



September 1, 2011

Members of the Vestry of
St. Martin's Episcopal Church
15764 Clayton Rd.
Ellisville, MO 63011

In planning and performing our audit of the financial statements of St. Martin's Episcopal Church (the "Church") as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered St. Martin's Episcopal Church's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Church's internal control. Accordingly, we do not express an opinion on the effectiveness of the Church's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 1, 2011 on the financial statements of the Church. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

RECOMMENDATIONS

SEGREGATION OF DUTIES

Observation

Due to the limited number of people working for St. Martin's Episcopal Church, many of the critical duties are combined and assigned to the available employees. Presently, a single individual performs the majority of the accounting functions.

RECOMMENDATIONS *(Continued)*

SEGREGATION OF DUTIES *(Continued)*

Recommendation

To the extent possible, duties should be segregated to serve as a check and balance and to maintain the best control system possible. Review duties and procedures for processing and reviewing cash receipts, cash disbursements, and payroll and emphasize the importance of oversight and supervision by the Vestry, the Pastor, and other employees in an environment that has inherent size limitations.

BUDGET PROCESS

Observation

St. Martin's Episcopal Church has experienced operating deficits in recent years due to both revenue results and corresponding expense levels. Continuation of this situation will erode net assets and, depending on the depth of deficits, could impact the mission of the Church. The budget process is driven by the overall plan, and care should be maintained to have Church budgets accurately reflect actual operations and results.

Recommendation

In light of this situation, we suggest that management consider re-visiting budget process to prepare budgets that avoid deficits. All activities should be thoroughly and conservatively planned and budgeted. New activities should be evaluated regarding whether or not they add value to and/or strengthen Church's core purpose and strategic plan.

RESTRICTED FUNDS REVIEW NEEDED

Observation

The financial statements of St. Martin's Episcopal Church currently present numerous restricted funds including certain funds that have limited activity or no current activity. These funds have little or no documentation to support these restrictions. Where documentation is available, there are conflicting interpretations of how these funds are used.

Recommendation

Restricted funds need to be reviewed and funds with missing documentation need to be investigated to determine if these restrictions are correct. Guidance from the Diocese may be used as a source for research. Consolidation of these funds would provide a more concise presentation in the financial statements, ease the administration of maintaining the separate funds, and strengthen the overall internal controls. We recommend that the Vestry evaluate St. Martin's Episcopal Church's funds and consolidate where applicable. Documentation to support restrictions needs to be assembled for future reference.

RECOMMENDATIONS (Continued)

CLASSIFICATION OF EXPENSES

Observation

During our audit procedures it was noted that there were inconsistencies in how various expenses were classified. These inconsistencies involve the netting of revenues with corresponding expenses or recording liabilities as revenue or expense. While this practice does not affect net income or net assets, it does distort revenue and expenses.

Recommendation

We recommend the Vestry review these practices and establish a standard policy on how to classify these expenses and consistently follow it. Reporting to the Vestry should always reflect the proper recording of revenue and expense.

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We believe that the implementation of these recommendations will provide St. Martin's Episcopal Church with a stronger system of internal control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

This communication is intended solely for the information and use of management, Members of the Vestry, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,


SCHMERSAHL TRELOAR & CO.
Certified Public Accountants