

**BETHEL LUTHERAN
CHURCH AND SCHOOL**

FINANCIAL STATEMENTS

AUGUST 31, 2012

WITH

INDEPENDENT ACCOUNTANTS' REPORT

BETHEL LUTHERAN CHURCH AND SCHOOL

AUGUST 31, 2012

CONTENTS

	PAGE
INDEPENDENT ACCOUNTANTS' REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position August 31, 2012	2
Statement of Activities For the Year Ended August 31, 2012	3
Statement of Functional Expenses For the Year Ended August 31, 2012	4
Statement of Cash Flows For the Year Ended August 31, 2012	5
NOTES TO FINANCIAL STATEMENTS	6



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, 2012, 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
March 8, 2013

BETHEL LUTHERAN CHURCH AND SCHOOL

STATEMENT OF FINANCIAL POSITION AUGUST 31, 2012

ASSETS

Cash and cash equivalents	\$ 405,644
Accounts receivable	2,650
Prepaid expenses	44,984
Capital assets not depreciated	2,458,880
Capital assets, net of accumulated depreciation	1,094,871
Total Assets	<u>\$ 4,007,029</u>

LIABILITIES

Accounts payable	\$ 29,806
Deferred fees	213,077
Accrued payroll and taxes	77,912
Capital leases payable	75,003
Notes payable	773,260
Total liabilities	<u>1,169,058</u>

NET ASSETS

Unrestricted	
Undesignated	2,631,056
Designated for specific purposes	52,980
Total unrestricted	<u>2,684,036</u>
Temporarily restricted	153,935
Total net assets	<u>2,837,971</u>
Total liabilities and net assets	<u>\$ 4,007,029</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, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT			
Offerings	\$ 702,042	\$ 145,956	\$ 847,998
Tuition	1,123,536	-	1,123,536
Other income	317,958	-	317,958
Net assets released from restrictions	162,599	(162,599)	-
Total revenue and other support	<u>2,306,135</u>	<u>(16,643)</u>	<u>2,289,492</u>
EXPENSES			
Program expenses			
Church	855,964	-	855,964
School	1,034,462	-	1,034,462
Total program expenses	<u>1,890,427</u>	<u>-</u>	<u>1,890,427</u>
Supporting services			
General and administrative	297,491	-	297,491
Rental property	67,193	-	67,193
Total supporting services	<u>364,684</u>	<u>-</u>	<u>364,684</u>
Total expenses	<u>2,255,111</u>	<u>-</u>	<u>2,255,111</u>
Change in net assets	51,024	(16,643)	34,381
NET ASSETS, BEGINNING OF YEAR	<u>2,633,012</u>	<u>170,578</u>	<u>2,803,590</u>
NET ASSETS, END OF YEAR	<u>\$ 2,684,036</u>	<u>\$ 153,935</u>	<u>\$ 2,837,971</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, 2012

	Church	School	General and Administrative	Rental Property	Total 2012
Payroll and benefits	\$ 419,798	\$ 734,958	\$ 139,084	\$ 20,501	\$ 1,314,341
Benefits	86,757	129,404	26,153	635	242,949
Ministry and programs	235,031	15,397	63,806	1,163	315,397
Technology and equipment	8,454	57,001	8,390	-	73,845
Insurance	9,980	-	5,653	3,681	19,314
Professional fees and licenses	6,652	3,575	2,628	1,799	14,654
Safety and security	3,408	-	3,618	4,168	11,194
Taxes and assessments	3,853	-	-	-	3,853
Utilities	14,917	9,162	4,830	9,203	38,112
Repairs and maintenance	18,106	3,103	300	11,888	33,397
Custodian supplies	1,842	-	3,658	1,643	7,143
Interest expense	13,829	23,083	4,368	-	41,280
Contracts and outside services	8,110	-	11,535	12,512	32,157
Banking fees	536	-	468	-	1,004
Bad debts	-	-	1,355	-	1,355
Depreciation	24,692	58,779	21,645	-	105,116
Total	<u>\$ 855,964</u>	<u>\$ 1,034,462</u>	<u>\$ 297,491</u>	<u>\$ 67,193</u>	<u>\$ 2,255,111</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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 34,381
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation expense	105,116
Loss on disposal of equipment	25,710
(Increase) decrease in:	
Accounts receivable	37,840
Prepaid expenses	(2,693)
Increase (decrease) in:	
Accounts payable	16,425
Deferred fees	50,418
Accrued payroll	9,231
Net cash provided by operating activities	<u>276,428</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of capital assets	<u>(188,860)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payment of capital leases	30,909
Repayment of notes payable	<u>(30,683)</u>
Net cash provided by financing activities	<u>226</u>
NET INCREASE IN CASH	87,794
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>317,850</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 405,644</u>

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

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2012

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, 2012

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 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.

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, 2012

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 \$20,179 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, 2012 for insurance premiums where coverage extends past August 31, 2012.

NOTE #4 - LAND, BUILDINGS AND EQUIPMENT

The changes in land, buildings and equipment for the year ended August 31, 2012 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	164,942	108,878	-	273,820
Buildings	4,351,193	-	-	4,351,193
Building improvements	567,149	-	-	567,149
School equipment and furnishings	151,692	40,452	34,895	157,249
Church equipment and furnishings	639,816	39,530	33,160	646,186
Vehicles	30,507	-	-	30,507
Depreciable Capital Assets	5,905,299	188,860	68,055	6,026,104
Total Capital Assets	8,364,179	188,860	68,055	8,484,984
Less accumulated depreciation	(4,868,463)	(105,116)	(42,346)	(4,931,233)
Capital assets, net of depreciation	\$ 3,495,716	\$ 83,744	\$ 25,709	\$ 3,553,751

Depreciation expense for the year ended August 31, 2012 was \$105,116.

BETHEL LUTHERAN CHURCH AND SCHOOL

**NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012**

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.

	\$	773,260
Less current maturities		<u>28,066</u>
Long -Term Portion of Notes Payable	\$	<u><u>745,194</u></u>

Current maturities for the next five years are as follows:

2013	\$	34,911
2014		33,989
2015		35,772
2016		37,649
2017		39,624
Thereafter		591,315
	\$	<u><u>773,260</u></u>

NOTE #6 – CAPITAL LEASES

Printer	\$	62,679
Phones		<u>12,324</u>
	\$	<u><u>75,003</u></u>

Monthly payments are made on the above capital leases.

2013	\$	18,375
2014		18,765
2015		19,196
2016		14,980
2017		<u>3,687</u>
	\$	<u><u>75,003</u></u>

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2012

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, 2012.

Purpose restrictions accomplished:

Sr High Music	\$	21,722
HUG Fund		1,500
Pastoral Designated		5,130
Mission to Mexico		16,722
Memorial Gifts Fund		7,550
Tanzania Fund		11,874
Special Fund		17,215
Internal Benevolence		2,307
Church Building Fund		3,478
Stephen Ministry Fund		104
Donor Allocated Funds		5,984
Youth Ministry		450
Children's Ministry		133
Women's Ministry		800
Evergreens		760
5th/6th Grade Education Trip		1,493
Playground Maintenance		187
Pastoral loan		36,000
Capital equipment		27,065
Other		2,125
	\$	<u>162,599</u>

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2012

NOTE #8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at August 31, 2012:

Legacy Circle Scholarship Fund	\$	9,950
Torvend Missions Fund		22,950
Outreach/Education Endowment - Other		93,080
Senior High Music		3,183
HUG Fund		1,490
Pastoral Fund		2,494
Mission to Mexico		3,149
Memorial Gifts		3,108
Tanzania		1,418
Special Fund		1,712
Internal Benevolence		767
Church Building Fund		1,675
Stephen Ministry		129
Donor Allocated Fund - Church		417
Donor Allocated Fund - School		1,121
Youth Ministry Discretion		3,531
Handbells		125
Children's Ministry		50
Women's Ministry		830
Asian Ministry		944
Evergreens		1,348
5th/6th Grade Education Trip		204
Playground Maintenance Fund		260
		<u>153,935</u>

NOTE #9 - INTEREST PAID

The Organization recorded an expense and paid \$41,280 for interest for the year ended August 31, 2012. There was no accrued interest during fiscal year ended August 31, 2012.

NOTE #10 - CONCENTRATIONS

The Organization receives approximately 51 percent of its revenues from school tuitions. School enrollment has decreased approximately 5% in comparison to 2010-2011 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 March 8, 2013, 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.