

December 10, 2024

To the Finance and Audit Committee
The Episcopal Church in Hawai'i

Completion Communications Pertaining to Fiscal 2023 Audit

I have audited the financial statements of The Episcopal Church in Hawai'i (the "Church" or the "Organization") for the year ended December 31, 2023, and have issued a draft of my report thereon. Professional standards require that I provide you with the following information related to my audit.

My Responsibility under U.S. Generally Accepted Auditing Standards

As stated in my engagement letter dated March 7, 2024, my responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. My audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

I performed the audit according to the planned scope and timing communicated in my engagement letter and in my 2022 audit completion memorandum dated October 31, 2023. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, my audit involves judgment about the number of transactions to be examined and the areas to be tested.

My audit includes obtaining an understanding of the Organization and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Organization or to acts by management or employees acting on behalf of the Organization. Significant findings, if any, are normally communicated at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. I will also communicate any internal control related matters that are required to be communicated under professional standards.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application.

The significant accounting policies used by the Church are described in Note 1 to the financial statements.

The application of accounting policies was not changed in any material manner during 2023. I noted no transactions entered into by the Church during the year for which there is a lack of authoritative guidance or consensus. I am not aware of any significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Estimates in the financial statements include the following:

1. Allowance for doubtful accounts receivable (none);
2. Allowance for doubtful loans receivable;
3. Assumptions underlying the valuation of split-interest agreements;
4. Assumptions underlying the accumulated postretirement benefit obligation;
5. The appropriateness of the carrying value of investments and long-lived assets;
6. The appropriateness of time and/or purpose net asset releases from restriction;
7. The allocation of expenses for the statement of functional expenses.

An allowance for doubtful loans receivable of \$150,000 has been provided against a loan of \$190,000 to Camp Mokule'ia. As part of closing the books for 2024, the Church should evaluate the adequacy of this allowance and make adjustments as appropriate.

I consider these estimates to be reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures can be particularly sensitive because of their significance to financial statement users. The Church does not appear to have any particularly sensitive disclosures affecting the financial statements.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing the audit.

Corrected and Uncorrected Misstatements

Professional standards require the auditor to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were three uncorrected misstatements, having a net impact of approximately \$29,000 on change in net assets (which is considered to be immaterial and therefore not requiring adjustment).

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of the audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Church's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Church's auditor. However, these discussions occurred in the normal course of our professional relationship and my responses were not a condition to my retention.

Management Recommendations

As part of my 2022 audit, I recommended that management consider implementing the following changes to accounting practices. I continue to make these recommendations:

1. The year end closing process is very cumbersome as investment activity and transfers are not recorded on the general ledger during the year. Recording this activity at year end has proved challenging for the current accounting team. I recommended that this activity be recorded during the year, and that distinct transfer accounts be utilized rather than utilizing revenue and expense accounts (which then need to be analyzed at year end to pull out the transfers). It should be noted that accounting personnel have intended to implement this recommendation for a number of years, however other priorities have resulted in deferring the implementation of this recommendation. With the former Controller now serving as a transitional resource, I recommend these changes be implemented while the former Controller is still available to assist with implementation.
2. Management currently recalculates the payout from endowment accounts each quarter. This results in the actual payout varying from the amount approved in the annual budget, and is inefficient as the calculation must be performed four times per year. In the nonprofit sector it is more common for the payout to be calculated annually as part of the budget approval process and once approved to remain static (subject to change if the stock market drops significantly after the budget is approved).

3. The Church has numerous budget line items (eg. parish support, reserve account transfers) that are paid monthly, sometimes in amounts as little as \$100. Changing payment frequency to quarterly or annual for small balance budget lines would reduce accounting department workload.

Reaffirmation of Independence

I am not aware of any relationships between my firm and the Church that, in my professional judgment, may reasonably be thought to bear on my independence. I hereby confirm that as of the date of this letter, I am independent with respect to the Church, under professional standards promulgated by the AICPA.

Planning Communications Pertaining to FY 2024 Audit

I may be engaged to perform the 2024 audit. If engaged, professional standards require that I provide you with the following information related to the audit of the Church's financial statements for the year ended December 31, 2024.

My Responsibility under U.S. Generally Accepted Auditing Standards

If engaged, my responsibility, as described by professional standards, will be to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. My responsibility under professional standards is further described in my engagement letter covering the 2023 audit and will also be described in my engagement letter for the 2024 audit. My audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, my audit will involve judgment about the number of transactions to be examined and the areas to be tested. The scope of the audit will exclude entities not consolidated into the financial statements (eg. parishes, missions, camps, schools).

If engaged, my audit will include obtaining an understanding of the Church and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the organization or to acts by management or employees acting on behalf of the organization. I will generally communicate significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. I will also communicate any internal control related matters that are required to be communicated under professional standards.

Generally accepted auditing standards require that I communicate any significant risk(s) of material misstatement that have been identified by me as part of my audit planning. Under GAAS, there is a presumed risk of improper revenue recognition that could result in a material misstatement of the

financial statements. Additionally, the materiality of investments to the Church's total assets results in a risk level considered to be significant. I have considered these risks in developing my audit plan.

If engaged, I expect to begin audit planning and coordination activities in March-April 2025, fieldwork in June-August 2025, and issue my report in August or September 2025. This timing is dependent on the Church's ability to close its books and prepare for the audit. I am the engagement partner and am responsible for performing the engagement and signing the report.

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This information is intended solely for the use of the audit committee, council members and management of The Episcopal Church in Hawai'i and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

