

MANAGEMENT LETTER

September 6, 2011

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 year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the organization’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 organization’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatement due to error or fraud may occur and not be detected by such controls. However, as discussed in the following pages, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis.

Professional standards define a material weakness and a significant deficiency as follows:

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

- Significant Deficiency
- Other Current Year Matter
- Status of Prior Year Comment–Significant Deficiency
- Status of Prior Year Comments–Other Matters
- Audit Committee Matters

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

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

Sincerely yours,

A handwritten signature in cursive script that reads "Capin Crouse LLP".

CAPIN CROUSE LLP

SIGNIFICANT DEFICIENCY

Receipts Process for Contributions

During the current and prior year audits, we reviewed the receipts process for contributions. We noted that checks were not restrictively endorsed at any time due to the fact that they are deposited electronically. In addition, we noted that the counting team leader provides a listing of the monies collected to the accounting supervisor for entry into the general ledger.

We recommended checks be restrictively endorsed before they are counted. In addition, **we continue to recommend** the accounting supervisor reconcile the deposit per the donor system to the deposit per the bank and the general ledger.

Current Year Management Response

Checks are now being restrictively endorsed at the time the checks are counted for deposit purposes. The accounting staff will determine a reconciliation schedule for the deposit per the donor system and the bank.

OTHER CURRENT YEAR MATTER

Best Practice Policies

During the prior year audit, we discussed with management the Sarbanes Oxley legislation for publicly traded for profit corporations and its impact on nonprofit organizations. We noted that the Evangelical Council for Financial Accountability has determined that two provisions within Sarbanes Oxley are applicable to all corporations. We noted that this would include record retention policies and whistleblower protection. We noted that the Church has a record retention policy but it is not adhered to.

We continue to recommend the Church develop policies related to these matters in the spirit of voluntary compliance with current laws.

Current Year Management Response

The Church has started the process of drafting new policies, however they are not complete and ready for adoption at this time.

STATUS OF PRIOR YEAR COMMENT-SIGNIFICANT DEFICIENCY

Receipts Process for Tuition Revenue

During the prior year audit, we reviewed the receipts process for tuition revenue and we noted several weaknesses in this process. Checks were not restrictively endorsed at the time they were collected and all Church employees had access to the safe and could steal cash or non-endorsed checks. In addition, the assistant director had the opportunity to steal monies and alter the reports provided to the counting team leader and accounting supervisor.

We recommended checks be restrictively endorsed at the time of collection. **We also recommended** that access to the safe be limited. In addition, **we recommended** that the invoicing and receipting of tuition be performed by an individual who does not handle the funds and that the tuition invoicing system be reconciled to the general ledger and to the tuition deposit on a regular basis.

STATUS: Implemented.

STATUS OF PRIOR YEAR COMMENTS-OTHER MATTERS

Corporate Credit Cards and Expense Reimbursements

During the prior year audit, we reviewed corporate credit card purchases and expense reimbursements. We noted during our review that the Director of Finance & Administration is reviewing the complete package of expense reports and corporate credit card charges and that a member of church council is also providing review of the Senior Pastor's expense reports and corporate credit card charges. However, we noted that no one was reviewing the expense reports and corporate credit card charges of the Director of Finance & Administration.

We recommended that the Senior Pastor or a member of church council review the expense reports and the corporate credit card charges of the Director of Finance & Administration.

STATUS: Implemented.

Conflict of Interest Policy

During the prior year audit, we noted that the Church did not have a written conflict of interest policy. We noted that 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 recommended the church council establish a conflict of interest policy.

STATUS: Implemented.

Journal Entries

During the prior year audit, we reviewed a sampling of journal entries. We noted that all entries had adequate documentation and appeared appropriate. We noted that all entries were made by the accounting supervisor and no one was reviewing or approving them.

We recommended the Director of Finance & Administration review the journal entries made each month and notate approval. This would help ensure that all entries were recorded appropriately and provide a level of security for both the accounting supervisor and the Church.

STATUS: Implemented.

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 accounting principles generally accepted 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 year.

Expected new pronouncements—The FASB has issued a number of exposure drafts that could have an impact on future financial statements. The most significant of these exposure drafts address the accounting for leases, revenue recognition, and financial instruments. As additional developments occur, we will provide management with additional information so that the impact, if any, on the financial statements can be determined.

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 identified during the audit.

Material corrected misstatements—There were no material corrected misstatements identified during the audit.

Other corrected misstatements—There were no other corrected misstatements identified during the audit.

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 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 misstatement
- 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.

Financial statements disclosures and related matters—We considered issues involved and related judgments made, in formulating sensitive financial statements 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 are pleased to report that there were no significant difficulties in dealing with management in performing and completing our audit.

AUDIT COMMITTEE MATTERS, continued

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.

We are pleased to report that 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.

September 6, 2011

Capin Crouse LLP:

We are providing this letter in connection with your audits of the statements of financial position of Bethany Lutheran Church as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years 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 Bethany Lutheran 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, the following representations made to you during your audits.

- 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 Organization'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 or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 3) We have completed and reviewed the Tax Checklist you have provided to us and have answered all questions to the best of our knowledge and belief.
- 4) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 5) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- 6) We believe the effects of the uncorrected financial statement misstatements, if any, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
- 7) We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the organization's accounts.
- 8) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- 9) We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Organization's ability to record, process, summarize, and report financial data.
- 10) We have no knowledge of any fraud or suspected fraud affecting the Organization 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.
- 11) We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others.


- 12) The Organization has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net asset balances. In that regard:
- a) The Organization has no significant amounts of idle property and equipment.
 - b) The Organization has no plans or intentions to discontinue the operations of any subsidiary or branch or to discontinue any significant services or activities.
 - c) Provision has been made to reduce all investments, intangibles, and other assets which have permanently declined in value to their realizable values.
 - d) Long-lived assets, including intangibles, which are impaired or to be disposed of, have been recorded at the lower of their cost or fair value.
- 13) 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 Organization is contingently liable.
 - c) Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
 - d) Lines of credit or similar arrangements.
 - e) Agreements to repurchase assets previously sold.
 - f) All other liens or encumbrances on assets and all other pledges of assets.
 - g) Amounts of contractual obligations for construction and/or purchase of real property, equipment, other assets and intangibles.
 - h) Investments in debt and equity securities, including their classification.
 - i) All liabilities which are subordinated to any other actual or possible liabilities of the Organization.
 - j) All leases and material amounts of rental obligations under long-term leases.
 - k) Significant estimates and material concentrations known to management that are required to be disclosed in accordance with FASB Accounting Standards Codification 275, *Risks and Uncertainties*.
 - l) Concentrations of credit risk.
 - m) All recordable contributions, by appropriate net asset class including contributed services required to be recorded as contributions.
 - n) Unconditional and/or conditional promises to give.
 - o) Reclassifications between net asset classes.
 - p) Allocations of functional expenses based on estimated utilization of assets and personnel.
 - q) Composition of assets in amounts needed to comply with all donor restrictions.
 - r) Deferred revenue from exchange transactions.
 - s) Refundable advances.
 - t) The fair value of financial instruments.
 - u) Tax status.
 - v) Board designated unrestricted net assets.
- 14) We understand that significant estimates are estimates at the statement of financial position date that could change materially within the next year. Concentrations refer to individual or group concentrations of contributors, grantors, clients, customers, suppliers, lenders, products, services, fun-raising events, sources of labor or materials, licenses or other rights, or operating areas or markets for which events could occur that would significantly disrupt normal finances within the next year. We have identified 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. In that regard, adequate provisions have been made:

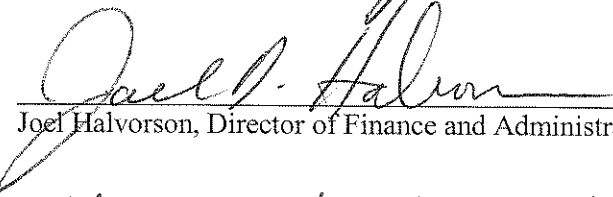
- a) To reduce receivables, including contributions, to their estimated net collectable amounts.
- 15) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and 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.
 - 16) Bethany Lutheran 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 Organization'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.
 - 17) 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 FASB *Accounting Standards Codification 450 , Contingencies*, 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 FASB *Accounting Standards Codification 450 , Contingencies* (formerly *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.
 - 18) Except as made known to you and disclosed in the notes to the financial statements, the Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
 - 19) 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.
 - 20) The methods and significant assumptions used to estimate fair values of financial instruments, including nonreadily marketable securities, are as follows: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. The methods and significant assumptions used result in a measure of fair value appropriate for financial measurement and disclosure purposes.
 - 21) As part of your audit, you prepared the draft financial statements and related notes. We have designated an individual with suitable skill, 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.

During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us. 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:



Pastor Ron Glusenkamp, Senior Pastor



Joel Halvorson, Director of Finance and Administration



Shelley Hook, Accounting Supervisor