

**BETHEL LUTHERAN
CHURCH AND SCHOOL**

FINANCIAL STATEMENTS

AUGUST 31, 2018

WITH

INDEPENDENT ACCOUNTANTS' REPORT

BETHEL LUTHERAN CHURCH AND SCHOOL

AUGUST 31, 2018

CONTENTS

	PAGE
INDEPENDENT ACCOUNTANTS' REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position August 31, 2018	2
Statement of Activities For the Year Ended August 31, 2018	3
Statement of Functional Expenses For the Year Ended August 31, 2018	4
Statement of Cash Flows For the Year Ended August 31, 2018	5
NOTES TO FINANCIAL STATEMENTS	6



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, 2018, 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
June 25, 2019

BETHEL LUTHERAN CHURCH AND SCHOOL

STATEMENT OF FINANCIAL POSITION AUGUST 31, 2018

ASSETS

Cash and cash equivalents	\$	241,658
Investments		153,939
Accounts receivable		12,120
Prepaid expenses		13,457
Capital assets not depreciated		2,458,880
Capital assets, net of accumulated depreciation		843,862
Total Assets	\$	<u>3,723,916</u>

LIABILITIES

Accounts payable	\$	23,575
Deferred fees		77,088
Accrued payroll and taxes		27,716
Capital leases payable		17,818
Notes payable		644,105
Total Liabilities		<u>790,302</u>

NET ASSETS

Unrestricted		
Undesignated		2,573,449
Designated for specific purposes		105,895
Total Unrestricted		<u>2,679,344</u>
Temporarily restricted		254,270
Total Net Assets		<u>2,933,614</u>
Total Liabilities and Net Assets	\$	<u>3,723,916</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, 2018

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Offerings	\$ 725,831	\$ 124,803	\$ 850,634
Tuition	1,264,383	-	1,264,383
Other income	225,600	-	225,600
Net assets released from restrictions	87,567	(87,567)	-
Total revenue and other support	<u>2,303,381</u>	<u>37,236</u>	<u>2,340,617</u>
EXPENSES			
Program expenses			
Church	968,856	-	968,856
School	1,084,193	-	1,084,193
Total program expenses	<u>2,053,048</u>	<u>-</u>	<u>2,053,048</u>
Supporting services			
General and administrative	335,984	-	335,984
Total supporting services	<u>335,984</u>	<u>-</u>	<u>335,984</u>
Total expenses	<u>2,389,032</u>	<u>-</u>	<u>2,389,032</u>
Change in net assets	(85,651)	37,236	(48,415)
NET ASSETS, BEGINNING OF YEAR	<u>2,764,995</u>	<u>217,034</u>	<u>2,982,029</u>
NET ASSETS, END OF YEAR	<u>\$ 2,679,344</u>	<u>\$ 254,270</u>	<u>\$ 2,933,614</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, 2018

	Church	School	General and Administrative	Total
Payroll	\$ 467,970	\$ 745,765	\$ 214,189	\$ 1,427,924
Benefits	96,820	107,755	36,101	240,676
Ministry and programs	236,705	96,329	32,451	365,485
Technology and equipment	6,142	5,199	2,001	13,342
Insurance	9,382	6,518	2,806	18,706
Professional fees and licenses	26,243	(328)	4,573	30,488
Safety and security	3,567	3,253	1,203	8,023
Taxes and assessments	4,239	-	748	4,987
Utilities	19,355	16,727	6,367	42,449
Repairs and maintenance	24,593	(3,522)	3,718	24,789
Custodian supplies	2,558	3,747	1,113	7,418
Interest expense	9,497	15,135	4,347	28,979
Contracts and outside services	24,163	35,261	10,487	69,911
Banking fees	5,178	586	1,017	6,781
Bad debts	-	66	12	78
Depreciation	32,444	51,703	14,849	98,996
Total	<u>\$ 968,856</u>	<u>\$ 1,084,193</u>	<u>\$ 335,984</u>	<u>\$ 2,389,032</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, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (48,415)
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation expense	98,996
(Increase) decrease in:	
Accounts receivable	(7,507)
Prepaid expenses	(8,705)
Increase (decrease) in:	
Accounts payable	(11,660)
Deferred fees	(112,395)
Accrued payroll	(28,194)
Net cash used by operating activities	<u>(117,880)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of capital assets	(7,695)
Purchase of investments	(9,239)
Net cash used in investing activities	<u>(16,934)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payment of capital leases	(7,538)
Repayment of notes payable	(64,683)
Net cash used by financing activities	<u>(72,221)</u>
NET DECREASE IN CASH	(207,035)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>448,693</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 241,658</u>

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

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

NOTE #1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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 and serve others by the power of the Holy Spirit.

Financial Statement Presentation

The accompanying financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-210-50. Under ASC 958-210-50, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Organization is required to present a statement of cash flows. The Organization does not use fund accounting. Revenues are recognized when earned, and expenses are recognized when incurred in accordance with the accrual basis of accounting.

Cash and Cash Equivalents

Cash and cash equivalents for the purposes of the statement of cash flows consist of cash held in checking and money market accounts and certificates of deposit with maturities of less than 90 days and available for current operations. The Organization maintains cash balances in financial institutions which are insured up to \$250,000. At August 31, 2018, there were no significant amounts in excess of Federal depository insurance coverage.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are recorded in the appropriate classification of net assets. If the restrictions are met either by passage of time or by use in the reporting period in which the income and gains are recognized, the income is recorded as increases in the unrestricted net assets. Investments are classified as short or long term based upon the Organization's intent to use for current operations.

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.

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

The Organization considers tuition receivables due on the 10th of the month and a late fee of \$30 is assessed when delinquent.

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

Contributed Services, Goods and Facilities

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".

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 2014 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.

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018

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.

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 \$17,061 to these plans in current year.

NOTE 2 - INVESTMENTS

Investments are recorded at fair value on the statement of financial position. The following table summarizes the investment returns which are recorded in the statement of activities:

Unrealized gains on investments	\$ 3,772
Interest and dividends	5,466
Total Investment Income, Net of Expenses	<u>\$ 9,239</u>

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018

Investment Policies

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. In order to meet its needs, the investment strategy of the Organization is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested to meet or exceed the market index, or blended market index, selected and agreed upon that most closely corresponds to the style of investment management. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization may distribute accrued interest annually from endowments for intended program expenses. In establishing this policy, the Organization considered the long-term expected return on its endowment and the need to maintain some investment income in reserve to plan for the potential of program awards exceeding investment income.

NOTE 3 - MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Organization determines the fair market values of certain financial instruments based on the fair value hierarchy established in FASB ASC 820-10-50, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts, residential mortgages, and loans held for sale.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential MSRs, asset-backed securities (ABS), highly-structured or long-term derivative contracts, and certain collateralized debt obligations (CDO) where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets measured at fair value on a recurring basis as of August 31, 2018. The Organization did not have any liabilities measured at fair value on a recurring basis as of August 31, 2018.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Pooled Trust Endowment Funds	\$ -	\$ -	\$153,939	\$ 153,939
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$153,939</u>	<u>\$ 153,939</u>

The following table presents changes in the Organization's Level 3 investment assets measured at fair value on a recurring basis for the year ending August 31, 2018. The Organization did not have any assets or liabilities recorded at fair value on a non-recurring basis.

Level 3 Investments	
Balance, beginning of year	\$ 144,700
Reinvested earnings	3,772
Realized gains	-
Unrealized gains	5,467
Balance, end of year	<u>\$ 153,939</u>

BETHEL LUTHERAN CHURCH AND SCHOOL

**NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018**

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable represent amounts due to the Organization as follows:

Tuition receivable	\$ 12,120
Less: allowance for doubtful receivables	-
Net contributions receivable	<u>\$ 12,120</u>

NOTE #5 - PREPAID EXPENSES

Prepaid expenses consist of costs paid prior to August 31, 2018 for deposits related to events that extend past August 31, 2018.

NOTE #6 - LAND, BUILDINGS AND EQUIPMENT

The changes in land, buildings and equipment for the year ended August 31, 2018 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	631,180			631,180
School equipment and furnishings	131,481		(21,090)	110,391
Church equipment and furnishings	628,674	7,695	(10,467)	625,902
Vehicles	131,755			131,755
Depreciable Capital Assets	<u>6,176,524</u>	<u>7,695</u>	<u>(31,557)</u>	<u>6,152,662</u>
Total Capital Assets	8,635,404	7,695	(31,557)	8,611,542
Less accumulated depreciation	5,241,361	98,996	(31,557)	5,308,800
Capital assets, net of depreciation	<u>\$ 3,394,043</u>	<u>\$ (91,301)</u>	<u>\$ -</u>	<u>\$ 3,302,742</u>

Depreciation expense for the year ended August 31, 2018 was \$98,996

BETHEL LUTHERAN CHURCH AND SCHOOL

**NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018**

NOTE #7 - 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. \$ 644,105

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. The loan was paid in full on February 26, 2018. -

Total Notes Payable	644,105
Less current maturities	(17,603)
Long -Term Portion of Notes Payable	<u>\$ 626,502</u>

Current maturities for the next five years are as follows:

2019	\$ 17,603
2020	18,388
2021	19,209
2022	20,067
2023	20,962
Thereafter	547,876
	<u>\$ 644,105</u>

NOTE #8 – CAPITAL LEASES

Printer	\$ 17,818
Less provision for interest	-
	<u>\$ 17,818</u>

Monthly payments are made on the above capital leases.

2019	\$ 8,580
2020	9,238
	<u>\$ 17,818</u>

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018

NOTE #9 - 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, 2018.

Purpose restrictions accomplished:

Senior High Music	\$	12,711
HUG Fund		800
Pastoral Designated		25
Mission to Mexico		22,302
Memorial Gifts Fund		1,635
Tanzania Missions Expense		13,973
Special Designated/Outreach		17,682
Internal Benevolence		2,050
Mini Bus Fund		4,658
Stephen Ministry Fund		69
Donor Allocated Funds		5,693
Youth Ministry		190
Children's Ministry		1,304
Women's Ministry		200
Evergreens		25
5th/6th Grade Education Trip		479
Track Meet		3,771
	\$	<u>87,567</u>

BETHEL LUTHERAN CHURCH AND SCHOOL

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018

NOTE #10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at August 31, 2018:

Outreach/Education Endowment - Other	\$	102,339
ELCA Endowment Fund		29,627
Legacy Circle Scholarship Fund		9,950
Torvend Missions Fund		22,950
Senior High Music		3,842
Pastoral Fund		3,991
Mission to Mexico		2,828
Special Fund		479
Quilter's		345
Church Building Fund		20,853
Mini Bus Fund		45,375
Donor Allocated Fund - Church		7,145
Youth Ministry Discretion		3,320
Children's Ministry		418
Women's Ministry		808
	\$	<u>254,270</u>

NOTE #11 - INTEREST PAID

The Organization recorded an expense and paid \$28,979 for interest for the year ended August 31, 2018. There was no accrued interest during fiscal year ended August 31, 2018.

NOTE #12 - 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 #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 June 25, 2019, 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.