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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Bethel Lutheran Church Council
Bethel Lutheran Church
Cupertino, CA

We have reviewed the accompanying Statement of Financial Position of Bethel Lutheran Church (a California nonprofit corporation) as of August 31, 2007, and the related Statement of Activities, Statement of Functional Allocation of Expenses and Statement of Cash Flows for the year then ended, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Bethel Lutheran Church.

A review consists principally of inquiries of Church personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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 generally accepted accounting principles.

San Jose, California
January 31, 2008

Seeba & Associates, Inc.
Certified Public Accountants

BETHEL LUTHERAN CHURCH
 STATEMENT OF FINANCIAL POSITION
 AUGUST 31, 2007
 (Unaudited)

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	2007			
ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CURRENT ASSETS:				
Cash (Notes 1d and 3)	\$ 313,726	\$ 31,078	\$ 73,124	\$ 417,928
Accounts receivable	8,674	-	-	8,674
Investments (Notes 1e and 5)	550	-	-	550
Prepaid expenses and deposits	25,197	-	-	25,197
Total current assets	348,147	31,078	73,124	452,349
PROPERTY AND EQUIPMENT (Notes 1f, 6, and 7)				
Land, buildings and land improvements	7,217,480	-	-	7,217,480
Furniture and equipment	862,771	-	-	862,771
Vehicles	25,181	-	-	25,181
	8,105,432	-	-	8,105,432
Less - Accumulated depreciation	(4,722,030)	-	-	(4,722,030)
Total property and equipment	3,383,402	-	-	3,383,402
OTHER ASSETS:				
Notes receivable (Note 4)	-	-	55,000	55,000
Total other assets	-	-	55,000	55,000
Total assets	\$ 3,731,549	\$ 31,078	\$ 128,124	\$ 3,890,751

The accompanying notes and accountants' review report are an integral part of this statement.

BETHEL LUTHERAN CHURCH

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STATEMENT OF FINANCIAL POSITION (Continued) SUBJECT TO REVISION
AUGUST 31, 2007
(Unaudited)

	2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
LIABILITIES and NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	\$ 31,950	\$ -	\$ -	\$ 31,950
Current portion of long-term debt (Note 7)	24,853	-	-	24,853
Current portion of capitalized leases (Note 7)	15,718	-	-	15,718
Accrued expense	58,893	-	-	58,893
Unearned program fees (Note 1g)	106,699	-	-	106,699
Total current liabilities	238,113	-	-	238,113
LONG-TERM LIABILITIES (Note 7):				
Notes payable, net of current portion shown above	643,003	-	-	643,003
Capital leases payable, net of current portion shown above	20,957	-	-	20,957
Total long-term liabilities	663,960	-	-	663,960
Total liabilities	902,073	-	-	902,073
RELATED PARTY TRANSACTIONS (Note 9)				
NET ASSETS (Notes 1a, 3 and 8):				
Donor-restricted net assets	-	31,078	128,124	159,202
Unrestricted net assets —				
Board-designated net assets	76,545	-	-	76,545
Net investment in plant assets	2,678,871	-	-	2,678,871
Available for operations	74,060	-	-	74,060
Total net assets	2,829,476	31,078	128,124	2,988,678
Total liabilities and net assets	\$ 3,731,549	\$ 31,078	\$ 128,124	\$ 3,890,751

The accompanying notes and accountants' review report are an integral part of this statement.

BETHEL LUTHERAN CHURCH

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2007 SUBJECT TO REVISION
(Unaudited)

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	2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:				
General contributions	\$ 917,212	\$ 55,394	\$ -	\$ 972,606
Total support	917,212	55,394	-	972,606
Tuition and fees income	1,553,324	-	-	1,553,324
Miscellaneous income	67,095	-	-	67,095
School program income	110,400	-	-	110,400
Interest and dividend income	1,778	-	-	1,778
Total revenue	1,732,597	-	-	1,732,597
Total support and revenue	2,649,809	55,394	-	2,705,203
RECLASSIFICATION:				
Temporarily-restricted resources used for operations	34,292	(34,292)	-	-
EXPENSES:				
Program services	2,367,259	-	-	2,367,259
General and administrative	178,422	-	-	178,422
Total expenses	2,545,681	-	-	2,545,681
Change in net assets before capital reclassification	138,420	21,102	-	159,522
CAPITAL RECLASSIFICATION:				
Acquisition of fixed assets with temporarily-restricted resources	12,679	(12,679)	-	-
Change in net assets	151,099	8,423	-	159,522
NET ASSETS, beginning of year	2,678,377	22,655	128,124	2,829,156
NET ASSETS, end of year	\$ 2,829,476	\$ 31,078	\$ 128,124	\$ 2,988,678

The accompanying notes and accountants' review report are an integral part of this statement.

BETHEL LUTHERAN CHURCH
STATEMENT OF FUNCTIONAL ALLOCATION OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2007
(Unaudited)

BETHEL LUTHERAN CHURCH
STATEMENT OF FUNCTIONAL ALLOCATION OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2007
(Unaudited)

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	Church			School			2007 Total
	Program	General and Administrative	Total	Program	General and Administrative	Total	
Salaries	\$ 413,292	\$ 21,481	\$ 434,773	\$ 1,102,616	\$ 31,234	\$ 1,133,850	\$ 1,568,623
Benefits	84,083	18,169	102,252	184,089	10,233	194,322	296,574
Subtotal	497,375	39,650	537,025	1,286,705	41,467	1,328,172	1,865,197
Appreciation and benevolence	78,131	50	78,181	672	1,049	1,721	79,902
Bad debt expense	-	-	-	3,849	163	4,012	4,012
Contract and outside services	17,474	3,062	20,536	17,753	3,132	20,885	41,421
Depreciation expense (Note 1e)	78,434	13,570	92,004	-	3,600	3,600	95,604
Insurance	6,967	974	7,941	10,456	1,845	12,301	20,242
Interest expense	34,713	6,126	40,839	588	104	692	41,531
Miscellaneous	1,472	758	2,230	661	563	1,224	3,454
Missions disbursements	19,778	-	19,778	-	-	-	19,778
Printing and postage	1,289	4,384	5,673	6	1,363	1,369	7,042
Professional fees and licenses	2,868	10,021	12,889	3,231	7,237	10,468	23,357
Promotions and advertising	8,300	-	8,300	39,670	-	39,670	47,970
Program expense	105,315	796	106,111	11,532	4,000	15,532	121,643
Repairs and maintenance	8,885	1,053	9,938	5,623	596	6,219	16,157
School designated funds	-	-	-	46,414	732	47,146	47,146
Supplies and services	8,108	4,899	13,007	32,396	5,915	38,311	51,318
Taxes and assessments	-	1,363	1,363	-	2,897	2,897	4,260
Technology and equipment	1,369	6,594	7,963	1,554	4,164	5,718	13,681
Utilities	12,988	2,292	15,280	22,683	4,003	26,686	41,966
Total expenses	\$ 883,466	\$ 95,592	\$ 979,058	\$ 1,483,793	\$ 82,830	\$ 1,566,623	\$ 2,545,681

The accompanying notes and accountants' review report are an integral part of this statement.

BETHEL LUTHERAN CHURCH
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2007
(Unaudited)

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SUBJECT TO REVISION

	2007			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Cash flows from operating activities —				
Church:				
Cash receipts	\$ 928,347	\$ 55,394	\$ -	\$ 983,741
Cash disbursements	(852,528)	-	-	(852,528)
	75,819	55,394	-	131,213
School:				
Cash receipts	1,717,222	-	-	1,717,222
Cash Disbursements	(1,562,331)	-	-	(1,562,331)
	154,891	-	-	154,891
Interest expense	(41,531)	-	-	(41,531)
	189,179	55,394	-	244,573
Restricted cash used for operating purposes	34,292	(34,292)	-	-
Net cash flows from operating activities	223,471	21,102	-	244,573
Cash flows from investing activities —				
Cash extended for related party notes receivable	-	-	(24,000)	(24,000)
Cash used for fixed asset purchases	(4,133)	(12,679)	-	(16,812)
Cash received from sale of investments	58,450	-	-	58,450
Net cash flows from investing activities	54,317	(12,679)	(24,000)	17,638
Cash flows from financing activities —				
Cash used for reduction in long-term debt	(39,126)	-	-	(39,126)
Net cash flows from financing activities	(39,126)	-	-	(39,126)
Net increase (decrease) in cash	238,662	8,423	(24,000)	223,085
Cash, beginning of year	75,064	22,655	97,124	194,843
Cash, end of year	\$ 313,726	\$ 31,078	\$ 73,124	\$ 417,928

The accompanying notes and accountants' review report are an integral part of this statement.

BETHEL LUTHERAN CHURCH

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**RECONCILIATION OF CHANGE IN NET ASSETS
TO NET CASH FLOWS FROM OPERATING ACTIVITIES SUBJECT TO REVISION
FOR THE YEAR ENDED AUGUST 31, 2007
(Unaudited)**

	2007			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Cash flows from operating activities —				
Change in net assets before capital reclassification	\$ 138,420	\$ 21,102	\$ -	\$ 159,522
Adjustments for noncash expense and noncash (income) items —				
Depreciation	95,604	-	-	95,604
Gain/(loss) on asset sales	102	-	-	102
Donated assets	(58,552)	-	-	(58,552)
Net (increase)/decrease in assets —				
Accounts receivable	10,072	-	-	10,072
Prepaid assets	(8,232)	-	-	(8,232)
Net increase/(decrease) in liabilities —				
Accounts payable	(16,583)	-	-	(16,583)
Accrued expenses	18,502	-	-	18,502
Unearned program fees	44,138	-	-	44,138
Net cash flows from operating activities	<u>\$ 223,471</u>	<u>\$ 21,102</u>	<u>\$ -</u>	<u>\$ 244,573</u>

The accompanying notes and accountants' review report are an integral part of this statement.

BETHEL LUTHERAN CHURCH
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2007
(Unaudited)

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SUBJECT TO REVISION

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Bethel Lutheran Church ("the Church") prepares their financial statements using the accrual method of accounting in accordance with Financial Accounting Standards Board (FASB) Statement 116, *Accounting for Contributions Received and Contributions Made*, and Statement 117, *Financial Statements of Not-For-Profit Organizations* and follows the standards of accounting and financial reporting as outlined in the *Audit and Accounting Guide for Nonprofit Organizations*, issued by the American Institute of Certified Public Accountants. The significant accounting policies used are described as follows:

a. **Classes of Net Assets**

In accordance with FASB Statement 117, where applicable, the financial statements report amounts separately by the following classes of net assets:

- (1) Unrestricted amounts are those currently available at the discretion of the Bethel Lutheran Church Council for use in the Church's ministries, and those resources invested in land, buildings and equipment.
- (2) Temporarily-restricted amounts are those that are restricted by donors for specific operating purposes or for the acquisition of land, buildings and equipment.
- (3) Permanently-restricted net assets are those amounts in which the donor has stipulated that the principal remain intact in perpetuity. Income from the principal is considered unrestricted unless further restricted by the donor.

b. **Revenue and Expenses**

Unrestricted contributions are recognized when cash is received or ownership of donated assets is transferred to the Church.

Temporarily restricted contributions are recognized as contribution income in the Statement of Activities when cash or ownership of donated assets is transferred to the Church. These contributions are subsequently transferred to the Unrestricted Fund to cover expenses, which have been incurred in satisfaction of those restrictions. The Church has chosen to show restricted contributions, including contributions of long-lived assets, whose restrictions are met in the same reporting period, as unrestricted support.

The Church believes that the motivation for giving results as God moves the hearts of individuals. Therefore, it views any faith promises received as an expression of a desire to give based on God's future provision. Therefore, faith promises received by the Church are not recognized as contributions in the financial statements, nor are they considered conditional promises, since all conditions rest with the donor and the donor reserves the right to modify the promise.

c. **Income Allocations - Unrestricted and Temporarily-Restricted**

All income derived from investments, receivables, and the like, as well as gains and losses arising from the sale, collection or other disposition of investments and fixed assets are treated as unrestricted income unless specifically restricted by the donor.

d. **Cash Definition**

For the purposes of the Statement of Cash Flows, cash includes all monies in banks and highly-liquid investments with original maturity dates of less than three months.

BETHEL LUTHERAN CHURCH
NOTES TO FINANCIAL STATEMENTS (continued)
AUGUST 31, 2007
(Unaudited)

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e. **Investments**

Investments are carried at market value as of the last day of the fiscal year. All unrealized gains and losses are recorded as income in the current year as required by FASB Statement 124.

f. **Property and Equipment**

Property and equipment valued at \$2,000 or more is recorded at cost if purchased, or at estimated fair market value at the date of gift, if donated.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	Lives In <u>Years</u>
Building and land improvements	15-40
Building improvements	15
Furniture and equipment	5-7
Vehicles	5

g. **Unearned Program Fees**

During the year, the Church receives registration and tuition fees for their school program which relate to the next school year. Those monies are reported as current liabilities. Revenue is recognized during the school year to which the payments apply.

h. **Donated Goods and Services**

A large number of people have contributed significant amounts of time to the activities of the Church. The financial statements do not reflect the value of these contributed services because they do not meet the recognition criteria of FASB Statement 116. If these activities could be valued in the accompanying financial statements, their inclusion would significantly increase the percent of expenses attributable to direct program expenditures.

Donated goods and services for capital projects are recorded at their fair market value at the date of gift or service.

i. **Use of Estimates in the Preparation of Financial Statements**

The preparation of these financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

j. **Functional Allocation of Expenses**

Financial Accounting Standards (FASB) Statement 117 recommends that all nonprofit organizations classify expenses so that the functional use of resources is shown in the financial statements. Functional classification allocates expenses according to the purpose for which the costs are incurred. Examples of functional classifications are program services (those directly related to the purposes for which the organization exists, i.e., program) and supporting activities (those indirectly related to the purposes for which the organization exists but necessary for its conduct, i.e., general and administrative). Costs have been allocated using the guidelines from Standard Operating Procedure 98-2.

BETHEL LUTHERAN CHURCH
NOTES TO FINANCIAL STATEMENTS (continued)
AUGUST 31, 2007
(Unaudited)

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k. **Tax Exemption Status**

The Church is exempt from Federal and State income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. The Internal Revenue Service has further determined that the Church is not a private foundation.

2. ORGANIZATION AND HISTORY

The Church was started in 1957, as a ministry of the Evangelical Lutheran Church. The Church was separately incorporated in 1958 as Bethel Lutheran Church and currently operates a preschool and an elementary school on the premises as part of the programs supported by the Church.

3. CASH

a. As of August 31, 2007, cash funds held by the Church were committed as follows:

Total cash	\$	417,928
Cash restricted by donors:		
Temporarily restricted cash		31,078
Permanently restricted cash		73,124
Unrestricted cash		313,726
Cash designated by Church Council		76,545
Cash available for operations	\$	237,181

b. Total cash and investments held by the Church at August 31, 2007, including amounts to cover outstanding checks, included \$352,251 in monies which are not covered by insurance provided by the Federal Deposit Insurance Corporation or Securities Investors Protection Corporation. The Church's funds are on deposit with Santa Clara Valley National Bank and Thrivent Financial for Lutherans.

4. NOTES RECEIVABLE

a. On January 1, 2005, the Church created a five-year annuity arrangement with one of the pastors, not to exceed \$60,000, to aid in the purchase of a residence. The pastor is to receive a payment of \$1,000 per month for sixty months which constitutes a loan from the Church. The loan agreement calls for payment of interest only, calculated at three percent, during the funding of the loan. A balloon payment for the principal balance is due in January 2010. Funding of the loan is made from permanently-restricted net assets. The balance of the note receivable at August 31, 2007 is \$32,000.

b. On October 1, 2005, the Church created a five-year annuity arrangement with another of its pastors, not to exceed \$60,000, to aid in the purchase of a residence. The pastor is to receive a payment of \$1,000 per month for sixty months which constitutes a loan from the Church. The loan agreement calls for payment of interest only, calculated at three percent, during the funding of the loan. A balloon payment for the principal balance is due in October 2010. Funding of the loan is made from permanently-restricted net assets. The balance of the note receivable at August 31, 2007 is \$23,000.

BETHEL LUTHERAN CHURCH
NOTES TO FINANCIAL STATEMENTS (continued)
AUGUST 31, 2007
(Unaudited)

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5. INVESTMENTS

Investments held by the Church at August 31, 2007 consist of common stock held at Thrivent Financial for Lutherans.

6. PROPERTY AND EQUIPMENT

- a. The August 31, 2007 balance for land, buildings, and land improvements includes \$2,458,880 of land, which is not depreciable.
- b. The August 31, 2007 balance for furniture and equipment includes \$78,529 of leased equipment that has been capitalized. Lease amortization of \$26,196 has been included in accumulated depreciation. (See Note 7c.)

7. NOTES PAYABLE

- a. On December 23, 2003, the Church refinanced its existing loan with Thrivent Financial in the amount of \$352,787 and borrowed an additional \$394,445 for capital improvements for a total loan balance of \$747,232. The loan calls for payments of \$5,354 over the 20-year life of the loan. The interest rate for the life of the loan is 6.0 percent. The loan is secured by assets of the Church. The loan balance on August 31, 2007 is \$667,856.
- b. The Church has a \$250,000 line of credit available with Santa Clara Valley National Bank. The credit line bears interest at 9.25% and is secured by the Church's property. At August 31, 2007 there was no balance due on the line of credit.
- c. On January 1, 2005, the Church entered into a five-year capital lease agreement with De Lage Landen Financial Services, Inc. for two Konica copiers valued at \$78,589. The lease is secured by the equipment and calls for monthly loan payments of \$1,310 with an effective interest rate of zero percent. The lease is secured by the equipment. The balance of principal payments on the leased equipment on August 31, 2007 is \$36,675.
- d. As of August 31, 2007, principal that is required to be paid for all notes payable are as follows:

<u>Year Ending August 31,</u>		
2008	\$	40,571
2009		42,104
2010		33,252
2011		29,741
2012		31,575
Thereafter		527,288
	<u>\$</u>	<u>704,531</u>

BETHEL LUTHERAN CHURCH
NOTES TO FINANCIAL STATEMENTS (continued)
AUGUST 31, 2007
(Unaudited)

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8. NET ASSETS

a. Temporarily-Restricted Net Assets

Net assets in the amount of \$31,078 at August 31, 2007, have been restricted by donors (Note 3) as follows.

Tanzania	\$	4,467
Church Building Fund		6,690
DAF Restricted Fund		9,000
Youth Ministry		4,244
Other restricted funds		6,677
		31,078
	\$	31,078

b. Permanently-Restricted Net Assets

Permanently-restricted net assets have been established in an Outreach/Education Fund. Income from this fund is to be used for missions outreach, educational and charitable work of the Church or the programs of Evangelical Lutheran Church of America or the Sierra Pacific Synod of the Evangelical Lutheran Church in America. Any income not distributed within twelve months after the end of the calendar year in which it was earned must be added to and become part of the principal of the Fund. The principal is to remain intact in a perpetual fund managed by Trustees elected by the Church. Loans of principal from the Fund are prohibited except for extreme financial need of the Church. The balance at August 31, 2007 is \$128,124.

c. Designated Net Assets

The Bethel Lutheran Church Council has designated net assets of \$76,545 at August 31, 2007, (Note 3) as follows.

Church:		
Women's Ministry	\$	6,048
Capital improvements		6,000
Senior High music		5,254
Other designated net assets		6,956
Church designated net assets		24,258
School:		
Principal Discretionary Fund		16,764
OPO Fund		7,488
Annual Giving Fund		21,108
Other designated net assets		6,927
School designated net assets		52,287
Total designated net assets	\$	76,545

9. RELATED PARTY TRANSACTIONS

Note receivable agreements were entered into with two pastors of the Church (Note 4).