

Budgets and Boards

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Everything has a price tag” sounds rather trite, but the truth of this statement becomes evident as school boards go through the painful process of choosing priorities for school programs, activities, and personnel in a time of shrinking revenues and rising costs. As a consequence, schools have adopted budgeting and other financial practices common to the business community as they attempt to become more accountable to their constituencies. Such practices can help to demonstrate that the school boards, along with the school administrators and teachers, are providing cost-effective educational programs that meet children’s needs.

Budgeting Procedures

The budget is the educational plan of the school in monetary terms. An operating budget forecasts revenues and expenditures for the fiscal year, which usually runs from July 1 through June 30. A capital budget covers both short- and long-term expenditures for physical plant and equipment. The short-range capital budget deals with expenditures for the fiscal year. The long-range budget includes new and replacement equipment, as well as major structural improvements and additions extending beyond the current fiscal year.

While budgeting usually begins afresh each year, historical experience and projected needs do influence the process. A team effort is required for budget preparation, especially during the early stages. Participants may include staff members, school organizations (e.g., Home and School Association), the constituency, and the board. A short questionnaire might suffice for some groups, while formal meetings might be more appropriate for other groups.

The board needs to develop rational explanations for every major area of the budget. They can do this by developing detailed schedules supporting each area. Boards should be especially alert to (1) funding changes that exceed 10 percent of a prior budget, (2) unrealistically low allocations, and (3) the need for a

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School financial management includes many interrelated functions. Administrators must demonstrate that school expenditures support the best educational program possible, given the available resources. The major components of financial management include: (1) budgeting procedures for both the operating and capital budgets; (2) funding sources, mainly from tuition and subsidies; (3) establishing priorities and policies and determining who is responsible for implementing them; (4) accounting procedures; and (5) monitoring the budget and reporting to the board.

reasonable emergency-operating fund. The budget emergency fund should offer a financial cushion to deal with unexpected expenses.

Board members must realize that most budget items are relatively fixed and that budgets have little flexibility. Salary and fixed benefits (e.g., Social Security/pension plan, medical, etc.) compose the major part of a school budget. In addition to these labor costs, such items as teaching supplies, library expenditures, professional development, facility maintenance, transportation, utilities, insurance, and building supplies, must be included in the budget.

Educational needs should be the major consideration in the budgeting process, with how to finance them as the next priority. Reversing the order—placing financing ahead of educational needs—will stunt the growth and the quality of the academic program. Satisfied customers, including constituents, parents, and students, will be more willing to support a high-quality educational program than one that is underfunded and educationally weak.

Funding Sources

Identifying funding sources is the true beginning of the budget process. In most schools, the largest source of revenue is tuition. This means that realistic enrollment projections are critical. Preliminary budgets should be developed, based on different percentages of the current enrollment (105, 100, 95, and 90 percent), because the number of students is apt to fluctuate. Also, estimates of subsidies from supporting churches and the local conference must be based on what the supporting entities have agreed, by constituency vote, to contribute to the educational ministry of the church.

Schools and local churches seldom use the same fiscal year. Therefore, friction can result when, partway through their fiscal year, churches are asked to provide additional funds. To deal with this problem, the school administrator must anticipate the needed subsidy and communicate this to local pastors and

church treasurers *before* church budgets are developed. Some conferences subsidize teaching materials, substitute teachers, equipment, and other areas. The superintendent can supply information about the various areas of assistance available.

Priorities and Policies

In budgeting, as in other areas, the board establishes policy; administration implements it. In small schools, a board chairman or school treasurer may be

the person responsible for budget implementation and control, with assistance from a head teacher or teaching principal. The board does not usually get involved in the minor details of budget management. However, they must hold the administrator responsible for that.

The board needs to understand the difference between *budgeting* and *authorizing expenditures* for specific materials or services. Failure to clarify this will create conflict during the implementation of the budget. Each school

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line the financial transactions of the school and form the basis upon which sound financial decisions can be made by the school board and administration.

Keeping a record of financial transactions also allows the board to trace individual items and to identify what was spent, for what purpose, and by whom, as well as the source of the money used for the expenditure. Such data may be needed when the finance committee or school board requests de-

with the financial plans outlined in the budget.

Within the accounting system, special attention must be given to the proper handling of trust funds. Schools may have various trust funds for items such as class trips, new computer equipment, student activities, yearbook production, etc. Each school must keep adequate cash in the bank to cover the total of all trust funds, which are also known as agency funds. Large perma-

nent trust funds should be listed separately and reported as line items on the balance sheet. These should be held in an insured account at a local savings and loan or commercial bank or in certificates of deposit, treasury notes, or treasury bonds. Since the average school board usually lacks the expertise to manage these funds, they should seek professional assistance in this area. Allocation and spending of trust funds should be subject to audit and board review.

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should have a policy authorizing administrator spending, including the amount permitted without specific board approval. (This amount will vary with the size and needs of the school.) A board should not reward spending outside those guidelines. An administrator who goes unnecessarily over budget or who budgets poorly should be confronted and held accountable.

Financial Record-Keeping

Accurate financial record-keeping is an absolute necessity for every school to function effectively. Such records out-

tailed information. This data is also needed for the yearly audit of the school's financial record.

During the budgeting process, money is allocated for different areas of the school program. Once the budget is established, there should be little need to transfer funds from one account to another. If money was allocated for library books, it should be spent on library books, not playground equipment. Proper accounting procedure records what takes place and should assist the administrator and board in making decisions that are in harmony

with the financial plans outlined in the budget. This is commonly known as *accounting*.

The *Academy Accounting Manual* prepared by the General Conference serves as the standard for senior academies in the North American Division. The division auditors review the academy financial records yearly (in most unions) and present a statement for board review and accountability. Re-

Accounting Procedures

While financial record-keeping is usually referred to as bookkeeping, this is only one phase of a complete system that

grettably, not all unions and conferences have a standard accounting system for elementary schools and junior academies. Some conference education departments have developed simple accounting systems to help schools establish acceptable accounting practices. The local conference auditors usually look over school financial records yearly and prepare a brief report on their findings. The local school board should review these reports and address any concerns mentioned.

The accounting system should provide the administration and the school board with an ongoing summary of revenues and budget balances. Such data can also be formalized into a *budget operating summary* and presented to the board at its regular monthly board meeting.

Monitoring the Budget and Reports

Even with good planning, a monitoring process remains mandatory. Monthly board meetings should include a review of the financial statement. Financial reports may vary, but should cover expenditures, appropriations, income, and cash flow. The board should know what has been spent, how the current year compares with the previous one, what account receivables are outstanding and are out of harmony with board policy on collections, and how much funding remains.

Board members should concentrate on major issues as they review the monthly financial statement. Some boards nit-pick at small items and don't recognize injudicious spending on major expenditures. Spending should be considered in relationship to the total budget. If \$500 is allocated and \$600 is spent, the expenditure is 120 percent of the budgeted amount, but the total amount overspending is \$100. However, if \$5000 is allocated but \$6000 is spent, the expenditure is again 120 percent, but the total amount overspent is \$1000! Board members also need to monitor the spending on small items since having many smaller expenditures over budget can add up to a costly sum.

School activities need separate accounts, as do Home and School Association funds that are handled through

the school business office or local school treasurer. These monies should be properly monitored and audited, the same as other school financial records.

Adequate monitoring of the financial records implies that board members must be able to understand the accounting procedures and reports presented. To ensure that board members are informed and able to ask intelligent questions, all new board members should be given an orientation session at the beginning of the school year. Any board members who continue to have difficulty understanding financial reports should seek assistance from the administrator or treasurer.

As part of the monitoring process, the constituency should be given a report on the general financial condition of the school. As long-range plans and educational priorities are reviewed, updated, and voted, the financial implications should be clearly articulated and understood by all. Most people understand the relationships between fixed costs and enrollment fluctuations. Certain basic expenses such as heating, lighting, water, maintenance, and replacement of broken or unsafe playground equipment will have to be met regardless of the number of students enrolled. When enrollments go down, these fixed costs, combined with decreased income, will adversely affect the school's financial stability. Decreased income, coupled with the effects of inflation on operating costs, only compounds the financial problem, and may drive the school into financial insolvency.

Constituencies must be the final decision-makers about the nature of the educational program and its sources of funding. Some small schools have stayed open at the insistence of the constituencies, who showed their support by contributing a second tithe as a subsidy for the school. On the other hand, some constituencies will refuse to adequately support the school under any circumstances. Much depends on the pastoral and educational leadership. No school board can operate a church school without its constituency's finan-

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cial support, so it is of prime importance to include the constituency in the reporting and monitoring aspects of the educational program and budget. Pastors, administrators, and board members need to "sell" the school to the constituency so that they understand the value of Christian education for the future of the church, and commit adequate resources to enable the school program to be academically superior and fiscally strong. ☛

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