

To the parents of Grace Christian School:

This letter is in follow up to one issued during the last week of school, and provides additional detail regarding the financial history of the school, the auction, and the facilities expansion for our high school.

### **The High School Project**

In the 2005-06 school year, we experienced a significant decline in enrollment in the upper grades. Specifically, we had only eight students enrolled in Jr. High, and with no formal high school program, just eight students in independent study. We had much feedback from parents, some of whom had moved their children to other private schools or public schools, that the lack of a high school program was a significant factor in the declining enrollment.

This situation was discussed at length by the school board, and in March of 2006 the first formal proposal for facilities expansion and the creation of an onsite high school program was presented to the congregation of Gladstone Assembly of God. At that time, the congregation suggested that further research be done, and the proposal be resubmitted at a later date.

In late Summer of 2006, the board decided that we should have a bias for action, and declared that GCS would reopen its high school with onsite facilities in the Fall of 2007. This was an act of faith. It was also a commitment to do everything possible to make it happen. Coinciding with the announcement of the high school project, the GCS Capital Fund was established to solicit and hold funds dedicated for capital projects at the school.

Throughout the Fall, Winter, and Spring, regular updates were given regarding the high school project, including our need for funds. In March of 2007, the church congregation approved the building plans, including authorization to spend up to \$250,000 on the project. In April of 2007, the Gladstone Planning Commission approved our conditional use permit and design review application for the project. In May, a contract was signed for delivery of the two modular buildings, with delivery expected in time for opening in September 2007.

During this phase of the high school project, the GCS auction was experiencing significant growth. The 2007 auction was supported by a \$5000 advertising campaign on 104.1 the Fish (paid from the school general fund), and we were honored to have the Fish morning show hosts, Pete and Brenda, as our emcees. Discussions about use of the auction proceeds included rather ambitious ideas about gymnasiums or covered play areas, support of the high school project, and the overwhelming favorite, a remodel of the school's bathrooms. Although the the desired use of the auction proceeds was not officially discussed by the board, both the board and administration voiced their support for this use on several occasions. Since a remodel was badly needed, and it was anticipated that an expansion might be required as part of the building project, this seemed to be a prudent use of auction proceeds.

Although the 2006-07 school year was an exciting one on many fronts, it was a poor one financially. Enrollment dropped significantly from the prior year, and the school ended the year with a cash deficit of nearly \$8,000. Despite that, there was reason for optimism. Enrollment for the following year was looking up, apparently in response to the planned opening of the high school.

Due to financial challenges which will be discussed later, the delivery of the buildings for the high school was delayed. This delay extended much longer than expected, and the buildings were not delivered until Winter. Additional delays due to site work, utilities, and other factors prevented us from occupying the buildings during the 07-08 school year. Despite this, our high school opened on schedule, albeit, with necessarily limited enrollment, and dismal facilities. The staff, and especially the students of the high school should be commended for their patience and long suffering under difficult circumstances.

The 2008 GCS Auction was the best ever. With the addition of auction fees to augment auction sales, the total amount raised exceeded \$25,000. During 2008 it was clearly communicated that the proceeds from this auction were intended to be used for the bathroom remodel.

The 07-08 school year was another poor one financially. Although enrollment had returned to 05-06 levels and tuition and fees had been increased, expenses increased substantially for many reasons. Among those reasons were \$14,000 in interest expenses related to the building project (more on that later) and increased expenses due to increased staffing for the high school program. We ended the 07-08 school year with a cash deficit of nearly \$10,000, in addition to \$10,000 that was borrowed against our credit line.

In May of 2008 the budget for the 08-09 school year was established. Tuition and fees were increased once again in an attempt to stabilize school finances. Also, a decision was made to eliminate fundraisers for the general fund, and to substitute the auction and heart of a servant fees with a general fund fee to be used for operational expenses. Based on the number of pre-registered students and a modest projection of 20 additional students registering over the summer (consistent with historical trends), we projected a surplus of nearly \$30,000 for the 08-09 school year. Based on that, we anticipated that money could be available to complete the bathroom remodel as early as Winter break of 2008.

In August of 2008 and continuing into the first part of September, we experienced an unprecedented withdrawal of students. There were many reasons for this. In large part it was related to the economic meltdown which began in late summer. Other contributing factors were a controversy over staffing decisions, and, of course, disappointment and frustration regarding the failure to complete the bathroom remodel as planned.

The dramatic and unanticipated decline in enrollment destroyed our budget, and eliminated any hope of bathroom renovations this school year. The loss of students lowered our projected revenue by more than \$80,000, moving us from a modest surplus to a potentially catastrophic deficit. Through the Fall of 2008, the board developed plans to grow enrollment, and reviewed options for cutting expenses. In January of 2009, staff cuts were made, and compensation for some remaining staff members was adjusted downward. Even with the cuts, the school ended the year with a significant cash deficit.

### **High School Project Financials**

Now that we've summarized the events of the past few years, we'd like to provide more detail in a few areas. First, let's discuss the financials of the high school project. As was mentioned, in September of 2007 the GCS Capital Fund was established to raise money for school related capital projects. To date, this fund has received approximately \$10,000 in donations. An additional \$40,000 was obtained from a bank line of credit. \$199,000 was obtained via a private loan from a school family. Interest on these loans is being paid from the school's general fund at market rates (currently very low). An additional \$30,000 was obtained from another school family as an interest free loan with no specific repayment schedule.

When first proposed, it was our intent to fund the building project exclusively via donations. During the first year of the project, significant effort was made by the board to find funding sources. We reached out to a number of potentially significant donors, and we printed a four color brochure detailing the purpose and goals of the GCS Capital Fund. As the project progressed it became necessary to obtain funding from other sources. We were fortunate that individuals came forward to assist with the completion of the project on very generous terms. It was agreed by the board that interest expenses should be paid from the school's general fund, since occupancy of the buildings is a legitimate school related expense. It remains our desire to repay principal amounts via donations to the Capital Fund, and we hope that repayment of principal from the general fund does not become necessary.

### **GCS Historical Financial Model**

Let's move now to the financial model the school has operated under since its inception more than 30 years ago. One of the most important core principles in operating the school has been to maintain its affordability for average families. To that end, the school has always operated at or near break even. Typically, tuition was set a level sufficient to pay staff salaries. Registration and book fees covered the cost of books and materials, yearbook, and some miscellaneous expenses. The remainder of the operational expenses of the school were covered by fundraisers such as the candy bar sale, or the pepperoni sale.

This model worked well for many years as enrollment and expenses were quite stable, but began to break down a few years ago. During the 05-06 school year we experienced an unprecedented difficulty in the collection of tuition. At one point, past due tuition approached nearly two months revenue. Although most of this was

eventually collected, and tuition payment is less of a problem than it was, over the past four years we have written off approximately \$18,000 in unpaid tuition and fees. Fundraising also declined, not only in real dollars, but as a percentage of overall revenue. Staff salaries increased due to cost of living adjustments. As mentioned previously, enrollment levels became unstable, and expenses increased as we moved forward with growth plans. The net result has been four years of difficult finances.

### **GCS Auction**

The auction began as an extension of other existing fundraisers. Proceeds from the auctions were placed into the general fund, even if they were eventually used for capital improvements instead of operational expenses. This did not change as the auction grew, so it was unfortunate, but not improper, that auction funds were needed to cover operational deficits.

It has been a difficult four years, but even with the challenges we face, we can take solace in the progress that has been made. As a whole, our facilities are larger and better than they were in 2005. We have reestablished our high school program and have built a staff that is dedicated to the academic success and spiritual well being of our children.

We hope that this information provides a deeper understanding of the difficult choices that needed to be made, and the challenges we still face. We ask for your prayers, support, and involvement as we continue to move forward with God's plan for His school.