

**BETHEL LUTHERAN
CHURCH AND SCHOOL**

FINANCIAL STATEMENTS

AUGUST 31, 2017

WITH

INDEPENDENT ACCOUNTANTS' REPORT

BETHEL LUTHERAN CHURCH AND SCHOOL

AUGUST 31, 2017

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Church Council
Bethel Lutheran Church and School
Cupertino, California

We have reviewed the accompanying financial statements of Bethel Lutheran Church and School (a nonprofit organization), which comprise the statement of financial position as of August 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of 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's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

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 accordance with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
May 2, 2018

BETHEL LUTHERAN CHURCH AND SCHOOL

STATEMENT OF FINANCIAL POSITION AUGUST 31, 2017

ASSETS

Cash and cash equivalents	\$ 448,693
Investments	144,700
Accounts receivable	4,613
Prepaid expenses	4,752
Capital assets not depreciated	2,458,880
Capital assets, net of accumulated depreciation	935,163
Total Assets	<u>\$ 3,996,801</u>

LIABILITIES

Accounts payable	\$ 35,235
Deferred fees	189,483
Accrued payroll and taxes	55,910
Capital leases payable	25,356
Notes payable	708,789
Total Liabilities	<u>1,014,773</u>

NET ASSETS

Unrestricted	
Undesignated	2,659,099
Designated for specific purposes	105,895
Total Unrestricted	<u>2,764,994</u>
Temporarily restricted	217,034
Total Net Assets	<u>2,982,028</u>
Total Liabilities and Net Assets	<u>\$ 3,996,801</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, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Offerings	\$ 670,422	\$ 138,909	\$ 809,331
Tuition	1,476,897	-	1,476,897
Other income	250,729	-	250,729
Net assets released from restrictions	113,652	(113,652)	-
Total revenue and other support	<u>2,511,700</u>	<u>25,257</u>	<u>2,536,957</u>
EXPENSES			
Program expenses			
Church	877,492	-	877,492
School	1,314,497	-	1,314,497
Total program expenses	<u>2,191,988</u>	<u>-</u>	<u>2,191,988</u>
Supporting services			
General and administrative	355,276	-	355,276
Total supporting services	<u>355,276</u>	<u>-</u>	<u>355,276</u>
Total expenses	<u>2,547,264</u>	<u>-</u>	<u>2,547,264</u>
Change in net assets	(35,564)	25,257	(10,307)
NET ASSETS, BEGINNING OF YEAR	<u>2,800,558</u>	<u>191,777</u>	<u>2,992,335</u>
NET ASSETS, END OF YEAR	<u>\$ 2,764,994</u>	<u>\$ 217,034</u>	<u>\$ 2,982,028</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, 2017

	Church	School	General and Administrative	Total
Payroll	\$ 369,185	\$ 886,059	\$ 221,625	\$ 1,476,869
Benefits	93,790	153,990	30,913	278,693
Ministry and programs	261,417	100,372	20,673	382,462
Technology and equipment	8,160	70,485	7,605	86,250
Insurance	9,138	-	7,903	17,041
Professional fees and licenses	17,190	5,476	466	23,132
Safety and security	1,866	-	5,167	7,033
Taxes and assessments	4,760	-	-	4,760
Utilities	18,134	15,026	7,101	40,261
Repairs and maintenance	25,312	2,144	1,226	28,682
Custodian supplies	3,778	196	8,694	12,668
Interest expense	8,067	19,361	4,843	32,271
Contracts and outside services	22,253	374	29,912	52,539
Banking fees	1,436	(30)	1,451	2,857
Depreciation	33,006	61,043	7,697	101,746
Total	<u>\$ 877,492</u>	<u>\$ 1,314,497</u>	<u>\$ 355,276</u>	<u>\$ 2,547,264</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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (10,307)
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation expense	101,746
Loss on disposal of equipment	675
(Increase) decrease in:	
Accounts receivable	(1,000)
Prepaid expenses	12,247
Increase (decrease) in:	
Accounts payable	(13,381)
Deferred fees	(13,409)
Accrued payroll	(27,611)
Net cash provided by operating activities	<u>48,960</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of capital assets	(43,419)
Purchase of investments	(118,821)
Net cash used in investing activities	<u>(162,240)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payment of capital leases	(10,394)
Repayment of notes payable	(26,040)
Net cash used by financing activities	<u>(36,434)</u>
NET DECREASE IN CASH	(149,714)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>598,407</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 448,693</u>

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

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

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, "Financial Statements of Not-for-Profit Organizations." 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, 2017

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 2013 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 "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, 2017

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 \$16,073 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 \$242,000 at August 31, 2017.

NOTE #3 - PREPAID EXPENSES

Prepaid expenses consist of costs paid prior to August 31, 2017 for insurance premiums where coverage extends past August 31, 2017.

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017

NOTE #4 - LAND, BUILDINGS AND EQUIPMENT

The changes in land, buildings and equipment for the year ended August 31, 2017 are as follows:

	Balance Beginning of Year	Increase / Adjustments	Disposals	Balance End of Year
Land	\$ 2,458,880	\$ -		\$ 2,458,880
Capital assets not depreciated	2,458,880	-		2,458,880
Land improvements	289,673	-	-	289,673
Buildings	4,363,761	-		4,363,761
Building improvements	651,968	35,178	(55,966)	631,180
School equipment and furnishings	136,952		(5,471)	131,481
Church equipment and furnishings	639,862	8,241	(19,429)	628,674
Vehicles	131,755			131,755
Depreciable Capital Assets	6,213,971	43,419	(80,866)	6,176,524
Total Capital Assets	8,672,851	43,419	(80,866)	8,635,404
Less accumulated depreciation	5,219,806	101,746	(80,191)	5,241,361
Capital assets, net of depreciation	<u>\$ 3,453,045</u>	<u>\$ (58,327)</u>	<u>\$ (675)</u>	<u>\$ 3,394,043</u>

Depreciation expense for the year ended August 31, 2017 was \$101,746.

NOTE #5 - LONG-TERM NOTES PAYABLE

Payable to Mission Investment Fund a \$674,837.91 loan, monthly principal and interest payments of \$3,786 each, beginning November 1, 2015, with unpaid interest calculated on the unpaid principal balance at an interest rate of 4.375% per annum, with final payment due on November 1, 2040. This loan is collateralized by all real property of the organization. \$ 660,955

Payable to Heritage Bank of Commerce a \$63,000 loan, monthly principal and interest payments of \$1,031.63 each, beginning November 25, 2015, with interest calculated on the unpaid principal balance at an interest rate of 5.5% per annum; with the final payment due on November 24, 2021. This loan is collateralized by a bus. 47,834

Total Notes Payable	708,789
Less current maturities	<u>(26,791)</u>
Long -Term Portion of Notes Payable	<u>\$ 681,998</u>

BETHEL LUTHERAN CHURCH AND SCHOOL

**NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017**

Current maturities for the next five years are as follows:

2018	\$	26,791
2019		28,226
2020		29,610
2021		31,063
2022		24,147
Thereafter		568,952
	\$	<u>708,789</u>

NOTE #6 – CAPITAL LEASES

Printer	\$	25,356
Less provision for interest		-
	\$	<u>25,356</u>

Monthly payments are made on the above capital leases.

2018	\$	8,580
2019		8,580
2020		8,196
	\$	<u>25,356</u>

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017

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, 2017.

Purpose restrictions accomplished:

Sr High Music	\$	15,205
Pastoral Designated		10
Mission to Mexico		13,780
Memorial Gifts Fund		2,044
Internal Benevolence		1,375
Church Building Fund		55,865
Mini Bus Fund		13,488
Stephen Ministry Fund		58
Donor Allocated Funds		2,431
Youth Miniministry		1,470
Handbells		126
Children's Ministry		975
Women's Ministry		1,447
Evergreens		25
5th/6th Grade Education Trip		165
Track Meet		5,188
	\$	<u>113,652</u>

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017

NOTE #8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at August 31, 2017:

Outreach/Education Endowment - Other	\$	93,506
ELCA Endowment Fund		13,951
Legacy Circle Scholarship Fund		9,950
Torvend Missions Fund		22,950
Senior High Music		12
HUG Fund		1,299
Pastoral Fund		4,041
Memorial Gifts		2,573
Tanzania		10,003
Special Fund		18,409
Internal Benevolence		538
Church Building Fund		20,634
Mini Bus Fund		6,387
Stephen Ministry		69
Donor Allocated Fund - Church		4,917
Youth Ministry Discretion		3,690
Women's Ministry		268
Evergreens		25
5th/6th Grade Education Trip		41
Track Meet		3,771
	\$	<u>217,034</u>

NOTE #9 - INTEREST PAID

The Organization recorded an expense and paid \$32,271 for interest for the year ended August 31, 2017. There was no accrued interest during fiscal year ended August 31, 2017.

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 May 2, 2018, 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.