

**ST. MARTIN'S EPISCOPAL CHURCH**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2010 (AUDITED)**  
**AND**  
**DECEMBER 31, 2009 (REVIEWED)**

St. Martin's Episcopal Church

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## Independent Auditors' Report

Members of Vestry  
St. Martin's Episcopal Church  
Ellisville, Missouri

We have audited the accompanying statement of assets, liabilities, and net assets—modified cash basis of St. Martin's Episcopal Church (a nonprofit organization) as of December 31, 2010, and the related statement of support, revenue, and expenses—modified cash basis and statement of cash flows – modified cash basis for the year then ended. These financial statements are the responsibility of the Church's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note A, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of St. Martin's Episcopal Church as of December 31, 2010, its support, revenue, expenses and cash flows for the year then ended, on the basis of accounting described in Note A.

The December 31, 2009 financial statements were reviewed by us, and our report thereon, dated July 8, 2010, stated we were not aware of any material modification that should be made to those statements for them to be in conformity with the modified cash basis of accounting, as described in Note A. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

*Schmersahl Treloar & Co., PC*

September 1, 2011

**FINANCIAL STATEMENTS**

St. Martin's Episcopal Church  
 STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS -  
 MODIFIED CASH BASIS

ASSETS	December 31,	
	2010	2009
	(Audited)	(Reviewed)
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 32,949	\$ 32,363
Loan receivable	-	2,400
Total Current Assets	32,949	34,763
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$957,921 and \$903,695, respectively	1,914,504	1,922,310
<b>LONG-TERM ASSETS</b>		
Investments	525,661	573,814
Total Assets	\$ 2,473,114	\$ 2,530,887
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Note payable - bank, current portion	\$ 13,762	\$ 463,168
Accrued expenses	8,634	10,228
Total Current Liabilities	22,396	473,396
NOTE PAYABLE - BANK, net of current portion	443,616	-
Total Liabilities	466,012	473,396
<b>NET ASSETS</b>		
Unrestricted		
Available for operations and vestry designated	( 134,420)	( 105,933)
Net investment in property and equipment	1,457,126	1,459,142
Total Unrestricted Net Assets	1,322,706	1,353,209
Temporarily restricted	684,396	704,282
Total Net Assets	2,007,102	2,057,491
Total Liabilities and Net Assets	\$ 2,473,114	\$ 2,530,887

See accompanying notes to financial statements

St. Martin's Episcopal Church  
 STATEMENTS OF SUPPORT, REVENUE AND EXPENSES -  
 MODIFIED CASH BASIS

	(Audited)		
	For the Year Ended December 31, 2010		
	Unrestricted	Temporarily Restricted	Total
<b>REVENUES AND OTHER SUPPORT</b>			
Contributions	\$ 425,542	\$ 5,281	\$ 430,823
Auxiliary activities	59,308	2,647	61,955
Facility usage	4,420	-	4,420
Investment gain	54,781	-	54,781
Net assets released from restrictions	<u>27,814</u>	<u>( 27,814)</u>	<u>-</u>
Total Revenues and Other Support	<u>571,865</u>	<u>( 19,886)</u>	<u>551,979</u>
<b>EXPENSES</b>			
Program Expenses			
Designated ministries	68,439	-	68,439
Clergy	142,127	-	142,127
Building	99,150	-	99,150
Administrative	38,197	-	38,197
Community ministries	57,670	-	57,670
Music and worship	5,527	-	5,527
Christian education and youth	<u>3,382</u>	<u>-</u>	<u>3,382</u>
Total Program Services	414,492	-	414,492
Supporting Services	<u>187,876</u>	<u>-</u>	<u>187,876</u>
Total Expenses	<u>602,368</u>	<u>-</u>	<u>602,368</u>
CHANGE IN NET ASSETS	( 30,503)	( 19,886)	( 50,389)
NET ASSETS, Beginning of year	<u>1,353,209</u>	<u>704,282</u>	<u>2,057,491</u>
NET ASSETS, End of year	<u>\$ 1,322,706</u>	<u>\$ 684,396</u>	<u>\$ 2,007,102</u>

See accompanying notes to financial statements

(Reviewed)

For the Year Ended December 31, 2009

Unrestricted	Temporarily Restricted	Total
\$ 394,452	\$ 11,043	\$ 405,495
33,333	4,739	38,072
5,926		5,926
29,424		29,424
<u>21,556</u>	<u>( 21,556)</u>	<u>-</u>
<u>484,691</u>	<u>( 5,774)</u>	<u>478,917</u>
62,116	-	62,116
95,486	-	95,486
98,533	-	98,533
42,906	-	42,906
52,067	-	52,067
6,819	-	6,819
<u>3,681</u>	<u>-</u>	<u>3,681</u>
361,608	-	361,608
<u>179,532</u>	<u>-</u>	<u>179,532</u>
<u>541,140</u>	<u>-</u>	<u>541,140</u>
( 56,449)	( 5,774)	( 62,223)
<u>1,409,658</u>	<u>710,056</u>	<u>2,119,714</u>
<u>\$ 1,353,209</u>	<u>\$ 704,282</u>	<u>\$ 2,057,491</u>

St. Martin's Episcopal Church  
STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS

	Years Ended December 31,	
	2010	2009
	(Audited)	(Reviewed)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	(\$ 50,389)	(\$ 62,223)
Adjustments to reconcile change in net assets to net change in cash and cash equivalents from operating activities:		
Depreciation	54,225	52,981
Unrealized gains	( 14,025)	( 35,605)
Realized losses on investments	4,280	14,692
Increase in assets:		
Accounts receivable	2,400	-
Decrease in liabilities:		
Accrued expenses	( 1,594)	( 7,400)
 Net Change in Cash and Cash Equivalents from Operating Activities	 ( 5,103)	 ( 37,555)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	( 46,419)	-
Sales of investments	173,876	205,790
Purchases of investments	( 115,978)	( 218,486)
 Net Change in Cash and Cash Equivalents from Investing Activities	 11,479	 ( 12,696)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Acquisition of long-term debt under note payable - bank	457,378	-
Repayment of note payable - bank	( 463,168)	( 8,492)
 Net Change in Cash and Cash Equivalents from Financing Activities	 ( 5,790)	 ( 8,492)
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 586	 ( 58,743)
 CASH AND CASH EQUIVALENTS, Beginning of year	 32,363	 91,106
 CASH AND CASH EQUIVALENTS, End of year	 <u>\$ 32,949</u>	 <u>\$ 32,363</u>
 <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid during the year for:		
Interest	<u>\$ 33,504</u>	<u>\$ 30,912</u>
 Income taxes	 <u>\$ -</u>	 <u>\$ -</u>

See accompanying notes to financial statements

St. Martin's Episcopal Church  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010 (Audited) and 2009 (Reviewed)

A. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

St. Martin's Episcopal Church (the "Church") is a nonprofit religious organization established to provide spiritual guidance and religious services for the general public. Specifically, the Church, which is part of the Episcopal Diocese of Missouri and of the Episcopal Church in the United States of America, is an active part of the life of the City of Ellisville through the establishment, development, and promotion of all aspects of the Church ministry.

**Basis of Accounting**

The accompanying financial statements of the Church have been prepared on the modified cash basis of accounting. The modified cash basis of accounting recognizes revenues when received and expenses when paid with some modifications, such as recording depreciation which charges the cost of an asset to operations over the useful life of the asset. The modified cash basis of accounting is not intended to present financial position or results of operation in accordance with generally accepted accounting principles.

**Basis of Presentation**

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Church and changes therein are classified into three categories of net assets, as applicable, and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor imposed stipulations. Unrestricted net assets include discretionary designations made by the Vestry.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Church and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Church. The income earned on any related investments would also be subject to donor-imposed stipulations. The Church currently does not have any permanently restricted net assets.

**Revenue Recognition**

Contributions are recognized when the donor makes a promise to give to the Church, that is, in substance, unconditional. Donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction is satisfied, temporarily and permanently restricted net assets are released to increase the amount of unrestricted net assets.

St. Martin's Episcopal Church  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010 (Audited) and 2009 (Reviewed)  
(Continued)

A. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Use of Estimates**

The preparation of financial statements in conformity with modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

**Subsequent Events**

In preparing these financial statements, the Church has evaluated events and transactions for potential recognition or disclosure through September 1, 2011, the date the financial statements were available to be issued.

**Cash and Cash Equivalents**

For purposes of the Statements of Cash Flows, the Church considers all highly liquid investments purchased with a maturity date of three months or less to be cash equivalents.

**Property and Equipment**

Property and equipment is stated at cost. Donated assets are recorded at fair market value at the date of the donation. Expenditures for repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over estimated useful lives of the assets.

**Income Taxes**

The Church qualifies as a not-for-profit religious organization and is exempt from federal and state income taxes. The Church does not have unrelated business income, excise taxes or activities that would threaten the Church's tax-exempt status. Accordingly, no provision for federal or state income taxes is provided. The Church is not required to file an information return, IRS Form 990.

The Organization adopted the provisions relating to Accounting for Uncertainty in Income Taxes and management is not aware of any uncertain tax positions of the Organization related to the tax filings.

**Concentration of Credit Risk**

Financial instruments, which potentially subject the Church to concentration of credit risk, consist principally of cash and investments. The Church places its cash and investments with high credit quality financial institutions and, by policy, limit the amount of credit exposure to any one financial institution or investment type.

St. Martin's Episcopal Church  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2010 (Audited) and 2009 (Reviewed)  
 (Continued)

A. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Financial Instruments**

The carrying amounts of cash and cash equivalents, accounts and pledges receivable, accounts payable, and accrued expenses approximates fair value due to the short-term maturities of these instruments.

**Contributed Services**

A substantial number of unpaid volunteers have made significant contributions of their time and talent to develop the Church's programs and meet its objectives. The value of this contributed time is not reflected in the statements since it is not subject to objective measurement or valuation.

B. **INVESTMENTS**

Investments consist of the following at December 31, 2010 (Audited):

	<u>Cost</u>	<u>Market</u>	<u>Unrealized Appreciation</u>
Fixed Income	\$304,630	\$321,824	\$17,194
Equities	<u>171,853</u>	<u>203,837</u>	<u>31,984</u>
	<u>\$476,483</u>	<u>\$525,661</u>	<u>\$49,178</u>

Investments consist of the following at December 31, 2009 (Reviewed):

	<u>Cost</u>	<u>Market</u>	<u>Unrealized Appreciation</u>
Fixed Income	\$358,795	\$385,959	\$27,164
Equities	<u>179,865</u>	<u>187,855</u>	<u>7,990</u>
	<u>\$538,660</u>	<u>\$573,814</u>	<u>\$35,154</u>

These funds included amounts temporarily restricted and set aside in prior years for the purpose of providing for improvement of the property and equipment.

St. Martin's Episcopal Church  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010 (Audited) and 2009 (Reviewed)  
(Continued)

**B. INVESTMENTS (Continued)**

Investment income is summarized as follows for the year ended December 31,:

	2010 (Audited)	2009 (Reviewed)
Interest/dividend income	\$42,095	\$20,501
Net realized gain/ (loss)	( 1,302)	( 14,692)
Change in net unrealized gains	<u>13,988</u>	<u>23,615</u>
Investment Gain	<u>\$54,781</u>	<u>\$29,424</u>

**C. FAIR VALUE DISCLOSURES**

The Church's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with accounting principles generally accepted in the United States of America (GAAP).

GAAP establishes a hierarchy based on the quality of the inputs used to measure fair value. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Church. Unobservable inputs are inputs that reflect the Church's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

*Level 1*—Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Church has the ability to access and does not entail a significant degree of judgment.

*Level 2*—Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

*Level 3*—Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

St. Martin's Episcopal Church has no Level 3 assets.

St. Martin's Episcopal Church  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010 (Audited) and 2009 (Reviewed)  
(Continued)

C. **FAIR VALUE DISCLOSURES** (Continued)

Fair values of assets measured on a recurring basis are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2010 (Audited)</u>				
Equities	\$203,837	\$203,837	\$ -	\$ -
Bonds	321,824	-	321,824	-
Total	<u>\$525,661</u>	<u>\$203,837</u>	<u>\$321,824</u>	<u>\$ -</u>
<u>December 31, 2009 (Reviewed)</u>				
Equities	\$187,855	\$187,855	\$ -	\$ -
Bonds	385,959	-	385,959	-
Total	<u>\$573,814</u>	<u>\$187,855</u>	<u>\$385,959</u>	<u>\$ -</u>

D. **ENDOWMENT**

The endowment consists of an individual donor-restricted fund established for capital improvements and additions, but not repairs and maintenance, as interpreted by the vestry. If new information is made available which further clarifies the donor's intent, or based on new legal interpretation, the restriction may be changed to conform to this new information. In accordance with accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Endowment balances are included in investments in the Statement of Assets, Liabilities and Net Assets – Modified Cash Basis.

For the year ended December 31, 2010 (Audited), the Church had the following endowment-related activities:

	Unrestricted	Temporarily Restricted	Total
Investment Return			
Investment Income	\$2,055	\$ 40,025	\$ 42,080
Net Appreciation (realized and unrealized)	147	12,538	12,685
Total Investment Income	2,202	52,563	54,765
Amounts Appropriated for Expenditure	-	( 106,564)	( 106,564)
Total Change in Endowment Funds	<u>\$2,202</u>	<u>(\$ 54,001)</u>	<u>(\$ 51,799)</u>

St. Martin's Episcopal Church  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2010 (Audited) and 2009 (Reviewed)  
 (Continued)

**D. ENDOWMENT (Continued)**

For the year ended December 31, 2009 (Reviewed), the Church had the following endowment-related activities:

	Unrestricted	Temporarily Restricted	Total
Investment Return			
Investment Income	\$1,632	\$18,869	\$20,501
Net Appreciation (realized and unrealized)	449	9,374	9,823
Total Investment Income	2,081	28,243	30,324
Amounts Appropriated for Expenditure	-	( 39,275)	( 39,275)
Total Change in Endowment Funds	\$2,081	(\$11,032)	(\$ 8,951)

The endowment fund is controlled by the Vestry under the direction of the Endowment Fund Oversight Committee. Portfolio management of the fund is performed by a third party trust fund and is governed by an investment policy. The investment objective of the fund is to primarily produce income which may be used for the purposes of the Church. Investments are balanced to limit the degree of risk and to stabilize long term results.

**E. PROPERTY AND EQUIPMENT**

Property and equipment, consists of the following at December 31,:

	2010 (Audited)	2009 (Reviewed)
Land	\$ 150,043	\$ 150,043
Building	2,636,781	2,590,361
Furniture and Fixtures	85,601	85,601
Total property and equipment	2,872,425	2,826,005
Less accumulated depreciation	957,921	903,695
Net property and equipment	\$1,914,504	\$1,922,310

Depreciation expense for 2010 (Audited) and 2009 (Reviewed) was \$54,225 and \$52,981, respectively.

St. Martin's Episcopal Church  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2010 (Audited) and 2009 (Reviewed)  
 (Continued)

**F. RETIREMENT PLAN**

The Church maintains a retirement plan which qualifies under Section 403(b) of the Internal Revenue Code. The plan covers substantially all salaried employees who meet certain eligibility requirements. The plan allows participants to make voluntary contributions not to exceed amounts allowed by the Internal Revenue Code. Pension expense for the year ended December 31, 2010 (Audited) and 2009 (Reviewed) was \$20,744 and \$12,906, respectively.

**G. NOTE PAYABLE - BANK**

Note payable - bank consisted of the following at December 31,:

	2010 <u>(Audited)</u>	2009 <u>(Reviewed)</u>
Bank note payable \$3,052 per month including interest at 5.0%, secured by property, and having a maturity date of December 28, 2015.	\$457,378	\$ -
Less: amount due within one year	<u>13,762</u>	<u>463,168</u>
Total Noncurrent Portion of Note Payable - Bank	<u>\$443,616</u>	<u>\$463,168</u>

During 2010, the Church refinanced their note. Total interest expense of \$33,504 and \$30,912 was paid for the years ended December 31, 2010 (Audited) and 2009 (Reviewed), respectively.

Scheduled debt maturities are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2011	\$ 13,761
2012	14,782
2013	15,538
2014	16,333
2015	<u>396,964</u>
Total	<u>\$457,378</u>

**H. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets were restricted primarily for the improvement of the property and equipment at December 31, 2010 and 2009.

St. Martin's Episcopal Church  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010 (Audited) and 2009 (Reviewed)  
(Continued)

I. **OPERATING LEASE**

The Church leases its photocopier under an operating lease that expires in 2013. The following is a schedule of the future minimum lease payments required under the lease:

Year Ending <u>December 31,</u>	
2011	\$ 4,008
2012	4,008
2013	<u>2,004</u>
Total minimum payments required	<u>\$10,020</u>

Rent expense under these leases was \$6,516 and \$5,545 for the years ended December 31, 2010 (Audited) and 2009 (Reviewed), respectively.