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ABSTRACT

A school budget is a carefully drawn plan to allow for the efficient educational operation of the school. Everyone connected with the management of an independent school has something to learn about a budget, the most obvious person being the new headmaster. Similarly, all department heads, the librarian, the athletic director, the members of the faculty-salary committee, a beginning teacher full of enthusiasm about a new film program, perhaps a student leader concerned about getting things done and trying to learn how things get done. In short, anyone needing school money for school purposes or responsible for its expenditure can do his educational job better if he understands the workings of the school's budget. This booklet is planned with all of these persons in mind. Discussed are timing; the roles of staff, faculty, and trustees in preparing the budget; the effect of faculty salaries on the budget; the preliminary budget; and budget control. A sample budget worksheet is also provided. (Author/JF)

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# THE BUDGET

by Dexter K. Strong

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Everyone connected with the management of an independent school has something to learn about a budget. The most obvious exhibit in support of this thesis is the new headmaster. He has probably spent ten or fifteen years teaching and perhaps assisting with some administrative work, but he has had little responsibility for the school's finances beyond cashing his monthly paycheck. Almost certainly he does not know the first thing about accounting. This article is written primarily for him and for his counterpart, the new headmistress, who knows all about wash-items on Monday morning in the home but is baffled when her business manager refers to two wash-items in the school budget.

Such financial neophytes are not the only ones who could well put more thought on the budget and on the part it plays in the financial management of a good school. The new trustee, for example, will find some differences, both philosophical and practical, between his business budget and the budget of a small nonprofit corporation, and in addition may have to help train the new headmaster. The head of the science department often has to discover the hard way that the timing of his request in relation to the budget calendar may determine whether he gets his increase for laboratory expenses next year or the year after. The business manager may be insensitive to the educational developments going on in the new library and the importance of providing for them adequately in the budget.

Similarly, all department heads, the librarian, the athletic director, the members of the faculty-salary committee, a beginning teacher full of enthusiasm about a new film program, perhaps a student leader concerned about getting things done and trying to learn how things get done — in short, anyone needing school money for school purposes or responsible for its expenditure, can do his educational job better if he understands the workings of the school's budget. Even an experienced school head, if he feels that the budget has become a restrictive cage rather than a creative tool, might gain something by reconsidering the subject. This booklet is planned with all of these persons in mind.

### **The Budget as an Introduction to Financial Management**

Anyone trying to learn something about school finances has a choice of three routes to follow: trial and error, accounting, or business management.

Many of us followed the first route. With only the vaguest notions of finance when we moved into school administration, we had to learn by listening and watching, always hoping at least that our questions made sense. On this route the going is slow and there is likely to be considerable confusion and inefficiency along the way.

The accountants have laid out another route, but unfortunately it is not likely to reduce the confusion for those of us not destined to be accountants. Take a standard textbook on accounting, for example. It runs to over five hundred pages, is far more technical than a school administrator needs for his purposes, and seems to have nothing whatsoever to do with education. Even

the book, *Accounting for Independent Schools*, published by the National Association of Independent Schools, valuable as it is in promoting sound financial management, is directed to treasurers, business officers, and those heads who already know their way around. It was not designed to initiate the innocent. Attempts to begin at the beginning and explain to supposedly intelligent non-accountants that cornerstone of the accountants' creed, double-entry bookkeeping, normally lead only to confusion and discouragement and once led to a sketch by William S. Kilborne, Jr., "A Succinct and Lucid Explanation of Debits and Credits" to which the beginner should surely turn for comic relief if not for enlightenment. (To avoid cluttering the text, we have put bibliographical and other notes at the back of the booklet on page 27).

The approach to school finances via business administration is easier to follow. Along this line there is some most helpful material. E. Laurence Springer in his *Independent School Administration* devotes the second half of his book to business administration and in one chapter deals with budgeting along with other aspects of financial management. *College and University Business Administration*, published by the American Council on Education, is a thorough and complete handbook that can be most helpful to school administrators, and it has a chapter on budgets and budgetary procedures.

There are, however, a number of reasons for isolating the budget and dealing with it separately. It is the *first* bit of financial administration the new head is likely to encounter. Perhaps he is still busy on his old job and will not take responsibility for his new post until midsummer, but he will quite probably be asked, even before reaching his new office, to pass on the budget for the first year of his administration. In addition, the budget is the *only* part of financial administration that his staff (except for the business manager) has to understand. But most important, and in line with our attempt to find the best route for the beginner into the area of financial management, the budget is the *simplest, least technical, and most direct* route into an understanding of school finances. For anyone who wants to learn something about the financial management of a school, there is no better place to start.

The budget deserves separate treatment for still another reason: it is an invaluable tool of management. Properly used, it will give the administrator a leverage on his job that will yield educational results out of all proportion to the time and effort that he has applied. Neglected, or left solely to technicians or treasurers, it will cut the headmaster and faculty right out of educational planning and may delay or block entirely any real educational growth. If funds are inadequate, a thoughtful budget is essential if the available funds are to be used with the greatest educational effectiveness. If funds are plentiful, the administrator must still draw up his budget with a sense of creative planning if he wants his institution to be a top-flight school.

## Kinds of Budgets

Originally, a bougette was a small bag or pouch in which a medieval Frenchman kept part of his assets, presumably in some kind of order. Some day when the surplus or the deficit is swelling, it may be reassuring to know that "bougette" and "budget" come from the same Latin stem as the word "bulge." Regardless of the word's origin, everyone knows what a budget is: an itemized estimate of income and expense for a given period in the future. Obviously, such an estimate can cover a variety of periods and a variety of incomes and expenses. The emphasis of this booklet is on the *annual operating budget*, an emphasis that will tend to exclude detailed consideration of two other kinds of budgets, the *long-range planning budget* and the *capital budget*.

Somewhat belatedly, independent schools came to the realization that, like businesses, they could operate more realistically now if they considered the probable situation five and ten years from now. Taking the lead from writers like Sidney Tickton and with the help of NAIS, a number of schools began to do some long-range planning. The process proved to be laborious, revealing, and often alarming and sobering. Certainly, it became a stimulating factor in the educational thinking of many schools. This kind of planning, though essentially the same in philosophy and purpose as that done for the annual operating budget, involves much more guesswork and is subject to far wider revision than the annual budget. In time you should attend to this important exercise, but you can learn what you need to know about its methods from NAIS and you will not find the matter discussed further here. In any case, you cannot plan five and ten years ahead unless you know how to plan one year ahead. Practically, if not theoretically, the operating budget comes first.

Before proceeding, however, the beginner should give some attention to the capital budget. This normally covers the same one-year period as the operating budget but refers to other funds. If your father was determined to make you financially responsible, he probably made clear to you early in your life the distinction between principal and income: principal, your basic assets, you put to work so as to yield income; income you live on. You do not dip into principal for ordinary expenses. If you do, your principal sooner or later disappears, you are reduced to a hand-to-mouth existence, and before long you are out of business. Personally your principal, or capital, may be a house, a car, the tools of your trade, your savings, perhaps some other investments. Similarly an independent school, whether or not organized as a nonprofit corporation, has some capital: school buildings, furnishings and equipment, cars or buses, a heating plant, perhaps some investments. Whether your school is large and wealthy or small and new, whether its capital runs to millions or consists of the office typewriter and \$500 given by a parent for the endowment fund, you distinguish meticulously between your capital funds and your operating funds. Obviously, your capital budget is your annual plan for your capital funds.

These references to long-range planning and to capital budgets are not the digressions they may at first appear to be. We consider them here primarily to put the operating budget in perspective and to establish the fact that the year's operations, important and immediate as they are, are only part of the school's whole financial picture. Moreover, we want to prepare the beginner for some connections between operating funds and capital funds, of which more later.

Meanwhile, it is well to remember that the transfer of moneys from capital funds to operating funds, or vice versa, is no casual matter. Such transfers are not in the hands of the head but of the board, and even the board is bound by the rules of good financial management and of good accounting practice.

### Timing and the Budget

Turn again to the annual operating budget, our principal concern in this booklet, and consider timing. In practice three factors determine the matter.

The first is the desire to make each budget prediction as accurate as possible, a factor that tends to postpone to the latest possible date the setting of a final budget figure. Applied to such an important item as income from tuition fees, this means that the school can set a reasonably accurate figure as soon as the enrollment process is complete. For some schools this may be April or May, for others September. For all schools, however, the most accurate figure is one based on opening-day enrollment. By then the presence of students at the school has confirmed the commitments made earlier by parents and has thus provided a final budget figure that few could challenge. For this reason, many schools make the final revision of their budget at the first meeting of the governing board after the school opens in September.

The second factor that determines budget timing is the necessity of deciding no later than midwinter on two of the largest items in the budget, faculty salaries and tuition fees. Neither decision can wait until September. Many heads begin their negotiations with teachers not later than January and hope to have everything settled by the spring holiday. At the same time, the enrollment and reenrollment of students are at a decisive stage, making mandatory the announcement of tuition fees for the coming year. Moreover, these two items are closely tied together by both logic and necessity. The result is that by about February 1 the school must determine two vital budget items, one probably the largest item of income, the other probably the largest item of expense. With a little work the school can at the same time make a reasonable estimate of the cost of many other items, from wages and food to postage and telephone. Therefore, many schools adopt a preliminary budget at a mid-winter meeting of the governing board.

The third factor follows logically from the second. If the school's management is to be ready by mid-winter for the major decisions on tuition fees and faculty salaries, then budget planning must begin no later than the fall term. Moreover, as we shall try to show, a budget should reflect policy,

not vice-versa. The determination of policy, especially on the vital educational questions, takes time, if only because so many department heads, staff-members, and trustees are involved. As we proceed, a workable calendar for the budget will become apparent. For now, we simply suggest that it would be difficult to be too forehanded in beginning your budget planning.

### How To Go About It

Fortunately, the budget-maker has a framework within which to operate, a framework provided by the accounting system of the school and by previous experience within that system. The forms he uses should reflect both of these established factors.

Obviously, the budget items should conform to the items in the school's established system of accounts. For a sample of the items that appear in a typical budget, see pages 14-17 of this booklet. This budget conforms, in a simplified way, with the accounting system recommended in *Accounting for Independent Schools*. We present it as a model, and if your school is reorganizing its accounting system, you should seriously consider adopting it. It is the work of those experienced in the financial management of independent schools and, moreover, may make available to you, with a minimum of complication, a wealth of comparative figures from other schools. At the moment, however, we are stressing the point that whether or not your system is the same as the NAIS system, your budget items must conform with the arrangement of your own school's accounting.

The first thing to do is to prepare a set of work-sheets. A good format would list at the left the items that appear in the school's accounts and at the top the following five column-headings:

<i>Last Year Budget</i>	<i>Last Year Actual</i>	<i>This Year Budget</i>	<i>This Year Actual</i>	<i>Next Year Budget</i>
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You can fill in the first three columns immediately. Last year's budget you have had at hand since its adoption. Last year's actual figures are available from two sources. If your fiscal year ended on July 31, your auditors have probably finished their work and you should have on your desk last year's official Annual Report, where you will find what the school actually spent on each item. Even if the auditors are still at work, your bookkeeper should have supplied you, shortly after the end of the fiscal year, with a set of annual figures that will probably vary in only minute detail, and then infrequently, from the figures the auditors will produce. The column for this year's budget presents no problem because your board has just approved the budget for the current year.

The fourth column is not so easy, especially in the fall when you have almost no experience to go on. You should leave it blank until, say, January 31, when your monthly financial statement will show you how you stand at the half-way mark. These figures will give you a good reading on most of your

items, and the reading can be revised as the year progresses. By the end of the fiscal year, that is, by mid-summer or thereabouts, you will have an actual figure and can dispense with that part of the heading which indicates the tentative nature of earlier estimates.

It should be clear, then, that you will have three columns of information at once, and, as the year goes on, four columns, on which to base your budget estimates for next year.

You will need more than this information. If you are on your own, you will need half a dozen sharp pencils and plenty of scratch paper, with a small adding-machine at hand if one is available. Even if you have the support of a competent business manager, who can gather the material on past experience and can perform some of the preliminary calculations, you will still need to recognize that this budget, and the ideas and policies it incorporates, will be a major factor in determining the shape of your school two years from now, i.e., at the end of the year for which you are making this budget. Obviously, if you want to have a hand in planning your school's future, you must take the initiative, keep a firm hand on the budget-making process, and, most important, put some creative educational planning into it.

Despite this exhortation, it is helpful to start with some routine matters, partly because they are easy to determine. In fact, one or two may be immutable. If the school has borrowed money, for example, it will have to pay a predetermined amount of interest on the loan. Short of finding a miraculous way of paying off the debt ahead of schedule, you have no choice about this expense. Almost as immutable are other items that have been programmed for a two-year or a three-year period. For example, the school and a fire-insurance company, having carefully surveyed the amount and nature of the school's coverage, have agreed on a three-year schedule of premiums. Unless you have changed the situation by building a new building or by doing something foolish like allowing paint and gasoline to be stored in the wrong place, that schedule will determine the premiums.

Other items, like the subheading postage under headmaster's office, will be almost as easy to determine. The trend of recent experience, your knowledge of your own plans, and a check on postal rates should enable you to settle on a reasonable budget figure without much bother.

It will not all be that easy. Run down now through the whole budget, for both income and expense, and try to write down a figure for every heading. Three things will happen: (1) In your comparison of total income with total expenses, you will have an indication of how feasible your first figures are; (2) you will see that the school has some important decisions to make before it can adopt even a preliminary budget; and (3) you will find that you need all kinds of information. A fourth thing *should* happen, even before you set out to gather all that information: you should find yourself considering how you are going to shape the decision-making process in your school. To put this vital question in perspective, consider the whole budget-making procedure.

## Staff and Faculty

The board of trustees will make the final decision on this budget almost a year from now. Perhaps it will be at the June meeting, when many boards like to take action so that an official budget will be on record before the new fiscal year begins in midsummer. Or, if the board has waited to ascertain actual enrollment figures, it will be at the September meeting. In either case, the "annual operating budget" appears as an item on the agenda. Ideally, the procedure will not take long. The treasurer will refer the trustees to the budget, a copy of which is before them. He will speak briefly, calling attention to one or two points that need explanation or emphasis. He will then move the adoption of the budget. The chair calls for a second and asks for discussion. There may be one or two questions, but *if the budget-making process has been sound and orderly*, the board will act within five minutes, and probably unanimously.

The foregoing paragraph describes an ideal situation, but it also describes a situation that does actually obtain in many schools and should obtain in all. For a board to act in this efficient way, everyone at board level and everyone at the administrative and faculty level must have done his homework promptly and thoroughly over the preceding twelve months, and the board must have made the vital decisions from time to time during that period. The adoption of the budget is not a donnybrook; it is the formal confirmation and approval of a year's work.

That work should begin at the headmaster's desk. We have already urged on the head that he begin his work at least a year in advance, and we have suggested some of the mechanics that may be helpful. Most important, however, is the head's concept of the decision-making process and his ability to make the right process work.

First, he must draw in his own faculty and staff. Here he may think that he has some options. He can play, or try to play, the dictator, draft a budget in the secrecy of his own office, and carry it off to the treasurer and to the finance committee of the board for approval. In due course, he will announce to his department heads what they have to spend for the year, will probably deliver a strong lecture on the need for economy, and withdraw again to his office, prepared to growl ominously at any department head who exceeds his allotment. Another kind of school head will announce to faculty and staff that all those wanting school funds for school purposes should have their requests on his desk by next Friday. Then, while sorting these out, he will spend hours with those who come into his office to persuade, threaten, bluff, wheedle, and otherwise act like the squeakiest wheel that ever needed oil. If he listens only to these importunate ones, he will never have time to cope with those who make less noise but have equally valuable ideas about the school's educational program. Obviously, budget-making (indeed, all decision-making) demands far more of an administrator than these two types are yet ready to offer.

The head's task at this point is not hard to describe. Essentially, he has

to prepare recommendations for a board committee which, he hopes, will pass his recommendations on to the board itself for favorable action. On the one hand, he has dozens of routine materials and services that he must evaluate and translate into terms of estimated cost — telephones, paper towels, food, janitorial work, paint, and so on. On the other hand, he has major educational matters to consider. These too he must evaluate and translate into terms of estimated cost. Not only the substantive outcome, but the process by which the outcome is reached, will affect his school for better or worse.

Even seemingly routine matters may test the administrative skill of an inexperienced head. For example, the Athletic Director has requested that he be permitted to do all his scheduling of games by long-distance telephone instead of by letter. You should plan carefully your conference with the man, especially if you have an inborn prejudice against football, a sport in which his teams have been undefeated for three years. You will want to be even more thoughtful if he was an aspirant for the job to which you have just been appointed.

Less ticklish and more positive are the supposedly routine budget items that lead you into policy matters. You come to the figure for the alumni office to which the school allotted \$2600 this year and actually spent \$2775. Naturally, you ask the alumni secretary what he feels he needs for next year and find that he has been working on an idea for transformation of the old alumni news sheet into a school bulletin, printed on glossy paper, with photographs, that will go out not only to alumni, but to parents and friends. He needs \$12,500 for the project. His ideas seem to promise a lively publication that would speak well for the lively school you hope to have. Moreover, you have already been wondering why the annual-giving appeal goes only to alumni and not to parents. So you commend him for his efforts and arrange a conference at which he and you can discuss the proposal with the president of the alumni association, the chairman of the board's public relations committee, and the president of a newly-formed father's club. It even occurs to the financial wizard in you that within two years the proposal might begin paying for itself three times over in increased returns from the annual-giving program.

If you and the alumni secretary reach a sound decision, consult everyone who should be consulted, and convince everyone who has to be convinced, then a joint meeting of the public relations and finance committees will probably act favorably on the proposal. The board will discuss the committee recommendation at the December meeting and, if the action is favorable, the item will appear in the preliminary budget which is to come before the February meeting. The only trustee who asks an alarmed question about the large increase in the figure for the alumni office will be the man who missed the December meeting. His colleagues will surely remind him that if he came to meetings, or at least read the minutes, he would not be so far behind the procession.

Incidentally, if the alumni secretary ends up with all the credit and

begins to impress the trustees as a real comer, you are learning fast how to encourage ideas from the staff and how to build initiative and loyalty in your organization. The basic point, however, is that, in reaching the decision on a budget figure for the alumni office, you have consulted all persons concerned at the staff and administrative levels; you have alerted the trustees ahead of time that you are preparing a recommendation on a new idea; and you have worked through the appropriate board committees. The board should not find the decision difficult.

You will direct the same kind of process, with one important variation, when you turn to the basically important matters of educational policy. The difference is that now you will draw the faculty into the planning and into the decisions. A good way to begin is to meet in September with the heads of all departments. You hear about the beginning of the new year and then remind them that budget planning for the following year is beginning. This news will invariably come as a great surprise to all except the oldest hands, but they will at once begin to dream about the things they hope to do next year which they cannot afford to do this year. This is just what you want. In a good faculty there will be more exciting ideas each year than most schools could finance in five – training more children on the computer, three more “Leicestershire” projects, a second chamber orchestra, the introduction of iacrosse, tripling the number of audio devices for use in modern languages, and increasing by 400 per cent the number of scholarships for members of minority groups.

The department heads will go happily away, promising to meet with their departments and to return by mid-October with their first budget requests. The first thing for the head to do is consider what did *not* come out of this meeting. You have sensed that there is one dull and outdated department in the school, yet the head of that department had nothing to say during this first meeting except for a few words as he left, indicating that he could get along on the same amount as last year. You did not, of course, put him on the spot in front of his colleagues. Moreover, he is twice your age, has been at the school for thirty years and head of the department for twenty. In the long run, you will have to solve the problem of effecting change and growth in his department. You will try all kinds of approaches with this man: advice, warning, persuasion, projects – anything to open his eyes, give him new ideas and help him grow. At the moment, you should see that this first meeting on the budget gives you an excellent opportunity to begin this important task.

Arrange a meeting with him alone. Ask him for his ideas about the school and about his department. Where should they be educationally five years from now? If you get any sparks, fan them. Does he need anything – more equipment, more teaching help, better facilities? Provide some ideas of your own. How about a new course in the department, investigation of the new curriculum recommended on the basis of recent research, a change in teaching methods? If he neither has ideas of his own nor responds to yours, try calling a meeting in your office of the whole

department and watch him interact with the three younger men in the department, two of whom you know are bursting with ideas for change and progress. With any luck and some skill, you will come out with a decision to add a new course in the department. You recommend budget changes that will provide the extra teacher needed. The important points are two: (1) you have recognized that no matter how many good ideas float up from below, you will want to provide ideas of your own and the leadership to put them into effect; and (2) the application of this leadership often comes naturally at budget time.

Before the return of the department heads, do a little checking. Are they really drawing their teachers into the budget planning? Is the head of the science department, who is a biologist, paying any attention to the capable but nondemanding physicist who never asks for anything and should ask for more? Does the head of the math department know what the three best public high schools in town are doing in mathematics? Has the head of modern languages signed up for the workshop at the university which will provide discussion of the latest teaching methods in his field?

During this lull you also prepare yourself to deal with three questions that will surely come up in one form or another. The first is, "Last year we spent only \$800 of our \$1000 budget. May we spend the other \$200 now?" The answer is "No." Such operating balances return to general funds at the end of the fiscal year; but see that you remember this saving when planning for next year and compensate in some way. Otherwise those responsible will have no incentive to economize where possible.

The second comes from the canny fellow who reasons that things are tight and his department will not get all it asks for; so he inflates his request by 25 per cent in order to be sure of what he wants. You will get more intelligent estimates from this man in the future if you are certain that he really needs what he is asking for and then get it all for him if you possibly can.

The third question stems from misunderstanding a board's attitude toward a budget. Some teachers (and even some new heads) think that they will earn Brownie points if they stay well under a budget figure. They will pad all estimates unmercifully and then hope to appear as stalwart economizers when the actual figures are all below the budget estimates. This kind of operation will impress no one. A trustee, or anyone who knows anything about financial management, will be just as scornful of foolish overestimating as of foolish underestimating. Make your predictions as realistic as possible.

In mid-October the department heads return, with the business manager, and some budget items begin to shape up. You will still have many individual conferences to schedule. Some major questions will go before the whole faculty. In all this the head is clarifying his own educational ideas, exerting his leadership, both educationally and politically, and discovering to what extent he has the faculty with him on educational policy. All this is happening soon enough so that the school can try to provide financial

support for the projects that need financial support. Budgeting and educational planning go hand in hand.

In similar fashion, you are determining budget figures for items that are not directly educational: office salaries, food, maintenance including wages, transportation, the admissions office, etc., etc. In all of these the head will be asking for ideas, will provide many of his own, will gather as much information as he can, and will gradually, with his business manager, approach something that is close to a preliminary budget.

### The Trustees and the Budget

Meanwhile the board is not idle. The trustee who thinks that he has no responsibility for the budget until it is presented to the board for approval is a poor trustee. Most of this early responsibility falls on the committee chairman, except that it is the responsibility of the president to see that the committee chairmen do their job.

The headmaster can also help. Indeed, the board will expect him to take the initiative in at least three ways. One we have just described: the preparation of both estimates and recommendations for the whole range of school operation. Another, and it must go on at the same time, is keeping the board informed on policy matters under discussion. Even a new head may find himself, as early as the October board meeting, saying something like this in the course of his report: "At school we have been discussing how we can improve our program in the field of music. I know that a number of you, like me, have been concerned by our weakness in this area. The whole faculty has become interested and we should have a recommendation ready for you in another month. At that time I shall ask for a meeting of the education committee of the board."

After the conclusion of the head's report, the trustees revert to the music program, asking questions and making suggestions. The treasurer may ask how much it will cost. Probably the head is not yet ready with an answer to this question but he reports on the kind of person he would need to direct the program and summarizes the qualifications of two candidates he thinks might be available. One trustee, a lawyer, makes a silent note to speak to an elderly client who is closing her house and trying to dispose of a Steinway grand, and the chairman of the education committee says he will telephone the head to set a time for a meeting. The point is that, well ahead of the time for decisions, the head has alerted the board. Even if the program proves to be ambitious and costly, it will not fall in the board's lap like a bombshell.

The head may also have to show some initiative in relation to the work of committees. For example, if the chairman of the education committee forgets to call a meeting, the head should telephone to remind him. (One arrangement that will expedite meetings is to have someone on the school staff mail the postcards, make the lunch reservations, carry on the telephone follow-up, and so on.) Meanwhile, the head must keep the chairman of the finance committee informed of the budgeting aspects of the project.

**THE INDEPENDENT SCHOOL**  
Final Budget Revision — June 4, 19----

		<i>Last Year Budget</i>	<i>Last Year Actual</i>
Revenues:	Educational and general:		
	Student tuition and fees	\$320,000	\$317,200
	Gifts	50,000	48,600
	Endowment income	55,000	57,000
	Student support services:		
	Room and board	208,000	210,000
	Student store	60,000	61,500
	Snack bar	20,000	21,000
	Summer school and other programs	75,000	78,900
	Other	1,000	2,000
	Total education and general	<u>789,000</u>	<u>796,200</u>
	Student aid:		
	Gifts	15,000	14,200
	Endowment income	7,500	8,500
	Total student aid	<u>22,500</u>	<u>22,700</u>
	Total revenues	<u>811,500</u>	<u>818,900</u>
Expenditures:	Educational and general: (Schedule I)		
	Instruction	165,500	171,150
	Student support services:	246,000	252,450
	Student activities	17,500	20,250
	Summer school and other programs	60,000	60,400
	Operation and maintenance of physical plant	130,000	138,000
	General administration	62,000	66,750
	General institutional	26,000	34,650
	Total educational and general	<u>707,000</u>	<u>743,650</u>
	Student aid:		
	Scholarships	30,000	35,000
	Prizes	1,000	1,000
	Total student aid	<u>31,000</u>	<u>36,000</u>
	Total expenditures	<u>738,000</u>	<u>779,650</u>
	Excess of revenues over expenditures	73,500	39,250
Transfers to:	Plant funds — unexpended:		
	Capital additions fund	24,000	20,000
	Renewals and replacements fund	30,000	30,000
	Quasi-endowment fund	19,500	—
	Total transfers	<u>73,500</u>	<u>50,000</u>
	Excess of revenues over expenditures and transfers	<u>—</u>	<u>\$(10,750)</u>

**THE INDEPENDENT SCHOOL**  
**Final Budget Revision — June 4, 19---**

	<i>Last Year Budget</i>	<i>Last Year Actual</i>	<i>This Year Budget</i>	<i>This Year Actual</i>	<i>Next Year Budget</i>
donal and general:					
nt tuition and fees	\$320,000	\$317,200	\$427,250	\$426,825	\$480,000
	50,000	48,600	50,000	78,650	60,000
yment income	55,000	57,000	58,000	51,050	50,000
nt support services:					
om and board	208,000	210,000	214,000	209,650	207,000
dent store	60,000	61,500	63,000	64,500	66,000
uck bar	20,000	21,000	22,000	21,700	22,000
ner school and other programs	75,000	78,900	85,000	87,500	88,000
	1,000	2,000	1,500	2,200	2,000
Total education and general	<u>789,000</u>	<u>796,200</u>	<u>920,750</u>	<u>942,075</u>	<u>975,000</u>
aid:					
	15,000	14,200	15,000	16,500	16,000
yment income	7,500	8,500	9,000	8,300	8,000
Total student aid	<u>22,500</u>	<u>22,700</u>	<u>24,000</u>	<u>24,800</u>	<u>24,000</u>
Total revenues	<u>811,500</u>	<u>818,900</u>	<u>944,750</u>	<u>966,875</u>	<u>999,000</u>
donal and general: (Schedule I)					
ction	165,500	171,150	212,000	212,600	231,000
nt support services:	246,000	252,450	273,500	276,700	283,500
nt activities	17,500	20,250	22,000	21,600	23,200
ner school and other programs	60,000	60,400	63,000	65,000	64,500
tion and maintenance of physical plant	130,000	138,000	150,000	147,350	153,000
ral administration	62,000	66,750	72,000	71,050	87,200
ral institutional	26,000	34,650	38,000	36,800	38,700
Total educational and general	<u>707,000</u>	<u>743,650</u>	<u>830,500</u>	<u>831,100</u>	<u>881,100</u>
aid:					
arships	30,000	35,000	38,000	40,000	44,000
	1,000	1,000	1,000	1,000	1,000
Total student aid	<u>31,000</u>	<u>36,000</u>	<u>39,000</u>	<u>41,000</u>	<u>45,000</u>
Total expenditures	<u>738,000</u>	<u>779,650</u>	<u>869,500</u>	<u>872,100</u>	<u>926,100</u>
Excess of revenues over expenditures	73,500	39,250	75,250	94,775	72,900
nds — unexpended:					
al additions fund	24,000	20,000	25,250	25,250	25,250
vals and replacements fund	30,000	30,000	30,000	30,000	30,000
-endowment fund	19,500	—	20,000	20,000	17,650
Total transfers	<u>73,500</u>	<u>50,000</u>	<u>75,250</u>	<u>75,250</u>	<u>72,900</u>
Excess of revenues over expenditures and transfers	<u>—</u>	<u>\$ (10,750)</u>	<u>—</u>	<u>\$ 19,525</u>	<u>—</u>

THE INDEPENDENT SCHOOL  
Final Budget Revision - June 4, 19---  
SCHEDULE I

Instruction:

Faculty salaries  
Department supplies, expenses and equipment  
Chapel  
Library  
Athletics

Total Instruction

Student support services:

Residence halls  
Food service  
Health service  
Student guidance and counseling  
Student store  
Snack bar  
Student transportation

Total Student support services

Student activities:

Newspaper  
Dramatics  
Band  
Entertainment  
Student clubs

Total Student activities

Summer school and other programs:

Summer school  
Adult education

Total Summer school and other programs

Operation and maintenance of physical plant:

Salaries and wages  
Supplies, expenses and equipment:  
Buildings  
Grounds  
Equipment

Total physical plant

General and administration:

Salaries  
Governing Board  
Headmaster's office  
Dean's office  
Admissions office  
Business office  
Alumni office

Total General and administration

General institutional:

Employee benefits  
Information and communications  
Insurance  
Commencement  
Miscellaneous

Total General institutional

Total educational and general

<i>Last Year Budget</i>	<i>Last Year Actual</i>	<i>This Year Budget</i>	<i>This Year Actual</i>	<i>Next Year Budget</i>
\$124,000	\$126,100	\$148,000	\$148,200	\$160,000
20,000	21,000	30,000	29,350	30,000
1,500	1,400	2,000	2,050	2,500
15,000	16,200	25,000	25,050	30,000
5,000	6,450	7,000	7,950	8,500
<u>165,500</u>	<u>171,150</u>	<u>212,000</u>	<u>212,600</u>	<u>231,000</u>
66,000	68,000	72,000	70,500	70,000
90,000	95,000	100,000	102,500	105,000
7,500	8,650	10,000	10,650	12,000
10,000	9,100	16,000	15,000	16,000
53,000	52,500	54,000	55,300	57,000
18,000	17,200	19,000	19,600	20,000
1,500	2,000	2,500	3,150	3,500
<u>246,000</u>	<u>252,450</u>	<u>273,500</u>	<u>276,700</u>	<u>283,500</u>
2,500	3,000	3,400	3,500	3,800
7,500	8,500	9,000	9,050	10,000
2,000	2,100	2,300	2,100	2,400
4,500	5,000	5,400	5,200	5,000
1,000	1,650	1,900	1,750	2,000
<u>17,500</u>	<u>20,250</u>	<u>22,000</u>	<u>21,600</u>	<u>23,200</u>
60,000	58,000	57,500	55,000	52,500
---	2,400	5,500	10,000	12,000
60,000	60,400	63,000	65,000	64,500
68,000	72,000	80,000	81,350	84,000
42,000	44,000	46,000	43,600	45,000
10,000	11,000	12,000	10,900	12,000
10,000	11,000	12,000	11,500	12,000
<u>130,000</u>	<u>138,000</u>	<u>150,000</u>	<u>147,350</u>	<u>153,000</u>
45,000	48,000	52,000	50,900	54,000
3,000	2,300	2,400	2,400	2,500
4,000	4,500	5,000	5,250	5,500
1,500	2,100	2,000	2,500	2,500
2,500	2,750	3,000	2,850	3,000
4,000	4,700	5,000	4,375	4,500
2,000	2,400	2,600	2,775	15,200
<u>62,000</u>	<u>66,750</u>	<u>72,000</u>	<u>71,050</u>	<u>87,200</u>
16,000	18,000	20,000	19,600	21,000
5,000	9,000	10,000	10,250	10,000
4,000	5,200	5,800	5,200	5,500
1,000	1,200	1,200	1,100	1,200
---	1,250	1,000	650	1,000
<u>26,000</u>	<u>34,650</u>	<u>38,000</u>	<u>36,800</u>	<u>38,700</u>
<u>\$707,000</u>	<u>\$743,650</u>	<u>\$830,500</u>	<u>\$831,100</u>	<u>\$881,100</u>

In any case, within the next month or two the education committee has met to hear the head's full and official recommendation on the new music program and, after thoughtful discussion and some revision, has given its unanimous approval. The treasurer, who had asked to sit in on this meeting, then calls a meeting of the finance committee, which finds that it can make budget provision for at least 80 per cent of the program. Before the February board meeting, the head finds a way to operate his new program, without any essential educational loss, at 20 per cent less than his original estimate. So the board in midwinter hears the head's recommendations, hears the two committee recommendations, and finds no difficulty in putting the necessary financial items into the preliminary budget.

It is paradoxical that in this section on "The Trustees and the Budget" we have put emphasis first on the initiative that the head can take, indeed that the board expects him to take. This approach simply reflects experience. Time after time, when new heads complain that their boards and board-committees are not active enough, it is because the head himself has failed to do the essential groundwork of keeping board members informed, of making recommendations via the committee route, and of offering the kind of organized staff support that good committees and good boards need and expect.

It should be clear, however, that at least half of the responsibility falls on the board, especially on its president and on its committee chairmen. After all, the board is in charge. It cannot expect any head to operate in a vacuum between board meetings. He needs guidance and support on all policy matters and sometimes on procedures as well. If he is new to administration, he will need extra help. For example, he might welcome a regular meeting with the president, or with one or two of the key trustees, just to talk shop. Such informal conferences must not replace committee work or board work, but they will help keep the lines of communication open.

The point is that, in the area of budget-making, a new head ready to learn and a board ready to help have an opportunity to work out promptly and constructively all the essential factors in their new professional relationship. They will achieve success only if both parties put their minds and efforts to the task.

### Faculty Salaries

Faculty salaries are a subject in themselves, in one sense deserving separate treatment, but it would be impossible not to make special reference to them when considering budgets. Financially they constitute the largest single expense item in the budget and, in more human terms, they represent the educational heart of the school. A general treatment of faculty salaries would develop the obvious point that the quality of a school will depend on its ability to attract and hold a good faculty, an ability that depends, at least in part, on the level of faculty salaries. Here our purpose is more limited, and we shall consider only three questions, all of them relating specifically to the

budget-making process: (1) What are some administrative approaches to the handling of faculty salaries? (2) What part, if any, does the faculty itself play in the discussions? (3) At what level and in what way do the trustees deal with the matter?

Practice differs widely on the first point. In some schools the head negotiates privately with each teacher each year. This system allows maximum emphasis on the rewarding of merit but has the disadvantage of tempting the head to neglect the nondemanding teacher in favor of the hardened negotiator. At the other end of the spectrum is the system used in most public schools and some independent schools: the published salary scale, with pay based on extent of training and length of experience. Properly administered, this system guarantees objectivity but makes it difficult to reward the kind of merit that reveals itself, for example, in superb teaching regardless of the amount of graduate work. In between are all kinds of combinations of these two extremes. There are ranges of salaries for differing age groups, for example, and there are arrangements that allow teachers of differing degrees of merit to rise along one of, say, three different tracks.

The part that faculty will play officially in the annual discussion will depend on which of these systems the school uses. The head can be sure of one thing: The matter *is* under discussion. The discussion may be general and public or it may be restricted to the kind of private talk that a man has with his wife, but, whatever the nature of the discussion, the head should know the actual financial needs of his faculty and he should know also what the faculty think their financial needs are. The two usually are not as far apart as the cynic might suppose.

The head must also judge the worth of each teacher. In the largest schools he probably confers only with department heads and depends on them for the bulk of his information on the talents, successes, and shortcomings of each teacher. Even this head probably follows the general practice of gathering all possible information on the quality and temper of his faculty. This he may do via close friends and associates or via the mysterious information system that pervades every school and to which his sensitive antennae soon become attuned. More satisfactory in many schools is some official channel of communication: for example, a faculty salary committee, chosen by the faculty, representing different age groups, and authorized to make recommendations to the head and to act as a constructive critic of his suggestions.

Long before discussing any teacher's salary with that teacher himself, the head, using the system in effect and all the information he can gather, has worked out a faculty salary proposal and has calculated its total cost. These he should discuss with the chairmen of the education and finance committees, and probably with the president. If the proposal looks both reasonable and feasible, the president and the two committee chairmen, with the active help of the head, steer the proposal through the two committees and to the board, using just the same techniques they used in steering the music department proposal through the same process.

This last summary answers in part the question as to how trustees deal with the annual matter of faculty salaries. They deal with it officially at the committee level and they deal with it officially at the board level. But note that they are dealing with policy and with financial totals, *not* with individual teachers. It would, of course, be completely out of order for a trustee to go to an individual teacher about that teacher's salary. If a teacher complains on the same topic to a trustee, the trustee refers the teacher to the head and notifies the head about the complaint. This much should be obvious to anyone who knows the basic principles of sound management.

One important matter is sometimes lost in the shuffle: the salary to be budgeted for the head of the school. The president of the board should confer with the head regularly, once a year, to review the state of the school and the strengths and weaknesses of its administration. Once this review has been accomplished, it is the president's duty, after conferring at least with the chairmen of the education and finance committees, to decide on the head's salary for the coming year and to see that the figure becomes part of budget planning. This procedure will not necessarily rule out some bargaining and negotiation, but at least it saves the head the embarrassment of being the first to propose a financial evaluation of his own work. Similarly, the president and head should remember to take the initiative in dealing with the salary of the business manager.

### The Preliminary Budget

In these pages, for the sake of simplicity, we have been dealing separately with specific examples to illustrate the way the decision-making process and the budget-making process go hand-in-hand. There was the problem of an atrophied department head at the faculty level; there was a new music project at the committee and board levels; and there was the question of faculty salaries at the faculty, committee, and board levels. In addition, that publications project will be coming up from the alumni office through the public relations committee and the finance committee.

In reality, all these things, and a lot more, will be going on at the same time. If the new head, or a trustee, begins to feel confused, let him check to make sure of the fundamentals. The head and his staff, with the help of some trustees, should gather all relevant facts and information on costs. The head should keep the board informed on policy discussions at school. Finally, all policy matters should go through the proper committee channels (which, in this budget-making process, will always end up with the finance committee), and then to the board itself. If this process has worked as it should, the board's adoption, at its midwinter meeting, of a preliminary budget could be almost as cut and dried as the ideal meeting, already described, at which the board will reaffirm the final budget. In practice there will be more discussion of the preliminary budget, largely because in midwinter there is still some time left for discussion. Moreover, no matter how forehanded everyone has

been, some projects will not be ready yet for decision; and the discussion itself may suggest new projects that, even at this late date, merit exploration. In any event, the board should act, putting on the record in mid-winter an officially approved preliminary budget.

One point, seemingly trivial but potentially annoying: be sure that in typing up these figures the business office labels and dates each budget draft fully and accurately. For example, "Preliminary budget 1973-4; approved by finance committee December 12, 1972; proposed to board January 15, 1973." Or "Approved by board January 15, 1973." It all seems simple enough in midwinter but in August, by which time half a dozen drafts and revisions are lying around, you will want to know which one you are looking at.

### Balancing the Budget

The term, "a balanced budget" deserves attention. Nationally, it carries all kinds of political overtones, with some regarding it as the answer to all our ills and others regarding it as a curse. In schools, the term is not politically explosive but it can still cause trouble, largely because some use it in one way, some in another.

There is no disagreement on its general meaning. A balanced budget is one in which expenditures equal income, though we also use the term loosely to describe a budget that predicts a surplus of income over expenditure. If expenses are to exceed income, causing a deficit, the budget is surely out of balance.

The trouble is that two matters may cause misunderstanding: the handling of gifts and the handling of funds for reserves and replacements. For example, under revenues this year's budget shows gifts of \$50,000. Partly as a result of this, the total budget figures predict an excess of revenues over expenditures of \$75,250. But some argue that gifts, even those resulting from an established annual-giving program, are not operating income in the ordinary sense. They would oppose the inclusion of \$50,000 in the main part of the budget, though they might be willing to have some conservative item appear at the bottom of the page as a post-budget adjustment. This line of argument has to do with accounting practice, not only with budgets. In other words, those who argue this way about the place to predict the amount of anticipated gifts in the budget will argue just as strongly for a similar procedure in the annual report, even if gifts actually amount to \$78,650 as they do in our sample.

To a relatively innocent headmaster, this issue does not seem to be of first importance, provided that all concerned know which method the school uses and provided that the school does not casually switch from one method to another. Just let everyone be sure when he uses the word "surplus" or "deficit" that he knows whether he is referring to the situation before or after gifts have been taken into account.

Another variation that may cause confusion is the method the school uses to provide for the hard fact that buildings and equipment wear out. In

business, the common practice is to carry an expense item called "depreciation." If a building costing \$2,000,000 is expected to last for twenty years, then the business should be putting away \$100,000 a year out of operations in order to have on hand even the original cost of the building when the time comes for its replacement. Thus, for twenty years the budget and the annual statement should show, under operating expenses, "depreciation . . . \$100,000," and operating income should be adequate to cover this expense along with all the other expenses. At the end of the year, management will take \$100,000 out of the operating account and deposit it in a special depreciation fund, a move called "funding the depreciation."

In a nonprofit corporation like an independent school the situation is different. In the first place, the school is exempt from the federal tax regulations that play such a large part in actually determining the depreciation of an ordinary business concern. In the second place, for major capital additions, such as buildings, the school depends not on profits, but on the contributions of generous friends. Still, there is a need to be met, for even if the school can call on alumni and other supporters to finance a new library or science building, it can hardly run to them every time the boiler tubes wear out or a leaky roof can be patched no longer. Nor can a school charge such major capital replacements to maintenance and repairs, classifications intended to cover items like broken windows, floor-waxing, and grass-cutting.

Schools meet this need in a variety of ways. Most follow the example set in the NAIS accounting manual. In this year's budget, the final summary shows an anticipated excess of revenues over expenditures of \$75,250, but immediately there appears the indication that the school plans to put aside \$25,250 in a capital additions fund and another \$30,000 in a renewals and replacements fund. These deductions, together with another \$20,000 to be placed in the quasi-endowment fund, bring us down to the true budget prediction: after increasing its reserve funds, the school will have transferred to its reserves all its excess of income over expenditures. Actually the year allowed an increase in reserves of \$19,525.

Not all schools follow this model. A few imitate business and carry depreciation as an expense item in the budget itself. In practice, the imitation goes little farther than the use of the word "depreciation," because no schools have been able to build depreciation funds large enough to pay for construction of major buildings when the old ones wear out. In fact, even schools that make provision for depreciation often fail to fund it. The NAIS model is preferable from both theoretical and practical viewpoints. The beginner should be familiar with the term "depreciation," however, because businessmen often use it loosely in referring to the school's item for renewals and replacements.

Here again, the beginner will discover room for misunderstanding as he approaches the meaning of a balanced budget. Look at our sample again. Some will use the term "surplus" to refer to the figure of \$94,775, before the amounts for reserves have been deducted; others will be referring to the figure of \$19,525, the amount left after the deductions. There may be similar

confusion in the use of the word "deficit" in less prosperous times.

Assuming now that management, board, and accountants are all agreed on how to handle gifts and on how to handle reserve funds, and that they all mean the same thing when they talk about a balanced budget, just how important is a balanced budget? It is of vital importance. If the school has enough working capital to make up a small deficit for a year or two, then no harm is done, provided that the school arranges at the same time to replenish, and perhaps increase, the reserve funds in the two or three years that follow. But if the school spends more than it takes in, and carries on this way over any length of time, the school will go out of existence. It is as simple as that.

To quiet the young Turks to whom this sounds like the era of William McKinley, let me suggest that this is not a reactionary position. Plenty of imaginative educational developments have taken place within extremely tight budgets. Even more have taken place when both head and board have had the energy and determination to go out and find the funds necessary to support good education. In this additional sense, balancing the budget becomes a creative educational job, not a formal accounting exercise, and that's the way it should be.

### **From Preliminary to Final Budget**

The test of the preliminary budget, like the test of any budget, is how well it holds up in practice. If it is nothing but a bunch of figures thrown hastily together, it will be useless. If it reflects careful planning and considered decisions, it will prove to be a reasonably accurate prediction of the final budget. This is what it must be because, acting on it, the board will announce tuition fees and the head will engage faculty and staff, and enroll students. This is also the time when he will go back with the preliminary figures to department heads so that they too can continue their planning for the coming year.

To be sure, there will be changes between February and June. For one thing, the lengthening experience of the current year will probably indicate miscalculations in the preliminary estimates for next year. There may be changes outside the school, such as an increase in postal rates. Or a senior teacher decides to retire and the head replaces him with a younger man, a switch that will decrease the estimate for faculty salaries. Or a friend gives the school a computer, a gift so desirable that the school accepts it even though another teacher will be needed to take full educational advantage of the gift. The board approves the additional expense, a decision that is facilitated by the discovery in May that enrollment will be about ten students higher than was predicted in January.

Except in years of bonanza or disaster, all these changes will tend to balance out. The board must, of course, act on any major addition or change. For the rest, the business manager keeps a running record of minor adjustments, notifying head and treasurer occasionally; and conversely, the head remembers to keep the business manager and treasurer informed about

figures on which he is working. These include actual faculty salaries as agreed to within the total figure, and such minor adjustments as the head is free to make without full-board review. For example, the science department recommends lopping \$500 from its budget and adding \$500 to the library budget for the purchase of science books. By June, the head, business manager, and treasurer have almost all the necessary material at hand for the preparation of the final budget.

Just to give the board one last quick review, the business manager should present the information in five full columns, showing budgeted and actual figures for a year ago, budgeted and actual figures for the year just past, and finally the proposed budget for the coming year.

So we end up on the same note that set the tone for this part of the discussion: ideally, the board's approval of the final budget should not take more than five minutes. All the important work has already been done, all the important decisions have already been made.

### Budget Control

Once the board has acted, the function of the budget changes. Until now it has been a financial prediction, subject to revision as the school gathers its facts and makes its decisions. Now it becomes a firm and rather detailed plan of operation. The board has authorized the administration to collect and spend specified amounts of money in specified ways. The head carries the full responsibility but promptly delegates parts of it to the business office, the kitchen staff, the alumni office, the librarian, and the heads of scholastic and other departments. The trustees have authorized each of these to act within specified limits without further board action.

Although school people often view the budget as a restrictive device, they will do their job better if they keep in mind its positive aspects. As we have already seen, the making of a budget should be a part of a creative planning process. Similarly, after its adoption it clears the way for the administration and faculty to do their best educational work free of daily worry about financial support. A good faculty and staff, under good leadership, will be eager to get on with the job.

On the other hand, the budget does set limits, and the head must see that these limits are not exceeded. In some areas, such as faculty salaries, the system seems to run itself. The business office makes monthly payments on the basis of previous agreements and, except in rare emergencies, the actual figure will correspond almost exactly at year's end with the budget figure. Moreover, a competent department chairman, who knows how to keep his own records, how to plan for the whole year, and how to work with the members of his department will need little help from either business manager or school head. The head should, of course, be perfectly clear in notifying each department chairman about the nature of his responsibility and about the amount he has to spend.

In other areas the head will have the help of two standard procedures:

(1) the concentration of all purchasing in the hands of one officer, normally the business manager, and (2) the monthly financial report. The necessity of the first procedure must be obvious, for anything else would be financial chaos. Still, it is no assurance, in itself, of efficient budget control. The business manager cannot take purchase orders from everyone who comes through his office door. He must have the approval of each order from the department chairman or from the person to whom the school head has delegated budget responsibility – the librarian or the athletic director, for example. He himself may delegate some of his purchasing authority, as, for example, to the chef or the plant foreman.

The second procedure is the monthly financial report, which should show, in adjoining columns, the budget amount for the year, and perhaps for the elapsed portion of the year, and the actual amount spent to date. This report, which should be in the hands of business manager, head, and treasurer no later than five working days after the end of the month, will allow corrective action before anything is out of hand. Usually, a conference of business manager and the chairman of the erring department straightens everything out, but sometimes the school head's intervention is desirable.

There are some traditional trouble spots. One is the department chairman who may be superb as a teacher, planner, and organizer, but really does not want to be bothered with figures. He will need either watching or training, or both. Trouble can also arise when the budget responsibility lies with someone who is new to it. Take the adviser of the senior classbook, for example. He may think he can take a year or two to learn that while many students are excellent managers, an occasional editor will think nothing of telling the printer in May to add sixteen pages and countless expensive photographs to the publication without mentioning the increases to the adviser. When the bill arrives in July, the head will discover that the adviser is conducting a student tour in Yugoslavia and the editor, who has graduated, is helping to rebuild a remote village in Peru. The head will wish that he had applied an ounce of prevention because, for this situation this year, there is no cure.

Other budget figures will run-over for reasons that cannot be foreseen or prevented. A senior teacher falls ill, and for five months the school must pay both him and his substitute. Although the school knows from experience that during the year it will lose 1 per cent of its students, and has taken this average into account in the budget, the year will come when because of some fluke the figure jumps to 4 per cent. Similarly, a few expenses will decrease and some income will exceed expectation. Whether or not these changes balance out, there are two schools of thought about what to do with the budget. Should the board revise it three or four times a year, in line with the most recent experience? Some boards say yes and act accordingly; others expect to be informed about the changes from time to time and to act on important variations, but let the budget as officially adopted remain unrevised for the operating year. The latter procedure is perfectly acceptable and meets the need of most schools.

A budget is a carefully drawn plan to allow for the efficient educational operation of the school. It should not assume other roles. Unfortunately, there are times when it almost takes on a life of its own. We find ourselves saying, for example, "The budget won't allow us to do that," as if the budget were a miserly control officer lurking in the background of school life. "We failed to plan for that this year" would express its function better, and the words would remind everyone who participated in the planning that the job must be better done next time. Similarly with budget control. If everyone who counts has had a hand in the making of the budget, then everyone who counts will know it for what it is and will help to keep it in its place. Incidentally, everyone who counts will also have a stake in making it work.

### **The Budget and the Annual Report**

At the end of the year, when the budget and the annual report stand side by side, then the budget-maker sees the results of his work. The head will feel real satisfaction if, after measuring his educational accomplishments, he finds that his estimate of their costs was not far off. Unforeseen emergencies may have arisen in one or two spots; a few items may be over and a few under. But if the budget figures compare closely with the actual totals, he will know that he has learned his first lesson in financial management and will have new confidence in planning the next year and the next.

The budget-maker must remember, however, that important as this lesson may be, it is not the accuracy of his predictions, or even the processes by which they were reached, that are of primary significance. Budgeting and accounting are not ends in themselves. They are efficient means to an end, and for the purposes of this booklet that end is good education.

## NOTES

The following are referred to in the text:

National Association of Independent Schools, *Accounting For Independent Schools* (Boston, 1969). This thoroughly professional work is not designed for beginners but the glossary on pp. 89-96 may be helpful. Kilborne's spoof appears on pp. 110-112.

E. Laurence Springer, *Independent School Administration* (New York, Harper and Row, 1967). Out of print but available from NAIS.

American Council on Education, *College and University Business Administration*, rev. ed. (Washington, D. C., 1968).

Melvin S. Hathaway and Sidney G. Tickton, *A Guide To Long-Range Planning* (Boston, NAIS, 1969).

A sophisticated approach to budgeting, recently developed, will be found in:

Hartley, Harry J., *Educational Planning-Programming-Budgeting: A Systems Approach* (Englewood Cliffs, New Jersey, Prentice-Hall, Inc., 1968).

It must be obvious that the tactical and strategic aspects of budgeting are at least as important to the welfare of a school as the technical aspects. Essential, for example, is a creative relationship between the head on the one hand and his trustees, teachers, and staff on the other. The best statement of the trustee-head relationship is found in:

Francis Parkman and E. Laurence Springer, *The Independent School Trustee* (Boston, NAIS, 1970).

The following reference, designed for those starting a new school, may prove helpful here, especially the chapters on administration, faculty, business management, and financing. If you want to order a copy, write to NAIS, not to the publisher:

William Johnson, ed., *A Handbook For Independent School Organization* (Princeton, N. J., D. Van Nostrand Company, Rev. 1964).

The beginning school administrator will find in this last reference nothing about budgets, but he will find in short space a layman's introduction to the

balance sheet and to many accounting terms:

Merrill, Lynch, Pierce, Fenner and Smith, Inc., *How To Read A Financial Report*

Speaking of terms, those two wash-items in the headmistress's budget should be explained in case she is still wondering about them. They are two items, one under income and the other under expense, which are identical in amount and cancel each other out. For example, all moneys received in a special category are earmarked for expenditure in exactly that amount for some special purpose. If the income goes down, the expenditure will go down; expenditure will go up if income goes up. So you cannot affect the net result of the budget by changing one or the other. They are ordained to wash each other out.

The exhibits on pp. 14-17 have been prepared by John P. Downing, Business Manager of NAIS, to supplement and illustrate the text. He has built columns 1, 2, 3 and 5, the columns on past and future budgeting, around the figures for "this year" in column 4. You will find that column 4 corresponds with the sample accounts found on p. 68 and p. 70 of *Accounting For Independent Schools*.