

MANAGEMENT LETTER

September 15, 2009

Church Council
Bethany Lutheran Church
Cherry Hills Village, Colorado

In planning and performing our audit of the financial statements of Bethany Lutheran Church (the Church) for the eighteen month period ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Church's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Church's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Our comments concerning internal control and other significant matters are presented as follows:

- Significant Deficiencies
- Other Current Year Matters
- Audit Committee Matters

This communication is intended solely for the information and use of management, the Church Council, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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We will be pleased to further discuss these matters with you and want to express our sincere appreciation to Joel Halvorson, Shelley Hook and other staff for the cooperation and assistance received during the audit engagement and for the opportunity to serve Bethany Lutheran Church.

Sincerely yours,

Capin Crouse LLP

CAPIN CROUSE LLP

SIGNIFICANT DEFICIENCIES

Revenue and Expenses

During the current year audit we reviewed the general ledger detail for all revenue and expense accounts. Per our review we noted that there were numerous journal entries debiting expense accounts and crediting revenue accounts for the purposes of recording transfers between funds and temporarily restricted activity. As a result the revenue and expense accounts were overstated and required audit adjustments.

We recommend that transfer accounts be utilized when transferring between funds. This will present a more accurate set of accounting records to reflect the transfer activity separate from revenue and expense accounts.

Current Year Management Response

Bethany's internal procedures for fund transfers to accommodate our benevolence obligation, debt reduction contributions from the General Fund, year-end review process, etc. have been in place for many years. This has not resulted in any material misstatement of revenue and/or expense in previous management reports or audits. In addition, previous auditors have not recommended any changes to these procedures. However, for the benefit of future audits as well as reconciliation with our contribution database, we will adjust our procedures to accommodate three types of revenue: receipted contributions, other revenue and transfer revenue.

Payroll Segregation of Duties

During the current year audit we reviewed the internal controls in place for the payroll cycle. We noted that the Accounting Supervisor has access to the general ledger and processes all of payroll. We also noted that the Accounting Supervisor has access to change salary and hourly rates in the payroll system. This is a weakness in internal controls because the Accounting Supervisor could change salary or hourly rates or create ghost employees. **We recommend** that the final payroll report be reviewed and approved by the Director of Finance and Administration for each payroll.

Current Year Management Response

We will explore the possibility of an exceptions report for each payroll that will be reviewed by the Director of Finance and Administration each payroll period. If this is not possible, the entire payroll report will be reviewed and approved each period.

Receipt Process

During the current year audit, we reviewed the cash receipts process. We noted the Counting Team Leader has access to the safe and the key to unlock the padlock to the bag where the offering is kept. This is a weakness in internal controls because the Counting Team Leader could take checks or cash and deposited them into a non-church account. **We recommend** that the Counting Team Leader's access to the padlock key be removed.

We also noted during our review of the cash receipts process that donations and other income received through out the week are placed in the drop safe. The Accounting Supervisor has access to the safe and the general ledger. This is a weakness in internal controls because the Accounting Supervisor could open the safe, take the funds and deposit them into a non-church account. **We recommend** that income received throughout the week be placed in a second safe that the Accounting Supervisor does not have access to. **We also recommend** that these funds be processed by the count team on Tuesday's.

SIGNIFICANT DEFICIENCIES, continued

Receipt Process, continued

Current Year Management Response

The keys to the bags will be held by the Director of Finance and Administration and checked out each week for the purpose of opening the bags. In addition, access to the office safe will be limited to the Counting Team Leader who will continue to include all funds deposited in the safe during the week with the weekly counting activity.

OTHER CURRENT YEAR MATTERS

Corporate Credit Cards and Expense Reimbursements

As part of our audit process, we reviewed corporate credit card purchases and expense reimbursements. We noted during our review of corporate credit card purchases and expense reimbursements that they were not approved by the appropriate level of management and business purpose was not adequate.

In order for reimbursements to be treated as non-taxable reimbursements they must meet the requirements of an accountable plan. The Internal Revenue Service (IRS) has established the following requirements for an accountable plan, which must be met for a reimbursement to qualify as non-taxable. These requirements, called accountable plan rules, are as follows:

- The expense must have a business purpose and be incurred while performing service as an employee of the organization.
- The employee must make an adequate accounting of the expenses to the employer within a reasonable period of time after the expenditure has been incurred. The determination of a reasonable period of time depends on the facts and circumstances, although a safe harbor of 60 days has been established for expense reimbursements.
- If the employer makes an advance to the employee, (1) the advance must be made within a reasonable time of the expected expenditure (safe harbor is 30 days), (2) the advance must be reasonable in amount, (3) the employee must be required to return any unused portion of the advance within a reasonable period of time (safe harbor is 120 days after the expense is paid).

Although not required by the Internal Revenue Service (IRS), we suggest that each expense report be submitted on a standard expense report format and be approved by an appropriate level of management. In the case of the Senior Pastor's expense reimbursement and credit card purchases, **we recommend** that on a periodic basis a member of the Church Council review and note approval on reimbursements and payments that were made. This process could be retroactive so that payments are not delayed. Obtaining approval such as this will provide protection for the Church's assets as well as for the individuals involved. These rules would apply to reimbursement transactions as well as substantiation of corporate credit expenditures.

Current Year Management Response

We will provide a reminder to all staff regarding the need for timely and detailed explanation of expenses. In addition, we will work with the Senior Pastor and the Council treasurer to develop a review process of the Senior Pastor's expenses.

OTHER CURRENT YEAR MATTERS, continued

Conflict of Interest Policy

During our audit, we noted that the Church did not have a written conflict of interest policy. A policy would serve to keep Church Council members informed, provide for annual reviews, and control related party transactions. Also, this tool would create efficiencies in gathering data for related party transaction footnotes in your annual audited financial statements.

We recommend the Church Council establish a conflict of interest policy. Among other aspects, it should provide that:

- All proposed related party transactions be reported to the board and be approved in advance.
- The board records demonstrate that the transaction is truly in the best interest of the organization, as provided by a competitive bid or comparative valuation.
- The related party should be excused during the process of board deliberation and voting, other than to respond to questions.
- The board performs an annual review for potential and known related party transactions through Annual Conflict of Interest Questionnaires to be completed by each board member, officer, and senior management of the corporation, including related entities.

Current Year Management Response

We will develop a proposed policy for review by the Executive Committee, who will further determine the process of approval and implementation of such a policy.

Best Practice Policies

Many people are aware of the impact of the Sarbanes Oxley legislation for publicly traded for profit corporations. There has been some debate since the passing of that legislation as to the impact on nonprofit organizations. The Evangelical Council for Financial Accountability has determined that two provisions within Sarbanes Oxley are applicable to all corporations. This would include record retention policies and whistleblower protection. It is our understanding that the Church as a record retention policy but it is not adhered to. **We recommend** that the Church develop policies related to these matters in the spirit of voluntary compliance with current laws.

Current Year Management Response

We will develop an updated records retention policy and a whistleblower policy for review by the Executive Committee, who will further determine the process for approval and implementation of such a policy.

AUDIT COMMITTEE MATTERS

The following information about our audit, as required by professional standards, is considered to be significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.

Auditors' Responsibility Under Generally Accepted Auditing Standards

As independent auditors of the financial statements, we are responsible for:

- Performing the audit in accordance with generally accepted auditing standards
- Designing the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement
- Forming and expressing an opinion about whether the financial statements, that have been prepared by management with the oversight of those charged with governance, are presented fairly, in all material respects, in conformity with generally accepted accounting principles in the United States of America

An audit of financial statements includes 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 entity's internal control over financial reporting.

Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is the risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

Independence

Under professional standards, including Rule 101 of the American Institute of Certified Public Accountants' Code of Professional Conduct and its interpretations and rulings, we are required to communicate all relationships between Capin Crouse LLP and the board that, in our professional judgment, may reasonably be thought to bear on independence.

We are not aware of any relationships or services that would jeopardize this condition. We affirm our objectivity and independence in performing our audit services in conformity with professional standards.

Qualitative Aspects of Accounting Practices

Accounting Policies – Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used are described in Note 2 to the financial statements.

Changes in accounting policies – No new accounting policies were adopted and the application of existing policies was not changed during the eighteen month period ended June 30, 2009.

Expected new pronouncements – No new accounting pronouncements have been issued or are expected, at this time, to have a significant affect on future financial statements.

AUDIT COMMITTEE MATTERS, continued

Qualitative Aspects of Accounting Practices, continued

Significant and Unusual Transactions – Under professional standards, we are required to inform you about transactions we noted that were both significant and unusual, or transactions for which there is a lack of authoritative guidance or consensus. We noted no such transactions entered into by the organization during the year.

Uncorrected Misstatements – There were no uncorrected misstatements that were brought to the attention of management as a result of audit procedures.

Material corrected misstatements made include:

- To decrease double-counted income and expenses of \$1,603,887
- To record income and expense of \$96,188 related to the script program
- To record bequest receivable of \$125,000

Other corrected misstatements made include:

- To capitalize website development costs of \$13,290 and related amortization of \$2,492
- To record deferred revenue of \$9,000

Accounting Estimates – Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events, and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Issues concerning significant estimates made by management include:

- Management's identification of significant accounting estimates
- Management's process for making significant accounting estimates
- Risks of material misstatements
- Indicators of possible management bias
- Disclosure of estimation uncertainty in the financial statements

The most significant estimates include:

- Depreciation expense based on estimated useful lives of property and equipment
- Functional allocation of expenses based on estimated utilization of assets and personnel

We reviewed the process and basis for management's judgments and estimates impacting key accounting and financial reporting areas and concluded they are reasonable in relation to the financial statements taken as a whole.

AUDIT COMMITTEE MATTERS, continued

Qualitative Aspects of Accounting Practices, continued

Financial Statements Disclosures and Related Matters – We considered issues involved and related judgments made, in formulating sensitive financial statement disclosures and believe they are presented with overall neutrality, consistency, and clarity.

Representations Requested from Management – A copy of the letter containing representations requested from management is attached.

Significant Difficulties Encountered During the Audit

We received all requested information in a timely manner from the accounting staff at the Church. We did not experience any significant difficulties in performing our audit

Disagreements with Management

Professional standards define disagreements with management, whether or not resolved to our satisfaction, as a matter concerning financial accounting, reporting, or auditing that could be significant to the financial statements or the independent auditors' report.

No such disagreements arose during the course of our audit.

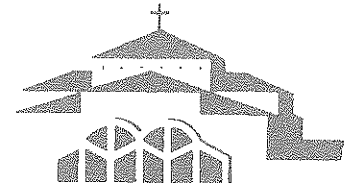
Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the board's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To our knowledge, there were no such consultations with other accountants.

Significant Issues Discussed with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the independent auditors. However, any discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.



**Bethany
Lutheran
Church**

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September 15, 2009

Capin Crouse LLP
1501 West Mineral Avenue
Littleton, Colorado 80129

We are providing this letter in connection with your audit of the statements 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 for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in net assets, and cash flows of the Church in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of September 15, 2009, the following representations made to you during your audit.

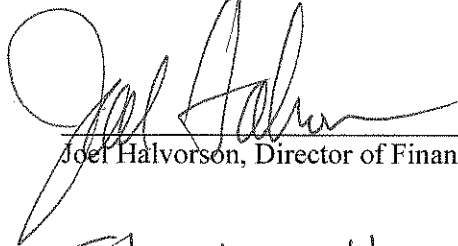
- 1) The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all assets and liabilities under the Church’s control.
- 2) We have made available to you all—
 - a) Financial records and related data.
 - b) Minutes of the meetings of the Church Council and Executive Committee or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 3) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 4) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- 5) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- 6) We have no knowledge of any fraud or suspected fraud affecting the Church involving—
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.

- 7) We have no knowledge of any allegations of fraud or suspected fraud affecting the Church received in communications from employees, former employees, grantors, regulators, or others.
- 8) The Church has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net asset balances.
- 9) The following, if any, have been properly recorded or disclosed in the financial statements:
 - a) Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b) Guarantees, whether written or oral, under which the Church is contingently liable.
 - c) All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
- 10) There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that *near term* means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the organization vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
- 11) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 12) The Church is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Church's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.
- 13) There are no—
 - a) Violations or possible violations of laws and regulations and provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements, as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with *Statement of Financial Accounting Standards No.5*, and we have not consulted a lawyer concerning litigation, claims, or assessments.
 - c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by *Statement of Financial Accounting Standards No. 5*.
 - d) Designations of net assets disclosed to you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the financial statements.
- 14) The Church has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.
- 15) We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.
- 16) We have approved all standard, adjusting, or correcting journal entries to our financial statements, proposed by you.
- 17) As part of your audit, Capin Crouse, LLP prepared the draft of the financial statements and related notes. We have designated an individual with suitable skill and knowledge, or experience to oversee your services and

have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

No events have occurred subsequent to the statement of financial position date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

FOR BETHANY LUTHERAN CHURCH:



Joel Halvorson, Director of Finance and Administration



Shelley Hook, Accounting Supervisor