
AJE-02	12/31/2019	2017-2019 BA General – Contributor	58108T-41000 1	50,500.00			
To adjust the Fair Share and Bishops appeal receivables to actual at 12/31/2019. CLIENT DOES NOT BOOK THIS ENTRY.				93,216.00	93,216.00	(27,321.00)	471,616.00
AJE-03	12/31/2019	PayPal	000000-10551 1	4,510.00			
AJE-03	12/31/2019	Temp Restricted Net Asset Balance	000000-36200 1		4,650.00		
AJE-03	12/31/2019	Bank Service Fees	000000-62900 OAO	140.00			
AJE-03	12/31/2019	Bishop Discretionary - Restricted Ne	58000P-35200 1	600.00			
AJE-03	12/31/2019	Bishop Discretionary - Contributions	58000P-41000 1		600.00		
AJE-03	12/31/2019	2017-2019 BA General - Restricted N	58108P-35200 1	3,450.00			
AJE-03	12/31/2019	2017-2019 BA General - Contribution	58108P-41000 1		3,450.00		
AJE-03	12/31/2019	Intergeneration Minist - Restricted	58110P-35200 1	450.00			
AJE-03	12/31/2019	Intergeneration Minist - Contributio	58110P-41000 1		450.00		
AJE-03	12/31/2019	Leadership Innovation - Restricted N	58114P-35200 1	150.00			
AJE-03	12/31/2019	Leadership Innovation - Contribution	58114P-41000 1		150.00		
To record undeposited PayPal funds as of 12/31/19.				9,300.00	9,300.00	4,510.00	476,126.00
AJE-04	12/31/2019	Pledges Receivable	000000-12100 1	75,000.00			
AJE-04	12/31/2019	Pledges Receivable	000000-12100 1	600,000.00			
AJE-04	12/31/2019	Discount on Pledges Receivable	000000-12101 1		8,175.00		
AJE-04	12/31/2019	Discount on Pledges Receivable	000000-12101 1		65,396.00		
AJE-04	12/31/2019	2017-2019 BA General – Contributor	58108T-41000 1		66,826.00		
AJE-04	12/31/2019	Leadership Innovation-Contributions	58114T-41000 1		534,603.00		
To record Pitch Johnson 2020-2022 pledge receivable and discount for the Leadership and Innovation and Bishops Appeal campaigns.							

The Episcopal Church in the Diocese of I

AJE-1

Year End: December 31, 2019

Adjusting Journal Entries

Date: 1/1/2019 To 12/31/2019

Account No: AJE-01 To AJE-99

Number	Date	Name	Account No	Debit	Credit	Amount	Chg Net Income (Loss)
				675,000.00	675,000.00	601,429.00	1,077,555.00
AJE-05	12/31/2019	Accounts Payable	000000-20000 1		18,044.00		
AJE-05	12/31/2019	Domestic & Foreign Mission	000000-50000 MBTD	16,167.00			
AJE-05	12/31/2019	Hospitality & Entertainment	000000-62010 OAO	117.00			
AJE-05	12/31/2019	Telephone	000000-62510 OAO	438.00			
AJE-05	12/31/2019	Utilities	000000-62515 OAO	710.00			
AJE-05	12/31/2019	Office Supplies	000000-62700 OAO	268.00			
AJE-05	12/31/2019	N/O Hold - Legal Fees SF	000000-70020 OAO	344.00			
		To record accounts payable as of December 31, 2019		18,044.00	18,044.00	(18,044.00)	1,059,511.00
AJE-06	12/31/2019	Agape Meal Grant - Curator	000000-25600 1	4,000.00			
AJE-06	12/31/2019	Agape Meal Grant - Curator	000000-25600 1		3,073.00		
AJE-06	12/31/2019	Temp Restricted Net Asset Balance	000000-36200 1		927.00		
AJE-06	12/31/2019	N/O - Meals	000000-63000 MTTCC	3,073.00			
AJE-06	12/31/2019	Transfer from Temporary Acct	000000-96300 1		3,073.00		
AJE-06	12/31/2019	Agape Meal Fund - Resticted Net As	53000T-35200 1	927.00			
AJE-06	12/31/2019	Agape Meals Fund - Contributions	53000T-41000 1		4,000.00		
AJE-06	12/31/2019	Agape Meals Fund - Fund Release	53000T-96100 1	3,073.00			
		To reclass Agape Meal Grant out of liability account into revenue and expense.		11,073.00	11,073.00	927.00	1,060,438.00
AJE-07	12/31/2019	Temp Restricted Net Asset Balance	000000-36200 1	21,000.00			
AJE-07	12/31/2019	Transfer from Temporary Acct	000000-96300 1		21,000.00		
AJE-07	12/31/2019	Development – Temp Restricted Net	58113T-35200 1		21,000.00		
AJE-07	12/31/2019	Development – Fund Release	58113T-96100 1	21,000.00			
		To reverse improper transfer from designated account.		42,000.00	42,000.00	0.00	1,060,438.00
AJE-08	12/31/2019	Designated Net Asset Balance	000000-36100 1		25,420.00		
AJE-08	12/31/2019	Transfer from Holding Account	000000-96400 1	25,420.00			
AJE-08	12/31/2019	Bishop Transition Fund-Designated N	29014H-35100 1	25,420.00			
AJE-08	12/31/2019	Bishop Transition Fund-Fund Releas	29014H-96100 1		25,420.00		
		To reverse negative balance in Bishop Transition Fund.		50,840.00	50,840.00	0.00	1,060,438.00
AJE-09	12/31/2019	2017-2019 BA General – Temp Restr	58108T-35200 1		30,283.00		
AJE-09	12/31/2019	2017-2019 BA General – Fund Relea	58108T-96100 1	30,283.00			
AJE-09	12/31/2019	Mission Oppor Grants – Temp Restr	58109T-35200 1	2,525.00			
AJE-09	12/31/2019	Mission Oppor Grants – Fund Releas	58109T-96100 1		2,525.00		
AJE-09	12/31/2019	Intergeneration Minist – Temp Restr	58110T-35200 1	27,758.00			
AJE-09	12/31/2019	Intergeneration Minister – Fund Rele	58110T-96100 1		27,758.00		
		To correct negative balances in Bishop's Appeal Funds.		60,566.00	60,566.00	0.00	1,060,438.00

The Episcopal Church in the Diocese of I

AJE-2

Year End: December 31, 2019

Adjusting Journal Entries

Date: 1/1/2019 To 12/31/2019

Account No: AJE-01 To AJE-99

Number	Date	Name	Account No	Debit	Credit	Amount Chg Net Income (Loss)	
AJE-10	12/31/2019	Temp Restricted Net Asset Balance	000000-36200 1		16,478.00		
AJE-10	12/31/2019	Transfer from Temporary Acct	000000-96300 1	16,478.00			
AJE-10	12/31/2019	Development – Temp Restricted Net	58113T-35200 1	16,478.00			
AJE-10	12/31/2019	Development – Fund Release	58113T-96100 1		16,478.00		
		To correct over appropriation of Development Fund.		32,956.00	32,956.00	0.00	1,060,438.00
AJE-11	12/31/2019	N/O Temp - Capital Camp	000000-62250 MC	8,518.00			
AJE-11	12/31/2019	N/O Holding-Building R & M	000000-62502 OAO	2,608.00			
AJE-11	12/31/2019	N/O Temp-BA MOF Fund	000000-63005 MC	55,460.00			
AJE-11	12/31/2019	N/O Hold - Grants	000000-70101 MC	10,000.00			
AJE-11	12/31/2019	Transfer from Temporary Acct	000000-96300 1		63,978.00		
AJE-11	12/31/2019	Transfer from Holding Account	000000-96400 1		12,608.00		
		To record the operating side of transfers from designated and restricted funds.		76,586.00	76,586.00	(76,586.00)	983,852.00
AJE-12	12/31/2019	Undesignated Net Assets	000000-35000 1	224.00			
AJE-12	12/31/2019	Miscellaneous Income	000000-83000 1		224.00		
		To adjust the beginning net asset balance to the 12-21-18 audit balance.		224.00	224.00	224.00	984,076.00
AJE-13	12/31/2019	SSP Scholarship	000000-25010 1		600.00		
AJE-13	12/31/2019	Youth Mission Trip	000000-53022 EM	600.00			
		To reclass SSP Scholarships		600.00	600.00	(600.00)	983,476.00
				1,162,511.00	1,162,511.00	484,539.00	983,476.00

The Episcopal Church in the Diocese of I

RJE

Year End: December 31, 2019

Reclassification Journal Entries

Date: 1/1/2019 To 12/31/2019

Number	Date	Name	Account No	Debit	Credit	Amount	Chg Net Income (Loss)
Net Income (Loss) Before Adjustments						978,015.00	
RJE-01	12/31/2019	Bishop's Salary/Housing	000000-60000 STMM	40,000.00			
RJE-01	12/31/2019	N/O HOLD-Bishop Search SF	000000-70030 OAO		40,000.00		
		To reclassify new Bishop Ashby's salary from operating expenses to salary expense for financial statement presentation purposes.		40,000.00	40,000.00	0.00	978,015.00
RJE-02	12/31/2019	Designated Net Asset Balance	000000-36100 1	15,804.00			
RJE-02	12/31/2019	Designated Property-Designated Net	29003P-35100 1		15,804.00		
		To adjust designated property account for 2019 depreciation.		15,804.00	15,804.00	0.00	978,015.00
RJE-03	12/31/2019	Missions-Temp Restricted Net Asset	45100D-35200 1	10,000.00			
RJE-03	12/31/2019	Missions-Fund Release	45100D-96100 1		10,000.00		
RJE-03	12/31/2019	2017-2019 BA General – Temp Restri	58108T-35200 1		10,000.00		
RJE-03	12/31/2019	2017-2019 BA General – Fund Trans	58108T-96000 1	10,000.00			
		To adjust funds balances to actual for an entry that was not made from the 12-31-17 audit in regards to the painting purchased.		20,000.00	20,000.00	0.00	978,015.00
RJE-04	12/31/2019	Prepaid Expense	000000-14000 1	5,461.00			
RJE-04	12/31/2019	N/O Temp-BA Development	000000-63006 FUNDRAISING		5,461.00		
		To record a prepaid expense for 2020 DonorPerfect Online subscription service and training.		5,461.00	5,461.00	5,461.00	983,476.00
				81,265.00	81,265.00	5,461.00	983,476.00