

BETHANY LUTHERAN CHURCH

FINANCIAL STATEMENTS
With Independent Auditors' Report

June 30, 2011 and 2010

BETHANY LUTHERAN CHURCH

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	5
Notes to Financial Statements	6

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, 2011 and 2010, and the related statements of activities and cash flows for the years 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 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Littleton, Colorado
September 6, 2011

BETHANY LUTHERAN CHURCH

Statements of Financial Position

	June 30,	
	2011	2010
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 602,439	\$ 881,780
Investments	76,877	60,580
Accounts receivable	14,261	5,994
Prepaid expenses and other assets	33,697	16,825
	<u>727,274</u>	<u>965,179</u>
Property and equipment—net	<u>7,498,379</u>	<u>7,672,343</u>
Total Assets	<u>\$ 8,225,653</u>	<u>\$ 8,637,522</u>
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 15,723	\$ 18,674
Accrued expenses and other liabilities	70,460	60,558
Deferred income	21,548	9,270
Current portion of capital lease obligation	8,131	11,588
Current portion of note payable	75,119	84,599
	<u>190,981</u>	<u>184,689</u>
Capital lease obligation—net of current portion	-	8,131
Note payable—net of current portion	<u>1,535,002</u>	<u>1,923,012</u>
	<u>1,725,983</u>	<u>2,115,832</u>
Net assets:		
Unrestricted:		
Operating	196,085	361,285
Church council designated	127,000	151,818
Equity in property and equipment	5,880,127	5,645,013
	<u>6,203,212</u>	<u>6,158,116</u>
Temporarily restricted	<u>296,458</u>	<u>363,574</u>
	<u>6,499,670</u>	<u>6,521,690</u>
Total Liabilities and Net Assets	<u>\$ 8,225,653</u>	<u>\$ 8,637,522</u>

See notes to financial statements

BETHANY LUTHERAN CHURCH

Statements of Activities

Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:			
Contributions	\$ 1,958,098	\$ 242,586	\$ 2,200,684
Bethany Early Childhood Center:			
Tuition revenue–net	428,325	-	428,325
Script revenue	68,295	-	68,295
Contributions	-	931	931
Investment income	-	10,111	10,111
	496,620	11,042	507,662
Ministry income	190,026	-	190,026
Rental income	63,617	-	63,617
Other income	32,262	-	32,262
	2,740,623	253,628	2,994,251
NET ASSETS RELEASED:			
From purpose restrictions	320,744	(320,744)	-
From time restrictions	-	-	-
	320,744	(320,744)	-
EXPENSES:			
Personnel	1,010,886	-	1,010,886
Program	682,045	-	682,045
Bethany Early Childhood Center expenses	491,181	-	491,181
Depreciation and amortization	397,550	-	397,550
Facilities	234,202	-	234,202
Interest	102,392	-	102,392
Office and administration	98,015	-	98,015
	3,016,271	-	3,016,271
Total Expenses	3,016,271	-	3,016,271
Change in Net Assets	45,096	(67,116)	(22,020)
Net Assets, Beginning of Year	6,158,116	363,574	6,521,690
Net Assets, End of Year	\$ 6,203,212	\$ 296,458	\$ 6,499,670

See notes to financial statements

BETHANY LUTHERAN CHURCH

Statements 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
	473,614	11,709	485,323
Ministry income	124,395	-	124,395
Rental income	48,153	-	48,153
Other income	20,766	-	20,766
	2,677,211	582,882	3,260,093
NET ASSETS RELEASED:			
From purpose restrictions	701,887	(701,887)	-
From time restrictions	125,000	(125,000)	-
	826,887	(826,887)	-
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
	2,806,857	-	2,806,857
Total Expenses	2,806,857	-	2,806,857
Change in Net Assets	697,241	(244,005)	453,236
Net Assets, Beginning of Year	5,460,875	607,579	6,068,454
Net Assets, End of Year	\$ 6,158,116	\$ 363,574	\$ 6,521,690

See notes to financial statements

BETHANY LUTHERAN CHURCH

Statements of Cash Flows

	Year Ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (22,020)	\$ 453,236
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	397,550	378,624
Realized and unrealized gains	(8,684)	(6,345)
Donated stock	(6,148)	(68,456)
Change in operating assets and liabilities:		
Accounts receivable	(8,267)	4,377
Bequest receivable	-	125,000
Prepaid expenses and other assets	(16,872)	3,928
Accounts payable	(2,951)	(4,874)
Accrued expenses and other liabilities	9,902	(7,371)
Deferred revenue	12,278	270
Net Cash Provided by Operating Activities	354,788	878,389
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(223,586)	(59,742)
Proceeds from sale of investments	-	68,456
Reinvested interest income	(1,465)	(1,156)
Net Cash Provided (Used) by Investing Activities	(225,051)	7,558
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on note payable	(397,490)	(655,479)
Payments on capital lease obligation	(11,588)	(10,887)
Net Cash Used by Financing Activities	(409,078)	(666,366)
Net Change in Cash and Cash Equivalents	(279,341)	219,581
Cash and Cash Equivalents, Beginning of Year	881,780	662,199
Cash and Cash Equivalents, End of Year	\$ 602,439	\$ 881,780
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest (none capitalized)	\$ 104,338	\$ 133,938

See notes to financial statements

BETHANY LUTHERAN CHURCH

Notes to Financial Statements

June 30, 2011 and 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

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, 2011 and 2010, all investments are valued based on Level 1 inputs.

BETHANY LUTHERAN CHURCH

Notes to Financial Statements

June 30, 2011 and 2010

2. SUMMARY OF ACCOUNTING POLICIES, continued:

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.

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 statements of activities as net assets released from restrictions.

Tuition and fees are recognized when the service is provided. Total discounts given during the years ended June 30, 2011 and 2010, were \$49,420 and \$39,255, respectively

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.

BETHANY LUTHERAN CHURCH

Notes to Financial Statements

June 30, 2011 and 2010

2. SUMMARY OF ACCOUNTING POLICIES, continued:

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, 2011 and 2010, was \$6,418 and \$6,984, respectively.

UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. As of June 30, 2011, the Church had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with current year presentation.

3. INVESTMENTS:

Investments consist of:

	June 30,	
	2011	2010
Long-term capital growth mutual fund	\$ 70,673	\$ 60,580
Industrial common stock	6,204	-
	<u>\$ 76,877</u>	<u>\$ 60,580</u>

Investment income for the years ended consists of:

	Year Ended June 30,	
	2011	2010
Net realized and unrealized gains	\$ 8,646	\$ 6,345
Interest and dividends	1,465	1,157
	<u>\$ 10,111</u>	<u>\$ 7,502</u>

BETHANY LUTHERAN CHURCH

Notes to Financial Statements

June 30, 2011 and 2010

4. PROPERTY AND EQUIPMENT–NET:

Property and equipment–net, consists of:

	June 30,	
	2011	2010
Land	\$ 301,550	\$ 301,550
Land improvements	761,434	648,958
Building and improvements	10,792,641	10,792,641
Furniture and fixtures	838,696	727,586
Memorial garden	167,660	167,660
	<u>12,861,981</u>	<u>12,638,395</u>
Less accumulated depreciation and amortization	<u>(5,363,602)</u>	<u>(4,966,052)</u>
	<u>\$ 7,498,379</u>	<u>\$ 7,672,343</u>

Equity in property and equipment consists of:

	June 30,	
	2011	2010
Property and equipment–net	\$ 7,498,379	\$ 7,672,343
Less note payable	(1,610,121)	(2,007,611)
Less capital lease obligation	<u>(8,131)</u>	<u>(19,719)</u>
	<u>\$ 5,880,127</u>	<u>\$ 5,645,013</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 \$46,384 and \$35,680 as of June 30, 2011 and 2010, respectively. Future minimum lease payments are \$8,131 for the year ending June 30, 2012.

BETHANY LUTHERAN CHURCH

Notes to Financial Statements

June 30, 2011 and 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 \$13,976 are due monthly, with an interest rate of 5.875%. The principal balance of the note payable as of June 30, 2011 and 2010, was \$1,610,121 and \$2,007,611, respectively. Future minimum payments are:

<u>Year Ending June 30,</u>	
2012	\$ 75,119
2013	79,653
2014	84,460
2015	89,558
2016	94,964
Thereafter	<u>1,186,367</u>
	1,610,121
Less current portion	<u>(75,119)</u>
	<u>\$ 1,535,002</u>

The Church was in compliance with, or had received waivers for, all financial and reporting covenants at June 30, 2011, and 2010, respectively.

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:

	<u>Year Ending June 30,</u>	
	<u>2011</u>	<u>2010</u>
Program services	\$ 2,404,958	\$ 2,189,718
Supporting activities:		
General and administrative	543,153	536,544
Fund-raising	<u>68,160</u>	<u>80,595</u>
	<u>611,313</u>	<u>617,139</u>
Total expenses	<u>\$ 3,016,271</u>	<u>\$ 2,806,857</u>

BETHANY LUTHERAN CHURCH

Notes to Financial Statements

June 30, 2011 and 2010

8. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

	June 30,	
	2011	2010
BECC funds	\$ 116,768	\$ 114,068
Memorials	71,388	68,885
Chapel fund	43,610	43,610
Other program restrictions	22,087	13,397
Scholarships	11,903	10,818
Landscape	10,623	10,623
Pastors discretionary fund	10,457	13,835
Youth fund	6,043	6,043
Education fund	1,899	13,443
Capital stewardship fund	1,680	1,680
Follow-on capital campaign	-	67,172
	<u>\$ 296,458</u>	<u>\$ 363,574</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, 2012. No draws have been made on the line of credit to date.

10. RETIREMENT PLAN:

During the years ended June 30, 2011 and 2010, the Church incurred \$22,988 and \$21,915, respectively, 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 half of the employee contributed funds, up to 2.5% of the employee's compensation. Contributions to the plan for the years ended June 30, 2011 and 2010, were \$7,970 and \$9,358, respectively.

BETHANY LUTHERAN CHURCH

Notes to Financial Statements

June 30, 2011 and 2010

11. RELATED PARTY TRANSACTIONS:

The Church is a member of the Rocky Mountain Synod, which is part of the Lutheran denomination. The Church paid the Synod \$100,000 and \$102,000 during the years ended June 30, 2011 and 2010, respectively, for general support in the district.

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.