

AGREED UPON PROCEDURES - ENGAGEMENT AGREEMENT WITH AUDITORS

The purpose of our engagement is to perform certain procedures for the year ended December 31, 2009, which were agreed to by the Diocesan Stewardship Department and the management of The Episcopal Church in Hawaii, solely to assist you with respect to the various Mission's financial management for the year ended December 31, 2009. The various Mission's are responsible for their financial management. This agreed-upon procedures engagement will be performed in accordance with attestation standards established by the American Institute of Certified Public Accountants.

AGREED UPON PROCEDURES

Based on our discussions with you, our procedures will include the following:

Collections and Other Cash Receipts

We will:

- Review the Church's procedures for controls over counting, depositing, and recording collections and other receipts, by performing the procedures below to test whether there are two unrelated counters who sign the count sheets, and that the count sheets are maintained by the counters and that a copy is made and reviewed by a third party who agrees the count sheet to the deposit slips on a monthly basis. In general, the counters should not have access to the accounting system. The collections should be kept in a fire-proof safe until deposited;
- Randomly select three Sundays and compare count sheets and related documentation to deposit slips, bank statements, and to the general ledger;
- Compare recording of individual donations for three individuals for each Sunday selected to individual donation records and year-end statements provided to donors;
- For the three months in which the selected Sundays fall, trace the posting of the entire month's offerings from the count sheets to the check register, to the general ledger, and to the financial statements;

Cash Disbursements

We will:

- Test a sample of 15 disbursements by vouching to supporting invoices and canceled checks, testing for appropriate approvals, check signers, endorsement, and recording in the general ledger;
- For the selected disbursements in the previous procedure, determine whether check request forms include a place for approval and if check request forms are being used to approve disbursements, if applicable;

Cash Balances

We will:

- Review internal controls over the bank reconciliation process to determine that the person who opens the bank statement and reviews cancelled checks does not have access to cash disbursements or check signing authority. Examine the year end bank reconciliation for accuracy and timeliness;
- Review the year end bank reconciliation for outstanding checks that have been outstanding for over three months. Review the subsequent bank statement and bank reconciliation to determine whether the outstanding check cleared. Inquire with the Church staff regarding the status of the stale dated checks and recommend a stop payment or possible reissuance for checks still considered outstanding;
- Review system of cash management to determine whether there are excess amounts of

cash that have not been invested.

Financial Statement Preparation

We will:

- Obtain the 2009 and 2008 financial statements and obtain explanations for large changes between years. Obtain the 2009 budget and obtain explanations for large variances between budgeted amounts and actual amounts on the 2009 financial statements. Read obtained documentation and note apparent errors based on the documentation provided;
- Review the balance sheet for receivables and/or payables with related parties or employees. Inquire with the Church staff regarding a payment plan for the receivables and/or payables identified;
- Review documentation that the Church has adopted a budget for the year and that the Church has a budget versus actual comparison as part of their monthly/quarterly financial statements;
- Review the use of accounting software for appropriateness for the preparation of Church financial statements. This will not include a detailed study of the Church's accounting software.

Construction and Repair Contracts

We will:

- Based on the transactions reviewed in our other procedures and by inquiry of Church staff, determine whether construction and repair contracts in excess of \$5,000 were approved by the Diocesan office prior to acceptance by the Church.

Endowment / Restricted / Designated Funds

For the purpose of this section the following definitions apply.

Endowment - The invested principal or original contribution is permanently restricted by the donor;

Restricted - An amount that is invested and is restricted for a specific purpose by the donor, but the entire amount is able to be spent;

Designated - An amount that is invested and is designated for a specific purpose by the Vestry or Bishop's Committee or an amount that has no donor specific restriction. The entire amount is able to be spent.

We will:

- Select three funds from the endowment, restricted, or designated funds. Verify the purpose and restrictions, if any, by reviewing the documentation establishing the fund through agreements, letters from donors, and inquiry with church staff;
- Inquire with Church staff regarding designated funds that were established during the year. Obtain documentation for the establishment and nature of the fund. Vouch to the Vestry / Bishop's Committee minutes;
- Select three funds for which income distributions were received. Ask to see evidence that the income distributions were used in accordance with applicable restrictions or designations;
- For endowment funds established during the year, agree original contribution per investment statement to trust or other documents (minutes, correspondence). Agree the balance recorded on the financial statements at the year end to the investment statements. If the original contributions are more than the balance, inquire about the reasons.

Discretionary Fund

We will:

- Obtain a copy of the deposit slip from each clergy discretionary fund to determine that the

account is in the name of the Church and inquire of the Church staff whether the account is under the federal identification number of the Church;

Determine that an audit was performed and that written documentation of the audit is available.

Tax Returns

We will:

- Determine the applicability of Hawaii general excise tax for cash receipts and if general excise tax returns are being prepared accurately and timely filed;
- Review one quarterly federal Form 941 (quarterly federal payroll tax return) for accuracy and timeliness based on underlying payroll records and disbursements, and the corresponding Hawaii state withholding and unemployment filing for 2009. Reconcile Forms 941 to the totals for Forms W-2 and W-3 for 2009;
- Test for proper tax reporting for pastor's compensation, housing, auto, utility, and other allowances by inquiry of staff and scanning of financial statements and payroll documents to determine whether applicable payments to clergy are included on their W-2;
- Inquire whether the Vestry or Bishop's Committee reviews W-2 and W-3 forms;
- Inquire whether the Church paid any person \$600 or more for services rendered, and whether Form 1099-Misc was issued and filed before March 1.

Letter of Agreement and Mutual Ministry Review

We will:

- Inquire whether a Letter of Agreement was signed between the priest and the Vestry;
- Inquire whether a mutual ministry review was performed in either of the last 2 years and the date of the last review.

Minutes of Vestry

We will:

- Review the minutes of the Vestry for 2009, and ensure that significant financial activities encountered in other procedures were reflected in the minutes.

Sexual Misconduct and Prevention Policy

We will:

- Obtain a list of all clergy, vestry members, volunteers who regularly supervise youth activities, and all employees. Ask for signed statements to ensure that each party has received the sexual misconduct and prevention policy manual and understands its contents, or documentation that trainings on issues of child abuse in church settings were conducted;
- For two employees, confirm with the Diocese that background checks were performed and training completed on issues of child abuse in church settings and sexual harassment in employment;
- Inquiry with Church staff whether the clergy would refer an individual to professional counseling after six sessions.

You agree that the sufficiency of the above named procedures is solely the responsibility of The Episcopal Church in Hawaii.

Performance of certain agreed upon procedures **does not** constitute an audit of the financial statements of the various Missions listed above in accordance with auditing standards generally accepted in the United States of America.

Our report will include a description of the performed procedures, our findings, and any recommendations for improvement.

In order to keep down the costs of the agreed upon procedures, we understand that your

employees will locate any invoices, journals, and canceled checks we select for testing.