

Providence Academy Strategic Financial Plan August 2009

I. Introduction

The Providence Academy (PA) board and finance committee (PAFC) began a process in January 2009 to document a comprehensive long-range financial strategy for funding the operations and goals of the school. The board believes it is important to establish this framework to:

- 1) guide future planning, and
- 2) communicate that a thorough and responsible financial strategy is behind the school's financial activities.

II. Plan Summary

The funding of the operations and goals of PA will be accomplished through the following primary methods:

- 1) Operating Fund
- 2) Scholarship Fund
- 3) The Knight Fund
- 4) Capital campaigns
- 5) Planned giving / Endowments

The board does not anticipate that significant changes to this plan, once adopted, will be necessary. However, the board may approve changes to this plan. Any changes will be communicated to PA families. Copies of this plan will be available to PA families and supporters upon request.

III. Operating Fund

The operating budget exists to fund the operations of the school which consist primarily of employee salaries and benefits, facilities maintenance and utilities, curriculum, and other operational expenditures. It will be funded through tuition, fees and related operating revenues.

Teacher and employee salaries are the largest components of the operating fund. The board considers the following factors in regard to establishing compensation levels:

- 1) The sacrifice for Christian education falls primarily on parents, not the backs of teachers and employees of the school. The goal of PA is to continue moving the weight of sacrifice to parents versus employees.
- 2) The reality of the situation is that balancing tuition levels for families and compensation for PA employees may always present a challenge and tension in the life of the school.
- 3) Due to this challenge and tension, a key success factor for PA is employees who value and are committed to the mission of PA first and foremost. PA's ability to compete with public schools or larger, more established Christian schools at the high end of compensation levels will be limited for the foreseeable future.
- 4) PA provides a work environment that affords various intangible benefits to the employees, foremost being a Christian atmosphere where the Word of God can freely be used as a standard for relationships, practices, and the life of the school in general.

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The board and PAFC have reviewed teacher salaries for other local public and private school systems and other private Christian schools outside of the area. Currently average PA salaries are at approximately 65% to 70% of the Washington County, TN school system pay scale. The board has established the goal to fund teacher salaries at a target of 75% of the county average. This level is considered competitive with other private schools.

Due to the importance of faculty commitment to the mission of PA, full-time employees will continue to be eligible for a tuition discount of 50% and those with financial need will be eligible to apply for scholarship aid for an additional 25% of tuition.

Over the past 3-4 years, in an effort to minimize tuition increases, maintenance of school facilities has not been adequately funded in the budget. The board and PAFC believe sound stewardship requires that we maintain the facilities that God has blessed us with. Therefore, the intent of the board is for future budgets to include the full 2% funding for the contingency & capital replacement funds and an increase in other maintenance related expenditures by an additional 2% of the total budget.

IV. Scholarship Fund

PA has been blessed by many supporters who share the school's vision for Classical Christian Education. For the 2009-2010 school year, approximately 23% of students will benefit from financial assistance through the PA Scholarship Fund totaling \$192,000. The board has made the scholarship fund an annual priority and believes it demonstrates to the community the heart of PA to assist those with need be able to obtain a classical Christian education.

Considering the need to maintain long-term financial viability, the goal for annual scholarship will not exceed 10% of total tuition in any given year. Scholarship fundraising will be directed by the Development Director.

God has blessed our school and families with the freedom to provide a Christ-centered education to our children. In gratitude, the board encourages every family to support the scholarship fund and recommends contributing an amount equal to at least 10% of their annual tuition. Knowing that some can do more and some less, it will require some to give more than 10% plus donations from outside of the PA family to meet the annual scholarship goal.

V. The Knight Fund

There are certain special projects that, if completed, will enhance the education experience for PA students and families. These are items that individuals may have a passion and ability to support if only the needs are made known. The board does not desire that gifts to this fund negatively impact gifts to the scholarship fund or capital campaigns. However, the board acknowledges that a mechanism is needed to fund smaller special needs outside of a capital campaign.

Each year, specific projects will be communicated as part of the Knight Fund. The total target is expected to be from \$50,000 to \$100,000 per year. It is important to note that while achieving some of the projects may improve the student and family experience at PA, not achieving them is not intended to lower the quality of the education provided. While the Development Director will support the Knight

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Fund, the priorities of the development office will continue to be scholarship and capital campaign dollars. If potential donors desire to propose other projects, suggestions may be communicated in writing to members of the board, the Development Director, or School Administrator for consideration by the board.

VI. Capital Campaigns

Capital campaigns are the means by which the school can fund larger projects. Approximately every 5 to 7 years families can expect a 3-year capital campaign by the school to address more costly projects and/or debt reduction. As previously stated, the board does not intend to consider possible expansion of the classroom facilities of the school beyond the current 2-tiered K-12 facilities until after the retirement of the existing building debt. However, there are other needs that need to be addressed that a capital campaign can provide the means to achieve. The board expects to consider whether it will be appropriate to initiate a 3-year capital campaign beginning sometime between 2010 and 2012 to address certain specific needs such as a maintenance building and debt reduction.

VII. Planned Giving / Endowments

The final method of financial support allows for planned giving through estate planning and creation of possible endowments that provide ongoing support to PA. The board and PAFC working with the Development Director and School Administrator are seeking the counsel of experts in this field and will continue to research options in this area. The board desires to establish a policy on planned giving and endowments by the end of the 2009-2010 school year. More information will be forthcoming as this effort continues. Currently, the school has a scholarship endowment with a balance of approximately \$35,000 as of May 2009. It is the desire of PA for this endowment to continue to grow.

VII. Plan Implementation

It is the goal of the PA board to achieve the goals outlined in this Financial Plan as soon as possible. The board understands the practical realities associated with changes to tuition and current economic conditions. However, the board is also committed to this plan.

Therefore, the board expects to follow this plan when establishing the 2010-2011 operating budget including:

- 1) Phasing in the increases to employee compensation over not more than 5 years to achieve the target salary level of 75% of the Washington County Schools average.
- 2) Fund the maintenance, contingency and capital replacement budget line items at levels designated within this plan immediately or over not more than 2 years.

Given these criteria and assuming a 4% inflation/cost of living adjustment factor, the estimated impact on tuition for year 1 (2010-11) would be an increase of approximately 7-9%. Increases for subsequent years 2 through 5 are estimated at 5-7%.

The board will consider all factors prior to finalizing a budget for 2010-11 and welcomes your feedback regarding this proposed financial plan.