BETHEL LUTHERAN CHURCH AND SCHOOL

FINANCIAL STATEMENTS

AUGUST 31, 2010

WITH

INDEPENDENT ACCOUNTANTS' REPORT

BETHEL LUTHERAN CHURCH AND SCHOOL

AUGUST 31, 2010

CONTENTS

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

VALUE THE DIFFERENCE

INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Board of Deacons
Bethel Lutheran Church and School
Cupertino, California

We have compiled the accompanying statement of financial position of Bethel Lutheran Church and School (a nonprofit organization) as of August 31, 2010, and the related statements of activities, functional expenses, and 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.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
January 3, 2011

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BETHEL LUTHERAN CHURCH AND SCHOOL

STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2010

ASSETS		
Cash and cash equivalents	$	303,910
Accounts receivable,		
less allowance for bad debts of $3,860		41,662
Prepaid expenses		21,798
Capital assets not depreciated		2,458,880
Capital assets, net of accumulated depreciation		1,104,157
Total Assets	$	3,930,407
LIABILITIES		
Accounts payable	$	14,612
Deferred fees		144,636
Accrued payroll and taxes		66,538
Capital leases payable		45,061
Notes payable		822,611
Total liabilities		1,093,458
NET ASSETS		
Unrestricted		
Undesignated		2,578,887
Designated for specific purposes		103,534
Total unrestricted		2,682,421
Temporarily restricted		154,528
Total net assets		2,836,949
Total liabilities and net assets	$	3,930,407

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, 2010

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Offerings	$ 805,995	$ 62,823	$ 868,818
Tuition	1,084,011	-	1,084,011
Other income	117,761	-	117,761
Net assets released from restrictions	101,825	(101,825)	-
Total revenue and other support	2,109,592	(39,002)	2,070,590
EXPENSES			
Program expenses			
Church	836,309	-	836,309
School	1,080,242	-	1,080,242
Total program expenses	1,916,551	-	1,916,551
Supporting services			
General and administrative	202,852	-	202,852
Rental property	29,277	-	29,277
Total supporting services	232,129	-	232,129
Total expenses	2,148,680	-	2,148,680
Change in net assets	(39,088)	(39,002)	(78,090)
NET ASSETS, BEGINNING OF YEAR	2,721,509	193,530	2,915,039
NET ASSETS, END OF YEAR	$ 2,682,421	$ 154,528	$ 2,836,949

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, 2010

	Church	School	General and Administrative	Rental Property	Total 2010
Payroll and benefits	$ 439,575	$ 753,726	$ 92,400	$ 1,828	$ 1,287,529
Benefits	94,921	111,833	19,503	237	226,494
Ministry and programs	198,901	51,068	39,680	1,177	290,826
Technology and equipment	5,484	45,643	1,910	-	53,037
Insurance	6,002	-	5,605	3,850	15,457
Professional fees and licenses	4,687	1,133	1,151	-	6,971
Safety and security	2,974	-	4,101	4,901	11,976
Taxes and assessments	3,817	-	-	-	3,817
Utilities	11,470	11,143	4,552	7,524	34,689
Repairs and maintenance	12,282	2,120	530	1,845	16,777
Custodian supplies	1,218	-	2,369	-	3,587
Interest expense	17,969	31,494	3,761	-	53,224
Contracts and outside services	7,740	2,150	10,377	7,915	28,182
Banking fees	3,008	5,110	-	-	8,118
Bad debts	-	3,860	-	-	3,860
Depreciation	26,261	60,962	16,913	-	104,136
Total	$ 836,309	$ 1,080,242	$ 202,852	$ 29,277	$ 2,148,680

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, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (78,090)
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation expense	104,136
Loss on disposal of capital assets	9,949
(Increase) decrease in:	
Accounts receivable	56,389
Prepaid expenses	(3,455)
Increase (decrease) in:	
Accounts payable	(10,085)
Deferred fees	26,897
Accrued payroll	(2,933)
Net cash provided by operating activities	102,808
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of capital assets	(35,025)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payment of capital leases	(21,118)
Repayment of notes payable	(24,328)
Net cash used by financing activities	(45,446)
NET INCREASE IN CASH	22,337
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	281,573
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 303,910

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

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 10^{th} of the month and a late fee of $30 is assessed when delinquent.

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 computes 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 computation related to contributions.

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 $16,839 to these plans in current year.

New Accounting Pronouncement

Subsequent Events

In May 2009, the Financial Accounting Standards Board (FASB) issued guidance which requires the effects of events that occur subsequent to the balance sheet date be evaluated through the date the financial statements are either issued or available to be issued. Entities are to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. Entities are required to reflect in their financial statements the effects of subsequent events that provide additional evidence about conditions at the balance sheet date (recognized subsequent events). Entities are also prohibited from reflecting in their financial statements the effects of subsequent events that provide evidence about condition that arose after the balance sheet date (nonrecognized subsequent events), but requires information about those events to be disclosed if the financial statements would otherwise be misleading. This guidance was effective for annual financial periods ended after June 15, 2009 with prospective application. The Organization adopted the guidance for the year ended June 30, 2010, by including the required disclosures in Note 13 to the financial statements.

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

The Organization maintains cash balances in excess of $250,000 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. As of June 30, 2010, the cash balances exceeded the Federal Deposit Insurance Corporation coverage by approximately $50,000.

NOTE #3 - PREPAID EXPENSES

Prepaid expenses consist of costs paid prior to August 31, 2010 for insurance premiums where coverage extends past August 31, 2010, and unamortized loan origination fees.

NOTE #4 - LAND, BUILDINGS AND EQUIPMENT

The changes in land, buildings and equipment for the year ended August 31, 2010 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	-	-	4,361,243
Building improvements	307,649	-	-	307,649
School equipment and furnishings	128,628	2,407	1,200	129,835
Church equipment and furnishings	629,413	32,618	30,249	631,782
Vehicles	55,688	-	25,181	30,507
Depreciable Capital Assets	5,907,063	35,025	56,630	5,885,458
Total Capital Assets	8,365,943	35,025	56,630	8,344,338
Less accumulated depreciation	(4,723,846)	(104,136)	(46,681)	(4,781,301)
Capital assets, net of depreciation	$ 3,642,097	$ (69,111)	$ 9,949	$ 3,563,037

Depreciation expense for the year ended August 31, 2010 was $104,136.

NOTE #5 - LONG-TERM NOTES PAYABLE

Payable to Thrivent Financial for Lutherans a $873,721 loan, monthly principal and interest payments of $6,395 each, beginning September 1, 2008, with interest calculated on the unpaid principal balance at an interest rate of 6.27% per annum; with the final payment due on August 1, 2023. This loan is collateralized by all real property of the organization.	$ 822,611
Less current maturities	25,759
Long -Term Portion of Notes Payable	$ 796,852

Current maturities for the next five years are as follows:

2011	$ 25,759
2012	27,422
2013	29,191
2014	31,075
2015	33,080
Thereafter	676,084
	$ 822,611

NOTE #6 – CAPITAL LEASES

Printer	$	41,576
Computer		3,485
	$	45,061

Monthly payments are made on the above capital leases.

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, 2010.

Purpose restrictions accomplished:

HUG Fund Expense	$	850
Pastoral		560
Mission to Mexico		14,779
Memorial Gifts Fund		2,550
Tanzania Fund		3,000
Special Fund		12,256
Internal Benevolence		5,851
Church Building Fund		1,313
Stephen Ministry Fund		225
Donor Allocated Funds - Church		10,681
Donor Allocated Funds - School		6,396
Women's Ministry		856
Audio Visual fund		75
5th/6th Grade Educational Trips		2,062
Housing loan		39,000
Other		1,371
	$	101,825

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2010

NOTE #8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at August 31, 2010:

Legacy Circle Scholarship Fund	$	9,950
Torvend Missions Fund		22,950
Outreach/Education Endowment - Other		92,584
HUG Fund		2,130
Mission to Mexico		40
Memorial Gifts		2,188
Tanzania		76
Special Fund		342
Internal Benevolence		2,583
Church Building Fund		107
Stephen Ministry		65
Donor Allocated Fund - Church		2,108
Donor Allocated Fund - School		6,288
Youth Ministry Discretion		1,558
Handbells		125
Children's Ministry		868
Women's Ministry		748
Asian Ministry		1,677
5th/6th Educational Trips Fund		242
Mini Bus Fund		7,500
Playground Maintenance Fund		400
	$	154,529

NOTE #9 - INTEREST PAID

The Organization recorded an expense and paid $53,224 for interest for the year ended August 31, 2010. There was no accrued interest during fiscal year ended August 31, 2010.

NOTE #10 - CONCENTRATIONS

The Organization receives approximately 51 percent of its revenues from school tuitions. School enrollment has decreased approximately 20% compared to the 2008-2009 school year 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 3, 2011, 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.