

**BETHEL LUTHERAN
CHURCH AND SCHOOL**

FINANCIAL STATEMENTS

AUGUST 31, 2014

WITH

INDEPENDENT ACCOUNTANTS' REPORT

BETHEL LUTHERAN CHURCH AND SCHOOL

AUGUST 31, 2014

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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 corporation) as of August 31, 2014, 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
February 20, 2015

BETHEL LUTHERAN CHURCH AND SCHOOL

STATEMENT OF FINANCIAL POSITION AUGUST 31, 2014

ASSETS

Cash and cash equivalents	\$ 584,846
Accounts receivable	3,815
Prepaid expenses	31,955
Capital assets not depreciated	2,458,880
Capital assets, net of accumulated depreciation	904,049
Total Assets	<u>\$ 3,983,545</u>

LIABILITIES

Accounts payable	\$ 31,128
Deferred fees	245,235
Accrued payroll and taxes	69,330
Capital leases payable	37,923
Notes payable	706,977
Total Liabilities	<u>1,090,593</u>

NET ASSETS

Unrestricted	
Undesignated	2,662,469
Designated for specific purposes	66,128
Total Unrestricted	<u>2,728,597</u>
Temporarily restricted	164,355
Total Net Assets	<u>2,892,952</u>
Total Liabilities and Net Assets	<u>\$ 3,983,545</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, 2014

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Offerings	\$ 647,687	\$ 116,231	\$ 763,918
Tuition	1,270,913	-	1,270,913
Other income	263,994	-	263,994
Net assets released from restrictions	110,349	(110,349)	-
Total revenue and other support	<u>2,292,943</u>	<u>5,882</u>	<u>2,298,825</u>
EXPENSES			
Program expenses			
Church	686,884	-	686,884
School	1,238,119	-	1,238,119
Total program expenses	<u>1,925,003</u>	<u>-</u>	<u>1,925,003</u>
Supporting services			
General and administrative	237,014	-	237,014
Rental property	74,032	-	74,032
Total supporting services	<u>311,046</u>	<u>-</u>	<u>311,046</u>
Total expenses	<u>2,236,049</u>	<u>-</u>	<u>2,236,049</u>
Change in net assets before other revenue and expense	56,894	5,882	62,776
OTHER REVENUE AND EXPENSE			
Insurance reimbursement	226,700	-	226,700
Repairs expense	(227,376)	-	(227,376)
Total other revenue and expense	<u>(676)</u>	<u>-</u>	<u>(676)</u>
Change in net assets	56,218	5,882	62,100
NET ASSETS, BEGINNING OF YEAR	<u>2,672,379</u>	<u>158,473</u>	<u>2,830,852</u>
NET ASSETS, END OF YEAR	<u>\$ 2,728,597</u>	<u>\$ 164,355</u>	<u>\$ 2,892,952</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, 2014

	Church	School	General and Administrative	Rental Property	Total
Payroll and benefits	\$ 295,026	\$ 808,286	\$ 108,138	\$ 31,600	\$ 1,243,050
Benefits	65,482	142,387	24,016	-	231,885
Ministry and programs	207,763	109,909	35,527	1,329	354,528
Technology and equipment	10,850	69,703	9,797	-	90,350
Insurance	9,851	-	5,195	3,497	18,543
Professional fees and licenses	8,980	943	2,930	2,113	14,966
Safety and security	3,765	-	3,914	7,054	14,733
Taxes and assessments	4,419	-	-	-	4,419
Utilities	17,100	12,804	6,241	11,158	47,303
Repairs and maintenance	20,593	4,576	172	1,269	26,610
Custodian supplies	1,943	268	2,614	2,301	7,126
Interest expense	13,282	24,694	-	-	37,976
Contracts and outside services	9,344	200	20,776	13,711	44,031
Banking fees	1,234	-	430	-	1,664
Depreciation	17,252	64,169	17,264	-	98,685
Total	<u>\$ 686,884</u>	<u>\$ 1,238,119</u>	<u>\$ 237,014</u>	<u>\$ 74,032</u>	<u>\$ 2,236,049</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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 62,100
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation expense	100,133
Loss on disposal of equipment	901
(Increase) decrease in:	
Accounts receivable	10,059
Prepaid expenses	(2,430)
Increase (decrease) in:	
Accounts payable	14,046
Deferred fees	63,283
Accrued payroll	(6,487)
Net cash provided by operating activities	<u>241,605</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of capital assets	<u>(10,522)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payment of capital leases	(18,540)
Repayment of notes payable	<u>(33,989)</u>
Net cash used by financing activities	<u>(52,529)</u>
NET INCREASE IN CASH	178,554
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>406,292</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 584,846</u>

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

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

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, 2014

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 is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2010 and forward may be audited by regulatory agencies, however, the Organization is not aware of any such actions at this time.

The Organization has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements. Interest and penalties related to uncertain tax positions are recorded as part of the income tax expense, if applicable.

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.

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2014

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 \$11,419 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. 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, 2014 for insurance premiums where coverage extends past August 31, 2014.

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2014

NOTE #4 - LAND, BUILDINGS AND EQUIPMENT

The changes in land, buildings and equipment for the year ended August 31, 2014 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	273,820	-	-	273,820
Buildings	4,351,193	-	-	4,351,193
Building improvements	567,149	10,522	-	577,671
School equipment and furnishings	162,458	-	(6,968)	155,490
Church equipment and furnishings	645,186	-	(2,500)	642,686
Vehicles	30,507	-	-	30,507
Depreciable Capital Assets	6,030,313	10,522	(9,468)	6,031,367
Total Capital Assets	8,489,193	10,522	(9,468)	8,490,247
Less accumulated depreciation	5,035,752	100,133	(8,567)	5,127,318
Capital assets, net of depreciation	<u>\$ 3,453,441</u>	<u>\$ (89,611)</u>	<u>\$ (901)</u>	<u>\$ 3,362,929</u>

Depreciation expense for the year ended August 31, 2014 was \$100,133.

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.

	\$ 706,977
Less current maturities	<u>35,772</u>
Long -Term Portion of Notes Payable	<u>\$ 671,205</u>

Current maturities for the next five years are as follows:

2015	\$ 35,619
2016	37,489
2017	39,456
2018	41,526
2019	73,705
Thereafter	479,182
	<u>\$ 706,977</u>

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2014

NOTE #6 – CAPITAL LEASES

Printer	\$	33,183
Phones		4,740
	\$	<u>37,923</u>

Monthly payments are made on the above capital leases.

2015	\$	19,196
2016		14,980
2017		3,522
2018		225
	\$	<u>37,923</u>

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, 2014.

Purpose restrictions accomplished:

Sr High Music	\$	21,613
Pastoral Designated		948
Mission to Mexico		17,293
Memorial Gifts Fund		2,591
Tanzania Fund		3,745
Special Fund		28,149
Internal Benevolence		1,366
Church Building Fund		14,350
Donor Allocated Funds		13,784
Women's Ministry		1,121
Evergreens		225
5th/6th Grade Education Trip		1,603
Track Meet		3,561
	\$	<u>110,349</u>

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2014

NOTE #8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at August 31, 2014:

Legacy Circle Scholarship Fund	\$	9,950
Outreach/Education Endowment - Other		93,588
Torvend Missions Fund		22,890
Senior High Music		727
HUG Fund		1,490
Pastoral Fund		3,104
Mission to Mexico		8,710
Memorial Gifts		2,901
Tanzania		5,503
Special Fund		2,614
Internal Benevolence		981
Stephen Ministry		127
Donor Allocated Fund - Church		2,320
Youth Ministry Discretion		5,368
Handbells		126
Children's Ministry		75
Women's Ministry		571
Evergreens		402
5th/6th Grade Education Trip		108
Track Meet		2,800
		<u>2,800</u>
	\$	<u>164,355</u>

NOTE #9 - INTEREST PAID

The Organization recorded an expense and paid \$37,976 for interest for the year ended August 31, 2014. There was no accrued interest during fiscal year ended August 31, 2014.

NOTE #10 - CONCENTRATIONS

The Organization receives approximately 50 percent of its revenues from school tuitions. School enrollment was consistent with the prior year and the majority of the students are from the Cupertino area.

NOTE #12 – 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 February 20, 2015, 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.