BETHEL LUTHERAN CHURCH AND SCHOOL

FINANCIAL STATEMENTS

AUGUST 31, 2015

WITH

INDEPENDENT ACCOUNTANTS' REPORT

BETHEL LUTHERAN CHURCH AND SCHOOL

AUGUST 31, 2015

CONTENTS

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, 2015, 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
April 12, 2016

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BETHEL LUTHERAN CHURCH AND SCHOOL

STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2015

ASSETS		
Cash and cash equivalents	$	637,116
Accounts receivable		1,970
Prepaid expenses		37,826
Capital assets not depreciated		2,493,880
Capital assets, net of accumulated depreciation		897,134
Total Assets	$	4,067,926
LIABILITIES		
Accounts payable	$	52,331
Deferred fees		226,720
Accrued payroll and taxes		79,961
Capital leases payable		19,383
Notes payable		671,205
Total Liabilities		1,049,600
NET ASSETS		
Unrestricted		
Undesignated		2,770,922
Designated for specific purposes		66,128
Total Unrestricted		2,837,050
Temporarily restricted		181,276
Total Net Assets		3,018,326
Total Liabilities and Net Assets	$	4,067,926

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, 2015

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Offerings	$ 655,711	$ 136,835	$ 792,546
Tuition	1,447,117	-	1,447,117
Other income	244,506	-	244,506
Net assets released from restrictions	119,914	(119,914)	-
Total revenue and other support	2,467,248	16,921	2,484,169
EXPENSES			
Program expenses			
Church	812,862	-	812,862
School	1,220,011	-	1,220,011
Total program expenses	2,032,873	-	2,032,873
Supporting services			
General and administrative	262,518	-	262,518
Rental property	76,147	-	76,147
Total supporting services	338,665	-	338,665
Total expenses	2,371,538	-	2,371,538
Change in net assets before other revenue and expense	95,710	16,921	112,631
OTHER REVENUE AND EXPENSE			
Insurance reimbursement	65,398	-	65,398
Repairs expense	(52,655)	-	(52,655)
Total other revenue and expense	12,743	-	12,743
Change in net assets	108,453	16,921	125,374
NET ASSETS, BEGINNING OF YEAR	2,728,597	164,355	2,892,952
NET ASSETS, END OF YEAR	$ 2,837,050	$ 181,276	$ 3,018,326

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, 2015

	Church	School	General and Administrative	Rental Property	Total
Payroll	$ 344,370	$ 785,745	$ 111,631	$ 33,600	$ 1,275,346
Benefits	80,297	136,595	24,591	-	241,483
Ministry and programs	238,451	70,805	41,748	-	351,004
Technology and equipment	10,238	128,257	10,076	-	148,571
Insurance	9,823	-	5,329	3,592	18,744
Professional fees and licenses	25,861	605	2,662	1,633	30,761
Safety and security	3,240	-	3,605	7,640	14,485
Taxes and assessments	4,731	-	-	-	4,731
Utilities	16,229	12,267	6,368	11,736	46,600
Repairs and maintenance	26,912	4,884	742	3,174	35,712
Custodian supplies	2,855	-	5,602	2,100	10,557
Interest expense	13,894	22,298	-	-	36,192
Contracts and outside services	14,054	550	35,942	12,672	63,218
Banking fees	720	84	569	-	1,373
Bad debts	-	2,008	-	-	2,008
Depreciation	21,187	55,913	13,653	-	90,753
Total	$ 812,862	$ 1,220,011	$ 262,518	$ 76,147	$ 2,371,538

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, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 125,374
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation expense	90,753
Loss on disposal of equipment	(10,715)
(Increase) decrease in:	
Accounts receivable	1,845
Prepaid expenses	(5,871)
Increase (decrease) in:	
Accounts payable	21,203
Deferred fees	(18,515)
Accrued payroll	10,631
Net cash provided by operating activities	214,705
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of capital assets	(108,123)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payment of capital leases	(18,540)
Repayment of notes payable	(35,772)
Net cash used by financing activities	(54,312)
NET INCREASE IN CASH	52,270
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	584,846
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 637,116

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 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 2011 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.

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 $20,119 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 and by approximately $425,000 at August 31, 2015.

NOTE #3 - PREPAID EXPENSES

Prepaid expenses consist of costs paid prior to August 31, 2015 for insurance premiums where coverage extends past August 31, 2015.

NOTE #4 - LAND, BUILDINGS AND EQUIPMENT

The changes in land, buildings and equipment for the year ended August 31, 2015 are as follows:

	Balance Beginning of Year	Increase	Disposals	Balance End of Year
Land	$ 2,458,880	$ 35,000	$ -	$ 2,493,880
Capital assets not depreciated	2,458,880	35,000	-	2,493,880
Land improvements	273,820	15,853	-	289,673
Buildings	4,351,193	53,174	-	4,404,367
Building improvements	577,671	-	-	577,671
School equipment and furnishings	155,490	-	(621)	154,869
Church equipment and furnishings	642,686	4,096	-	646,782
Vehicles	30,507	-	-	30,507
Depreciable Capital Assets	6,031,367	73,123	(621)	6,103,869
Total Capital Assets	8,490,247	108,123	(621)	8,597,749
Less accumulated depreciation	5,127,318	90,753	(11,336)	5,206,735
Capital assets, net of depreciation	$ 3,362,929	$ 17,370	$ 10,715	$ 3,391,014

Depreciation expense for the year ended August 31, 2015 was $90,753.

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.	$ 671,205
Less current maturities	37,649
Long -Term Portion of Notes Payable	$ 633,556

Current maturities for the next five years are as follows:

2016	$ 37,489
2017	39,456
2018	41,704
2019	43,891
2020	46,196
Thereafter	462,469
	$ 671,205

NOTE #6 – CAPITAL LEASES

Printer	$	18,435
Phones		948
	$	19,383

Monthly payments are made on the above capital leases.

2016	$	14,980
2017		3,522
2018		881
	$	19,383

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, 2015.

Purpose restrictions accomplished:

Sr High Music	$	16,581
HUG Fund		191
Pastoral Designated		760
Mission to Mexico		12,573
Memorial Gifts Fund		1,198
Tanzania Fund		4,500
Special Fund		34,242
Internal Benevolence		1,845
Church Building Fund		37,850
Donor Allocated Funds		5,464
Youth Mininistry		517
Women's Ministry		1,320
Evergreens		402
5th/6th Grade Education Trip		2,026
Track Meet		445
	$	119,914

NOTE #8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at August 31, 2015:

Legacy Circle Scholarship Fund	$	9,950
Outreach/Education Endowment - Other		93,833
Torvend Missions Fund		22,950
Senior High Music		446
HUG Fund		1,299
Pastoral Fund		2,664
Mission to Mexico		14,963
Memorial Gifts		1,727
Tanzania		4,003
Special Fund		2,382
Internal Benevolence		319
Church Building Fund		12,819
Stephen Ministry		127
Donor Allocated Fund - Church		1,976
Donor Allocated Fund - School		925
Youth Ministry Discretion		6,111
Handbells		126
Children's Ministry		75
Women's Ministry		421
5th/6th Grade Education Trip		183
Track Meet		3,977
	$	181,276

NOTE #9 - INTEREST PAID

The Organization recorded an expense and paid $36,192 for interest for the year ended August 31, 2015. There was no accrued interest during fiscal year ended August 31, 2015.

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 April 12, 2016, 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.