

**BETHEL LUTHERAN
CHURCH AND SCHOOL**

FINANCIAL STATEMENTS

AUGUST 31, 2016

WITH

INDEPENDENT ACCOUNTANTS' REPORT

BETHEL LUTHERAN CHURCH AND SCHOOL

AUGUST 31, 2016

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Church Council
Bethel Lutheran Church and School
Cupertino, California

We have reviewed the accompanying statement of financial position of Bethel Lutheran Church and School (a nonprofit corporation) as of August 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
April 21, 2017

BETHEL LUTHERAN CHURCH AND SCHOOL

STATEMENT OF FINANCIAL POSITION AUGUST 31, 2016

ASSETS

Cash and cash equivalents	\$ 598,407
Investments	25,879
Accounts receivable	3,613
Prepaid expenses	16,999
Capital assets not depreciated	2,458,880
Capital assets, net of accumulated depreciation	994,165
Total Assets	<u>\$ 4,097,943</u>

LIABILITIES

Accounts payable	\$ 48,616
Deferred fees	202,892
Accrued payroll and taxes	83,521
Capital leases payable	35,750
Notes payable	734,829
Total Liabilities	<u>1,105,608</u>

NET ASSETS

Unrestricted	
Undesignated	2,650,486
Designated for specific purposes	150,072
Total Unrestricted	<u>2,800,558</u>
Temporarily restricted	191,777
Total Net Assets	<u>2,992,335</u>
Total Liabilities and Net Assets	<u>\$ 4,097,943</u>

The accompanying notes are an integral part of these financial statements.

BETHEL LUTHERAN CHURCH AND SCHOOL

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED AUGUST 31, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Offerings	\$ 691,170	\$ 189,020	\$ 880,190
Tuition	1,503,827	-	1,503,827
Other income	322,892	-	322,892
Net assets released from restrictions	178,519	(178,519)	-
Total revenue and other support	<u>2,696,408</u>	<u>10,501</u>	<u>2,706,909</u>
EXPENSES			
Program expenses			
Church	997,754	-	997,754
School	1,298,369	-	1,298,369
Total program expenses	<u>2,296,123</u>	<u>-</u>	<u>2,296,123</u>
Supporting services			
General and administrative	376,727	-	376,727
Rental property	60,050	-	60,050
Total supporting services	<u>436,777</u>	<u>-</u>	<u>436,777</u>
Total expenses	<u>2,732,900</u>	<u>-</u>	<u>2,732,900</u>
Change in net assets	(36,492)	10,501	(25,991)
NET ASSETS, BEGINNING OF YEAR	<u>2,837,050</u>	<u>181,276</u>	<u>3,018,326</u>
NET ASSETS, END OF YEAR	<u>\$ 2,800,558</u>	<u>\$ 191,777</u>	<u>\$ 2,992,335</u>

The accompanying notes are an integral part of these financial statements.

BETHEL LUTHERAN CHURCH AND SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED AUGUST 31, 2016

	Church	School	General and Administrative	Rental Property	Total
Payroll	\$ 406,162	\$ 853,858	\$ 212,853	\$ 28,045	\$ 1,500,918
Benefits	99,093	153,120	32,246	14	284,473
Ministry and programs	351,119	94,579	45,851	72	491,621
Technology and equipment	9,441	76,411	12,784	-	98,636
Insurance	9,584	-	5,546	3,311	18,441
Professional fees and licenses	5,413	726	4,170	1,300	11,609
Safety and security	2,212	-	5,120	6,052	13,384
Taxes and assessments	5,632	-	-	-	5,632
Utilities	16,181	14,089	7,046	8,877	46,193
Repairs and maintenance	19,732	6,928	4,622	1,159	32,441
Custodian supplies	2,682	-	7,458	1,050	11,190
Interest expense	25,987	34,292	-	-	60,279
Contracts and outside services	12,679	3,185	24,274	10,170	50,308
Banking fees	926	-	510	-	1,436
Bad debts	-	1,590	-	-	1,590
Depreciation	30,911	59,591	14,247	-	104,749
Total	<u>\$ 997,754</u>	<u>\$ 1,298,369</u>	<u>\$ 376,727</u>	<u>\$ 60,050</u>	<u>\$ 2,732,900</u>

The accompanying notes are an integral part of these financial statements.

BETHEL LUTHERAN CHURCH AND SCHOOL

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED AUGUST 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (25,991)
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation expense	104,749
Loss on disposal of equipment	80,593
Gain on investments	(879)
(Increase) decrease in:	
Accounts receivable	(1,643)
Prepaid expenses	20,827
Increase (decrease) in:	
Accounts payable	(3,715)
Deferred fees	(23,828)
Accrued payroll	3,560
Net cash provided by operating activities	<u>153,673</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of capital assets	(247,373)
Purchase of investments	(25,000)
Net cash used in investing activities	<u>(272,373)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payment of capital leases	(26,533)
Proceeds from notes payable	106,524
Net cash provided by financing activities	<u>79,991</u>
NET DECREASE IN CASH	(38,709)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>637,116</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 598,407</u>

The accompanying notes are an integral part of these financial statements.

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

NOTE #1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bethel Lutheran Church and School of Cupertino, California (hereafter "Organization") was incorporated in the State of California on June 6, 1958. The Organization is listed on the official roster of congregations affiliated with the Evangelical Lutheran Church in America (ELCA) since February 1988. It is recognized by the ELCA as being included under its Group Exemption Ruling and established as a 501(c)(3). The Organization operates a Pre-School and Elementary School through the 5th grade. The Organization's mission is to prayerfully INVITE & WELCOME people into a relationship with God, to GROW & EQUIP one another as devoted followers of Jesus Christ, and to CARE FOR & SERVE others by the power of the Holy Spirit.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards, "Financial Statements of Not-for-Profit Organizations." The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Fair Value Measurements

The carrying amounts reflected in the statement of financial position for cash, accounts receivable, accounts payable, deferred fees, and capital leases, approximate their respective fair values due to the short maturities of these instruments.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as an increase in the temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Tuition is recognized as revenue in the attendance period for which the student will attend classes. Tuition received in advance is recorded as deferred revenue until the attendance period has begun.

The Organization considers tuition receivables due on the 10th of the month and a late fee of \$30 is assessed when delinquent.

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Tax Status

The Organization is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2012 and forward may be audited by regulatory agencies, however, the Organization is not aware of any such actions at this time.

The Organization has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements. Interest and penalties related to uncertain tax positions are recorded as part of the income tax expense, if applicable.

Contributed Services

The Organization receives a significant amount of donated services by its members in carrying out the Organization's ministry. No amounts have been reflected in the financial statements for those services, as they do not meet the specialized services or services that would otherwise be paid for criteria for recognition under "Accounting for Contributions Received and Contributions Made".

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Allowance for Bad Debts

The Organization computes the allowance for doubtful accounts based on actual uncollectible accounts receivable. Uncollectible accounts over the history of the Organization have been considered immaterial and inconsistent. Therefore, no amounts have been included for an allowance for doubtful accounts.

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016

Land, Buildings, and Equipment

All property is valued at historical cost. Donated property is valued at its estimated fair value on the date donated. Depreciation is allocated based on square footage between school, church and administrative programs. The Organization's capitalization policy is to capitalize assets that exceed \$1,000 in cost and whose estimated life is expected to exceed one year. Depreciation is computed by the straight-line method, beginning in the year of acquisition at rates based on the following estimated useful lives:

Land improvements	15 years
Buildings	40 years
Building improvements	7 years
Equipment and furnishings	5-7 years
Vehicles	5 years

Real Estate Costs

Costs that clearly relate to the acquisition, development, and construction of a real estate project are capitalized. Interest costs are capitalized while development and construction is in progress, except when construction is funded by specific donations.

Statement of Cash Flows

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Retirement Plan

The Organization offers employees the opportunity for participation in a contributory 403(b) retirement plan and a pastor retirement plan. The Organization contributed a total of \$22,228 to these plans in current year.

NOTE #2 - CONCENTRATION OF CREDIT RISK FOR CASH HELD IN BANK

The Organization maintains cash balances in banks, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At various times throughout the year the Organization's cash balances exceeded FDIC coverage and by approximately \$410,000 at August 31, 2016.

NOTE #3 - PREPAID EXPENSES

Prepaid expenses consist of costs paid prior to August 31, 2016 for insurance premiums where coverage extends past August 31, 2016.

BETHEL LUTHERAN CHURCH AND SCHOOL

**NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016**

NOTE #4 - LAND, BUILDINGS AND EQUIPMENT

The changes in land, buildings and equipment for the year ended August 31, 2016 are as follows:

	Balance Beginning of Year	Increase / Adjustments	Disposals	Balance End of Year
Land	\$ 2,493,880	\$ -	\$ (35,000)	\$ 2,458,880
Capital assets not depreciated	2,493,880	-	(35,000)	2,458,880
Land improvements	289,673	-	-	289,673
Buildings	4,404,367	-	(40,606)	4,363,761
Building improvements	577,671	74,297	-	651,968
School equipment and furnishings	154,869	8,171	(26,088)	136,952
Church equipment and furnishings	646,782	33,150	(40,070)	639,862
Vehicles	30,507	131,755	(30,507)	131,755
Depreciable Capital Assets	6,103,869	247,373	(137,271)	6,213,971
Total Capital Assets	8,597,749	247,373	(172,271)	8,672,851
Less accumulated depreciation	5,206,735	104,749	(91,678)	5,219,806
Capital assets, net of depreciation	<u>\$ 3,391,014</u>	<u>\$ 142,624</u>	<u>\$ (80,593)</u>	<u>\$ 3,453,045</u>

Depreciation expense for the year ended August 31, 2016 was \$104,749.

NOTE #5 - LONG-TERM NOTES PAYABLE

Payable to Mission Investment Fund a \$674,837.91 loan, monthly principal and interest payments of \$3,786 each, beginning November 1, 2015, with unpaid interest calculated on the unpaid principal balance at an interest rate of 4.375% per annum, with final payment due on November 1, 2040. This loan is collateralized by all real property of the organization. \$ 677,085

Payable to Heritage Bank of Commerce a \$63,000 loan, monthly principal and interest payments of \$1,031.63 each, beginning November 25, 2015, with interest calculated on the unpaid principal balance at an interest rate of 5.5% per annum; with the final payment due on November 24, 2021. This loan is collateralized by a bus. 57,744

Total Notes Payable	734,829
Less current maturities	<u>(25,540)</u>
Long -Term Portion of Notes Payable	<u>\$ 709,289</u>

BETHEL LUTHERAN CHURCH AND SCHOOL

**NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016**

Current maturities for the next five years are as follows:

2017	\$	25,649
2018		26,635
2019		28,226
2020		29,610
2021		31,063
Thereafter		593,646
	\$	<u>734,829</u>

NOTE #6 – CAPITAL LEASES

Printer	\$	35,750
Less provision for interest		-
	\$	<u>35,750</u>

Monthly payments are made on the above capital leases.

2017	\$	8,580
2018		8,580
2019		8,580
2020		8,580
2021		1,430
	\$	<u>35,750</u>

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016

NOTE #7 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for the year ended August 31, 2016.

Purpose restrictions accomplished:

Endowment Fund	\$	52
Sr High Music		19,343
HUG Fund		500
Pastoral Designated		200
Mission to Mexico		25,385
Tanzania Fund		10,323
Special Fund		25,275
Internal Benevolence		1,433
Church Building Fund		2,142
Mini Bus Fund		75,009
Donor Allocated Funds		1,291
Youth Ministry		11,125
Women's Ministry		300
5th/6th Grade Education Trip		716
Track Meet		5,425
	\$	<u>178,519</u>

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016

NOTE #8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at August 31, 2016:

Legacy Circle Scholarship Fund	\$	94,032
Outreach/Education Endowment - Other		9,950
Torvend Missions Fund		22,950
Senior High Music		31
HUG Fund		799
Pastoral Fund		3,031
Mission to Mexico		1,678
Memorial Gifts		3,808
Tanzania		4,003
Special Fund		1,515
Internal Benevolence		883
Church Building Fund		13,871
Mini Bus Fund		18,831
Stephen Ministry		127
Donor Allocated Fund - Church		5,119
Donor Allocated Fund - School		111
Youth Ministry Discretion		3,815
Handbells		126
Children's Ministry		75
Women's Ministry		920
5th/6th Grade Education Trip		206
Track Meet		5,896
	\$	<u>191,777</u>

NOTE #9 - INTEREST PAID

The Organization recorded an expense and paid \$60,279 for interest for the year ended August 31, 2016. There was no accrued interest during fiscal year ended August 31, 2016.

NOTE #10 - CONCENTRATIONS

The Organization receives approximately 50 percent of its revenues from school tuitions. School enrollment was consistent with the prior year and the majority of the students are from the Cupertino area.

NOTE #12 – SUBSEQUENT EVENTS

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through April 21, 2017, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.