

**BETHEL LUTHERAN
CHURCH AND SCHOOL**

FINANCIAL STATEMENTS

AUGUST 31, 2011

WITH

INDEPENDENT ACCOUNTANTS' REPORT

BETHEL LUTHERAN CHURCH AND SCHOOL

AUGUST 31, 2011

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VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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 organization) as of August 31, 2011, 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
January 30, 2012

BETHEL LUTHERAN CHURCH AND SCHOOL

STATEMENT OF FINANCIAL POSITION AUGUST 31, 2011

ASSETS

Cash and cash equivalents	\$ 317,850
Accounts receivable, less allowance for bad debts of \$3,860	40,490
Prepaid expenses	42,291
Capital assets not depreciated	2,458,880
Capital assets, net of accumulated depreciation	1,036,836
Total Assets	<u>\$ 3,896,347</u>

LIABILITIES

Accounts payable	\$ 13,381
Deferred fees	162,659
Accrued payroll and taxes	68,681
Capital leases payable	44,094
Notes payable	803,943
Total liabilities	<u>1,092,758</u>

NET ASSETS

Unrestricted	
Undesignated	2,539,057
Designated for specific purposes	93,954
Total unrestricted	<u>2,633,011</u>
Temporarily restricted	170,578
Total net assets	<u>2,803,589</u>

Total liabilities and net assets	<u>\$ 3,896,347</u>
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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, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Offerings	\$ 759,205	\$ 116,508	\$ 875,713
Tuition	1,109,030	-	1,109,030
Other income	224,180	-	224,180
Net assets released from restrictions	100,458	(100,458)	-
Total revenue and other support	<u>2,192,873</u>	<u>16,050</u>	<u>2,208,923</u>
EXPENSES			
Program expenses			
Church	861,570	-	861,570
School	1,110,341	-	1,110,341
Total program expenses	<u>1,971,911</u>	<u>-</u>	<u>1,971,911</u>
Supporting services			
General and administrative	228,338	-	228,338
Rental property	42,034	-	42,034
Total supporting services	<u>270,372</u>	<u>-</u>	<u>270,372</u>
Total expenses	<u>2,242,283</u>	<u>-</u>	<u>2,242,283</u>
Change in net assets	(49,410)	16,050	(33,360)
NET ASSETS, BEGINNING OF YEAR	<u>2,682,421</u>	<u>154,528</u>	<u>2,836,949</u>
NET ASSETS, END OF YEAR	<u>\$ 2,633,011</u>	<u>\$ 170,578</u>	<u>\$ 2,803,589</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, 2011

	Church	School	General and Administrative	Rental Property	Total 2011
Payroll and benefits	\$ 402,854	\$ 786,233	\$ 98,400	\$ 3,282	\$ 1,290,769
Benefits	100,071	117,834	24,971	422	243,298
Ministry and programs	233,667	44,927	44,987	3,169	326,750
Technology and equipment	17,092	53,488	6,243	-	76,823
Insurance	10,500	-	5,175	3,710	19,385
Professional fees and licenses	9,242	350	2,828	1,907	14,327
Safety and security	2,408	-	2,185	3,123	7,716
Taxes and assessments	3,679	-	-	-	3,679
Utilities	11,737	11,102	4,777	9,811	37,427
Repairs and maintenance	23,464	2,769	584	2,837	29,654
Custodian supplies	1,496	-	3,813	123	5,432
Interest expense	15,089	30,144	3,733	-	48,966
Contracts and outside services	7,632	2,709	9,867	13,650	33,858
Banking fees	2,588	109	697	-	3,394
Bad debts	-	-	1,193	-	1,193
Depreciation	20,051	60,676	18,885	-	99,612
Total	<u>\$ 861,570</u>	<u>\$ 1,110,341</u>	<u>\$ 228,338</u>	<u>\$ 42,034</u>	<u>\$ 2,242,283</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, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (33,360)
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation expense	99,612
(Increase) decrease in:	
Accounts receivable	1,172
Prepaid expenses	(20,493)
Increase (decrease) in:	
Accounts payable	(1,231)
Deferred fees	18,023
Accrued payroll	2,143
Net cash provided by operating activities	<u>65,866</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of capital assets	<u>(32,291)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payment of capital leases	(967)
Repayment of notes payable	<u>(18,668)</u>
Net cash used by financing activities	<u>(19,635)</u>
NET INCREASE IN CASH	13,940
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>303,910</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 317,850</u>

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

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2011

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 (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, 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, 2011

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 qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for income taxes. The Organization is not a private foundation.

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 SFAS No. 116, "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 has historically computed the allowance for bad debts for tuition receivables at 2% of the outstanding balance plus any identified bad debts and has not historically needed an allowance for contribution revenue. During 2010/11, the Organization changed the calculation of the tuition revenue allowance for bad debts to \$100/month, resulting in an allowance of \$3,860 as of August 31, 2011.

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.

BETHEL LUTHERAN CHURCH AND SCHOOL

**NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2011**

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 \$18,512 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 for interest bearing accounts and unlimited for noninterest bearing accounts. At various times throughout the year the Organization’s cash balances exceeded FDIC coverage.

NOTE #3 - PREPAID EXPENSES

Prepaid expenses consist of costs paid prior to August 31, 2011 for insurance premiums where coverage extends past August 31, 2011.

NOTE #4 - LAND, BUILDINGS AND EQUIPMENT

The changes in land, buildings and equipment for the year ended August 31, 2011 are as follows:

	Balance Beginning of Year	Increase	Disposals	Balance End of Year
Land	\$ 2,458,880	\$ -	\$ -	\$ 2,458,880
Capital assets not depreciated	2,458,880	-	-	2,458,880
Land improvements	424,442	-	-	424,442
Buildings	4,361,243	2,400	12,450	4,351,193
Building improvements	307,649	-	-	307,649
School equipment and furnishings	129,835	21,857	-	151,692
Church equipment and furnishings	631,782	8,034	-	639,816
Vehicles	30,507	-	-	30,507
Depreciable Capital Assets	5,885,458	32,291	12,450	5,905,299
Total Capital Assets	8,344,338	32,291	12,450	8,364,179
Less accumulated depreciation	(4,781,301)	(99,612)	(12,450)	(4,868,463)
Capital assets, net of depreciation	\$ 3,563,037	\$ (67,321)	\$ -	\$ 3,495,716

Depreciation expense for the year ended August 31, 2011 was \$99,612.

BETHEL LUTHERAN CHURCH AND SCHOOL

**NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2011**

NOTE #5 - LONG-TERM NOTES PAYABLE

Payable to Thrivent Financial for Lutherans a \$811,372.70 loan, monthly principal and interest payments of \$5,931 each, beginning July 1, 2011, with interest calculated on the unpaid principal balance at an interest rate of 5.125% per annum; with the final payment due on August 1, 2028. This loan is collateralized by all real property of the organization.

	\$ 803,943
Less current maturities	<u>28,066</u>
Long -Term Portion of Notes Payable	<u><u>\$ 775,877</u></u>

Current maturities for the next five years are as follows:

2012	\$ 28,066
2013	34,911
2014	33,989
2015	35,772
2016	37,649
Thereafter	<u>633,556</u>
	<u><u>\$ 803,943</u></u>

NOTE #6 – CAPITAL LEASES

Printer	\$ 28,700
Phones	15,394
	<u><u>\$ 44,094</u></u>

Monthly payments are made on the above capital leases.

2012	\$ 15,440
2013	16,503
2014	6,965
2015	4,448
2016	738
	<u><u>\$ 44,094</u></u>

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2011

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, 2011.

Purpose restrictions accomplished:

Sr High Music	\$	18,912
HUG Fund		140
Pastoral Designated		815
Mission to Mexico		16,571
Memorial Gifts Fund		8,300
Tanzania Fund		9,393
Special Fund		24,671
Internal Benevolence		1,761
Mini Bus Fund		9,848
Stephen Ministry Fund		468
Donor Allocated Funds		1,376
Youth Miniministry		304
Children's Ministry		735
Women's Ministry		800
Audio Visual fund		75
Asian Ministry		1,090
Evergreens		93
5th/6th Grade Education Trip		1,959
Playground Maintenance		152
		<u>2,995</u>
	\$	<u><u>100,458</u></u>

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2011

NOTE #8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at August 31, 2011:

Legacy Circle Scholarship Fund	\$	9,950
Torvend Missions Fund		22,950
Outreach/Education Endowment - Other		92,890
Senior High Music		2,539
HUG Fund		2,990
Pastoral Fund		915
Mission to Mexico		790
Memorial Gifts		1,078
Tanzania		5,143
Internal Benevolence		1,947
Church Building Fund		107
Donor Allocated Fund - Church		1,232
Donor Allocated Fund - School		15,530
Youth Ministry Discretion		1,754
Handbells		125
Children's Ministry		133
Women's Ministry		835
Asian Ministry		944
Evergreens		442
5th/6th Grade Education Trip		336
Mini Bus Fund		7,500
Playground Maintenance Fund		448
	\$	<u>170,578</u>

NOTE #9 - INTEREST PAID

The Organization recorded an expense and paid \$48,966 for interest for the year ended August 31, 2011. There was no accrued interest during fiscal year ended August 31, 2011.

NOTE #10 - CONCENTRATIONS

The Organization receives approximately 51 percent of its revenues from school tuitions. School enrollment has stabilized in comparison to 2009-2010 and the majority of the students are from the Cupertino area.

NOTE #13 – 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 January 30, 2012, 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.