

Church School

We are pleased to present our financial analysis to the Church School. Our report is designed to analyze each school's existing financial condition as compared against industry benchmarks, evaluate capacity for additional leverage, offer commentary on the overall financial structure, and finally to suggest changes or scenarios for improvement. This preliminary report will be subsequently refined as we meet with each school to confirm our assumptions.

Strengths and Weaknesses

- Church is a small church-affiliated school with separate operations and cash reserves, but title to real property held by XXX Church.
- The school has a declining operating margin, lapsing into a deficit in 2005.
- Investment income is about 2.4%, very modest during rising interest rates. Church-held investments have investment loss; we do not know if participation in this program is mandatory.
- Annual gifts (as a percentage of total revenue) seem low, given the church affiliation and apparent local support.

Strategic Capital Allocation

Church School appears to have no current capacity for debt. Once student enrollment and tuition levels reach a critical mass, perhaps a conventional mortgage or commercial loan is possible to replacement payments of leased facilities. Without real property to pledge as collateral, the church will be likely required to co-sign any loan.

Our Thoughts

- School support appears synonymous with church support. As such, Church School may have to coordinate all fundraising and capital campaigns within the church circle of benefactors for optimal success. As well, any loans may require church pledge of land and a loan repayment guarantee.
- Just as a teenager must begin to establish a credit history separate from the parents, the school should begin to establish its own identity and asset base. Such assets establish financial security, and demonstrate to lenders and benefactors alike that the school is a viable and responsible enterprise.
- The timeframe of capital improvements permit the development of a comprehensive fundraising program, from annual gifts to the creation of a portfolio of endowment funds.
- A long-term goal may be an aggregate endowment and reserve fund of about \$8 million. A 5% distribution from such funds will subsidize approximately 25% of the current budget, providing financial flexibility and diversity.