

To the membership of Gladstone Assembly of God:

At the annual congregational meeting held in March, it was noted that the financial reports for Grace Christian School were out of date by nine months. It was also noted that no accounting of funds expended for the modular buildings had been provided. This update is provided, as requested by the membership, to correct those deficiencies.

As of May 8, 2008, a total of --- has been spent to acquire two modular classroom buildings, providing four classrooms totaling approximately 3400 square feet. This represents the full cost of the buildings, including all delivery and setup fees payable to the building provider. Additionally, -- has been spent on site improvements, including tree removal, excavating, sidewalks and railings. Permit fees, including system development charges were paid in the amount of ---.

Although the project is nearing completion, there are remaining expenses estimated to be approximately ---. These include final payments for excavating, handrails, and the engineering and construction of roadside curbs and sidewalks. The final total project cost is estimated at ---. A complete list of expenditures is attached.

Another question raised at the annual meeting related to the source of funds used for the completion of this project. It has been and remains our intent to pay for this project entirely from donations to the Grace Christian School Capital Fund. That said, it is true that donations to date are substantially less than that required to fully pay for the project.

A substantial portion of this shortfall has been covered by a family associated with the school, with the agreement that funds advanced will be repaid from future donations to the capital fund. Additionally, interest associated with these funds will be paid monthly from the school's operational account. We believe this arrangement was poorly described at the annual meeting, which may have caused a misunderstanding on the part of the membership regarding the church's obligations.

The family referenced above has supplied \$199,000 towards the completion of this project. The source of these funds was a bank loan obtained by and guaranteed by the family. Neither the church nor the school are a party to this loan, and no assets or property of the church or school have been pledged as collateral for this loan. As mentioned above, the school's operating fund is reimbursing interest accrued on this loan at a variable rate, currently 4.99% annually. Principal payments will be made from future donations. The expected interest payments for the next 12 months have been accounted for in the 2008-09 school operating budget, and represent approximately 3% of the nearly \$500,000 budgeted for school operations.

Additionally, an unsecured, revolving, working capital line of credit has been obtained from US Bank in the amount of \$40,000. This loan was granted based on the historical finances of the school operation. No church or school assets have been pledged as

collateral for this line of credit. As of May 8th, 2008, --- had been drawn against this line.

Donations to the GCS Capital Fund to date amount to ---. We have also received non-cash donations of equipment, materials, and labor valued at several thousand dollars. The annual GCS auction sponsored and run by the school's parent teacher fellowship (PTF) raised in excess of \$20,000 this year. The PTF has pledged these funds to pay for future renovations to the bathroom and nursery area in the rear of the church building.

We are pleased to report that despite the challenges associated with the delays in the modular project, this past year has been one of the best yet for Grace Christian School. We will finish the year with just over 200 students, an increase of more than 25% in the past two years. This increase in enrollment, along with tuition increases last year are expected to result in the first operating surplus in more than three years. We are expecting at least another 10% enrollment increase for the 2008-09 school year, directly attributable to the resumption of our high school program. This year we added one full-time and one part-time staff member to support the --- students currently enrolled in grades 9-12. We expect enrollment in grades 7-12 to increase substantially next year with the added space provided by the new buildings. Additionally, based on anticipated enrollment for next year, we expect all operating expenses, including interest payments to be covered by tuition and fees alone, with all fund raising money allocated for special projects and future reserves.

Finally, we would like to acknowledge that improvement is needed in the timeliness of financial reports. As has been mentioned, over the past few years we have converted our manual, paper based bookkeeping system with a computerized one. This has greatly improved our ability to track the income and expenses of the school, which represents the lion's share of all financial transactions of the church. Nevertheless, we recognize that improvement is needed so that timely, accurate, and useful financial reports can be provided to the board and the membership. To that end, we intend to retain an accounting professional to review our bookkeeping processes, recommend changes, and assist as needed with the initial implementation. We hope to complete a substantial portion of that work by the end of the school's fiscal year on June 30th, and have a complete report of the school's finances by mid-July.