



DRAFT

Report to the Board of Trustees

Episcopal Foundation of Dallas

Results of the 2022 Financial Statement Audit, Including Required Communications

Fort Worth, Texas

Year End December 31, 2022

forvis.com

Contents

Audit Summary	1
Other Services Provided	1
Required Communications Regarding Our Audit Strategy & Approach (AU-C 260)	2
Overview & Responsibilities	2
Qualitative Aspects of Significant Accounting Policies & Practices	4
Adjustments Identified by Audit	8
Other Required Communications	8
Required Communications Regarding Internal Control (AU-C 265)	10
Consideration of Internal Control Over Financial Reporting	10

Audit Summary

Timing of Our Engagement

Our audit procedures occurred primarily between March 13, 2023 and June 6, 2023. The resulting opinion from our audit is as follows:

Our Financial Statement Opinion

We have issued an unmodified opinion as to whether the financial statements of Episcopal Foundation of Dallas as of and for the year ended December 31, 2022, are fairly presented, in all material respects.

Other Services Provided

Services provided during the year ended December 31, 2022, have included:

- Preparation of Form 990

FORV/S

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office

Required Communications Regarding Our Audit Strategy & Approach (AU-C 260)

The following matters are required communications we must make to you, including these responsibilities:

Overview & Responsibilities

Matter	Discussion
Scope of Our Audit	<p>This report covers audit results related to your financial statements:</p> <ul style="list-style-type: none"> • As of and for the year ended December 31, 2022 • Conducted in accordance with our contract dated November 2, 2022
Our Responsibilities	<p>FORVIS is responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with the oversight of those charged with governance, are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).</p>
Audit Scope & Inherent Limitations to Reasonable Assurance	<p>An audit performed in accordance with auditing standards generally accepted in the United States of America (GAAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. The scope of our audit tests was established in relation to the financial statements taken as a whole and did not include a detailed audit of all transactions.</p>

FORV/S

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office

Extent of Our Communication	In addition to areas of interest and noting prior communications made during other phases of the engagement, this report includes communications required in accordance with GAAS that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process, including audit approach, results, and internal control. 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.
Independence	The engagement team, others in our firm, as appropriate, and our firm, have complied with all relevant ethical requirements regarding independence.
Your Responsibilities	Our audit does not relieve management or those charged with governance of your responsibilities. Your responsibilities and ours are further referenced in our contract.
Distribution Restriction	<p>This communication is intended solely for the information and use of the following and is not intended to be, and should not be, used by anyone other than these specified parties:</p> <ul style="list-style-type: none"> • The Board of Trustees • Management

Qualitative Aspects of Significant Accounting Policies & Practices

The following matters are detailed in the following pages and included in our assessment:

Significant Accounting Policies

Significant accounting policies are described in *Note 1* of the audited financial statements.

With respect to new accounting standards adopted during the year, we call to your attention the following topic detailed in the following pages:

- ASC 842, *Leases*

Unusual Policies or Methods

With respect to significant unusual accounting policies or accounting methods used for significant unusual transactions (significant transactions outside the normal course of business or that otherwise appear to be unusual due to their timing, size, or nature), we noted the following:

- No matters are reportable

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within GAAP for policies and practices for material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

- Policy elections for ASC 842, *Leases*

Management Judgments & Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. Significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates include:

- Valuation of investment securities
- Functional expense allocation

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:

- Determination of fair values
- Related parties
- Liquidity and availability of resources

Our Judgment About the Quality of the Foundation's Accounting Principles

During the course of the audit, we made the following observations regarding the Foundation's application of accounting principles:

- No matters are reportable

ASC 842, *Leases*

Effective January 1, 2022 the Foundation adopted ASC 842, *Leases*. ASC 842 requires recognition of most leases on the statement of financial position and enhanced disclosures within the footnotes of the financial statements.

FASB believes this standard allows for a more faithful representation of the lessee's assets and liabilities and provides greater transparency about the lessee's obligations and leasing activities than legacy guidance, which did not require lessees to recognize assets and liabilities arising from operating leases.

Adoption of ASC 842 required significant time to identify a complete list of lease contracts for consideration of adoption and measure the lease assets and liabilities for recognition. In addition, due to adoption of the standard, the Foundation's key performance indicators related to the statement of financial position (such as the current ratio) are likely not comparable to historical results.

Policy Elections & Transition for ASC 842

Management has elected the following accounting policies and transition practical expedients:

- 1) Election of the modified retrospective method for adoption.
- 2) Election of the following package of practical expedients at the date of adoption of ASC 842 to not re-assess:
 - a) Whether any expired or existing contract is a lease or contains a lease,
 - b) The lease classification of any expired or existing leases,
 - c) Initial direct costs for any existing leases.
- 3) Election of the practical expedient to combine lease and nonlease components in the contract.
- 4) Election of the portfolio approach to classify and measure leases.
- 5) Election of the short-term lease exception for leases that, at the lease commencement date, have a lease term of 12 months or less and does not include an option to purchase the underlying asset that the Foundation is reasonably certain to exercise. This election was made by asset class rather than individual leases.

- 6) Election of the practical expedient available to nonpublic entities to use a risk-free discount rate when measuring lease liabilities.
- 7) Adoption of a capitalization policy for right-of-use assets of \$1,500.

Adjustments Identified by Audit

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments that, in its judgment, are required to prevent the financial statements from being materially misstated.

A misstatement is a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework.

Proposed & Recorded Adjustments

Auditor-proposed and management-restated the 2021 statement of cash flows to be in compliance with Accounting Standards Codification 958-230-55-4.

Other Required Communications

Significant Issues Discussed with Management

Prior to Retention

During our discussion with management prior to our engagement, the following issues regarding application of accounting principles or auditing standards were discussed:

- Transactions with related party
- Lease accounting software

Other Material Communications

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

- Management representation letter (see *Attachments*)

We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies.

Required Communications Regarding Internal Control (AU-C 265)

Consideration of Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of Episcopal Foundation of Dallas as of and for the year ended December 31, 2022, in accordance with GAAS, we considered the Foundation's internal control over financial reporting (internal control).

This consideration served as a basis for designing audit procedures that are appropriate in the circumstance for the purpose of expressing our opinion on the financial statements.

However, this consideration was not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control.

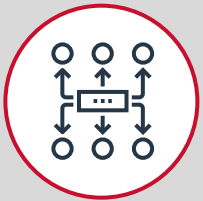
Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraphs and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

Categorizing Deficiencies by Severity

Deficiency

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.



Significant Deficiency

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Material Weakness

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that material misstatements of the Foundation's financial statements will not be prevented or detected and corrected on a timely basis.



Identified Deficiency

We identified a certain deficiency in internal control that we consider to be a material weakness.

Material Weakness

The 2021 cash flow statement did not show the cash receipts and disbursements from agency transactions as operating activities in accordance with ASC 958-230-55-4. This resulted in the net cash provided by operating activities and net cash used in investing activities to be understated by \$8,009,238. We recommend reviewing the drafted financial statements for proper presentation of the agency transactions in accordance with accounting principles generally accepted in the United States of America.

Attachments

Management Representation Letter

As a material communication with management, included herein is a copy of the representation letter provided by management at the conclusion of our engagement.

Representation of:

Episcopal Foundation of Dallas
10000 N. Central Expressway, Suite 400
Dallas, Texas 75231

Provided to:

FORVIS, LLP

Certified Public Accountants
777 Main Street, Suite 2000
Fort Worth, Texas 76102

The undersigned ("We") are providing this letter in connection with FORVIS' audits of our financial statements as of and for the years ended December 31, 2022 and 2021

Our representations are current and effective as of the date of FORVIS' report: May XX, 2023.

Our engagement with FORVIS is based on our contract for services dated: November 2, 2022.

Our Responsibility & Consideration of Material Matters

We confirm that we are responsible for the fair presentation of the financial statements subject to FORVIS' report in conformity with accounting principles generally accepted in the United States of America.

We are also responsible for adopting sound accounting policies; establishing and maintaining effective internal control over financial reporting, operations, and compliance; and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

Confirmation of Matters Specific to the Subject Matter of FORVIS' Report

We confirm, to the best of our knowledge and belief, the following:

Broad Matters

1. We have fulfilled our responsibilities, as set out in the terms of our contract, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for the design, implementation, and maintenance of:
 - a. Internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
 - b. Internal control to prevent and detect fraud.

3. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. All minutes of trustees' meetings held through the date of this letter or summaries of actions of recent meetings for which minutes have not yet been prepared. All unsigned copies of minutes provided to you are copies of our original minutes approved by the governing body if applicable, and maintained as part of our records.
 - e. All significant contracts and grants
4. We have responded fully and truthfully to all your inquiries.

Misappropriation, Misstatements, & Fraud

5. We have informed you of all current risks of a material amount that are not adequately prevented or detected by our procedures with respect to:
 - a. Misappropriation of assets.
 - b. Misrepresented or misstated assets, liabilities, or net assets.
6. We have no knowledge of fraud or suspected fraud affecting the entity involving:
 - a. Management or employees who have significant roles in internal control over financial reporting, or
 - b. Others when the fraud could have a material effect on the financial statements.
7. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with accounting principles generally accepted in the United States of America.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, customers, analysts, regulators, suppliers, or others.
9. We have assessed the risk that the financial statements may be materially misstated as a result of fraud and disclosed to you any such risk identified.

Ongoing Operations

10. We have evaluated whether there are conditions or events known or reasonably knowable, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year of the date of this letter without consideration of potential mitigating

effects of management's plans not yet fully implemented and concluded substantial doubt does not exist.

11. We acknowledge the current economic volatility presents difficult circumstances and challenges for our industry. Entities are potentially facing declines in the fair values of investments and other assets, declines in the volume of business, contributions, constraints on liquidity, or difficulty obtaining financing etc. We understand the values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values, etc., that could negatively impact the entity's ability to maintain sufficient liquidity.

We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the entity's financial statements. Further, management and governance are solely responsible for all aspects of managing the entity, including questioning the quality and valuation of investments, and other assets; reviewing allowances for uncollectible amounts; evaluating capital needs and liquidity plans; etc.

Related Parties

12. We have disclosed to you the identity of all of the entity's related parties and all the related-party relationships of which we are aware.

In addition, we have disclosed to you all related-party transactions and amounts receivable from or payable to related parties of which we are aware, including any modifications during the year that were made to related-party transaction agreements which existed prior to the beginning of the year under audit, as well as new related-party transaction agreements that were executed during the year under audit.

Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

13. We understand that the term related party refers to:

- Affiliates.
- Entities for which investments are accounted for by the equity method.
- Trusts for the benefits of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management.
- Principal owners and members of their immediate families.
- Management and members of their immediate families.
- Any other party with which the entity may deal if one party can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

Another party is also a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the entity.

Litigation, Laws, Rulings, & Regulations

14. We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the financial statements. We have not sought or received attorney's services related to pending or threatened litigation or claims during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought. We have no knowledge of any communications, , from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
15. We have disclosed to you all known instances of violations or noncompliance or possible violations or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements or as a basis for recording a loss contingency.
16. We have no reason to believe the entity owes any penalties or payments under the Employer Shared Responsibility Provisions of the *Patient Protection and Affordable Care Act* nor have we received any correspondence from the IRS or other agencies indicating such payments may be due. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.

Nonattest Services

17. You have provided nonattest services, including the following, during the period of this engagement:
 - Preparing a draft of the financial statements and related notes.
 - Preparation of the Federal Form 990
18. With respect to these services:
 - a. We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - b. We have established and monitored the performance of the nonattest services to ensure they meet our objectives.
 - c. We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - d. We have evaluated the adequacy of the services performed and any findings that resulted.
 - e. Established and maintained internal controls, including monitoring ongoing activities.
 - f. We have received the deliverables from you and have stored these deliverables in information systems controlled by us. We have taken responsibility for maintaining internal control over these deliverables.

Financial Statements & Reports

19. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

20. The Foundation has restated the 2021 financial statements to conform with accounting principles generally accepted in the United States of America. Management has provided you with all relevant information regarding the restatement. We are not aware of any other known matters that required correction in the financial statements.
21. We do not issue an annual report, nor do we have plans to issue an annual report at this time.

Transactions, Records, & Adjustments

22. All transactions have been recorded in the accounting records and are reflected in the financial statements.
23. We have everything we need to keep our books and records.
24. We have disclosed any significant unusual transactions the entity has entered into during the period, including the nature, terms, and business purpose of those transactions.

Nonprofit Accounting & Disclosure Matters

25. Adequate provisions and allowances have been accrued for any material losses from uncollectible pledges.
26. We have identified to you any activities conducted having both fund raising and program or management and general components (joint activities) and have allocated the costs of any joint activities in accordance with the provisions of FASB ASC 958-720-45.
27. We are an entity exempt from income tax under Section 501(c) of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.
28. We acknowledge the entity is not a conduit debt obligor whose debt securities are listed, quoted, or traded on an exchange or an over-the-counter market. As a result, we acknowledge the entity does not meet the definition of a "public entity" under generally accepted accounting principles for certain accounting standards.

Accounting & Disclosure

29. All transactions entered into by the entity are final. We are not aware of any unrecorded transactions, side agreements, or other arrangements (either written or oral) that are in place.
30. Except as reflected in the financial statements, there are no:
 - a. Plans or intentions that may materially affect carrying values or classifications of assets, liabilities, or net assets.
 - b. Material transactions omitted or improperly recorded in the financial records.
 - c. Material unasserted claims or assessments that are probable of assertion or other gain/loss contingencies requiring accrual or disclosure in accordance with Accounting Standards Codification (ASC) Topic 450, *Contingencies*, including those arising from environmental remediation obligations.

- d. Events occurring subsequent to the statement of net assets date through the date of this letter, which is the date the financial statements were available to be issued, requiring adjustment or disclosure in the financial statements.
 - e. Agreements to purchase assets previously sold.
 - f. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit, or similar arrangements.
 - g. Guarantees, whether written or oral, under which the entity is contingently liable.
 - h. Known or anticipated asset retirement obligations.
31. Except as disclosed in the financial statements, the entity has:
- a. Satisfactory title to all recorded assets, and those assets are not subject to any liens, pledges, or other encumbrances.
 - b. Complied with all aspects of contractual grant agreements, for which noncompliance would materially affect the financial statements.

Revenue, Accounts Receivable, & Inventory

32. Adequate provisions and allowances have been accrued for any material losses from:
- a. Uncollectible receivables, including pledges.
 - b. Purchase commitments in excess of normal requirements or at prices in excess of prevailing market prices.

Estimates

33. We have identified all accounting estimates that could be material to the financial statements, and we confirm the appropriateness of the methods and the consistency in their application, the accuracy and completeness of data, and the reasonableness of significant assumptions used by us in making the accounting estimates, including those measured at fair value reported in the financial statements.
34. Significant estimates that may be subject to a material change in the near term have been properly disclosed in the financial statements. We understand that "near term" means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations, which refer to volumes of revenues investments, or deposits, existing at the date of the financial statements that would make the entity vulnerable to the risk of severe impact in the near term that have not been properly disclosed in the financial statements.

Fair Value

35. With respect to the fair value measurements of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto:
- a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated course of action.

- b. The measurement methods and significant assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - c. The significant assumptions appropriately reflect market participant assumptions.
 - d. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - e. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
36. The methods and significant inputs and assumptions used to determine fair value of financial instruments are as follows: quoted market prices. The methods and significant inputs and assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.

New Accounting Standards

Topic 842, *Leases*

37. In connection with the adoption of ASC Topic 842, *Leases*, we represent the following:
- a. We have elected the modified retrospective method for adoption.
 - b. We have elected the following package of practical expedients at the date of adoption of ASC 842 to not reassess:
 - i. Whether any expired or existing contract is a lease or contains a lease.
 - ii. The lease classification of any expired or existing leases.
 - iii. Initial direct costs for any existing leases.
 - c. We have not elected the hindsight practical expedient in determining the lease term and assessing impairment of the entity's right-of-use assets. This practical expedient has been applied to all leases.
 - d. We have elected the practical expedient to combine lease and nonlease components in the contract.
 - e. We have elected the portfolio approach to classify and measure leases. Actual results under the portfolio approach are materially similar evaluations on an individual basis.
 - f. We have elected the short-term lease exception for leases that, at the lease commencement date, have a lease term of 12 months or less and does not include an option to purchase the underlying asset that the entity is reasonably certain to exercise. This election was made by asset class rather than individual leases.
 - g. We have elected the practical expedient available to lessees that are not public business entities to use a risk-free discount rate when measuring lease liabilities
 - h. We have adopted a capitalization policy for right-of-use assets of \$1,500. Right-of-use assets not capitalized are not material individually and in the aggregate.

- i. We have identified a complete population of potential leases as of the implementation date.
- j. The estimates related to any options to extend or terminate the lease terms within the measurement of lease assets and liabilities agree to management's plans for the leases.
- k. We have adequate controls in place to prevent and/or detect errors in lease assets and liabilities on a recurring basis.
- l. The footnotes to the financial statements appropriately describe the adoption of ASC Topic 842, *Leases*, and include all additional disclosures required under the standard.

Pam Jamieson, Executive
Directorexec@episcopalfoundationdallas.org

Ticoy Young, Accounting Manager
controller@episcopalfoundationdallas.org