



HAYASHI | WAYLAND

May 15, 2018

**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, 2017. 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 11, 2017. 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 11, 2017 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 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. The Diocese did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period.

Recently Issued Accounting Standards

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*. The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update do not provide a definition of restricted cash or restricted cash equivalents. The amendments are effective for fiscal years beginning after December 15, 2018.

On August 18, 2016, FASB issued an Accounting Standards Update (ASU) (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* that improves existing standards for financial statement presentation by not-for-profit organizations. The ASU focuses on improving the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance, and cash flows. The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. In order to implement this new Update the Diocese will need to make some changes to the way they are currently recording expenses.

In May 2014, FASB the Financial Accounting Standards Board issued a new standard on revenue recognition. 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. This new standard is effective beginning after December 31, 2018 for non public entities, with early adoption permitted subject to certain limitations.

In February 2016, the FASB issued a new accounting standard on leases. Under the new standard, a lessee should recognize in the balance sheet a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. This standard is effective for fiscal years beginning after December 15, 2019.

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.



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

No significant issues arising from the audit were discussed with or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.



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in the Diocese of El Camino Real
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Letter Communicating Significant Deficiencies and Material Weaknesses in Internal Control Over Financial Reporting

When significant deficiencies and material weaknesses are identified during our audit of the financial statements, we are required to communicate them to you in writing. For the year ended December 31, 2017 a letter was not required.

Certain Written Communications Between Management and Our Firm

We have requested certain representations from management that are included in the management representation letter dated May 15, 2018.

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, LLP



The Episcopal Church in the Diocese of El Camino Real

AJE

Year End: December 31, 2017

Adjusting Journal Entries

Date: 1/1/2017 To 12/31/2017

Account No: AJE-01 To AJE-99

Number	Date	Name	Account No	Debit	Credit	Net Income (Loss)
Net Income (Loss) Before Adjustments						560,325.00
AJE-01	12/31/2017	St. Mark's, King City	000000-17025	18,930.00		
AJE-01	12/31/2017	Sargent House Remodel	000000-17075	14,311.00		
AJE-01	12/31/2017	Release from Designated Fund	000000-96110		14,311.00	
AJE-01	12/31/2017	Release from Designated Fund	000000-96110		18,930.00	
AJE-01	12/31/2017	Sargent House Bldg &Mtn Fd - Fund Expense	27300D-95000		14,311.00	
AJE-01	12/31/2017	Sargent House Bldg & Mtn Fund - Fund Release	27300D-96100	14,311.00		
		To capitalize improvements				
				47,552.00	47,552.00	593,566.00
AJE-02	12/31/2017	Fair Share Receivables	000000-13100	60,483.00		
AJE-02	12/31/2017	Undesignated Net Assets	000000-35000		33,524.00	
AJE-02	12/31/2017	Fair Share Cash Basis Prev Year	000000-40010		26,959.00	
		To record current year Fair Share receivable.				
				60,483.00	60,483.00	620,525.00
AJE-03	12/31/2017	Accumulated Depreciation	000000-16990		9,062.00	
AJE-03	12/31/2017	Depreciation Expense	000000-62990	9,062.00		
		To adjust depreciation expense to actual				
				9,062.00	9,062.00	611,463.00
AJE-04	12/31/2017	Rental Income - Vineyard Canyon	000000-82000		2,000.00	
AJE-04	12/31/2017	Rental Income - Shafer Seaside	000000-82100		15,800.00	
AJE-04	12/31/2017	Funding - Building R&M (29002H)	000000-99002	17,800.00		
AJE-04	12/31/2017	Building R&M-Contributions	29002H-41000	17,800.00		
AJE-04	12/31/2017	Building R&M-Fund Transfer	29002H-96000		17,800.00	
		To reverse client R&M Sinking Fund entry and record properly.				
				35,600.00	35,600.00	611,463.00
AJE-05	12/31/2017	Allowance on Note Receivable	000000-18006		20,000.00	
AJE-05	12/31/2017	Debts Forgiven	000000-87100	20,000.00		
		To record allowance for CIG note.				
				20,000.00	20,000.00	591,463.00
AJE-06	12/31/2017	Undesignated Net Assets	000000-35000		16,992.00	
AJE-06	12/31/2017	Designated Net Asset Balance	000000-36100		17,186.00	
AJE-06	12/31/2017	Designated Net Asset Balance	000000-36100	16,992.00		
AJE-06	12/31/2017	Designated Property-Designated Net Asset	29003P-35100		16,992.00	
AJE-06	12/31/2017	Designated Property-Designated Net Asset	29003P-35100	17,186.00		
AJE-06	12/31/2017	Designated Property-Fund Expense	29003P-95000	16,992.00		
		Reverse depreciation recorded under Designated Property - Fund Expense and adjust designated property to actual at 12/31/2017.				
				51,170.00	51,170.00	574,471.00
AJE-07	12/31/2017	Bishop's Disc-Clergy Medical-Contributions	58005T-41000	6,000.00		
AJE-07	12/31/2017	Bishop's Disc-Clergy Medical-Fund Transfer	58005T-96000		6,000.00	
AJE-07	12/31/2017	Bishop Discret-Clergy Ed-Contributions	58101T-41000	1,300.00		
AJE-07	12/31/2017	Bishop Discret-Clergy Ed-Fund Transfer	58101T-96000		1,300.00	
		To reclass two fund transfers from				

The Episcopal Church in the Diocese of El Camino Real

AJE-1

Year End: December 31, 2017

Adjusting Journal Entries

Date: 1/1/2017 To 12/31/2017

Account No: AJE-01 To AJE-99

Number	Date	Name	Account No	Debit	Credit	Net Income (Loss)
		DIT to Temp restricted accounts from contributions to transfers.		7,300.00	7,300.00	574,471.00
AJE-08	12/31/2017	Temp Restricted Net Asset Balance	000000-36200	10,000.00		
AJE-08	12/31/2017	Transfer from Bishops Appeal	000000-96200		10,000.00	
AJE-08	12/31/2017	2017-2019 BA General - Temp Restricted Net Asset	58108T-35200		10,000.00	
AJE-08	12/31/2017	2017-2019 BA General Fund - Release	58108T-96100	10,000.00		
		To correct the entry to record the purchase of a painting funding by temp restricted funds.		20,000.00	20,000.00	574,471.00
AJE-09	12/31/2017	Pledges Receivable	000000-12100	108,340.00		
AJE-09	12/31/2017	Discount on Pledges Receivable	000000-12101		5,649.00	
AJE-09	12/31/2017	Allowance on Pledges Receivable	000000-12102		5,375.00	
AJE-09	12/31/2017	2017-2019 BA General - Contributions	58108T-41000		97,316.00	
		To record Bishop's Appeal.		108,340.00	108,340.00	671,787.00
AJE-10	12/31/2017	Pledges Receivable	000000-12100	1,000.00		
AJE-10	12/31/2017	2017-2019 BA General - Contributions	58108T-41000		1,000.00	
		To record monthly pledges receivable.		1,000.00	1,000.00	672,787.00
AJE-11	12/31/2017	Undesignated Net Assets	000000-35000		127,617.00	
AJE-11	12/31/2017	Undesignated Net Assets - Prior Year Adjustments	000000-35005	125,438.00		
AJE-11	12/31/2017	Miscellaneous Expense	000000-87000	2,179.00		
		To adjust net assets to the 12/31/2016 audit balance.		127,617.00	127,617.00	670,608.00
AJE-12	12/31/2017	Pension Plan Payable	000000-21100		5,097.00	
AJE-12	12/31/2017	Bishop's Pension	000000-60005	5,097.00		
		To record excess contribution on behalf of the Bishop to benefit expense		5,097.00	5,097.00	665,511.00
				493,221.00	493,221.00	665,511.00

The Episcopal Church in the Diocese of El Camino Real

RJE

Year End: December 31, 2017

Reclassification Journal Entries

Date: 1/1/2017 To 12/31/2017

Number	Date	Name	Account No	Debit	Credit	Net Income (Loss)
Net Income (Loss) Before Adjustments						665,511.00
RJE-01	12/31/2017	Designated Net Asset Balance	000000-36100		197,872.00	
RJE-01	12/31/2017	Designated Property-Designated Net Asset	29003P-35100	197,872.00		
		To adjust Designated Property opening balance to the 12/31/2016 audited balance.		197,872.00	197,872.00	665,511.00
RJE-02	12/31/2017	Mission Opportunity Fund - Fund Expense (grants)	27200D-95000	25,655.00		
RJE-02	12/31/2017	Mission Opportunity Fund - Fund Release	27200D-96100		25,655.00	
		To reclass Mission Opportunity Grants from Fund Release to Fund Expense.		25,655.00	25,655.00	665,511.00
RJE-03	12/31/2017	Sargent House Bldg & Mtn Fund - Fund Release	27300D-96100		9,290.00	
RJE-03	12/31/2017	Sargent House Bldg &Mtn Fd - Fund Expense	27300D-95000	9,290.00		
		To reclass expenses from "Fund Release" to "Fund Expense."		9,290.00	9,290.00	665,511.00
RJE-04	12/31/2017	Building R&M - Fund Expense	29002D-95000	1,575.00		
RJE-04	12/31/2017	Building R&M - Fund Release	29002D-96100		1,575.00	
		To reclassify expense from fund release.		1,575.00	1,575.00	665,511.00
RJE-05	12/31/2017	Staff Sabbatical Sinking Fund	29010D-96100		500.00	
RJE-05	12/31/2017	Staff Sabbatical Sinking Fund-Contributions	29010H-41000	500.00		
		To reclass refund of Bishop Mary class.		500.00	500.00	665,511.00
RJE-07	12/31/2017	Designated Net Asset Balance	000000-36100	5,000.00		
RJE-07	12/31/2017	Mission Fund Board Designated-Designated Net Asset	25101D-35100		5,000.00	
RJE-07	12/31/2017	Mission Fund Board Designated-Fund Transfer	25101D-96000	5,000.00		
RJE-07	12/31/2017	Missions-Fund Release	45100D-96100		5,000.00	
RJE-07	12/31/2017	Missions-Temp Restricted Net Asset	45100D-35200	5,000.00		
RJE-07	12/31/2017	Temp Restricted Net Asset Balance	000000-36200		5,000.00	
		To correct coding of Designated Mission Fund release to Temp restricted net asset account.		15,000.00	15,000.00	665,511.00
				249,892.00	249,892.00	665,511.00