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ACCOUNTANTS' COMPILATION REPORT

Bethel Lutheran Church Council
Bethel Lutheran Church
Cupertino, CA

We have compiled the accompanying Statement of Financial Position of Bethel Lutheran Church (a California nonprofit corporation) as of August 31, 2008, 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.

A compilation is limited to presenting, in the form of financial statements, information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

We are not independent with respect to Bethel Lutheran Church.

San Jose, California
February 6, 2009



Seeba & Associates, Inc.
Certified Public Accountants

BETHEL LUTHERAN CHURCH

STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2008
(Unaudited)

	2008			
ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CURRENT ASSETS:				
Cash (Notes 1d and 3)	\$ 371,563	\$ 49,665	\$ 90,024	\$ 511,252
Accounts receivable	30,064	-	-	30,064
Investments (Notes 1e and 5)	7,483	-	-	7,483
Prepaid expenses and deposits	17,621	-	-	17,621
Total current assets	426,731	49,665	90,024	566,420
PROPERTY AND EQUIPMENT (Notes 1f, 6, and 7):				
Land, buildings and land improvements	7,487,963	-	-	7,487,963
Furniture and equipment	755,579	-	-	755,579
Vehicles	25,181	-	-	25,181
	8,268,723	-	-	8,268,723
Less - Accumulated depreciation	(4,706,757)	-	-	(4,706,757)
Total property and equipment	3,561,966	-	-	3,561,966
OTHER ASSETS:				
Loan fees net of \$0 amortization (Note 7a)	6,472	-	-	6,472
Cash restricted for investment in long-term assets (Note 8a)	-	27,850	-	27,850
Notes receivable to related parties (Note 4)	-	-	71,000	71,000
Total other assets	6,472	27,850	71,000	105,322
Total assets	\$ 3,995,169	\$ 77,515	\$ 161,024	\$ 4,233,708

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

BETHEL LUTHERAN CHURCH

STATEMENT OF FINANCIAL POSITION (Continued)
AUGUST 31, 2008
(Unaudited)

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
LIABILITIES and NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	\$ 44,807	\$ -	\$ -	\$ 44,807
Current portion of long-term debt (Note 7)	22,853	-	-	22,853
Current portion of capitalized leases (Note 7)	15,718	-	-	15,718
Accrued expenses	59,907	-	-	59,907
Unearned program fees (Note 1g)	218,844	-	-	218,844
Total current liabilities	362,129	-	-	362,129
LONG-TERM LIABILITIES (Note 7):				
Notes payable, net of current portion shown above	846,622	-	-	846,622
Capital leases payable, net of current portion shown above	5,239	-	-	5,239
Total long-term liabilities	851,861	-	-	851,861
Total liabilities	1,213,990	-	-	1,213,990
RELATED PARTY TRANSACTIONS (Note 9)				
SUBSEQUENT EVENT (Note 11)				
NET ASSETS (Notes 1a, 3 and 8):				
Donor-restricted net assets	-	77,515	161,024	238,539
Unrestricted net assets —				
Board-designated net assets	51,891	-	-	51,891
Net investment in plant assets	2,678,006	-	-	2,678,006
Available for operations	51,282	-	-	51,282
Total net assets	2,781,179	77,515	161,024	3,019,718
Total liabilities and net assets	\$ 3,995,169	\$ 77,515	\$ 161,024	\$ 4,233,708

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

BETHEL LUTHERAN CHURCH

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2008
(Unaudited)**

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE:				
General contributions	\$ 874,896	\$ 128,010	\$ 32,900	\$ 1,035,806
Noncash contributions (Note 1h)	48,389	-	-	48,389
Total support	923,285	128,010	32,900	1,084,195
Tuition and fees income	1,397,843	-	-	1,397,843
Miscellaneous income	141,047	-	-	141,047
School program income	62,386	-	-	62,386
Interest and dividend income	6,094	-	-	6,094
Gain/(loss) on investments	(753)	-	-	(753)
Total revenue	1,606,617	-	-	1,606,617
Total support and revenue	2,529,902	128,010	32,900	2,690,812
RECLASSIFICATION:				
Temporarily-restricted resources used for operations	64,666	(64,666)	-	-
EXPENSES:				
Program services	2,351,759	-	-	2,351,759
General and administrative	308,013	-	-	308,013
Total expenses	2,659,772	-	-	2,659,772
Change in net assets before capital reclassification	(65,204)	63,344	32,900	31,040
CAPITAL RECLASSIFICATION:				
Acquisition of fixed assets with temporarily-restricted resources	16,907	(16,907)	-	-
Change in net assets	(48,297)	46,437	32,900	31,040
NET ASSETS, beginning of year	2,829,476	31,078	128,124	2,988,678
NET ASSETS, end of year	\$ 2,781,179	\$ 77,515	\$ 161,024	\$ 3,019,718

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

BETHEL LUTHERAN CHURCH

STATEMENT OF FUNCTIONAL ALLOCATION OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2008
(Unaudited)

	Church			School			2008 Total
	Program	General and Administrative	Total	Program	General and Administrative	Total	
Salaries	\$ 424,155	\$ 21,864	\$ 446,019	\$ 1,044,678	\$ 44,013	\$ 1,088,691	\$ 1,534,710
Benefits	79,508	21,408	100,916	163,765	11,547	175,312	276,228
Subtotal	503,663	43,272	546,935	1,208,443	55,560	1,264,003	1,810,938
Appreciation and benevolence	103,357	16,135	119,492	769	638	1,407	120,899
Contract and outside services	15,581	6,860	22,441	15,997	2,221	18,218	40,659
Depreciation expense (Note 1f)	14,990	58,182	73,172	10,458	1,846	12,304	85,476
Insurance	17,420	2,843	20,263	4,837	854	5,691	25,954
Interest expense	22,981	18,294	41,275	-	-	-	41,275
Miscellaneous	709	972	1,681	30	736	766	2,447
Missions disbursements	35,052	-	35,052	-	-	-	35,052
Printing and postage	1,648	8,817	10,465	21	831	852	11,317
Professional fees and licenses	11,500	2,764	14,264	7,864	1,105	8,969	23,233
Promotions and advertising	2,911	-	2,911	23,563	-	23,563	26,474
Program expense	134,513	13,705	148,218	10,357	31,010	41,367	189,585
Repairs and maintenance	30,031	4,048	34,079	6,423	522	6,945	41,024
School designated funds	-	-	-	68,411	-	68,411	68,411
Supplies and services	9,141	7,970	17,111	40,543	11,917	52,460	69,571
Taxes and assessments	3,006	530	3,536	-	-	-	3,536
Technology and equipment	859	7,737	8,596	1,880	3,019	4,899	13,495
Utilities	31,872	5,625	37,497	12,929	-	12,929	50,426
Total expenses	\$ 939,234	\$ 197,754	\$ 1,136,988	\$ 1,412,525	\$ 110,259	\$ 1,522,784	\$ 2,659,772

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

BETHEL LUTHERAN CHURCH

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2008
(Unaudited)**

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Cash flows from operating activities —				
Church:				
Cash receipts	\$ 1,022,037	\$ 128,010	\$ 32,900	\$ 1,182,947
Cash disbursements	(1,021,645)	-	-	(1,021,645)
	392	128,010	32,900	161,302
School:				
Cash receipts	1,550,984	-	-	1,550,984
Cash Disbursements	(1,510,480)	-	-	(1,510,480)
	40,504	-	-	40,504
Interest expense	(41,275)	-	-	(41,275)
Restricted cash used for operating purposes	64,666	(64,666)	-	-
Net cash flows from operating activities	64,287	63,344	32,900	160,531
Cash flows from investing activities —				
Cash extended for related party notes receivable	-	-	(16,000)	(16,000)
Cash used for fixed asset purchases	(226,582)	(16,907)	-	(243,489)
Cash received from sale of investments	40,703	-	-	40,703
Net cash flows from investing activities	(185,879)	(16,907)	(16,000)	(218,786)
Cash flows from financing activities —				
Cash donated for long-term purposes	-	(27,850)	-	(27,850)
Cash proceeds from new loan	220,000	-	-	220,000
Cash used for reduction in long-term debt	(40,571)	-	-	(40,571)
Net cash flows from financing activities	179,429	(27,850)	-	151,579
Net increase (decrease) in cash	57,837	18,587	16,900	93,324
Cash, beginning of year	313,726	31,078	73,124	417,928
Cash, end of year	\$ 371,563	\$ 49,665	\$ 90,024	\$ 511,252

For noncash transactions reference Note 10.

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

BETHEL LUTHERAN CHURCH

**RECONCILIATION OF CHANGE IN NET ASSETS
TO NET CASH FLOWS FROM OPERATING ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2008
(Unaudited)**

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Cash flows from operating activities —				
Change in net assets before capital reclassification	\$ (65,204)	\$ 63,344	\$ 32,900	\$ 31,040
Adjustments for noncash expense and noncash (income) items —				
Depreciation	85,476	-	-	85,476
(Gain)/loss on asset sales	753	-	-	753
Donated assets	(48,389)	-	-	(48,389)
Net (increase)/decrease in assets —				
Accounts receivable	(21,390)	-	-	(21,390)
Prepaid assets	7,576	-	-	7,576
Net increase/(decrease) in liabilities —				
Accounts payable	(7,694)	-	-	(7,694)
Accrued expenses	1,014	-	-	1,014
Unearned program fees	112,145	-	-	112,145
Net cash flows from operating activities	\$ 64,287	\$ 63,344	\$ 32,900	\$ 160,531

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

BETHEL LUTHERAN CHURCH
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2008
(Unaudited)

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 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, 2008
(Unaudited)

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 \$1,000 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, 2008
(Unaudited)

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, 2008, cash funds held by the Church were committed as follows:

Total cash	\$ 539,102
Cash restricted by donors:	
Less: Cash restricted for long-term purposes shown as other assets	<u>27,520</u>
Subtotal	511,252
Temporarily-restricted cash	49,665
Permanently-restricted cash	<u>90,024</u>
Unrestricted cash	371,563
Cash designated by Church Council	<u>51,891</u>
Cash available for operations	<u>\$ 319,672</u>

b. Total cash and investments held by the Church at August 31, 2008, including amounts to cover outstanding checks, included \$469,774 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 Wells Fargo 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 note receivable balance increased by only \$5,000 during the year as monthly payments stopped after January 2008. The balance of the note receivable at August 31, 2008 is \$37,000.

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, 2008 is \$34,000.

BETHEL LUTHERAN CHURCH

NOTES TO FINANCIAL STATEMENTS (continued)
AUGUST 31, 2008
(Unaudited)

5. INVESTMENTS

Investments held by the Church at August 31, 2008 consist of common stock held at Thrivent Financial for Lutherans.

6. PROPERTY AND EQUIPMENT

- a. The August 31, 2008 balance for land, buildings, and land improvements includes \$2,458,880 of land, which is not depreciable.
- b. The August 31, 2008 balance for furniture and equipment includes \$78,592 of leased equipment that has been capitalized. Lease amortization of \$57,632 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 is secured by assets of the Church. In July 2008, the Church refinanced the existing loan in the amount of \$647,289 and borrowed an additional \$220,000 for a solar panel and building improvements for a total loan balance of \$873,721. The loan calls for payments of \$6,395 over the 20-year life of the loan. The interest rate for the life of the loan is 6.27 percent. The refinance fee of \$6,427 incurred is capitalized and amortized over 20 years. The loan balance on August 31, 2008 is \$869,475.
- 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, 2008 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 \$78,592. 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, 2008 is \$20,957.
- d. As of August 31, 2008, principal that is required to be paid for all notes payable are as follows:

<u>Year Ending August 31,</u>	
2009	\$ 38,591
2010	29,589
2011	25,922
2012	27,594
2013	29,375
Thereafter	739,361
	<u>\$ 890,432</u>

BETHEL LUTHERAN CHURCH

NOTES TO FINANCIAL STATEMENTS (continued)
AUGUST 31, 2008
(Unaudited)

8. NET ASSETS

a. **Temporarily-Restricted Net Assets**

Net assets in the amount of \$77,515 at August 31, 2008, have been restricted by donors (Note 3) as follows.

Restricted for long-term purposes:	
Mini Bus Fund	\$ 27,350
Playground Fund	500
Total restricted for long-term purposes	27,850
Restricted for operations:	
Mission to Mexico	5,405
DAF Restricted Fund	6,458
Asian Ministry	28,996
Other restricted funds	8,806
	\$ 77,515

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, 2008 is \$161,024.

c. **Designated Net Assets**

The Bethel Lutheran Church Council has designated net assets of \$51,891 at August 31, 2008, (Note 3) as follows.

Church:	
Senior High music	\$ 2,024
Women's Ministry	5,370
Outreach/Education	6,332
Other designated net assets	1,648
Church designated net assets	15,374
School:	
Principal Discretionary Fund	8,522
OPO Fund	11,677
Annual Giving Fund	8,061
Other designated net assets	8,257
School designated net assets	36,517
Total designated net assets	\$ 51,891

9. RELATED PARTY TRANSACTIONS

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

BETHEL LUTHERAN CHURCH

NOTES TO FINANCIAL STATEMENTS (continued)

AUGUST 31, 2008

(Unaudited)

10. NONCASH TRANSACTIONS

The statement of cash flows does not include \$6,427 of loan fees financed with long-term debt.

11. SUBSEQUENT EVENT

In January 2009, the Church entered into a five-year capital lease agreement with De Lage Landen Financial Services, Inc. for two Konica copiers valued at \$61,800. The lease is secured by the equipment and calls for monthly loan payments of \$1,110 with an effective interest rate of 3 percent. The lessor paid \$17,030 to the Church to cover the remaining obligation on the Church's current copier lease to be paid through December 2009.