

BETHANY LUTHERAN CHURCH

FINANCIAL STATEMENTS
With Independent Auditors' Report

June 30, 2009

BETHANY LUTHERAN CHURCH

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INDEPENDENT AUDITORS' REPORT

Church Council
Bethany Lutheran Church
Cherry Hills Village, Colorado

We have audited the accompanying statement of financial position of Bethany Lutheran Church (the Church) as of June 30, 2009, and the related statements of activities and cash flows for the eighteen month period then ended. These financial statements are the responsibility of the Church's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Church's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluation the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Bethany Lutheran Church as of June 30, 2009, and the results of its activities and its cash flows for the eighteen month period then ended in conformity with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Littleton, Colorado
September 15, 2009

BETHANY LUTHERAN CHURCH

Statement of Financial Position

June 30, 2009

ASSETS:

Current assets:

Cash and cash equivalents	\$ 662,199
Investments	53,079
Accounts receivable	10,371
Bequest receivable	125,000
Prepaid expenses and other assets	20,753

871,402

Property and equipment–net	<u>7,991,225</u>
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Total Assets	<u><u>\$ 8,862,627</u></u>
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LIABILITIES AND NET ASSETS:

Current liabilities:

Accounts payable	\$ 23,548
Accrued expenses and other liabilities	67,929
Deferred income	9,000
Current portion of capital lease obligation	10,887
Current portion of note payable	101,795

213,159

Capital lease obligation–net of current portion	19,719
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Note payable–net of current portion	<u>2,561,295</u>
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2,794,173

Net assets:

Unrestricted:

Operating	163,346
Equity in property and equipment	<u>5,297,529</u>

5,460,875

Temporarily restricted	<u>607,579</u>
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6,068,454

Total Liabilities and Net Assets	<u><u>\$ 8,862,627</u></u>
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See notes to financial statements

BETHANY LUTHERAN CHURCH

Statement of Activities

Eighteen Month Period Ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE:			
Contributions	\$ 3,143,404	\$ 1,015,715	\$ 4,159,119
Bethany Early Childhood Center:			
Tuition revenue–net	631,077	-	631,077
Script revenue	102,037	-	102,037
Contributions	-	10,580	10,580
Investment income	(390)	(11,722)	(12,112)
Ministry income	238,721	-	238,721
Rental income	62,268	-	62,268
Other income	7,512	-	7,512
	<u>4,184,629</u>	<u>1,014,573</u>	<u>5,199,202</u>
NET ASSETS RELEASED:			
From purpose restrictions	<u>1,055,482</u>	<u>(1,055,482)</u>	<u>-</u>
EXPENSES:			
Personnel	1,814,171	-	1,814,171
Program	921,822	-	921,822
Bethany Early Childhood Center expenses	700,852	-	700,852
Depreciation and amortization	577,116	-	577,116
Facilities	279,363	-	279,363
Interest	276,863	-	276,863
Office and administration	153,861	-	153,861
	<u>4,724,048</u>	<u>-</u>	<u>4,724,048</u>
Total Expenses	<u>4,724,048</u>	<u>-</u>	<u>4,724,048</u>
Change in Net Assets	516,063	(40,909)	475,154
Net Assets, Beginning of Period	<u>4,944,812</u>	<u>648,488</u>	<u>5,593,300</u>
Net Assets, End of Period	<u>\$ 5,460,875</u>	<u>\$ 607,579</u>	<u>\$ 6,068,454</u>

See notes to financial statements

BETHANY LUTHERAN CHURCH

Statement of Cash Flows

Eighteen Month Period Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 475,154
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation and amortization	577,116
Realized and unrealized losses	14,814
Donated stock	(107,537)
Change in operating assets and liabilities:	
Accounts receivable	34,374
Bequest receivable	(125,000)
Prepaid expenses and other assets	9,060
Accounts payable	(5,993)
Accrued expenses and other liabilities	(11,125)
Deferred revenue	9,000
Net Cash Provided by Operating Activities	<u>869,863</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property and equipment	(90,093)
Proceeds from sale of investments	42,346
Reinvested interest income	(2,702)
Net Cash Used by Investing Activities	<u>(50,449)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Principal payments on note payable	(987,587)
Payments on capital lease obligation	(15,110)
Net Cash Used by Financing Activities	<u>(1,002,697)</u>

Net Change in Cash and Cash Equivalents (183,283)

Cash and Cash Equivalents, Beginning of Period 845,482

Cash and Cash Equivalents, End of Period \$ 662,199

SUPPLEMENTAL DISCLOSURE:

Cash paid for interest (none capitalized) \$ 281,698

See notes to financial statements

BETHANY LUTHERAN CHURCH

Notes to Financial Statements

June 30, 2009

1. NATURE OF ORGANIZATION:

Bethany Lutheran Church (the Church), is a non-profit organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal and state income taxes, and is not considered a private foundation under Section 509(a) of the Code.

The Church was organized January 29, 1908, and is incorporated in the State of Colorado. Bethany Lutheran Church is a Christian community, rooted in the Gospel, and focused on sharing God's grace and love in Jesus Christ with all people. The Church began the Bethany Early Childhood Center (BECC) in 1994 to provide early childhood Christian education. The Church is located in Cherry Hills Village, Colorado and the majority of its congregation resides in the Denver metro area.

2. SUMMARY OF ACCOUNTING POLICIES:

The Church uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of any contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of checking and money market accounts and petty cash. These accounts, at times, may exceed federally insured limits. The Church has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk.

INVESTMENTS

Investments are reported at their readily determinable fair values. Fair market values for investment securities are based on quoted market price. Donated securities are initially recorded at fair value on the date of the gift and thereafter carried in accordance with the above policy. Interest and dividend income is recognized as investment income in the period earned.

DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

Effective January 1, 2008, the Church adopted Statement of Financial Accounting Standards No. 157 Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 has been applied prospectively as of the beginning of the period.

BETHANY LUTHERAN CHURCH

Notes to Financial Statements

June 30, 2009

2. SUMMARY OF ACCOUNTING POLICIES, continued:

DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES, continued

SFAS No. 157, Fair Value Measurements, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Church uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. As of June 30, 2009, all investments are valued based on Level 1 inputs.

ACCOUNTS RECEIVABLE

Accounts receivable represent amounts due to BECC for tuition and other fees, as well as other miscellaneous amounts. Accounts are written off on an individual basis when all attempts to collect have been exhausted. Management has not established an allowance for doubtful accounts as it believes all amounts are fully collectible.

BEQUEST RECEIVABLE

Bequest receivable represents an amount due to the Church from an estate. Management believes the amount is fully collectible.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost or, if donated, at fair market value on the date of the gift. Purchases of long-lived assets in excess of \$1,500 with a useful life in excess of one year are capitalized. Property donated with restrictions regarding its use and contributions of cash to acquire property and equipment are reported as restricted support. Absent any donor stipulations, these restrictions expire when the asset is acquired or placed in service, and a reclassification is made from temporarily restricted net assets to unrestricted net assets at that time. Depreciation is recorded on the straight-line basis over estimated useful lives ranging from three to forty years.

NET ASSETS

The net assets of the Church are reported in the following two classes:

Unrestricted net assets are those currently available to support the Church's operations and those resources invested in property and equipment.

Temporarily restricted net assets are those contributed with donor stipulations for specific operating purposes or programs.

BETHANY LUTHERAN CHURCH

Notes to Financial Statements

June 30, 2009

2. SUMMARY OF ACCOUNTING POLICIES, continued:

SUPPORT AND REVENUE

Contributions are recorded when made, which is when cash is received or unconditionally promised. The Church receives the majority of its support in the form of voluntary tithes and offerings. Contributions restricted by the donor for specific purposes are recorded as income in the temporarily restricted class of net assets until funds have been expended by the Church for the purposes specified. Upon satisfaction of the restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions.

Tuition and fees are recognized when the service is provided. Total discounts given during the eighteen month period ended June 30, 2009, were \$52,868.

Rental income is recognized when earned. Ministry income consists of revenues related to various ministries of the Church. Ministry, investment, and other income is recognized when earned.

ADVERTISING

The Church uses advertising to promote its programs and ministries. Advertising costs are expensed as incurred. Advertising expense for the eighteen month period ended June 30, 2009, was \$9,945.

3. INVESTMENTS:

BECC Investments consist of:

Stock mutual funds	\$ 43,208
Bond mutual funds	9,871
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	\$ 53,079
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Investment income consists of:

Net realized and unrealized gains and (losses)	\$ (14,814)
Interest and dividends	2,702
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	\$ (12,112)
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BETHANY LUTHERAN CHURCH

Notes to Financial Statements

June 30, 2009

4. PROPERTY AND EQUIPMENT–NET:

Property and equipment–net consists of:

Land	\$	301,550
Land improvements		648,958
Building and improvements		10,753,985
Furniture and fixtures		703,562
Memorial garden		157,308
Website development		13,290
		<hr/>
		12,578,653
Less accumulated depreciation and amortization		(4,587,428)
		<hr/>
	\$	<u>7,991,225</u>

Equity in property and equipment consists of:

Property and equipment–net	\$	7,991,225
Less note payable		(2,663,090)
Less capital lease obligation		(30,606)
		<hr/>
	\$	<u>5,297,529</u>

5. CAPITAL LEASE OBLIGATION:

Capital lease obligation consists of one lease for a copier. The copier has an original cost of \$53,520 with accumulated amortization of \$24,976 as of June 30, 2009. Future minimum lease payments are:

<u>Year Ending June 30,</u>		
2010	\$	10,887
2011		11,588
2012		8,131
		<hr/>
		30,606
Less current portion		(10,887)
		<hr/>
	\$	<u>19,719</u>

BETHANY LUTHERAN CHURCH

Notes to Financial Statements

June 30, 2009

6. NOTE PAYABLE:

Note payable consists of a mortgage to a financial institution, secured by a deed of trust and matures in August 2025. Principal and interest payments of \$21,295 are due monthly, with an interest rate of 5.875%. The principal balance of the note payable as of June 30, 2009, was \$2,663,090. Future minimum payments are:

<u>Year Ending June 30,</u>	
2010	\$ 101,795
2011	107,940
2012	114,455
2013	121,363
2014	128,688
Thereafter	<u>2,088,849</u>
	<u>2,663,090</u>
Less current portion	<u>(101,795)</u>
	<u>\$ 2,561,295</u>

7. FUNCTIONAL ALLOCATION OF EXPENSES:

The costs of providing various program services and supporting activities have been summarized on a functional basis below. Accordingly, certain costs such as depreciation and salaries have been allocated among the program services and supporting activities benefited. The Church's functional expenses are:

Program services	<u>\$ 3,783,071</u>
Supporting activities:	
General and administrative	844,789
Fund-raising	<u>96,188</u>
	<u>940,977</u>
Total expenses	<u>\$ 4,724,048</u>

BETHANY LUTHERAN CHURCH

Notes to Financial Statements

June 30, 2009

8. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

Follow-on capital campaign	\$ 140,710
BECC funds	104,709
Bequest funds	125,000
Memorials	61,618
Other program restrictions	55,262
Chapel fund	43,610
Education fund	26,303
Outreach funds (BTF and GMTF)	17,296
Landscape	10,387
Scholarships	9,669
Pastors discretionary fund	6,335
Property improvement	5,000
Capital stewardship fund	1,680
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	\$ 607,579
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9. LINE OF CREDIT:

The Church has access to an unsecured revolving line of credit with a financial institution. The line of credit bears interest at prime plus 1%, with a floor rate of 5%. The total amount available to the Church is \$100,000. The line of credit matures on January 29, 2010. No draws have been made on the line of credit to date.

10. RETIREMENT PLAN:

During the eighteen month period ended June 30, 2009, the Church incurred \$37,031 of pension expense on behalf of its pastors through a retirement plan offered through the Evangelical Lutheran Church of America. The percentage contributed to the individual pastorate plan is determined at the time of employment and is updated as part of the annual compensation review process.

The Church's employees can participate in a defined contribution plan offered. The plan covers substantially all full-time employees that have completed one year of service. The Church matches 50% of employee contributed funds, up to 2.5% of the employee's compensation. Contributions to the plan for the eighteen month period ended June 30, 2009, were \$28,209.

11. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

SUPPLEMENTAL SCHEDULE

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTAL SCHEDULE**

Church Council
Bethany Lutheran Church
Cherry Hills Village, Colorado

Our report on our audit of the basic financial statements of Bethany Lutheran Church as of and for the eighteen month period ended June 30, 2009, appears on page 1. The audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on the following pages is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Capin Crouse LLP

Littleton, Colorado
September 15, 2009

BETHANY LUTHERAN CHURCH

Supplemental Statement of Activities

	Twelve Month Period Ended December 31, 2008			Six Month Period Ended June 30, 2009			
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE:							
Contributions	\$ 2,146,734	\$ 704,044	\$ 2,850,778	\$ 996,670	\$ 311,671	\$ 1,308,341	\$ 4,159,119
Bethany Early Childhood Center:							
Tuition revenue—net	422,934	-	422,934	208,143	-	208,143	631,077
Script revenue	68,697	-	68,697	33,340	-	33,340	102,037
Contributions	-	10,200	10,200	-	380	380	10,580
Investment income	(381)	(15,178)	(15,559)	(9)	3,456	3,447	(12,112)
Ministry income	158,909	-	158,909	79,812	-	79,812	238,721
Rental income	35,743	-	35,743	26,525	-	26,525	62,268
Other income	6,858	-	6,858	654	-	654	7,512
Total Support and Revenue	2,839,494	699,066	3,538,560	1,345,135	315,507	1,660,642	5,199,202
NET ASSETS RELEASED:							
From purpose restrictions	457,698	(457,698)	-	597,784	(597,784)	-	-

(continued)

BETHANY LUTHERAN CHURCH

Supplemental Statement of Activities (continued)

	Twelve Month Period Ended December 31, 2008			Six Month Period Ended June 30, 2009			
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	Total
EXPENSES:							
Personnel	1,217,784	-	1,217,784	596,387	-	596,387	1,814,171
Program	688,372	-	688,372	233,450	-	233,450	921,822
Bethany Early Childhood							
Center expense	464,436	-	464,436	236,416	-	236,416	700,852
Depreciation and amortization	385,028	-	385,028	192,088	-	192,088	577,116
Facilities	197,576	-	197,576	81,787	-	81,787	279,363
Interest	196,808	-	196,808	80,055	-	80,055	276,863
Office and administration	105,135	-	105,135	48,726	-	48,726	153,861
Total Expenses	3,255,139	-	3,255,139	1,468,909	-	1,468,909	4,724,048
Change in Net Assets	42,053	241,368	283,421	474,010	(282,277)	191,733	475,154
Net Assets, Beginning of Period	4,944,812	648,488	5,593,300	4,986,865	889,856	5,876,721	5,593,300
Net Assets, End of Period	\$ 4,986,865	\$ 889,856	\$ 5,876,721	\$ 5,460,875	\$ 607,579	\$ 6,068,454	\$ 6,068,454