

BETHANY LUTHERAN CHURCH

FINANCIAL STATEMENTS
With Independent Auditors' Report

June 30, 2010

BETHANY LUTHERAN CHURCH

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INDEPENDENT AUDITORS' REPORT

Church Council
Bethany Lutheran Church
Cherry Hills Village, Colorado

We have audited the accompanying statements of financial position of Bethany Lutheran Church (the Church) as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the year ended June 30, 2010. 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 audits.

We conducted our audits 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 audits provide 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, 2010 and 2009, and the changes in its net assets and its cash flows for the year ended June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Littleton, Colorado
September 2, 2010

BETHANY LUTHERAN CHURCH

Statements of Financial Position

	June 30,	
	2010	2009
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 881,780	\$ 662,199
Investments	60,580	53,079
Accounts receivable	5,994	10,371
Bequest receivable	-	125,000
Prepaid expenses and other assets	16,825	20,753
	965,179	871,402
Property and equipment–net	7,672,343	7,991,225
Total Assets	\$ 8,637,522	\$ 8,862,627
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 18,674	\$ 23,548
Accrued expenses and other liabilities	60,558	67,929
Deferred income	9,270	9,000
Current portion of capital lease obligation	11,588	10,887
Current portion of note payable	84,599	101,795
	184,689	213,159
Capital lease obligation–net of current portion	8,131	19,719
Note payable–net of current portion	1,923,012	2,561,295
	2,115,832	2,794,173
Net assets:		
Unrestricted:		
Operating	361,285	163,346
Church council designated	151,818	-
Equity in property and equipment	5,645,013	5,297,529
	6,158,116	5,460,875
Temporarily restricted	363,574	607,579
	6,521,690	6,068,454
Total Liabilities and Net Assets	\$ 8,637,522	\$ 8,862,627

See notes to financial statements

BETHANY LUTHERAN CHURCH

Statement of Activities

Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:			
Contributions	\$ 2,010,283	\$ 571,173	\$ 2,581,456
Bethany Early Childhood Center:			
Tuition revenue–net	395,219	-	395,219
Script revenue	78,395	-	78,395
Contributions	-	4,207	4,207
Investment income	-	7,502	7,502
Ministry income	124,395	-	124,395
Rental income	48,153	-	48,153
Other income	20,766	-	20,766
	<u>2,677,211</u>	<u>582,882</u>	<u>3,260,093</u>
NET ASSETS RELEASED:			
From purpose restrictions	701,887	(701,887)	-
From time restrictions	125,000	(125,000)	-
	<u>826,887</u>	<u>(826,887)</u>	<u>-</u>
EXPENSES:			
Personnel	957,875	-	957,875
Program	572,531	-	572,531
Bethany Early Childhood Center expenses	468,322	-	468,322
Depreciation and amortization	378,624	-	378,624
Facilities	191,467	-	191,467
Interest	130,729	-	130,729
Office and administration	107,309	-	107,309
	<u>2,806,857</u>	<u>-</u>	<u>2,806,857</u>
Total Expenses			
Change in Net Assets	697,241	(244,005)	453,236
Net Assets, Beginning of Year	<u>5,460,875</u>	<u>607,579</u>	<u>6,068,454</u>
Net Assets, End of Year	<u>\$ 6,158,116</u>	<u>\$ 363,574</u>	<u>\$ 6,521,690</u>

See notes to financial statements

BETHANY LUTHERAN CHURCH

Statement of Cash Flows

Year Ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 453,236
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation and amortization	378,624
Realized and unrealized gains	(6,345)
Donated stock	(68,456)
Change in operating assets and liabilities:	
Accounts receivable	4,377
Bequest receivable	125,000
Prepaid expenses and other assets	3,928
Accounts payable	(4,874)
Accrued expenses and other liabilities	(7,371)
Deferred revenue	270
Net Cash Provided by Operating Activities	<u>878,389</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property and equipment	(59,742)
Proceeds from sale of investments	68,456
Reinvested interest income	(1,156)
Net Cash Provided by Investing Activities	<u>7,558</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Principal payments on note payable	(655,479)
Payments on capital lease obligation	(10,887)
Net Cash Used by Financing Activities	<u>(666,366)</u>

Net Change in Cash and Cash Equivalents 219,581

Cash and Cash Equivalents, Beginning of Year 662,199

Cash and Cash Equivalents, End of Year \$ 881,780

SUPPLEMENTAL DISCLOSURE:

Cash paid for interest (none capitalized) \$ 133,938

See notes to financial statements

BETHANY LUTHERAN CHURCH

Notes to Financial Statements

June 30, 2010

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. The 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 the Fair Value Measurement Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The Fair Value Measurement Topic of the FASB ASC defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

BETHANY LUTHERAN CHURCH

Notes to Financial Statements

June 30, 2010

2. SUMMARY OF ACCOUNTING POLICIES, continued:

DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES, continued

The Fair Value Measurement Topic of the FASB ASC 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, 2010, 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.

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, 2010

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 year ended June 30, 2010, were \$39,255.

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 year ended June 30, 2010, was \$6,984.

RECENTLY ISSUED ACCOUNTING STANDARDS

On July 1, 2009, the Church adopted the new provisions of the Income Tax topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). These provisions clarify the accounting for uncertainty in tax positions and prescribe guidance related to the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The tax benefit from an uncertain tax position is only recognized in the statement of financial position if the tax position is more likely than not to be sustained upon an examination, based on the technical merits of the position. Interest and penalties, if any, are included in expenses in the statement of activities. As of June 30, 2010, the Church had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

3. INVESTMENTS:

BECC Investments consist of:

	June 30,	
	2010	2009
Mutual funds	\$ 41,067	\$ 35,291
Stocks	3,163	2,904
Bonds	12,433	10,967
Cash equivalents	3,917	3,917
	<u>\$ 60,580</u>	<u>\$ 53,079</u>

BETHANY LUTHERAN CHURCH

Notes to Financial Statements

June 30, 2010

3. INVESTMENTS, continued:

Investment income for the year ended June 30, 2010, consists of:

Net realized and unrealized gains and (losses)	\$	6,345
Interest and dividends		1,157
		1,157
	\$	7,502

4. PROPERTY AND EQUIPMENT—NET:

Property and equipment—net, consists of:

	June 30,	
	2010	2009
Land	\$ 301,550	\$ 301,550
Land improvements	648,958	648,958
Building and improvements	10,792,641	10,753,985
Furniture and fixtures	727,586	716,852
Memorial garden	167,660	157,308
	12,638,395	12,578,653
Less accumulated depreciation and amortization	(4,966,052)	(4,587,428)
	\$ 7,672,343	\$ 7,991,225

Equity in property and equipment consists of:

Property and equipment—net	\$	7,672,343	\$	7,991,225
Less note payable		(2,007,611)		(2,663,090)
Less capital lease obligation		(19,719)		(30,606)
		\$ 5,645,013		\$ 5,297,529

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 \$35,680 and \$24,976 as of June 30, 2010 and 2009, respectively. Future minimum lease payments are:

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

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Notes to Financial Statements

June 30, 2010

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 \$16,691 are due monthly, with an interest rate of 5.875%. The principal balance of the note payable as of June 30, 2010 and 2009, was \$2,007,611 and \$2,663,090, respectively. Future minimum payments are:

<u>Year Ending June 30,</u>	
2011	\$ 84,599
2012	89,705
2013	95,119
2014	100,861
2015	106,948
Thereafter	<u>1,530,379</u>
	2,007,611
Less current portion	<u>(84,599)</u>
	<u>\$ 1,923,012</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>\$ 2,189,718</u>
Supporting activities:	
General and administrative	536,544
Fund-raising	<u>80,595</u>
	<u>617,139</u>
Total expenses	<u>\$ 2,806,857</u>

BETHANY LUTHERAN CHURCH

Notes to Financial Statements

June 30, 2010

8. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

	June 30,	
	2010	2009
BECC funds	\$ 114,068	\$ 104,709
Memorials	68,885	61,618
Follow-on capital campaign	67,172	140,710
Chapel fund	43,610	43,610
Pastors discretionary fund	13,835	6,335
Education fund	13,443	26,303
Other program restrictions	13,397	55,262
Scholarships	10,818	9,669
Landscape	10,623	10,387
Youth fund	6,043	-
Capital stewardship fund	1,680	1,680
Property improvement	-	5,000
Outreach funds (BTF and GMTF)	-	17,296
Bequest funds	-	125,000
	<u>\$ 363,574</u>	<u>\$ 607,579</u>

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, 2011. No draws have been made on the line of credit to date.

10. RETIREMENT PLAN:

During the year ended June 30, 2010, the Church incurred \$21,915 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 year ended June 30, 2010, were \$9,358.

BETHANY LUTHERAN CHURCH

Notes to Financial Statements

June 30, 2010

11 COMMITMENTS:

In June 2010, the Church entered into a contract with a construction company to replace a portion of the Church's driveway. The contract was for \$23,840. The construction began in July 2010 and was completed in the same month. The total amount paid was \$27,226.

12. 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.