Board of Trustees
Episcopal Foundation of Dallas
Dallas, Texas

As part of our audit of the financial statements of Episcopal Foundation of Dallas (Foundation) as of and for the year ended December 31, 2021, 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 contract 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 financial statements does not relieve management or those charged with governance of their responsibilities. Our contract more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Foundation's significant accounting policies are described in *Note 1* of the audited 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:

- Valuation of investments
- Functional expense allocations

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 measurements
- Liquidity and availability
- Related party transactions

Audit Adjustments

No matters are reportable.

Auditor's Judgments About the Quality of the Entity's Accounting Principles

No matters are reportable.

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter (*attached*)
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies

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 financial statements. We can discuss these matters further at your convenience. and may provide implementation assistance for changes or improvements.

New Lease Accounting Standard

FASB issued ASU 2016-02, *Leases (Topic 842)*, the long-awaited new standard on lease accounting. The FASB has issued various ASUs since that date related to Topic 842 as well seeking to clarify guidance and provide more transition relief in certain areas. Under the new ASU, lessees will recognize lease assets and liabilities on their statement of financial position for all leases with terms of more than 12 months. The new lessee accounting model retains two types of leases, and is consistent with the lessee accounting model under existing GAAP. One type of lease (finance leases) will be accounted for in substantially the same manner as capital leases are accounted for today. The other type of lease (operating leases) will be accounted for (both in the statements of activities and cash flows) in a manner consistent with today's operating leases. Lessor accounting under the new standard is fundamentally consistent with existing GAAP.

Lessees and lessors would be required to provide additional qualitative and quantitative disclosures to help finance statement users assess the amount, timing and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an organization's leasing activities.

The final lease standard is effective for the Foundation's fiscal year ending December 31, 2022. Early adoption is permitted.

Implementation

Although, the delay of the effective date of the new leases standard (ASC 842) for private companies and most non-profit organizations is welcome relief as many of these entities continue to work on their implementations of the new revenue standard (ASC 606), there are certain lease implementation items to get moving on sooner rather than later:

1. Educate yourself and key stakeholders about ASC 842
    a. Check out www.bkd.com for BKD Thoughtware resources, including articles and webinars related to the new standard and the related implementation efforts.
2. Early Decision Points:
    a. Transition method
    b. Practical expedients and accounting policy elections
3. Accumulate the population of potential leases
4. Systems analysis – Do you need lease software? If so, vendor selection takes time.
5. Start developing the processes and controls necessary for effective implementation of the ASC 842 as well as the ongoing accounting requirements.

Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets

On September 17, 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, Topic 958: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets to increase the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. The standard requires contributed nonfinancial assets to be presented on a separate line item in the statement of activities, segregated apart from contributions of cash and other financial assets. Additionally, disclosure requirements have been amended to require a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets, as well as specific disclosure requirements for each category recognized.

The standard is effective and should be applied on a retrospective basis for the Foundation's fiscal year ending December 31, 2022. Early adoption is permitted.

This communication is intended solely for the information and use of management, Board of Trustee's, and others within the Foundation, and is not intended to be and should not be used, by anyone other than these specified parties.

[_____________ __, _____]
[Date of Auditor's Report]