THE FINANCIAL MANAGEMENT OF AN INDEPENDENT SCHOOL

by

SISTER SHELagh JOAN DEEGAN, R.S.C.J.

B.A., Newton College of the Sacred Heart, 1968

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Department of Commerce

The University of British Columbia
Vancouver 8, Canada

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ABSTRACT

The financial management of an independent school is considered in the light of public school financial management and practices currently employed in commercial enterprises. Managerial functions, school business management, and school organization are studied as the setting for this financial information system which is a subsystem of the school's total information system. For schools conducted by religious orders a method is proposed to account for the contributed services of the religious, to eliminate any personal expenses of the religious community from the financial reports of the school, and to make these reports comparable with other independent schools. The main areas discussed are budgeting, financial reporting and the accounts, with responsibility accounting and responsibility reporting a feature. The study does not investigate new sources of revenue for the independent school. Its only purpose is to show how resources can be managed effectively and efficiently, assuming funds are available.
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INTRODUCTION

THE AIM OF THE STUDY

In comparison with the public school system of Canada, the private school system is relatively small. According to the most recent Dominion Bureau of Statistics Survey of Elementary and Secondary Education (1962-1963), out of a total elementary and secondary school population of 4,588,789 Canadian children, only 185,522 children (or four percent) were enrolled in private schools. More than half of these reside in the Province of Quebec. Private schools in operation totalled only 1,232 (4.8 percent of the total number of schools), 818 of these schools located in the Province of Quebec.

The aim of this study is to construct a financial information system for an independent school. Several recent works have dealt with independent school administration, but, to the writer's knowledge, none has focused exclusively on financial management. Nor has any of these works considered the special problems of schools operated by religious orders. By employing preferred financial and accounting principles and techniques and by referring to public school business administration, the writer will propose a method for the financial management of an independent school.

THE INDEPENDENT SCHOOL

In this study, the terms "private school" and "independent school"
are used synonymously and refer to those schools which receive no financial assistance from the government. Included, then, are private and parochial schools, either non-sectarian or with religious affiliation. The term "system" as applied to the independent school is used only to distinguish it from the public school system of education. In reality it is not an organized system, but rather a loosely knit group of schools, linked more by a philosophy of education than by organizational ties.

It is not the purpose of this study to weigh the relative merits of both systems of education, nor to justify the existence of a private school, but it may be said that independent education is a dynamic form of free enterprise, and its long history testifies to the rights and preferences of parents in choosing a certain desired education for their children. And although it complements public education, nevertheless, at its best, it provides healthy competition to the public school system by offering specialized training, a different system of values, and an outlook on life which the larger system by its very nature, cannot give.

A large number of independent schools are conducted by religious orders. In ordinary parlance, when the noun "religious" is used, it refers to a person who is a member of a religious order of men or women. Since the religious make a vow of poverty, the problems of accounting associated with the schools run by a religious order are unique. Normally, the teacher who is a religious receives no personal remuneration of his or her services. Support is given by the religious order. If no attempt is made in accounting to attach a dollar value to their services, comparison of educational costs with similar institutions would be impossible. Another problem arises when the school expenses and the personal expenses of the religious community are not kept distinct. In such cases, it becomes impossible to
disentangle the financial affairs of the school from those of the religious community or to identify the costs of a particular school division. The accounting system proposed in this study will deal with both these problems.

FINANCIAL PROBLEMS OF THE INDEPENDENT SCHOOL

Any serious observer of independent school education will conclude sooner or later that many, probably most, of its special problems are financial. Rising costs, the demand for improved services and facilities, the increasing insistence on competent teaching personnel are the concerns of the public and private school alike. But whereas the public school relies on provincial and municipal tax money to support its educational program, the private school has no such sure source, and is dependent upon funds received either as tuition or as a donation.

The financial affairs of private schools normally are not subject to public scrutiny. Yet there seems no reason why a private school cannot or should not provide information on its sources and applications of funds. Along with other non-profit organizations, private schools should be accountable for their use of funds. But if the accounting system currently employed is inadequate, it cannot yield any measure of how efficiently school funds are being applied. This study is an attempt to point out the basic areas in independent school administration which could be improved by competent financial management.

The future of non-public schools is critically in the balance because of a financial crisis. Employing a new financial information system in independent school management will not solve all of its financial problems. But it should enable a school to withstand public scrutiny
by demonstrating its use of generally accepted business principles and techniques in its financial management. The result may be an increase of public understanding and acceptance of the independent school and possibly even support.

THE PROPOSED FINANCIAL INFORMATION SYSTEM

Neither the public nor private school system can afford to ignore the current business practices of commercial enterprises. It is true that the rate of return on education cannot be measured in the same way as the rate of return on an investment. The business of running a school cannot be reduced to the manipulation of figures because the decisions to be made are very rarely purely of the quantitative kind. To argue that schools do not operate for profit motives and that therefore any practice or control used by profit-oriented business is improper in a non-profit organization, however, is irrelevant. The concepts and tools of modern management need not serve only individual gain. They can be a factor for social good.4

The main areas of the proposed financial information system to be discussed in the following chapters are budgeting, reporting, and accounting—three of the tools employed in commercial organizations. Because it is important to situate the system within the school organization and to show how it furthers the goals of the educational program, consideration will be given first of all to the principles and functions of management, school organization structure, and the role of a school business manager within that organization. Management's need for information will then be discussed and a system to present that information for management decision-making purposes will be outlined.
A CASE STUDY

To illustrate the applicability of the proposed financial information system and to point out the various types of information which it generates, an in-depth study of a girls' private school (day and boarding) was conducted. The school, founded in 1911 and located in the Point Grey area of Vancouver, is one of approximately two hundred schools conducted by the Religious of the Sacred Heart in all parts of the world. The accounting system employed by the religious order until recently yielded only a minimum of information. In most cases the system merely disclosed the excess of revenue (if any) over expenditures. Within the past two years financial operations have become increasingly decentralized in each country and more detailed and sophisticated accounting practices recommended. The working out of details is left to the discretion of each country and follows local needs and contemporary practices in that country.

With this in mind the writer has attempted to set up a financial information system for schools of her religious order in North America. The principles and practices discussed in the following pages are not peculiar to this specific setting. They could be used for the financial management of any independent school, day or boarding, with or without religious affiliation.

BEHAVIORAL ASSUMPTIONS

Edwin G. Caplan has suggested that:

...the management accounting function is essentially a behavioral function and the nature and scope of management accounting systems is materially influenced by the view of human behavior which is held by the accountants who design and operate these systems.
At the outset of this study, the writer has made three general assumptions.

First of all, I am assuming that the school administration and teaching staff believe in the following goals of independent school education:

1. **Excellence in Education**, which implies among other things a constant seeking to find ways of doing the job better.

2. **Totality of Education**, meaning that the educator strives to develop all sides of a child's life—intellectual, spiritual, and physical.

It could be rightly argued that these goals do not differ from the goals of the public system; that management in both systems sets the guidelines within which stated policies are carried out and also makes decisions affecting the organization's resources. However, if we agree with Cohen and Cyert who state that decisions depend upon information and expectations formed within the organization, we can conclude that because the independent system is smaller and less formal, it is ideally suited to the application of modern organization theory which tends to be a more participative rather than an authoritarian form of management. Thus I am assuming a school administration willing to share its responsibilities with a dedicated and vital faculty.

Secondly, I am assuming that the business manager, as part of the school's administrative team, considers his role within the school as a service function, complementing rather than competing with the instructional process. If he regards his function as a means toward an end—the end being the education of children—if he is open to receive advice from his co-workers, he will not likely impose his views on those presumably less familiar with accounting information. One of his main tasks, then, is
to retrieve from the accounting system, information which is required for
decision-making, but information that has been translated meaningfully
into non-accounting terms. Such a practice is not underestimating the
intelligence of his colleagues; it is simply preventing confusion and
disturbance which may arise from a flow of precise and exact accounting
data, the technical perfection of which may mean little to the other members
of the school administration. This second assumption— that the business
manager perceives his role within the school organization as one of facili-
tating the work of education—is crucial for the implementation of the
financial system.

Finally, I am assuming an interest on the part of the parents in
all matters concerning the policies and operation of a private school.
One can no longer expect a parent, accustomed to scrutinizing the public
budgets as well as the financial reports of corporations in which he has
made investments, to continue to support an institution for which infor-
mation is not provided or whose finances are ineptly administered. If
private schools are to continue to offer their services, they must be
prepared to demonstrate to their supporters that their funds are employed
efficiently for the ends of education.

It is hoped that the financial information system proposed in the
following pages will prove helpful and informative to those interested
in the operations of an independent school.


3. See Webster's Third New International Dictionary of the English Language (Springfield, Mass.: G & C. Merriam Co., Publishers, 1967): "religious" as an adjective: "Committed, dedicated, or consecrated to the service of the divine." "Religious" as a noun (plural, "religious"): "One (as a monk or nun) who is bound by vows, and devoted to a life of piety." "religious of the sacred heart" usu cap R & S & H: "a member of the Roman Catholic Society of the Sacred Heart, a religious community of women founded in France in 1800 and devoted to the education of girls." p. 1918.


7. The word "he" does not imply that the business manager need be male. But for the sake of consistency and because the literature on the subject does so, all further references to the business manager will assume he is male. Likewise, "principal" will be used in most cases, but "headmaster" or "headmistress" is also applicable.
CHAPTER II

CONCEPTS

INTRODUCTION

In any institution, school or business, nothing is more important than the management ability of those who make and carry out the basic policies. The success or failure of an independent school ultimately depends on the working relationships between the principal and those who assist him in the administrative task. Trouble often arises because day-to-day communication is not specific enough and because areas of responsibility and authority are not clearly delineated. An independent school is likely to pride itself on its home-like atmosphere and informality—an excellent environment in which to teach and learn. This informality can also create problems of internal administration if allowed to blur a clear understanding of who is supposed to do what, of who is responsible to whom. There would seem to be no reason why clarification of these matters cannot coexist with informal relationships.

It has been observed that in many independent schools, types of organization have not kept pace with the needs of a growing school. Consequently, whole new areas have come into being with no one appointed to cope with them.¹ If the phrase "management improvement" is suggested in relation to such a school, it is frequently regarded as having little or no application. Yet there are probably few principals who can confidently state that their schools are managed as effectively and efficiently as possible.² The financial problems facing these schools may be crucial.
Could a deeper cause of the financial problem be a failure to incorporate the principles of management in the administration of these schools?

This chapter will study the functions of management, its need for information to facilitate the management process, and finally the system proposed to communicate that information. The resulting "management information system," although geared specifically to financial management, will hopefully contribute to the overall effectiveness of administering an independent school.

**MANAGEMENT**

The central purpose of management or administration in any enterprise is that of directing and organizing human and material resources toward the achievement of management's or the firm's goals and objectives. The management of an educational institution organizes and employs resources to accomplish the ends of education. The management function may be portrayed as follows:

```
    ESTABLISH OBJECTIVES
        PLAN          ORGANIZE
    REPLAN          EXECUTE
        EVALUATE
```

This may be an oversimplification. We do not establish objectives one day, plan the next day, and so on, but we can identify the particular step at any time.

1. **Establish Objectives**

Some independent schools have a relatively long history. However,
dynamic changes in society have carved out for some educational institutions a role different from the one they set out to fulfill when they were originally founded. For example, some religious orders which were established to conduct orphanages have recently diversified their work and have entered a broader field of social work. The first and probably the most important responsibility of administrators of independent schools is to establish realistic objectives in the light of changing circumstances. Each institution must decide for itself what its role and objectives shall be in the field of education.

The objectives would encompass such topics and the philosophy of education of the school, the role the school hopes to play in society, the needs it perceives and endeavors to answer—in a word, its justification for being. This is normally a "top management" function, or, to use Robert Anthony's term, "strategic planning" (to be dealt with in the following section). So important is this function to C. E. Graese that he expresses it this way: "The institution itself should have a mission, or it becomes a patchwork of individual strengths and weaknesses blended together in a directionless institution which is more a weathervane of social drift than a builder of social destiny."  

2. Plan

In order to achieve these objectives, plans are carefully laid. Planning calls for defining a frame of reference, such as the present clientele of the institution, and then working within this frame to achieve objectives. It can be characterized as a process of dealing with groups of independent decisions. Managerial skill is demonstrated by the ease and facility with which managers coordinate these various decisions. In
the planning and control processes within organizations, Robert Anthony distinguishes three "levels": strategic planning, management control, and operational control.

Strategic planning is the process of deciding on objectives of the organization, on changes in these objectives, on the resources used to attain these objectives, and on the policies that are to govern the acquisition, use, and disposition of these resources.5

Strategic planning connotes big plans, important plans, plans and policies that determine or change the character or direction of the institution. Although strategic planning and long-range planning do not necessarily correspond, strategic plans do have long-term effects; often they are irreversible in the short run. Strategic planners do not ask: "Where are we?", but rather, "Where should we be heading?"

If the strategic planning process is essentially irregular, the management control process, on the other hand, is rhythmic. It is:

...the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives.6

Anthony admits that the term is not entirely satisfactory as it is meant to convey both planning and control elements. They can be separated conceptually but such a neat separation does not exist in practice. The management control process is carried on within the guidelines established by strategic planners; hence, the planning decisions made in this second level are of a somewhat different character from those made in the strategic planning process. Objectives, facilities, organization are more or less accepted as given, and the process is intended to make possible the achievement of planned objectives as effectively and efficiently as possible within these givens.

Anthony's third level is operational control:
...the process of assuring that specific tasks are carried out effectively and efficiently.\textsuperscript{7}

As with the distinction between strategic planning and management control, so also the distinction between management control and operational control: it is not clear-cut; the processes overlap and are interrelated. Planning activities at this level are programmed, routine and repetitive with a heavy reliance on rules.

The persons involved in these three planning levels will differ with each institution. In some schools, the principal may be the strategic planner; in others, the governing board or the religious order which conducts the school. These concepts are useful when considering school management and administration. Firstly, they indicate the tri-dimensional aspects of planning. Secondly, they point to the fact that day-to-day or even year-to-year planning is not sufficient. Long-range plans must be laid simultaneously if the institution hopes to survive.

Although the annual budget is not new to most schools, independent schools are just now beginning to recognize the value of long-range planning, a technique that has long been utilized in industry.\textsuperscript{8} A long-range financial plan is the financial interpretation of a school's future goals and the programs necessary to achieve them. It presents the costs of a school's projected activities, as well as the anticipated sources of its income for a five-to-ten year period. Such a plan provides the means by which a school administration may try out proposed programs on paper without incurring the actual cost of implementation. It presents an idea of what the total cost of operating a school will be five or ten years hence and how it will be financed. In some situations it indicates the need for a change of program and perhaps even of goals. The plan is not
an unchangeable or immoveable scheme; it is only a framework within which the
details operate, subject to revision as time passes.

A long-range plan can enhance faculty understanding and engage the
interest of parents and other interested groups. It can also dramatize
the fact that operations must balance—expenditures must be matched by
revenue and deficit financing foreseen and provided for. In addition,
according to Harold I. Steinberg:

...it forces the administration to consider the long-range impli-
cations of today's decisions and to realize that postponing a
critical action can have a detrimental effect on future operations.\(^9\)

3. **Organize**

Organization is the process of systematically establishing relation-
ships within an administrative structure. An institution is considered
to be effectively or ineffectively organized inasmuch as these relationships
contribute to the achievement of its goals. If a school is effectively
organized, there are means at hand for getting things done; routines have
been established for doing them; responsibility for seeing that they are
done has been assigned. Things are done speedily and well. Such an
atmosphere provides assurance to students and teachers and keeps the
program moving toward a specified goal with a minimum of wasted effort.
On the other hand, an ineffective organization is one in which the un-
important things tend to get done, important matters are passed over and
neglected, and the decision-making process is carried out in a halting and
often irresolute fashion.

A common symptom of poor organization, as well as a common cause,
is a principal who is trying to do everything himself. As E. Laurence
Springer so colourfully puts it, "he is so busy being his own groundsman,
his own registrar, his own admissions officer or his own dietician that
the most important of his functions are not being discharged at all."\(^{10}\)

Among other signs of organizational deficiencies are the following:

(a) a large portion of administrative time spent on handling emergencies and dealing with spontaneous conflicts;
(b) conflicting final decisions on the same problem made by different members of the administrative staff;
(c) frequent complaints made about a lack of communication;
(d) insufficient time given to developing long-range plans or to experimenting with new ideas.\(^{11}\)

From these considerations, two major organizational principles may be deduced:

(a) definite and clear-cut responsibilities should be assigned to each person in the organization;
(b) responsibility should also be coupled with corresponding authority.\(^{12}\)

These principles apply whether a school is small or large. They do not signal the end of informal relationships; they merely assure that all responsibilities are assigned and that needed functions are provided for. Organization, a fundamental aspect of school operation, is of value only insofar as it is practical; it is a means toward an end and should not become an objective in itself.

4. **Execute and Evaluate**

Execution follows inevitably whether the planning was done correctly or not. But execution without provision for evaluation (or control) would be haphazard management. It may be compared to a ship setting out on a lengthy voyage without proper navigation instruments. "Unless there is a feedback mechanism that tells us whether we are on course and progressing satisfactorily toward our objectives, we may very well find ourselves out of fuel, adrift, and far from port."\(^{13}\) With a proper set of indices and performance measurements we are in a position to react to
changing events.

The word "control" has unfortunate connotations. Our traditional concepts were developed and practiced during a period in which authoritarian, autocratic management was the order of the day. In common parlance control has come to be associated with ideas such as rigid conformity to unchangeable plans, close scrutiny, detailed checking, and measuring of past performance. The truth is that effective control, like effective management, is active, dynamic, and evolving. Control implies that constructive, corrective, preventive action will be taken when necessary. Paul M. Dauten, Jr. remarks, "the process of planning, organizing, and controlling our operations results in a clarification of our major purposes and values and it thus enables us to reformulate our major objectives and policies." ¹⁴

Robert Anthony presents the interesting argument that contrary to what the majority of writers believe, the aim of control is not to assure that the results of operations conform as closely as possible to plans. ¹⁵ He notes that top management, the strategic planners, are neither clairvoyant nor omniscient. Their plans do not necessarily show the best course of action; they merely show what was thought of as best when the plan was drawn up. What top management wants, according to Anthony, is that middle management react to the events that actually occur, not to those that might have occurred had the real world been kind enough to conform to planning assumptions. The practical implication of this is that conformance to plans is not the standard against which performance should be measured. Does this mean that control or evaluation is unimportant? Certainly not. "Control" signifies that when results of actions deviate from plans, the fact is known, recognized, and acted upon. To a certain extent, where
control is exercised, nothing is totally a surprise, there is always something against which to compare actual and planned results.

5. **Replan**

To replan is to revise former plans in the light of new evidence, or to formulate altogether new plans because other facts and alternatives present themselves. Replanning is the test of management ability. If the results of carefully formulated plans have been less than expected, it may entail admitting failure. If plans have exceeded expectations, it will mean quickly adjusting to new conditions. Whatever the result, there is a risk to be taken, another decision to be made. Replanning will involve assessing both the internal and external environment, considering alternative courses of action, and charting a new course in the light of these findings.

The functions of management are not discrete entities. They are in fact a continuum and take place in an ever-recurring rhythmic cycle. As has been pointed out, management functions are not confined to one level of management but to each level in varying degrees. The only difference will be the type of decision made by the administrator and its importance in fulfilling the aims of the organization.

**SCHOOL ORGANIZATION**

**Structure**

The purpose of organization is to clarify and distribute responsibility and authority among individuals and groups in an orderly fashion consistent with the purposes of the institution. The structure of the institution is determined by the nature of the decision-making process
and the organization of the institution should be established to provide for the most effective operation of this process. Size, philosophy of administration, and important factors in the local situation will also in a large degree determine the pattern of organization.

Each school is unique in its history, its resources, and its operations. Consequently a plan or organization needs to be tailored to the individual school. Ideally it will ensure that there are no overlapping functions, that clear areas of responsibility are defined for major functions, and that interdependent activities are coordinated under one responsible person.

There are various ways of organizing a school, but they can be reduced to either of the following types of organization structure.

\[ \text{Institution A} \quad | \quad \text{Institution B} \]

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   /|
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 4  5
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If the purpose of the administrator is to retain the decision-making function himself, the "tall organization" (Institution A) is better adapted to his needs. The "flat organization" (Institution B) is better if sharing of the decision-making function with the staff is desirable.

By favouring decision-making close to the administration of the decision, the flat pattern of organization is designed to release the individual initiative and creativity of subordinates. It regards the chief administrator not so much as the decision-maker but as the coordinator or regulator of all decisions made within the organization. Daniel
Griffiths expresses it thus:

the effectiveness of a chief executive is inversely proportional to the number of decisions which he must personally make concerning the affairs of the organization. It is not the function of the chief executive to make decisions; it is his function to monitor the decision-making process to make sure that it performs at the optimum level.  

Expressed mathematically, it becomes:

\[ E(t) = \frac{1}{\sum D(t)} \]

Where E is the effectiveness in achieving the stated objectives, (t) the specific time interval, and \( \sum D \) the sum total of the number of decisions made in (t). Thus the flat concept of organization places a premium on the team approach to administration with the principal the key to its success.

On the other hand, there are situations in school administration where the flat pattern of organization would not be recommended. For example, in a fast-moving milieu or in a school with frequent changes in administration or personnel, the tall pattern of organization with more centralized control may be called for. Although the former is recommended for schools, it requires an environment, circumstances, and the personnel to make it achieve maximum effectiveness. To maintain a balance between centralized and decentralized decision-making is one of the main problems facing administrators.

**Organization Chart**

A school organization chart is the pictorial representation of how a school is organized. It portrays the relationship among individuals within an institution. Its purpose is to set forth for each person the
scope of his activity, responsibility, and authority and thereby contribute to effective interaction.

A typical organization chart for an independent school (enrollment 300-500 pupils) might be the following. It will be noted that its structure follows the flat pattern of organization. 19

```
Principal
  /    \\
Head of Senior School  Head of Middle School  Head of Junior School  Director of Admissions  Director of Development
                      /    \\
Department Heads
                    /    \\
Faculty
```

Each of these positions need not be filled by a different person. For instance, the Director of Admissions could also be a department head, or the principal might serve as Director of Development. All persons below the principal (except the business manager, possibly) would also teach part time.

The chart is primarily a technique of presentation. Its use affords a number of advantages. Firstly, its construction forces the authors to clarify their ideas. Secondly, if properly developed, it provides a bird's-eye view of the general structure of work and work relationships in the school.

Yet in spite of organization charts, it must always be remembered that a school is an intensely personal and human institution, and that in
the long run, cooperation in school administration depends more on individuals and their personalities than on the plan of organization. A paper organization chart does not guarantee successful administration. It has been said that:

...organizational structure is a pencil-and-paper affair, [but] the way it operates is a matter of human relationships.20

When dealing with people, we must have principles that are flexible, not absolute.

**Job Descriptions**

To provide individuals with personal security and that each may know what is expected, it is often suggested that an organization manual containing job descriptions be drawn up so that each person can determine what the responsibilities of his job are and its proper relationship to others in the organization. Jurisdictional conflicts and overlapping can be avoided if the manual is carefully compiled.

It is recommended that job descriptions be prepared prior to any hiring that might take place and not vice versa. In other words, first describe the situation, then find the man. Slight modifications can be made afterwards. Griffiths et al are quite insistent upon this point. They note that because of the transitory relation of the man to the position, the prime criterion is the position, not the individual.

Reliance on personality as a prime criterion in organization is disruptive. It leads to a situation in which continual reorganization is almost imperative.21

Because job descriptions are written records of what the person is to do, how, in general, he is to do it, why he should do it, and how well he should do it; because they detail the relationship of the job occupant to others in the organization; many believe that well-prepared descriptions
result in greater teamwork and the utilization of abilities.

SCHOOL BUSINESS MANAGEMENT

School Business Management may be defined as that phase of school administration dealing with the management of finances, facilities and non-educational services necessary for the orderly operation of a school. It is a service function: its objective is to assist in the realization of the educational goals of the school. In itself it has neither end nor justification; its need and direction must be evaluated by its contribution to the teaching-learning process.

Business management today is a creative planning process, rather than a routine, mechanical operation. The job of financial administrator in an independent school is no longer that of just keeping books or accounts. Nor is it a job of putting together a budget once a year, of remaining solvent, and satisfying the auditors. Today the business manager is an integral part of an administrative team; he anticipates, initiates, organizes, staffs, coordinates, and guides activities needed to facilitate education. Directly accountable to the principal, he is the person "who is chiefly responsible for managing the bricks and mortar, the dollars and cents, and the host of other items essential to maintaining the physical environment within which the school head can direct the educational policy and programs."

What is the place of the business management function in the organizational structure of the school? It will be noted above we used the phrase, "accountable to the principal." The business manager does not have the power and authority to make all final decisions, although he may be helpful in relating facts, suggesting interpretations, and giving advice.
The principal is the chief executive of the school, and it is under him that the business manager works, and to him that the business manager reports directly and not to any assistant or dean (although he will work closely with them in those "grey areas" where educational and business administration overlap). For a proper discharge of his duties the business manager must have direct access to the principal who assumes the overall supervision of the school and be solely accountable to him. Likewise, the heads of the various departments should in turn report only to the business manager. There will be many variations from this standard pattern depending on the size, history, and type of school, not to mention various personalities involved. But in general to bypass any stated lines of authority is poor administrative practice and can only result in an ineffective and poorly managed organization. It is important to understand that the business management function does not operate in a vacuum, that it cannot be isolated from the other activities of the school. The function, properly handled, is related to all the other aspects of the school enterprise. The business manager should have direct contact with policy-making groups because even "educational" questions have financial aspects or have ramifications that concern space, facilities, and people as well as dollars. Likewise it is suggested that he attend all faculty meetings in order to gain understanding of school policies and problems.

What qualities should a business manager possess? Although he deals more with funds and facilities than with academic matters, the successful school business manager should be first and foremost an educator in order to make sure that education rather than business is considered the main objective. He should also be committed to the educational philosophy of the school and have a liking for children. Other qualities may be cited:
...the ability to take knocks, to be congenial, and to get along with people; the knowledge of how to pare costs without seeming 'tight'; a flair for figures and an enjoyment of working with numbers; and previous experience with children.23

...capacity for hard work; tact with people; unquestioned probity; an inquisitive instinct; ability to withstand the 'culture shock' of adjusting to school values; humanity in understanding the foibles of faculty members; and a self-discipline to refrain from interference with academic affairs.24

In functional areas, a prior knowledge of accounting is the sine qua non of a business manager. Aptitude along these lines is not a sufficient substitute for training and experience.

In a sense, the business manager may find himself in a rather lonely position. Business values are not always educational values; there is a limit to the application of quantitative methods to the solution of a school's problems. Therefore, he should be careful not to push too far or too fast with new ideas or techniques. A period of mutual adjustment and accommodation is essential, especially at the beginning.

It might be asked at this point: does an independent school need a business manager? Springer lists these tangible results from effective financial management:

Better financial planning, with the avoidance or elimination of unanticipated financial development
More efficient operations
Greater income from operations
Better controls over expenditures. Money can be saved which can be used elsewhere to better effect
Greater productivity, especially in administrative service and supporting activities
Better staff morale
Better working relationships between the internal administration of the school and the governing board
Assurance given by the school to parents, alumni, corporations and foundations that its house is in order and that it is in control of its operations.25

If these results are true, the previous question becomes: despite financial pressures, can an independent school not afford to employ a business manager?
There is no rule-of-thumb estimate for the economies in operations that are possible through more efficient and effective financial management. However, the need for financial management is going to become more, and not less, important in the independent school field.

Another question might arise: how large should school enrollment be before a permanent business manager is employed? The answer depends upon a number of other factors: the desire of the governing board or religious order for capable management of the school's resources, the ability of the school to pay for such services, the school's success in attracting a competent person to fill the position. Normally the duties of a school business manager are not limited to financial matters alone. Also included in his duties are purchasing of supplies, supply management, supervision of non-instructional personnel, buildings and grounds, and supervision of food services. If these non-financial tasks are performed by other persons, the smaller independent school (enrollment approximately 500 students) might only require a part-time business manager. The important point is that the school's resources be competently managed and accounted for.

**INFORMATION**

Having considered the managerial functions, school organization, and the role of the business manager within that organization, the question naturally arises: what does a business manager and a principal need to carry out their tasks of planning, organizing and controlling? The answer is: **information**.

Robert Beyer has this to say about information communicated to management.
Management needs the right information, in the right form, at the right place, and at the right time. The 'right' information is that which is necessary for the effective performance of each function of management at its various levels. It must be accurate and pertinent to the action at hand. It must be in a form that is clearly understandable to the person who is supposed to act upon it. It must be provided to the particular persons within the organization whose actions can be improved by it, and it must be received in time to influence the action which it is supposed to assist.

He goes on to show, however, that the availability of increased information does not reduce the need for judgment in the making of management decisions. Nor does it eliminate the need for managers to assume responsibility for making decisions based upon incomplete information:

The quality of judgment exercised in such decisions will continue to distinguish the well-managed company from the indifferently managed one, provided that the information systems in each company are of comparable quality. A properly designed information system, however, can make it possible for management judgment to be applied on a much more objective and efficient basis. It can greatly reduce the number of decisions which have to be based on inadequate information. As more information becomes available in more explicit form, the areas in which such information is not readily available become more clearly recognized at the same time as management is enabled to devote more effort to subjective judgment in these areas.

It is important to make a distinction between data by which we mean a set of facts (most of which are expressed numerically) and information by which we mean knowledge, insights, findings formed by reflecting on, analyzing, and synthesizing the given facts. Information is a much broader concept than data and may include forecasts, inferences and so on. At what point do data "become" information? In order for data to be transformed into information, they must be:

1. Captured. Data giving information on initial transactions must be "captured" or recorded from original documents systematically, in a manner that facilitates the remaining processing steps.

2. Edited and Validated. Definite and clear-cut procedures must be established to assure that the data are accurate, and that non-essentials are excluded.

3. Classified. Like groups of data must be readily tagged and identified.
4. **Stored.** Storage methods chosen should depend on the end results desired. Whether the storage system is computerized or not, it is a "data bank"—a "bank" because the information has been deposited to be drawn out when needed.

5. **Accessible.** The data stored must be "banked" or filed in an orderly manner so that it can be extracted. Vital information should not be "locked" up or lost in one department's file when it is needed for use by others.

6. **Extracted.** To be of value, information must be extracted. The system should assure that all pertinent data are extracted for a given report.

7. **Interpreted.** A most important task is to interpret the data. The degree to which it is interpreted and the form which it takes must be geared to the individuals who will receive it. If there is no understanding, the work is just a processing system—not an information system.

8. **Summarized and Reported.** An information system is a reporting system. Data must at this point be summarized and arranged in such a form that it becomes information. This requires that the report be adequate and in language understandable to those who will use it.

Our age has been called "The Age of Information". It has been observed that in U.S. industry today, the gathering, storing, manipulating, and organizing of information for managing enterprises costs as much or more than does direct factory labour. Because of increased industrial complexity there has arisen a need for the rapid and accurate processing of information. But information communicated to management generally remains inadequate—inadequate not in the sense of there being a deficiency, but in terms of relevancy for setting objectives, for shaping alternative strategies, for making decision, and for measuring results against planned goals. Management is "drowning in data while starving for information."

When considering the quality and quantity of information to be made available to managers for decision-making purposes, any enterprise, including an independent school, must solve two basic problems:

(a) What kinds of information are needed to run the organization?
(b) Are the costs involved in providing the information worth the benefits received?

Information Must Influence Decisions

No information is worth producing if it does not influence or aid management decisions. The main problem, however, is that often management does not know what information it needs. Until it can articulate its problems, plans, or the decisions it must make, the information gap will continue to exist whether manual, mechanical, or electronic methods are employed.

In an independent school, the obvious person to assist the principal in ascertaining his financial information needs is the business manager. The term "assist" is used advisedly, for, as stated previously, the principal is the ultimate authority in the school, not the business manager. However, the business manager is in a unique position in that his selection of information can to a large extent determine the principal's final decision. As schools grow larger and as administrative duties become more complex, it is inevitable that principals will rely more and more on formally presented information in managing their schools. The timing, content, and format of the information provided can be a strong influence on future school administration.

Cost/Benefit Analysis

The information specialist does not decide the uses that are to be made of the information: his attitude is, "If you are willing to pay for it, you can have it." He can estimate the cost of providing the information; it is up to management to decide whether the information is worth the cost. There is a high price tag associated with obtaining accurate and pertinent
information. Most of the benefits obtained are intangible and not easily quantified.

The problems facing the independent school may be of the following type:

Is our present financial system suitable?

Is it geared to provide the required information to whoever needs it and at the right time?

If the answers are in the negative, it may well be that the time and energies of the business manager are being directed elsewhere—toward buildings and grounds, cafeteria, or purchasing. The point is made here that the business manager can provide a large percentage of the financial information needed by management. The price to pay will consist in releasing the business manager from some of his present duties in order to enable him to concentrate exclusively on the financial management of the school. It is true that information flows upward, across, and downward—from the lowest to the highest level of the school, and back down to the lowest level. The tendency in the informal atmosphere of an independent school may be to neglect the formal flow of information. Not until routines and transmission are regularized and systematized will satisfactory handling and communication of information be a reality.

**SYSTEM**

High-speed electronic computers have facilitated the processing of data, enabling management to have more complete and up-to-date information for decision-making. A new phrase has been coined as a result of this new availability of information: Management Information System, or simply, MIS. The concept is not new, but its applicability is. Formerly the
concept referred in general to the information generated by the accounting department; it was the information of the firm. With the advent of the computer, it became possible to speak of a totally integrated management information system, one that would encompass and include every company department. A common "data base" would in time serve each department, thus centralizing information, and making it available from one single source. The necessary technology, however, must be perfected before the ideal is a reality. Although the goal is integration, most systems at present are still fragmented and do not operate as a single system.

Possibly the best definition of an MIS is that given by Bertram A. Colbert:

A management information system...is an organized method of providing each manager with all the [information] and only [that] information which he needs for decision, when he needs [it], and in a form which aids his understanding and stimulates his action.31

Does this have any meaning for an independent school using manual or mechanical machines or is it all in the realm of a complex industrial firm? An MIS is becoming a necessity for any size organization, computerized or not. We have seen that management needs information. Now we shall investigate the highlights of a proposed system of relaying information—namely, financial information—to management in an independent school. Later chapters will discuss it in greater depth. A computer system is not assumed although with time-sharing becoming more widespread, the use of EDP facilities will undoubtedly be the more common system in the future. Just as knowledge of computer operations is necessary for successful programming, in like manner, so is knowledge of current operation, its limitations and capabilities, necessary before another system can be initiated.

The following will not be a "systems analysis" as the term is now
commonly used. The essence of the concept of the systems approach is "that the analyst surveys the problem or problems from an overall perspective while analytical and remedial techniques are applied with the system clearly and constantly in focus." But it is a system, if by system we mean "an array of related elements, the functions of which contribute to a common purpose." All the elements related below should contribute to the smooth working of a financial information system which is considered to be a subsystem of a larger school information system.

Management's information needs can be grouped into three major categories:

(a) Information which various people require for operation and control.

(b) Information required to assess future actions.

(c) Information required to assess or compare performance with other schools.

An accounting system which is comprehensive, consistent, flexible, and practical should be able to provide for these needs. The basic components of the proposed system are:

(1) **Budgeting.** The financial plan of the school which estimates revenues and expenditures for the forthcoming period.

(2) **Responsibility Accounting.** Quantitative information compiled within the accounting system and reported in groupings which correspond to the individual's responsibilities within the organization.

(3) **Management by Exception.** Attention focused on deviations from planned performance, and not on what is proceeding more or less according to plan.
(4) **A Chart of Accounts.** Constructed along functional lines by which revenues and expenditures can be readily identified. Subsequent chapters will develop these four points.

The system is designed to combine data in different ways so as to provide information tailored to each level and type of management need; for instance, not only will the total costs of operating the school be considered: provision will be made through the chart of accounts for the identification of individual divisions within the school. It is anticipated that from the traditional classification of school expenditures which concentrates primarily on input that an easy transfer may be made to "Program Budgeting" which is output-oriented. The system is also designed to provide information to the parents, alumnae, governing boards or other interested groups. It is intended that extensive use be made of ratios to provide improved understanding of the results of operations, including graphic presentations to provide analysis of both short-term and long-range trends. The information should also provide an improved basis for forecasting probable future events, particularly in the expenditure area.

   In this paper, I am using the term "effective" to connote "productive of desired results," and "efficient" in the sense that desired results are produced with a minimum expenditure of energy, time, money, or materials.


8 Steinberg, *op. cit.*, p. 88.


11 Adapted from Daniel E. Griffiths *et al.*, *Organizing Schools for Effective Education* (Danville, Ill.: The Interstate Printers and Publishers, 1962), p. 308.


34.

15 Anthony, *op. cit.* , p. 28 ff.

16 Griffiths et al., *op. cit.* , p. 68.

17 Adapted from Griffiths et al., *op. cit.* , p. 62.


19 Adapted from Springer, *op. cit.* , p. 132.


21 Griffiths et al., *op. cit.* , p. 68.


23 Ibid., p. 17.

24 Ibid., p. 16-17.


31 Bertram A. Colbert, "Pathway to Profit: The Management Information System", Management Services, Vol. 4, No. 5 (September-October, 1967), p. 16. The writer has substituted the word "information" for Colbert's "data".


33 Ibid., p. 75.
CHAPTER III

THE BUDGET

Budgeting, reporting, and accounting are the essential elements of an independent school financial information system. This chapter will consider budgeting and subsequent chapters will discuss financial reporting and the accounts.

The importance of budgeting for an independent school cannot be overemphasized. Without some effort to estimate revenues and expenditures for a school year (or a longer period), a school administration can make neither short-range nor long-range plans to maintain or expand its educational program. Therefore, both the principles and mechanics of budgeting will be presented. The suggested budgetary forms in the accompanying exhibits (Exhibits I to XVI) form an integral part of the chapter. They make the ideas presented more concrete and explicit.

THE BUDGET IN PERSPECTIVE

A budget may be regarded primarily as a plan. It expresses in dollars and cents what an organization hopes to accomplish in a specified period of time, given an estimate of revenues and expenditures. A school budget, or "the financial plan", contains in reality three plans:

(1) The educational plan--the heart of the budget.

(2) The expenditure plan.

(3) The revenue plan.

Contrary to some views, budgeting is not a financial function performed by the school business manager; nor is it forecasting as such, if by that
we mean predicting the outcome of events rather than planning for a result and controlling to ensure the chances of achieving that result. The budget is not merely a tabulation of estimates, or an advance guess as to what the financial picture in the coming year will be. The budget ought to be "the mechanism by which the [principal] and other members of the administration decide and control what the school will do in the following year." Therefore, the really effective budget is one that is preceded by establishing or reaffirming the school's short-term and long-term plans. A budget can be just as advantageous to a small school as to a large school system. The smaller school may not be able to afford sophistication; but it can more easily incorporate faculty participation into budgetary procedures, making it truly a "grass-roots" budget, rather than a superficial set of figures. A budget cannot exist without people: it is prepared by people, revised by people, and its requirements must be met by people. Therefore, its success, and hence its ultimate advantage to the school, will, to a large extent be dependent upon how much participation is encouraged or invited by the school administration--participation not only in drawing up the budget document, but sustained participation throughout the year in the light of changing circumstances. Pre-requisites for this year-round participation are:

(a) a chart of accounts built around organizational lines; and
(b) "responsibility accounting" or "responsibility reporting" whereby heads of departments or divisions assume responsibility for expenditures incurred in their department or division.

An important concept to keep in mind during school budgeting is that of the semi-variable budget, an integral part of any budget program. The concept of a fixed budget is easy to understand. When conditions were
relatively simple and stable, it was possible to develop plans a year in advance which were fairly representative of what would actually take place. Many of the components of a school budget are fixed, such as operation and maintenance, and debt charges. The secret of a successful budget program in an independent school will be to identify the items or areas where expenditure vary (or could be made to vary) with pupil enrollment. The distinct advantage here is that should an expected enrollment not materialize, budgetary cutbacks will be more easily dealt with. On the other hand, should enrollment exceed expectations, there will already be built into the system a standard which will indicate by how much budgetary allocations are to be raised. For example, by assigning a dollar amount per child for expenditures on library books, the amount finally allocated will depend upon actual enrollment. The foregoing does not imply two budgets. However, for optimum results in budgeting, the concept of the variable, as well as the fixed, expense should be borne in mind when drawing up the final budget document.

A budget should not be a straitjacket, restraining the school from adapting to changing conditions. But it should not be treated so lightly as to be almost completely ignored through accepting the mistaken notion that since planned results cannot be achieved in their entirety it is more practical to put it on the shelf and let chance determine results. In short, the budget does not restrain the school administration from making alternative decisions throughout the year; yet it is not to be ignored in the making of such alternative decisions.

School budgeting is an interesting, challenging and rewarding activity. It encourages forward thinking. It has disciplinary effects both in planning and execution. The budget itself is not just another
mechanical financial statement; it is a plan, requiring imagination, insight and creative effort on the part of the school administration. It is a plan which happens to be expressed in dollars, rather than dollar figures which just happen to represent a plan.

THE BUDGETARY PROCESS

In its more formal aspects the budgeting process involves three phases:

1. Preplanning
2. Budget preparation
3. Control of operations

Preplanning

According to Trentin and Jones, "the preplanning phase of budgeting consists of work that, generally, must be done in the last half of the year preceding the budget year in order to provide the framework for budget preparation." Assuming the fiscal year begins July 1, the principal should develop the faculty budget for the next school year not later than the beginning of January (Exhibit I and II pages 119 and 120). If religious are on the faculty a separate form will be used and salaries assigned on the same basis as for the lay faculty. These budgets should take into account salary increments, probable replacements, and any addition to the faculty and staff. The faculty budget should be presented to the Board of Trustees (or religious superiors) for approval early in February so that the principal may re-engage his faculty and seek any needed replacements.

In this period the business manager makes a study of costs and an analysis of previous experience—an analysis leading to the development by the
principal of the ground rules for the preparation of the operating budget for the coming fiscal year. Sometime during this early stage, the entire faculty and staff will meet with the principal to discuss generally those areas requiring special attention: extra equipment, improved curriculum, and so on. The monetary implications should not be considered at this time, only broad, general educational plans. If the discussion is free and open it will have the desired effect of acquainting individual faculty members with the needs of the various departments and the problems which the principal faces. Only when the total plan is grasped, when each department sees its relative place in the program, will individuals be ready to "give in" or withdraw budgetary requests (if necessary) so that the total program may be built up.

The preplanning stage is the time-consuming stage as far as the business manager is concerned. But time spent collecting data at this stage will be time well spent, for it will ensure the smooth-running of the other two stages. The ease and rapidity with which he gathers this material will depend almost entirely on the effectiveness of the accounting system and his own organization of the business office.

Although the budget-in-the-making should have a forward, not a backward, point of view, the most vital information for school budget-making will be of the following kinds:

(a) Trends in school revenue and expenditures for at least the past two years (five years is more desirable if the information is available). Revenue is a fairly straightforward classification. The traditional and currently the most popular classification of expenditure items is:
If Program Budgeting is employed, the classification would be:

Administrative Services
Instructional Programs and Services
Supporting Services

The former classification will be employed throughout this study, but a later section will be devoted to Program Budgeting and its possible application in an independent school.

Surely, it would be imperative to have information on total revenue, total expenditures, and what percent each category is of the total.

(b) Financial statistics of other independent schools and the local public school system. This kind of information will prove useful, not only to individual independent school in budget making but to a local federation or association of independent schools (if one exists). For instance, the average United States Public School total expenditures per pupil for 1967-68 were
<table>
<thead>
<tr>
<th>Object of Expenditure</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>3.3</td>
</tr>
<tr>
<td>Instructional Salaries</td>
<td>62.2</td>
</tr>
<tr>
<td>Instructional Materials</td>
<td>4.3</td>
</tr>
<tr>
<td>Operating Costs</td>
<td>8.1</td>
</tr>
<tr>
<td>Health Services</td>
<td>0.6</td>
</tr>
<tr>
<td>Transportation</td>
<td>3.8</td>
</tr>
<tr>
<td>Maintenance</td>
<td>2.6</td>
</tr>
<tr>
<td>Capital Outlay</td>
<td>2.4</td>
</tr>
<tr>
<td>Debt Service</td>
<td>9.3</td>
</tr>
<tr>
<td>Fixed Charges</td>
<td>3.4</td>
</tr>
<tr>
<td></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Comparisons could be misleading unless precautions were taken to ensure that like items were included in each category. It is to be noted that a percentage figure rather than a dollar amount is a better basis for comparisons.

(c) Unit Costs. By this is meant the amount spent per pupil on various items—supplies, fixed charges. Once enrollment is more or less known, this figure multiplied by the unit cost will give a rough estimate of what the budgetary allocation should be.

Where the school is going is more important than where it has been; one cannot assume that the past indicates infallible trends for the future, nor that the "mix" presents an optimal educational plan. Historical and current data, are, nevertheless, better than none at all. Carefully summarized, perhaps graphically portrayed, the presentation of such information can be a useful budgetary technique.

Budget Preparation

Although the educational plan cannot be extended *ad infinitum* but must have practical limits, the principal should endeavour to keep it in
view as these plans are translated into dollar values. As Chris de Young points out, "a budget may be balanced technically, but unbalanced educationally." A balanced budget, according to de Young, is symbolized as follows:

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    SPENDING PLAN
       /\       FINANCING PLAN
      /  \      
     /    \      EDUCATIONAL PLAN
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Ideally, the educational program desired ought to be determined before costs are calculated. Otherwise, he claims, we are "cutting the suit to fit the cloth."

Once the pertinent information has been compiled, it is made available to the individuals concerned: the principal will receive summary information of the expenditures and trends of each department; the individual department will be given a record of its own expenditures. Budget request sheets for the forthcoming year will accompany this information. (Exhibit III page 121). Salaries may or may not be included. In some schools the principal may reserve to himself the right to determine this. Similarly, individual items as such are not necessary; in some schools only a dollar amount will be indicated; how the allocation is used will be left to the discretion of the department, in consultation with the principal. Whether this part of the budget preparation phase is initiated by a letter from the principal or takes place at a faculty meeting will depend on local preference. The latter is advised in that the setting is more conducive to team spirit. Each department will be made aware of how
its section fits in to the entire plan, what another department's problems or needs are. A faculty meeting would enable the principal or business manager to explain past trends, answer any questions, clarify issues—in a word, add a spark to what otherwise might be just another page of numbers. Provided the detail would not be too excessive, an alternate way would be to present the total financial picture in summarized form to each department. Local circumstances will dictate the better method.

By mid-March all request forms should be returned to the principal. Just as commercial enterprises cannot draw up budgets until the sales forecast has been received, neither can an independent school proceed much further until the expected enrollment is known and all other sources of revenue have been identified. Assuming that this is known, the major task of the budgetary process begins: given this revenue, how shall it be allocated? What are the priorities?

For successful budgeting, the following general rules should be applied:

1. Ascertain fixed expenses before any other item of expenditure.
2. Establish pre-determined amounts to be spent on variable items such as supplies, sports equipment, library books. The final allocation will depend upon enrollment.
3. Do not make estimates solely on the basis of what was spent last year, adding "a little extra" for good measure. When estimates are made this way expenditures automatically increase. More precision planning is desirable; comparisons have value, but they should not be the sole determiner of what is justifiable for next year. (Suggested Budget Forms are given on pages 122 to 133).
Frequent consultations will take place between the principal, business manager and department heads during this period of preparation, especially if it appears that budgetary requests cannot be met in full. Whether the school should operate at a deficit to build up the educational program or extend physical facilities is normally the task for the "strategic planners" to decide and would already be written into school policies. But operating at a deficit should result from a conscious decision and not be the result of ignorance.

Before final Board approval at least one faculty meeting should take place so that each member may see the entire budgetary program and how individual departments will utilize their appropriation for the coming year (Exhibit XV page 134). Yet the form in which it is presented (to the faculty and/or the Board of Trustees) is not as important as the spirit in which it is done. This actual presentation gives the principal the opportunity to explain his plans and set the tone for the coming year.

In order to prevent future misunderstanding, each department should receive a copy of its budgetary allocation, signed by the principal and the business manager. Exhibit XVI page 135. This will be issued after the governing board or religious superiors have approved the budget. If enrollment is complete in early spring, final approval will be able to be given well in advance of the fiscal year. In some schools, final approval may have to be deferred until September when exact income figures as well as expenditure items are known. Until final approval has been given, expenditures should be limited to the essentials of operating the school.

Throughout this phase of budgeting the following requisites should be born in mind:
(1) The budget should correspond to the organizational structure of the school and to the periodic operating reports that are prepared.

(2) Each part should be accepted beforehand by the individual responsible for its administration. If it has not been accepted, there is a chance that the individual may over-expend his portion, sometimes just to prove that his projection was a correct one.

Control of Operations

With the approval and publication of the budget for the new fiscal year and with the commencement of the year, the third or control-of-operations phase of the budgeting function begins. Approval authorizes expenditures, but expenditures must be controlled. The budget cannot be set aside unwatched for it is not self-regulating. Basically, controlling involves the preparation of periodic reports comparing performance with the budget. (See Chapter IV). Monthly, all expenditures will be listed plus outstanding liabilities, hence the term "unencumbered balance". Should the unencumbered balance reveal that the budgeted amount has been overexpended, it should be brought to the attention of the individual concerned and the headmaster so that appropriate action may be taken. The principal will usually not require the detail of each department, unless there is a significant deviation from the budgetary allocation; however, in his capacity as overall head of the school, he should receive summary information about each department as well as other areas of school operations, such as the cafeteria, buildings and grounds. Other information should be supplied as needed. The reports need not be monthly;
they may be more or less frequent as the need arises. However, they should be issued on a regular basis and not just when a crisis arises.

There is often a mistaken notion that budget control is only the responsibility of some central agency such as the business office; but budget control starts with those responsible for each department. The business manager has responsibility for over-all budget control, including the responsibility to call attention to major departures from budget estimates and to take appropriate follow-up action. The chairman or head of the department, however, has the first and primary responsibility for control of expenditures in his department. Unless he takes these responsibilities seriously, a school may be in financial difficulties even though adequate controls are maintained in the business office.

As a general rule, only expenditures over which the individual has control should be included in periodic reports. For instance, in the periodic report of an individual department (e.g., the Senior School), that department's share of operation and maintenance expenses would be excluded, as this is the responsibility of the business manager. What would be included would be only those items over which the head of the department has direct control. This type of reporting is "responsibility reporting" and it adds another dimension to accounting. No longer do we just ask: "What did we spend our money for?" Now, a second dimension is designed to show who spent it and if it corresponds to the budget.

Control by department heads and control of department heads take place concurrently. It is the exceptions (or variances) from planned performance that assume significance and not what is proceeding more or less according to plan. These variances are the signals for management attention. However, it is the cause of the variance, and not the variance
itself, that should be the focus of managerial attention and action. A variance signals the existence of a problem which may mean faulty performance, faulty planning, or changes in anticipated conditions. Responsibility reporting is an integral part of the financial information system.

To ensure budgetary control, the following three practices are recommended:

(a) No expenditure that would exceed the budget should be allowed. This does not imply that the budget may not be changed during the year. It means that a regular procedure for change, with the concurrence of the same authority who originally approved the budget, should exist, with an understanding that no increase in expenditure is permitted without a corresponding increase in revenue, reduction in another expenditure category, transfer from a contingency fund, or change in the accumulated surplus of deficit. For example, there is no reason why one department's allocation cannot be transferred to another department if those concerned (the administration and departments) consider the change necessary and advantageous. A built-in mechanism for change is essential for control.

(b) Income actually received during the year should be reviewed. If the income is not meeting expectations, then expenditures might have to be modified.

(c) The budget should be in proper balance. It should be realized that resources (which, if the school desires to budget an operating deficit, can include the unappropriated surplus from former years) must be equal to expenditures.
Whether financial matters need to be discussed with the faculty during the year will be left to the discretion of the principal and business manager. While neither should show reluctance to discuss these matters when questioned, they should not make it a point to stress financial problems if the monthly internal reports are satisfactory. Too frequent mention of money could give the impression that economy rather than education was uppermost in the minds of the administration.

According to Maurice S. Newman, there are two tests that determine the relative effectiveness of a budget system: sensitivity and reaction time. As to sensitivity, the test is this: "How quickly, and how thoroughly, are changes from anticipated results detected, diagnosed, and reported to the people who should do something about them?" Concerning reaction time, the questions are these: "How adequate is the information system, and how much flexibility does it have for measuring the effects of alternative decisions?" "Do we have the means of finding out promptly the things that are going on?" "Are we able to decide quickly what, if anything, should be done about them?"

The role of the business office in such a system is clear. It is largely one of administrative and coordinative guidance, combined with the routine job of translating operating plans and results into monetary terms. There is no place in this system for the business manager to assume the role of "the watchdog of the treasury." However, the ultimate success or failure of this budget system rests, not with the business office, but with the department heads and the principal.

BUDGETING FOR STUDENT BODY ACTIVITIES

In the public school system of education, Student Body Activity funds
(SBA) are those whose receipts are obtained from or for functions sponsored in the name of or controlled essentially by the pupils of a school and whose expenditures are for student-sponsored or controlled events.* Because the property of buildings used for these activities (athletics, contests, plays, publications) are public and tax-supported, (in the public school system) most school officials favour Board of Education control of these funds.12

According to Jacob D. Rieger, the following practices characterized the business management of student activity funds as late as 1955:

(1) careless handling of receipts;
(2) poorly trained personnel charged with business responsibilities;
(3) inadequate storage vaults for temporary housing of funds;
(4) poor financial records;
(5) absence of central control agencies; and
(6) insufficient accounting and budget forms.13

The accounting aspects of SBA will be dealt with in Chapter V. But it may be said at this time that budgetary procedures should be employed in the administration of these funds as for other school funds and business principles used throughout the year, whether revenues are derived from the activity itself or from an activity fee. For the administration of these funds and to ensure sufficient control, it is recommended that:

(1) Clear policies be set by the Board or principal for the disposition of these funds.
(2) Pre-numbered receipts should be issued for all money received.
(3) All incoming money should be deposited in the bank by the business manager.

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* In an independent school SBA might refer to extra-curricular activities (guest speakers, transportation to sporting events, field trips, etc.) as well as student-sponsored events. Revenue will be derived from an activity fee.
(4) All expenditures should be paid by cheque.

(5) A budget should be established and budgetary controls exercised in expenditures.

(6) A monthly report, including a statement of the receipts, disbursements, and balances should be submitted by the business manager.

In other words, treat all school funds alike and there will be no criticism that activity funds are "so often neglected and poorly managed." This does not mean that the students are prevented from handling the funds from such activities as school plays and athletic contests. Student treasurers working under the guidance of a faculty member and/or business manager are thereby offered a valuable learning experience. Control need not be lessened, if the business office insists on conformance to clear directives. But the point is made that for effective control of funds, all SBA money should be directed to the business office.

THE OPERATING BUDGET AND THE CASH BUDGET

The operating budget is a budget covering revenues and expenses. To detail anticipated revenue and proposed expenditures month by month for the coming year might seem like an enormous, if not a futile, task for an independent school. Revenue and expenditures seem to follow such irregular trends. However, closer investigation should reveal that the pattern is fairly regular. For instance, if bills are sent out in August and December, most revenue will probably be received during the months of September and January. Major expenditures such as salaries, insurance, taxes, and cafeteria services likewise can be fairly accurately predicted. There will always be some expenditures that do not conform to a pattern;
but to let them deter a school from receiving the benefits of an operating budget would be poor business practice.

To estimate all revenue and expenditures month by month, although ideal, is not necessary. For example, to detail the first six months (July to December, presuming the budget year is July 1 to June 30) prior to the opening of the fiscal year and to leave the January to June details to be worked out the latter part of December, should produce satisfactory results. Billing practices and the opening of the school terms will determine the periods of time to be detailed in advance.

Dividing the year into significant time periods affords an independent school the opportunity to assess the progress of the budget at stated intervals. The end of a four or six month period would be the logical time to review what has taken place and to propose modifications if called for.

The cash budget is a direct byproduct of the operating budget; its purpose is to enable a school to estimate the amount of cash which will be on hand and available from month to month. In order to achieve this, it is necessary to forecast cash receipts and disbursements month by month over the period to be covered. In some independent schools to develop a cash budget is a far more difficult task than to develop the annual budget. Recording the experience and trends of several years might be required before an adequate cash budget can be drawn up. Instead of detailing expected receipts and disbursements for each of the year's twelve months, a more suitable procedure would be to estimate by quarters, providing monthly detail for the present quarter only. A cash budget is recommended for an independent school in that it ensures that all liabilities may be met on time. Another advantage would be to gain a
return on surplus funds as well as to foresee cash shortages.

**MODIFIED AND LONG-TERM BUDGETING**

So far, we have limited our study of the budget to the annual budget. But independent schools, like other business enterprises, cannot make optimum progress when existing on a day-to-day or year-to-year basis. These schools are beginning to realize that if they are to grow—indeed, if they are to survive—they must think more than one year ahead, namely three, five or even ten years. In the first place, long-term financial planning requires that at least a tentative enrollment goal be set, with estimates to be matched by the teaching staff, the buildings, and the facilities required. The resulting operating and capital expenditures must then be calculated. Finally, it must be determined how, and from what sources, the necessary funds are to be obtained. Such a long range plan will be subject to yearly re-examination and revision in the light of experience. Detailed plans are not necessary, but in order for them to be real, capital and operating requirements should be priced, no matter how crude the method may be, for a minimum of three to five years in the future. The efforts at pricing sometimes force reconsideration of what had been believed to be a sound policy decision.

**SUMMARY**

This chapter has considered various aspects of budgeting in an independent school. The mechanics (faculty and staff discussions and consultation, January preplanning, the dates and form of periodic reports), although necessary for successful budgeting, are only of secondary importance. The principles involved are of prime importance. They may be
summarized as follows:

(1) Faculty Participation.
(2) Identification of fixed and variable expenses.
(3) A built-in mechanism for change.
(4) Cost studies and information gathering.
(5) Conscious deficit financing.
(6) Correspondence to organization structure.
(7) Periodic reports for control purposes.
(8) Administration and faculty acceptance.
(9) Responsibility reporting with the focus on the cause of the variance.
(10) Periodic review of income.
FOOTNOTES CHAPTER III

1. Steinberg, op. cit., p. 89.


3. The term "department" will be used consistently throughout, but the term "division" is also applicable. "Department" refers to the English Department, etc., whereas "division" refers to a section of the school--the Senior School, for example.


7. The Federation of Independent School Associations in British Columbia (FISA) has recently issued Press Facts, a book which lists, among other things, the annual operating costs of British Columbia independent schools. The Federation represents 116 elementary and secondary schools in British Columbia with a total enrollment of 22,812 students.


10. Ibid., p. 138.


CHAPTER IV

FINANCIAL REPORTING

Reporting is the second element in an independent school financial information system. Financial reports for internal use help those responsible for school management to exercise control and supervision over financial activity. Reports to external users (governing board, faculty, parents, government, other independent schools) inform them of educational plans and transactions contained in the budget and accounts.

CHARACTERISTICS OF FINANCIAL REPORTS

Adaptable to the Users

Reports should always be designed with the reader's scope of interest in mind. Therefore, the report writer must be flexible in his thinking, adapting each report to the needs of the level at which it is directed or of the principal users. Each level essentially has different responsibilities and thus different needs. This calls for not only different kinds of information, but for the same information to be presented in different ways. Total expenditures on library books may be a significant fact for the principal; whereas a parent may want to know if the amount was distributed equitably to each child or each division. Flexible accounts, properly classified and maintained, should yield all the required information.

In adapting reports to individual and group users, the three media of presentation—written, graphic, and oral—should be examined and
properly balanced according to the requirements and understanding levels of the recipients. Instead of just a tabulation of figures, combinations can be used effectively—for instance, pertinent statistics on a certain phase of the operations, accompanied by a chart in which some relationships are shown graphically. An oral explanation is time-consuming, but it is adaptation at its best. It allows questions to be asked ensuring that the individual or each member of the group has interpreted the facts correctly.

Reports as an Educational Tool

The people for whom reports are prepared are generally not accountants. According to H. A. Pakrul:

...they are experts in other fields who in many cases look upon the accounting system as an unfathomable mystery and a witches' cauldron into which all the month-figures are dumped, given a good stir, withdrawn in a mysterious way through a debit and credit system which they don't understand and manipulated by the accountants into a report which does not illustrate the true facts as they see them.

The aim of the reporting system should not be to make accountants out of the recipients but to show internal management how their actions are translated into costs and to reveal to external users the consequences of planning decisions made by the school.

If final results are presented in a poorly designed set of reports, the entire information system will be ineffective. Therefore, if reports are to accomplish their purpose they should be simple, understandable, and concise. In written reports the format should be simple and consistent. People get used to seeing items presented in a certain way and to change means to risk introducing confusion. On the other hand, absolute consistency can lead to the situation that tabular reports are not really read because they have become a repetitive mass of figures. This can be
overcome by adding variations as the need arises in the form of written or graphic supplements. In the use of charts, though, it is vital that the reader clearly understands what the chart is saying. Explanatory notes appended to the chart (yet not giving a crowded impression) or written on the face of it are a help. The main point to be remembered is that reports must reveal the problem and assist the individual in finding solutions. Finally, whenever possible, the information should be presented in trend form to facilitate added understanding.

**Timeliness**

Another aspect of effective reporting is timeliness. An internal report will be of little use if it is not received in time to exercise control. No department wants to be told "after the fact" that it has exceeded its budgetary allocation. A simple "warning" report beforehand could prevent this. Similar care must be taken to find out the most suitable time to present financial statements to external users. Although as soon after the conclusion of the fiscal year as possible is the obvious time, other times might be more advantageous. For instance, to present the school budget (strictly speaking, not a financial statement) to the parents after the commencement of the school year would engage their interest in the school program and hopefully result in their continued support. Circumstances will dictate when and to whom the Balance Sheet (including changes in Fund balances) and Statement of Revenues and Expenditures (Operating Statement) will be presented.

**Educational Setting**

If the reports are to be used effectively, they must be geared to an educational rather than a commercial situation. This means that they
should present the figures in terms of the school's actual functions--education, cafeteria, board, scholarships. Only then can the financial results be evaluated in terms of what has actually been accomplished: the number of students educated, the number in residence. To use such terms as "deferred tuition," "unappropriated surplus," "accrued interest" and the like will only erect a communication barrier and cause the school to lose what would have otherwise been an excellent opportunity to portray its financial picture. In conclusion, it is important to emphasize that "reports do not control performance or make decisions. The most that a report can do is to reveal problems and guide the executive in taking proper corrective action."^{2}

WHY PUBLISH A FINANCIAL STATEMENT?

There are three main reasons for an independent school to publish its financial statements:

(1) To receive the continuing support of parents, alumni, friends, benefactors and others.

(2) To demonstrate to business, industry, government, and the general public that the school employs accepted business practices and operates in the public interest.

(3) To compare its operations with those of other schools, public or independent.

Schools today have no hesitation in admitting that they have financial problems. Despite increases in enrollment, tuition charges (which normally comprise 80 percent to 90 percent of revenue) cover only part of the costs of instruction. Where is the rest of the money to come from? Where is money to be found for Research and Development, for much-needed
equipment, for library materials? Most independent schools believe that they operate in the public interest and are deserving of a measure of help from the general public. When that help will come or the form it will take is not known. But the point is made that financial disclosure is a major step in that direction. Full disclosure is possible only when an institution feels accountable for the use of the monies entrusted to it. In addition, for those institutions operated by religious orders, full disclosure of the school's operations can only be possible if there is a separation between the business of the school and the personal expenses of the religious community.

In financial statements of commercial organizations, information is presented to reveal such elements as debt/equity ratios, cost of sales, earnings per share. For nonprofit organizations, according to Howard A. Withey, "accountability for transactions of the reporting period requires reporting of stewardship of financial resources received and the use of such financial resources remaining on hand at the close of the period. Resources acquired should be reflected by source, and expenditure by function." Some might argue that "stewardship accountability and reporting" applies only to health and welfare organizations, and not to educational institutions. But the concept is useful in the field of public and private education. Public schools are accountable to the tax-payer; should not independent schools, including those owned by religious orders, be accountable to their supporters for the services they render? There has been some reluctance in the past, especially in independent schools conducted by religious communities, to make their financial statements generally available, to share their financial problems with "outsiders". But for the most part, according to Edward V. Stanford, they are beginning
CONTRIBUTED SERVICES

In institutions conducted by religious orders, societies, or similar groups, the estimated monetary value of the services of members of the organization who receive no monetary compensation is known as "contributed services". Reporting the estimated value of contributed services in such institutions is desirable in order to facilitate comparison of their financial operations with those of other institutions. Although there might be reluctance on the part of some religious orders to put cash value on the services they render, it would be an even greater disservice to ignore or discount the value of the contributed services of the religious who staff the school. This manner of accounting is necessary and serves a good purpose. Many accounting problems arise in independent schools conducted by religious orders because the value of contributed services is ignored and not reflected either in financial statements or the accounts. Therefore, this matter is significant and forms an important part of a school financial information system.

The monetary value of contributed services can be determined on the basis of payments to other faculty and staff members having similar qualifications, training, experience, and responsibilities at the institution. The estimated value of the contributed services should be included in financial reports but must be clearly identified.

There are three ways to account for the services of religious personnel:
1. Paying Full Salaries

In this case, monthly salary cheques would be paid by the school to the religious community for services rendered which in turn would reimburse the school by cheque for whatever services the school may supply, such as room and board. The manner in which the remainder is disposed of is left to the discretion of the religious community. It may be used to provide scholarships; it may be paid to the school as a donation from the community and should be so recorded. In this latter case there are no "contributed services" in the accepted meaning of the phrase, but a direct cash subsidy from the community. From an accounting point of view the method is good; it emphasizes the voluntary character of the donations of the community and keeps the record straight. However, this method of paying full salaries requires that there be no delay on the part of the community in making the agreed reimbursements and subsidy payments to the school. Otherwise the school would be financially embarrassed.

2. A Bookkeeping Transaction

Under this method, no money is actually transferred. The total salaries of the religious are debited to "expense" and the contributed services account is credited by a bookkeeping entry. Any expenses of the community paid for by the school are charged against the contributed services account, so that the resulting figure is the "net" value of contributed services to the school and is considered as income.

From an accounting point of view it is less satisfactory than the preceding method. There is no separation between school funds and community funds; there are no cancelled cheques; and the religious community does not pay for its personal expenses with its own cheques. Therefore,
all of these personal matters are subject to the review of the auditors, although strictly speaking they do not pertain to the school any more than do the personal expenditures of the lay faculty.

3. Part Payment, Part Bookkeeping

This method is a combination of the previous two. By agreement between the religious community and the school, part of the salaries for the religious is paid by cheque (an amount sufficient to defray personal expenses and reimbursement to the school for room and board); the balance of the salaries which remain with the school after these part payments constitute the net value to the school of the contributed services. All transactions should be by bank cheque. Using this method, total salaries are recorded by a bookkeeping entry with contra credit to contributed services. Payments to the community are charged to the contributed services account, or to a separate account which is subsequently deducted from the contributed services account.

This is the preferred form of contributed services and that for two reasons:

(a) It provides a clean accounting record because all transactions are by cheque.

(b) It removes the personal expenses of the religious community from the school accounts, so necessary if financial disclosure is to be made of the school operations.

For both internal and external reporting purposes, a distinction should always be made between the salaries of lay personnel and the salaries of religious personnel whether fully paid or considered as contributed services. This is important for financial planning, for budgetary and other
administrative purposes, as well as for accurate financial reporting. All other transactions between the school and the religious community should appear in the accounts and be made by cheque: debt payments for the school paid by the community, scholarship aid offered by the community, and so on. Otherwise financial reports will not be fully comparable with other schools nor reveal the financial position of the school.

INTERNAL REPORTS

The number, frequency, and content of reports for internal use will vary among institutions. The suggested recipients are:

1. The principal
2. Head of each department
3. Religious superiors, local and provincial.

Budgetary reports have already been referred to. Interim or "progress" reports will also have to be issued, their purpose being to maintain control of current operating expenses. Keeping in mind the fact that only relevant information should be contained in these reports, information that will facilitate the management decision-making process, the following suggestions are offered:

1. The head of each department receives a monthly statement of all the expenditures of his department, outstanding liabilities, and the unencumbered balance. Anything significant should be brought to his attention, preferably by a personal contact. "Responsibility reporting" demands that this individual department's statement should not be cluttered up with items over which the department has no control.

2. The principal (and local superior, if applicable) receives a
summary statement monthly of all operations, with significant variances, if any, indicated.

(3) The faculty and staff and religious community be informed periodically (three or four times a year) of the progress of the school operations.

(4) The provincial superior and motherhouse of the order likewise should be informed periodically and be given the highlights of significant deviations either from the pattern of revenues or expenditures. The degree of detail and frequency will be dependent upon how far operations are centralized or decentralized.

The above suggestions are not a rule-of-thumb; they are merely a guideline to ensure that reports be planned and scheduled, rather than result from frequent emergency requests. Any serious matter should always be reported immediately to those concerned so that remedial action may be taken. All other reports, such as those concerned with evaluating, interpreting or recommending alternative decision, will be compiled and presented as necessary. Needless to say, some reports will outlive their usefulness. Generally speaking, any report that does not facilitate administration or lead to management decision should be discontinued.

It is taken for granted that the annual and long-range budgets, the Balance Sheet (including changes in Fund Balances), a Statement of Fund Transfers, and the Statement of Current Operations would be available to the above-mentioned individuals or groups if desired. (Exhibits XVII-XIX pages 136 to 138).
EXTERNAL USERS

The term "external users" refers to such groups as parents, alumni, benefactors, the Board of Trustees, other independent schools, foundations, and government. Prudence and local circumstances will dictate the extent of financial disclosure. The annual budget, Balance Sheet, Statement of Operations would probably be sufficient. (Exhibits IV-VIII; XX-XXVI pages 122-127; 139-146). They should be looked upon as instruments to promote better understanding of the educational program of the school and its accomplishments.

Although the discussion of the school audit is beyond the scope of this paper, it goes without saying that a certified public audit would be required before an independent school could incorporate financial disclosure into its policies. As a preliminary step in that direction and in order to assure that published statements are prepared "in accordance with generally accepted accounting principles," and are comparable to other independent schools, it is recommended and again emphasized that where religious are employed the value of their contributed services be recognized. Furthermore, there should be a clear-cut separation between the revenues and expenditures of the local religious community and the revenues and expenditures of the school. Preferably, this would mean a separate fund for the community (a chequing account), administered by the local superior, into which would be deposited the full or part salaries of the religious and whatever other money might be given to the individual religious. Out of this fund would be paid all the personal expenses of the religious, reimbursements to the school for board and room, and any assessments for the expenses of the motherhouse or province. Without
fiscal policies in this area, it is not possible for an independent school conducted by a religious community to present a report that will be comparable to the financial reports of other independent schools or that will reflect the nature of revenues and expenditures.

An important consideration follows from the foregoing considerations. Assuming an independent school achieved its ideal set of accounts and published financial statements, would these statements at the same time be comparable to other independent school statements which were not using the same financial system? If they are not comparable, yet it is desirable that they be so, the school would either have to conform its system to the other schools or maintain two systems. In the first case, the school would lose the benefit of the superior information contained in its own system. In the latter case, there would be an increased cost. The final decision rests with the individual school.
FOOTNOTES CHAPTER IV


5 Much of the material in this section should rightfully be discussed under "Accounting". But because of its relevance here, the writer has included it in this chapter.


7 To facilitate administration, religious orders are subdivided into provinces. The superior who has charge of all the houses in a province is known as the provincial superior.

8 Although not pertaining to the present study, the writer cannot refrain from remarking that, in line with this thinking, the religious community should be informed periodically of its own financial affairs.
CHAPTER V

THE ACCOUNTS

INTRODUCTION

To maintain budgetary control and in order to be able to present financial information accurately and fairly, the school must operate an effective and efficient accounting system. As with budgeting and reporting, accounting must be geared to one end—the continuous improvement of the educational program. It may even be said that the development of the educational program depends upon accurate and relevant financial accounts.

School accounting is the administrative procedure of systematically and completely classifying, recording, reporting and interpreting all the financial transactions of a school or school district. It is the central activity for most of the functions in the financial management of schools. Rarely can a business task be undertaken without involving some accounting effort, either the analysis of past records or the creation of new entries. Some people have the mistaken idea that accounting and bookkeeping are synonymous terms. Bookkeeping is concerned solely with the task of recording financial transactions—an essential part—but it constitutes only a small part of the accounting function. Accounting covers a wider range, consisting also of identifying, analyzing, designing, and communicating the financial affairs of the school.

According to Leo M. Casey, some of the major objectives of school accounting are the following: ¹
1. To establish adequate safeguards of funds by defining respon-
sibility and establishing controls and audit procedures.

2. To furnish a concise and complete permanent record of all
financial activity.

3. To establish an expenditure pattern closely related to the
adopted budget.

4. To provide a pool of intelligence for the preparation of
future budgets and long-range financial plans.

5. To furnish periodic meaningful reports of financial activity
for school administrators in making program decisions.

6. To provide an analysis of fiscal affairs for the public in
order to verify that worthy stewardship has been rendered.

The precise nature of the accounts to be kept and the manner in
which financial information is to be classified is dependent upon the
following factors:

1. The purposes of the institution in which the accounting system
   is to operate.

2. The financial information required for the administration of
   the institution.

3. The principles and practices of accounting which are considered
   sound and valid by recognized authorities.

The writer recognizes that this last point is not necessarily
consistent with the definitions of "efficient" and "effective" previously
mentioned. What is considered sound and valid by recognized authorities
may not be productive of desired results with a minimum expenditure of
energy, time, or money. For example, an accounting system geared only
to produce reports for government or to conform to legal requirements
might not fill internal needs. Ideally, an accounting system should be
constructed to satisfy both internal and external users so that unneces-
sary work is prevented. Therefore, the accounts maintained and procedures
adopted must be flexible and geared to provide the information required. The accounting system is justified only to the extent that it provides this information to those who need it and to the extent that it safeguards assets and liabilities. Superfluous records should be eliminated; inefficiency can result from having too many records or accounts as too few.

Among the "rules of action" for public school accounting, the following are considered to represent what is thought to be sound practice. They apply equally in the financial management of an independent school. 2

1. Financial records should be kept up to date by prompt recording of transactions, including an encumbering procedure for outstanding liabilities.

2. The accounting procedures should produce facts that reflect the actual financial condition of the school.

3. A consistent classification should be used for the budget, the accounts and reports.

4. A periodic analysis of methods, funds, classification, should be made to insure the flexibility and adaptability of the system.

5. Accounting procedures should include provision for internal control.

6. The managerial responsibility for all school funds should be centralized under the school business administrator.

7. The accounting process should provide for a control on receipts and expenditures, and assure adherence to the budget.

8. An independent audit of all school financial records should be conducted annually.

PRACTICES IN SCHOOL ACCOUNTING

This section discussed four topics which the writer considers important for the study. They are basic concepts in school accounting and for that reason should not be passed over lightly.

1. Fund Accounting

In a nonprofit organization, emphasis is placed on fund-accounting
techniques. A fund is defined as a "sum of money or other resources segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations, and constituting an independent fiscal and accounting entity." Because there is no profit objective, accountants have turned to the concept of "dollar accountability" and in analyzing the operation of the organization, "attention is focused on judging whether resources have been used in desirable or prescribed ways, rather than on evaluating the results of their use." Interested groups want details about the sources of assets and the way they were used. Fund accounting, with its emphasis on revenue and expenditures, is designed to fulfill that need. Separate accounts must be maintained for the balance of each fund and be reported in a similar manner. Whether a separate bank account is required is left to the discretion of the individual organization.

The number of funds established will depend upon government regulations and requirements and/or the needs of the individual institution. For colleges and universities, the usual fund groups are:

Current Funds
Loan Funds
Endowment and Similar Funds
Annuity and Life Income Funds
Plant Funds
Agency Funds

An independent school may find it advantageous or necessary to maintain all these funds. However, in order to reduce the amount of accounting effort it is generally advised to keep the number of funds to the minimum consistent with managerial and legal requirements. Satisfactory results can be achieved by using the following funds:

General (or current) Fund
Endowment Fund
Agency Fund
Plant Fund
Many nonprofit organizations have found it practical to subdivide the fund groups further for the purpose of reflecting more clearly their use of resources. For example, a boarding school could have four "cost centers" within the General Fund: "Educational" and "Student Body Activities" for school expenses only; and "Residence" and "Cafeteria" to account for boarding school expenses.

1. **The General Fund** is a fund available for general operating purposes, both restricted and unrestricted. It is used to account for all assets, liabilities, revenues and expenditures not accounted for through special funds. The General Fund is perpetual and, as with other funds, amounts can only be transferred to or from other funds with proper authority; in which case the amount should be reported as an asset of the fund group making the advances and as a liability of the fund group receiving the advances.

2. **The Endowment Fund** "includes those funds whose principal is nonexpendable as of the date of reporting and is invested, or is available for investment, for the purpose of producing income." This fund accounts for the receipt and disbursement of substantial gifts and bequests made to the school which have been marked for specific purposes by the donor. The principal remains intact in perpetuity; only the income from the investments of the fund may be expended.

3. **The Agency Fund** is used to account for the assets which the school has received and has a responsibility to others for accountability. The funds are in the custody of the institution but do not belong to it. The implication is that the
institution never expects to own the assets of such a fund. The school is simply an agent for others. Included in this fund would be student organization fees, monies collected from social functions, donations to charitable organizations such as the Red Cross.

4. The Plant Fund is used to account for the value of the school's properties and equipment, any long term liabilities on the property and equipment, and the resulting equity. Physical properties should be carried in the accounts at cost until disposed of; gifts of physical property should be recorded at appraised value as of the date of the gift.

2. Basis of Accounting

The need for measuring and comparing financial data makes the basis of accounting important. Under the cash basis of accounting, revenues are accounted for only when received in cash, and expenditures are accounted for only when paid. It is a simple method and involves merely listing receipts and expenditures at the time they actually occur.

If all that is demanded of the accounting system is to know what the school takes in, what it pays out, and what it has left, the cash basis of accounting is satisfactory. However, as Sam B. Tidwell indicates, the cash basis recording system "is inherently incapable of recording completely and reporting fully the nature and the results of all business transactions."\(^8\)

Under the accrual basis of accounting, revenues are reported when they come due, even though they may be received at a future date, and expenditures reported when the liability is incurred, even though payments
The accrual basis is acknowledged to be the more accurate method and is to be preferred. Thus the accrual method emphasizes the concepts of earning and using, whereas the cash method stresses receiving and paying.

The modified accrual basis, recommended by the American Council on Education for colleges and universities, is a compromise method that, in general, recognizes the accrual of expense, but not of all revenue. Under this method, the prepayment of expense is not ordinarily recognized as an asset. Income is reported when it becomes due or when a bill has been rendered for it. According to Leo M. Casey, the modified basis is the best current practice in public school accounting.

Accounting for nonprofit organizations also recognizes another method for recording expenditures— at the time that orders are placed for supplies and equipment. This is known as appropriation accounting, its purpose being to ensure that overexpenditures will not occur. It gives rise to the encumbrance system which sets aside or reserves an amount to pay for the obligation. When the payment is made the encumbrance is liquidated.

A full encumbrance system which involves setting up a special encumbrance account and treating it as a separate accounting entity is probably not necessary for a small independent school. Even in governmental and nonprofit accounting it is less used than formerly. Harry D. Kerrigan notes that "a trend is making headway to simplify the scope—and hence the accounting procedure—for encumbrances." In circumstances where it is discovered that clerical expense can be reduced without sacrificing internal control, an attempt toward simplification is being made. As a consequence, commitments for personal services, for recurring contractual services and
minor contracts are more and more excluded from "encumbrances." These can be controlled by good budgeting and adequate administrative participation of all persons concerned with budgetary procedure. The effect of the trend (where it is found), according to Kerrigan, is to leave encumbrance accounting to the areas of capital expenditures, research and development, major repairs, and purchases of materials and supplies. Even the last-named could be eliminated and placed under a revolving fund, he believes.

If an independent school maintains good budgetary control, an elaborate encumbrance system would be redundant. Its most useful role would be to indicate to the principal and department heads the unappropriated balance of their budgeted allocation.

Therefore, it can readily be seen that the basis of accounting used by an organization is important for measuring and comparing financial data. For nonprofit organizations, the accrual basis is not only superior but desirable because it provides for reflection of operational as well as dollar accountability in the financial statements.14

3. Depreciation Accounting

The basic objective of depreciation accounting is to provide a systematic allocation of the cost of plant and equipment during the period of estimated use so that the entire cost of carrying out the activity can be determined and disclosed. Just as the basis of accounting seriously affects the financial statements, so does the recording (or omission) of depreciation. Current practice in the governmental and university areas limits recognition of depreciation to assets for which depreciation is funded and assets of self-sustaining funds.15
The more progressive independent schools seem to be developing the philosophy that as most of the school buildings were originally gifts, it is reasonable to assume that when they are outmoded that other gifts can be secured to replace them. Only major items of equipment are depreciated and depreciation is usually funded. When new items are needed, the money will be there.

To completely ignore depreciation would be folly. On the other hand, unless the school's depreciation policy is reasonable and within the framework of what the school can afford, it would likewise be folly. Specific financial policy in the area of depreciation seems an imperative.

4. Single-Entry and Double-Entry Bookkeeping

In a very small school board (operating one or two classrooms) the Dominion Bureau of Statistics (Education Division) permits books to be kept on a single entry bookkeeping system. By this method, each financial transaction will be recorded on either the receipt side or payments side of the cash book and this entry will be the only record made of the transaction, other than what appears in the supporting documents—receipt book, bank deposit book and cheque book.

However, this system becomes inadequate for a larger school and school district. The greater number and complexity of transactions necessitates double-entry bookkeeping. In brief, the principle of double entry bookkeeping is that every transaction has two aspects, a debit to one or more accounts, and a credit to another or others. Increases in assets are debits; increases in liabilities or surplus are credits. The sum of all debits in a given period must equal the sum of all credits, thereby providing an automatic check on the accuracy of entries. Because
the financial management of an independent school is becoming increasingly complex, the double entry method of bookkeeping is recommended for use.

THE CHART OF ACCOUNTS

A basic element in any accounting system is a chart of accounts, "a list of accounts systematically arranged, applicable to a specific concern, giving account names and numbers, if any." According to Springer, it is "the alphabet of the accounting system." Ideally, it should correspond to the school's administrative organization so that, following the principles of "responsibility accounting" and "responsibility reporting," expenses can be arranged in terms of the individual persons or departments incurring them. The chart of accounts provides the framework for the original collection and recording of all financial data and the preparation of both internal and external reports. Thus it is the "nerve center" of the financial information system of the school.

The design of a chart of accounts depends more on the complexity of the school's or school system's organization than on its size. The structure of the accounts should conform to the desirable format of financial statements and expense summary reports. The chart is also an important element in the budgeting process since budget format and account structure must be compatible for maximum effectiveness. The chart employed or devised should also be flexible enough to provide for expansion or revision without complete renumbering. Although the chart is designed primarily for use by the business office in recording accounting transactions, it can be seen that without a satisfactory one, the smooth running of the school would be an impossibility. Nevertheless, the chart of
accounts, however carefully designed, can correct neither weaknesses in the organization of the school nor any shortcomings in its organization chart. These problems must already have been solved if the accounting information system is to be effective.

Classification

Classification is the grouping of transactions, entries, or accounts under a common heading. There are at least six ways of classifying public school receipts and expenditures:

1. Function
2. Object
3. Character
4. Activity
5. Unit
6. Fund

Receipts present little difficulty in classification. The major complication is in classifying expenditures. In 1957, the U.S. Office of Education issued a Handbook which recommended a new national standard of accounting classification; in 1966, the Dominion Bureau of Statistics (Education Division) published A Manual of Accounting for School Boards, which the Bureau hoped would "contribute to greater uniformity in accounting procedures and therefore in the production of uniform statistics." The classification system presented by both governments is essentially the same. The main expenditure categories are:

- Administration
- Instruction
- Attendance Services
- Health Services
- Public Transportation
- Operation of Plant
- Maintenance of Plant
- Fixed Charges
- Food Services
- Student Body Activities
- Community Services
- Capital Outlay
- Debt Service from Current Funds
- Outgoing Transfer Accounts

The proponents of the new Planning-Programming-Budgeting System (PPBS) are now criticizing this traditional classification. They claim it is "input-oriented," structured primarily as a device to facilitate
fiscal accounting, and only secondarily to identify some broad functional programs, and that it is geared to stifling any innovative planning. The category headings are "nondescript, fragmentary, and may appear misleading, with the result that it is difficult for the uninitiated to extrapolate true costs of programs and even some objects."  

On the other hand, Levin claims, the budget document that would result using the PPBS approach and classification should be:  

...more meaningful, defensible, and understandable to the public. It would help to demonstrate to the taxconscious community that school officials are interested in performance and productivity, as well as product, and in the most efficient use of available, scarce community resources.  

The new classification system is "out-put oriented" and focuses not on how much money is spent but rather on how it is used. Therefore, instead of reporting to the public only in terms of salaries, telephone, supplies, and so on,--not really informing anyone of the real activities of the school--PPBS would examine educational objectives by levels or classes.  

Hartley suggests the following program areas for classification:  

1. an entire school system  
2. an individual school  
3. a program of studies  
4. a self-contained class, course, or cocurricular activity  
5. a section, or instructional service activity  

Thus program costs can be assigned by grade level, a division within a school, or by subject, etc. There is no ideal program structure; if an educator wants to use one, probably he will have to develop one himself, Hartley claims.  

Several large school districts in the United States have implemented program budgeting and hence have had to devise a new classification system. However, it is not widespread practice as yet. Carried to its extreme, PPBS could become a relatively complex and costly process that would be
unrealistic for the vast majority of small school districts. It would probably require substantial increases in accounting staff, a separate department of budget planning and systems analysis and appraisal. Would the new approach be worth it? Would the increase in cost be justified if thereby the efficient use of resources resulted? The answer is not resolved at present, but, no doubt, educational planners will be noting the progress it makes.

After investigating the two classification systems, the question arises: which classification system should an independent school adopt? The answer will depend upon three factors:

1. The qualifications and abilities of those employed in the business office to utilize the system.
2. The desire of the administration, governing board, and parents for information.
3. The necessary money to finance the service.

Program budgeting is not a cost-reducing scheme or device. For reasons just mentioned, it would require more money to obtain the added information. In fact, any system that generates more information is going to be more costly.

No matter which system is used, it could be argued that revenue received would be unchanged. Therefore, why convert to a more sophisticated system? This raises an important issue. Revenue received during the first few years might remain stable, but there is nothing to prevent it from increasing in the long-run. Presumably the quality of information generated for decision-making purposes by PPBS would be far superior. With this added information, if a school can clearly demonstrate that costs of one or several of its programs (for example, a bilingual program, the
mathematics department) exceed revenue, it should gain support if parents, friends, or government consider it worthwhile maintaining and expanding. An information system costs money, but if the information generates extra revenue, can the system be ignored? Each school administration will have to answer that question for itself.

Practically speaking, initiating a new system involves setting up the accounts to produce the desired information and distributing expenditures directly to the program areas at the time the expenditures are recorded in the accounts. As previously implied, this may very well be the costliest part of the endeavour.

Exhibits XXVII-XXIX pages 147-151 suggest one way an independent school's chart of accounts may be set up (for General Fund only). For the most part its structure is closely patterned on that suggested by both the United States and Canadian governments but it has been adapted for application in a specific independent school. Four "cost centers" have been set up within this General Fund—Educational, Student Body Activities, Cafeteria, and Residence. In order to obtain a true picture of current operations, revenue and expenditures of these four centers should be accounted for separately to ascertain whether revenue and expenditures match or not. As with transfers between funds, transfers to or from cost centers should only be made with the proper authority, and the transference reflected in the cost center account.

1. Educational. Included in this cost center are the administrative expenses of operating the school, instructional expense (teachers' salaries, library and audio-visual, and supplies), operation and maintenance, fixed charges, capital outlay, debt service. All operation and maintenance expenses and fixed
charges are recorded here. If the school is operated by a religious community and is a boarding school, adjustments would have to be made so that this cost center would be reimbursed for the services it provides.

2. **Student Body Activities.** Included in this cost center will be expenditures for guest speakers, field trips, sports equipment, transportation, and any other school activity that does not come under "Educational". Not included here are fees from student-sponsored events or school organization fees or collections such as March of Dimes. These items belong in the Agency Fund under School Activities. It will be recalled that for Agency Funds, the school merely acts as agent or trustee and does not itself own the funds.

3. **Cafeteria.** This cost center has been established to identify separately the income and expenditures associated with the operation of the cafeteria. It has not been included under "Educational" because in the forthcoming case study, revenue and expenditures of the cafeteria are almost exclusively associated with the operation of the boarding school and the religious community. In keeping with what has been previously recommended, the religious community will reimburse this cost center by cheque for its share of expenses.

4. **Residence.** This cost center has been established to account for the expenses of operating a boarding school, other than those already accounted for under "Educational" and "Cafeteria." Salaries, contracted services and other supplies are accounted for here, but not the cost center's share of "Operation and
maintenance" or "Fixed Charges". However, in computing "Residence" costs, its share of these two charges should be taken into consideration.

Under both "Educational" and "Student Body Activity" cost centers program areas are discernable: Senior School, Middle School, Junior School. Under "Educational" supplies could be so classified if desired and practicable. Other categories of indirect costs (Administration, Operation and Maintenance, Fixed Charges) would have to be prorated then applied to each program area in order to obtain a complete and accurate picture.

This classification seems to combine elements of both the traditional and the new program approach. If classification by department or subjects was desired, further adjustments would have to be made and new accounts added.

It is also to be noted that the expenses of the religious community do not appear, except for the reimbursements that it makes to the school for room and board. As recommended earlier, it is taken for granted that the individual religious will be assigned a salary commensurate with position, experience and responsibility: part of the total salary amount will be paid to the religious community; the remainder will be considered as a cash subsidy toward the operation of the school. Salaries of lay faculty and those of the religious are also separated in the chart of accounts.

The General Fund with its four cost centers will take care of most of the financial transactions of the average independent school. It is flexible in that extra accounts may be added or withdrawn without changing the overall structure; it provides a system for the orderly accumulation of financial data, and a framework for short-term and long-term and financial reporting procedures. Because it is mainly intended for a single
independent school and not a larger school system, it can be used in either the traditional function-object type classification which is said to be input oriented, or the newer program approach, supposedly output oriented.

CLEARING ACCOUNTS

In the conduct of a school's business, certain financial transactions involve a double handling of money. For example, a book rental fee is collected and the proceeds remitted to the Provincial government. To record this in the regular receipt and expenditure accounts would greatly distort the financial picture. Or again, proceeds from school publications should be accounted for here and expenditures accumulated. "Clearing accounts" make it possible to record gross transactions outside the regular receipt and expenditure accounts. As defined by Reason and White, "clearing accounts are accounts used to accumulate total receipts or expenditures either for later distribution among the accounts to which such receipts and expenditures are properly allocable, or for recording the net differences under the proper account."

They are not solely for the General Fund but can be used for any established fund where necessary. But in using clearing accounts the accounts for one activity should not be mixed with the accounts for another activity. A single fund may be used, but separate accounts kept for all activities within it.

Under the asset accounts of clearing accounts, the following would appear:

- Petty Cash
- Prepaid Insurance Premiums
- Prepaid Rent
- Sinking Fund Account

Under the liability accounts:
Payroll Deductions
Student Activities
School Supplies (for sale)

Further classifications are given in Chapters 5 and 6 of Reason and White.

ANALYZING EXPENDITURES

An alert administrator will frequently want to know what a particular element or area of the educational program costs. He might want this for a number of reasons:

1. To facilitate temporary budgetary projections for the coming fiscal year.
2. To compare costs with other schools.
3. To note trends in the spending pattern of the school.
4. To determine as far as possible if funds are being reasonably and equitably allocated.
5. To maintain effective control of the educational enterprise.
6. To explain the work of the school to those who are interested.

To obtain this information, he must rely on the financial information system of the school.

Perhaps more than the public school system, an independent school should be "cost conscious", not in the sense of a penny-pinching attitude, but in adopting a mentality of planning carefully all expenditures it will make in implementing its program. It is all very well to show appropriate concern for curriculum change, imaginative innovation, but if this is done without regard to costs, the educational planning is unrealistic. Hence the value of regular cost studies in the administration of an independent school. Springer suggests a number of "leading indicators" that have been found useful by many schools in trying to arrive at some method of projecting
costs and in terms of anticipated work load:

student-teacher ratio
schoolroom supplies per student
total educational cost per student
athletic supplies and expense per student
number of library acquisitions per year
cost of acquisition per student per year
total administrative costs as a percentage of total operating expenditures
housekeeping costs per square foot (if practicable)
total food service cost per meal
plant operation and maintenance costs as a percentage of total budget
total operating expense per student

It will be noted that many of these indicators incorporate the principle of the flexible or variable budget referred to earlier. If the preplanning phase of budgeting is not to be a hit-and-miss affair, statistics on all phases of operations and their relationship to the whole will be invaluable information for school administrators.

Perhaps the most important consideration in computing unit costs is the selection of appropriate units to express costs. The most common units of measurement for cost analysis are pupils, mileage, and square feet. The pupil unit may vary in two dimensions: grade-level or attendance. This unit is employed to state the costs of teaching. Operation and maintenance is usually computed by the number of square feet and transportation by mileage.

Many items of expenditure cover goods and services utilized in more than one area of operation. For example, operation and maintenance applied to each division of the school. Therefore in order to procure accurate information of the total costs of operating each department, it is necessary to determine the proportionate parts of expenditures that are properly chargeable to the various divisions. The most common methods used for prorating expenditures are time, number of pupils, mileage,
quantity consumed, floor area. Important in selecting a method for pro-rating are the practical considerations involved. The method must be simple and feasible to apply. A well-designed and well-kept accounting system will facilitate the gathering of cost data. But is cannot guarantee the correct interpretation of such information. In this as in other areas of school administration, there is no substitute for well-informed management judgment.

SUMMARY

The accounting system is the final element to be discussed in this study. Together with budgeting and reporting, it provides the basis for an independent school financial information system. But before the information system can assist the school administration in its decision-making, the needs of the administration must first of all be articulated. There are two alternatives: either the administration itself perceives its needs and structures the system around them; or someone outside the group constructs a system which he (or she) believes will assist the administration to solve its financial problems. This study is the result of the latter alternative.

Some independent schools conducted by religious orders have special accounting problems which other independent schools do not encounter, namely, accounting for contributed services and separating school and community expenses. This information system has been developed to solve these problems.

Although a detailed discussion of the behavioral assumptions which underly this financial information system is beyond the scope of this paper, a few pertinent observations are in order. The writer believes
that an independent school is a type of business organization; therefore, its financial operations should be conducted in such a way that the sources and applications of its funds are identified and disclosed along with other nonprofit organizations. This thinking may be contrary to the philosophy of some school administrators, both lay and religious. If a school is content to remain in its present position without modifying or extending its services, its current financial information system may be adequate. But if services are to be improved and curricula updated, extra revenue must be forthcoming. As has been pointed out, an improved financial information system should in the long-run bring this about.

Therefore, as the writer sees it, the implementation of the system presented in this study does not necessarily mean hiring an accountant or converting from manual to machine accounting or utilizing computer facilities. Its successful implementation is ultimately a matter of educating those who will use it. They must be made aware that the former system was not inadequate in its own time, but that present day conditions require something extra. Likewise, at the outset of its implementation, the main advantages of the new system should be presented, namely:

1. Its conformance to general business practice.

2. The extra information which is available for decision-making purposes.

3. The ability of the school to issue financial reports in accordance with generally accepted practices.

Other factors should not be disguised: the new system will be more expensive to operate, greater responsibility will be given to individuals as well as greater freedom, and so on.

To employ and benefit from this financial information system
requires an open mind and a willingness to try things in another way. The point is only hinted at here, but these attitudes may cause a change in philosophy.

2. Ibid., p. 30.


4. Emerson O. Henke, Accounting for Nonprofit Organizations (Belmont, Calif.: Wadsworth Publishing Co. Inc., 1966), p. 4. The writer is taking "desirable" to mean that the norm of evaluation is not in terms of benefits received but rather one of adherence to prescriptions considered desirable by the authors or donors. To give an example, it is one thing to assess whether a donor's wishes were carried out, and another to ascertain whether desirable results (in terms of enjoyment or enrichment) were attained by acquiring the goods.


6. Ibid., p. 149

7. Ibid., p. 144.


9. Strictly speaking the terms "revenue" and "expenditures" are used in the accrual method, "receipts" and "disbursements" in the cash method. See College and University Business Administration, p. 275.


12. Casey, op. cit., p. 32


18 Kohler, *op. cit.*, p. 93.


21 See Hartley, Chapter 6, "The Need for Budgetary Reform in Local Schools", by Sol Levin.


24 See Hartley, *op. cit.*, Chapter 7, "Program Structures and Economic Issues in Local Schools".


CHAPTER VI

A CASE STUDY

The CSC School, an independent school located in the Point Grey area of Vancouver, was founded in 1911 by an international order of religious women dedicated to the work of education. In 1911 this order owned and directed 141 schools in 25 countries; in 1969, the same order has 210 schools in 32 countries. Although it has diversified its works, the education of girls in day and boarding schools and in colleges remains its main endeavour.

Being an independent school and so not receiving any financial assistance from government, the CSC School was sustained in its early years by support from the motherhouse of the religious order. Beginning in the early 1940's, revenue and expenditures matched and since then have run almost parallel. Enrollment was low during the first years; trends since 1940 are shown on the accompanying graphs. (See pages 95-97)

Up until the latter part of the 1950's the school was staffed almost exclusively by members of the religious order. But with a rise in enrollment and a corresponding "levelling off" of subjects entering the religious order, a number of lay teachers were employed. Today, there are twice as many lay teachers on the faculty as there are religious. Their salaries are considerably lower than those offered by the public school system.

Total enrollment during the past five years (1964 to 1969) reached a high of 304 pupils in 1965-67; but it dropped considerably to 260
ENROLLMENT AT THE CSC SCHOOL
(as at June 30)
1940-1969

(Source: School Records)

--- Total enrollment
--- Boarders
ENROLLMENT AT THE CSC SCHOOL
(as at June 30)
1965-1969

Total Enrollment

Boarders Only

Day Pupils

(Source: School Records)
ENROLLMENT AT THE CSC SCHOOL

(as at June 30)
1965-1969

Senior School

Middle School

Junior School

(Source: School Records)
pupils in 1968-1969. As the accompanying graphs indicate, the sharpest decline occurred in the Junior School where enrollment dropped from 87 to 55 in two years. A further breakdown reveals the fact that the decrease in enrollment took place exclusively in the day pupils; while their total dropped from 249 in 1965-66 to 186 in 1968-1969, boarders rose sharply from 50 in 1964-1965 to 77 (present capacity) in 1968-1969.

It has not been the practice in the past to make a sharp distinc-
tion between the revenue and expenditures of the religious community and the revenue and expenditures of the school. One possible reason for this is the fact that both are housed in the one building. Nor have the con-
tributed services of the religious community been reflected in financial documents. While the community personal expenses have been distinct (but no separate bank account), no attempt has been made to charge them with a portion of operation and maintenance or fixed charges; nor has any significant effort been made to ascertain the operating costs of each area of the school.

A portion of the present budget document and periodic report form is given below. It is for internal use only. "Salaries" refers only to lay faculty and staff.

<table>
<thead>
<tr>
<th>CURRENT INCOME</th>
<th>CURRENT EXPENSES: Educational and General</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Board</td>
<td>General Administration - Salaries</td>
</tr>
<tr>
<td>Student Tuition and fees</td>
<td>General Expenses:</td>
</tr>
<tr>
<td>Auxiliaries</td>
<td>Gifts</td>
</tr>
<tr>
<td>Old Age Pensions</td>
<td>Telephone</td>
</tr>
<tr>
<td>Gifts</td>
<td>Printing and Postage</td>
</tr>
<tr>
<td>Rent</td>
<td>Car</td>
</tr>
<tr>
<td>Others - Community</td>
<td>Instructional:</td>
</tr>
<tr>
<td>Others - School</td>
<td>Salaries</td>
</tr>
<tr>
<td>Old Accounts</td>
<td>Supplies</td>
</tr>
<tr>
<td></td>
<td>Furniture, Equipment</td>
</tr>
</tbody>
</table>
CURRENT EXPENSES (continued)

Library:
Salaries
Books
Physical Plant and Maintenance:
Salaries, Maids
Men
Grounds
Maintenance
Repairs
Utilities
Insurance
Taxes
Laundry and supplies
Other
Auxiliaries
Community expenses
Contingencies
Student Aid
Depreciation

Because no operating budget nor cash budget was developed for the school, neither can be presented in the study.

For purposes of illustration, only the financial information for the present year (July 1, 1968 to June 30, 1969) will be considered in this case study. The following facts were taken from the annual budget one month before the end of the fiscal year. As no extraordinary expenditures are contemplated in the next month, these figures may be taken to represent the costs of operating the school and boarding school for the year.

In recasting budgetary figures into a new "financial framework," the following assumptions have been made:

1. That the contributed services of the religious community are recognized. The monetary value of their services will be comparable to that paid to the lay faculty and staff, given their qualifications, years of experience, and responsibilities.

2. That the community maintain a bank account of its own separate from that of the school. The total amount deposited in this account throughout the year will be sufficient to pay for the
personal expenses of the community. The remainder of the community salaries or "net" contributed services will be turned back into operations and so indicated.

3. That the community reimburse (by cheque) the "Cafeteria" cost center for its prorated share of expense; likewise it shall reimburse "Educational" cost center for its share of operation and maintenance expenses and fixed charges.

4. That the cost center "Residence" reimburse "Educational" for its share of operation and maintenance expenses and fixed charges.

5. Because it is impracticable to use the unit "square feet" to allocate operation and maintenance expenses and fixed charges, that the following be considered the most equitable distribution of costs:

<table>
<thead>
<tr>
<th></th>
<th>Operation &amp; Maintenance</th>
<th>Fixed Charges</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Educational</td>
<td>$20,208.</td>
<td>$5,700.</td>
<td>(60%)</td>
</tr>
<tr>
<td>Residence</td>
<td>10,100.</td>
<td>2,850.</td>
<td>(30%)</td>
</tr>
<tr>
<td>Community</td>
<td>3,367.</td>
<td>950.</td>
<td>(10%)</td>
</tr>
<tr>
<td></td>
<td>$33,675.</td>
<td>$9,500.</td>
<td>100%</td>
</tr>
</tbody>
</table>

A large percentage of operation and maintenance expenses is for Custodial Services for the school and boarding school; hence the small percentage (10 percent) of expense assigned to the community. (This distribution was suggested by the bursar of the school. She considered it to closely approximate actual expenditures).

6. That Student Body Activities (SBA), although normally to be considered a cost center within the General Fund, not be studied at this time. It is self-sustaining, operating only with revenue received through an activity fee.

7. Where it has been impossible to determine expenses incurred in each division of the school, that the expenses be prorated on a per pupil basis.
**SUGGESTED STRUCTURE OF THE ACCOUNTS**

**GENERAL FUND**

<table>
<thead>
<tr>
<th>Educational</th>
<th>Student Body Activities</th>
<th>Cafeteria</th>
<th>Residence</th>
</tr>
</thead>
</table>

**FACULTY AND STAFF SALARIES**

<table>
<thead>
<tr>
<th>Lay Faculty and Staff</th>
<th>Religious Faculty and Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Educational:</strong></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>$4,400.</td>
</tr>
<tr>
<td>Instruction</td>
<td></td>
</tr>
<tr>
<td>Senior Sch. $16,805.</td>
<td>$36,400.</td>
</tr>
<tr>
<td>Middle Sch. 14,535.</td>
<td>7,000</td>
</tr>
<tr>
<td>Junior Sch. 10,235</td>
<td>7,000</td>
</tr>
<tr>
<td></td>
<td>41,575.</td>
</tr>
<tr>
<td>Operation &amp; Maintenance</td>
<td>6,150.</td>
</tr>
<tr>
<td><strong>Residence:</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,600.</td>
</tr>
<tr>
<td></td>
<td>$56,725.</td>
</tr>
</tbody>
</table>

Number of lay teachers employed (full and part time): 20
Salary range of full time teachers: $3,500 - $6,000.
Number of religious teachers and administrators employed full and part time: 10
Salary range of full time: $5,000 - $8,000.

**CONTRIBUTED SERVICES:**

- Gross value of contributed services: $85,100.
- Community expenses (including prorated share of cafeteria, etc.): $36,787.
- "Net" value of contributed services (available for General Fund): $48,313.
PRESENT FEE STRUCTURE:

Almost all of the revenue of the school is derived from tuition fees paid by the parents of the students. The present yearly rates (and those of three other independent schools in the area) are as follows:

<table>
<thead>
<tr>
<th></th>
<th>SCHOOL X</th>
<th>SCHOOL Y</th>
<th>SCHOOL Z</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Senior School:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grades 10-12</td>
<td>$425.</td>
<td>$775.</td>
<td>$750.</td>
</tr>
<tr>
<td>Grades 8-9</td>
<td>375.</td>
<td>700.</td>
<td>650.</td>
</tr>
<tr>
<td><strong>Middle School:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grades 5-7</td>
<td>300.</td>
<td>600.</td>
<td>475.</td>
</tr>
<tr>
<td><strong>Junior School:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grades 1-4</td>
<td>250.</td>
<td>500.</td>
<td>475.</td>
</tr>
<tr>
<td><strong>Room and Board:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weekly Boarders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent Boarders</td>
<td>1,000.</td>
<td>1,000.</td>
<td>-</td>
</tr>
<tr>
<td>Non-resident Boarders</td>
<td>1,200.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In addition there are miscellaneous fees, such as registration, a general fee, a laundry fee (for boarders) and a surcharge for private room facilities.

PRESENT ENROLLMENT

Total enrollment (including boarders) is as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior School:</td>
<td>150 pupils</td>
</tr>
<tr>
<td>Middle School:</td>
<td>55 pupils</td>
</tr>
<tr>
<td>Junior School:</td>
<td>55 pupils</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td>260 pupils</td>
</tr>
</tbody>
</table>

Of this 260, 73 are boarders:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly (Vancouver and environs)</td>
<td>19 pupils</td>
</tr>
<tr>
<td>Permanent (British Columbia interior,</td>
<td>33 pupils</td>
</tr>
<tr>
<td>Vancouver Island, other provinces,</td>
<td></td>
</tr>
<tr>
<td>U.S.A.)</td>
<td></td>
</tr>
<tr>
<td>Non-resident (The Orient and Mexico)</td>
<td>21 pupils</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td>73 pupils</td>
</tr>
</tbody>
</table>
Each cost center within the General Fund will not be investigated, given the foregoing information.

### GENERAL FUND

#### Educational

<table>
<thead>
<tr>
<th>REVENUE</th>
<th>TOTAL</th>
<th>SENIOR SCHOOL</th>
<th>MIDDLE SCHOOL</th>
<th>JUNIOR SCHOOL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition</td>
<td>$90,500.</td>
<td>$60,250.</td>
<td>$16,500.</td>
<td>$13,750.</td>
</tr>
<tr>
<td>Registration</td>
<td>2,600.</td>
<td>1,500.</td>
<td>550.</td>
<td>550.</td>
</tr>
<tr>
<td>General Fee</td>
<td>1,300.</td>
<td>750.</td>
<td>275.</td>
<td>275.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$94,400.</strong></td>
<td><strong>$62,500.</strong></td>
<td><strong>$17,325.</strong></td>
<td><strong>$14,575.</strong></td>
</tr>
<tr>
<td>Gifts (prorated)</td>
<td>4,000.</td>
<td>2,300.</td>
<td>850.</td>
<td>850.</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td><strong>$98,400.</strong></td>
<td><strong>$64,800.</strong></td>
<td><strong>$18,175.</strong></td>
<td><strong>$15,425.</strong></td>
</tr>
</tbody>
</table>

#### EXPENDITURES

<table>
<thead>
<tr>
<th>Description</th>
<th>TOTAL</th>
<th>SENIOR SCHOOL</th>
<th>MIDDLE SCHOOL</th>
<th>JUNIOR SCHOOL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Administration</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>$19,800.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1,330.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$21,130.</td>
<td>$12,190.</td>
<td>$4,470.</td>
<td>$4,470.</td>
</tr>
<tr>
<td><strong>Instruction</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>$91,975.</td>
<td>53,205.</td>
<td>21,535.</td>
<td>17,235.</td>
</tr>
<tr>
<td>Libr. &amp; A. Vis.</td>
<td>5,850.</td>
<td>3,350.</td>
<td>1,300.</td>
<td>1,200.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$100,920.</td>
<td>58,580.</td>
<td>23,395.</td>
<td>18,945.</td>
</tr>
<tr>
<td><strong>Operation &amp; M'tce.</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(60% of total)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>$4,590.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>15,618.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$20,208.</td>
<td>11,658.</td>
<td>4,275.</td>
<td>4,275.</td>
</tr>
<tr>
<td><strong>Fixed Charges</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(60% of total)</td>
<td>$5,700.</td>
<td>3,300.</td>
<td>1,200.</td>
<td>1,200.</td>
</tr>
<tr>
<td><strong>Capital Outlay</strong></td>
<td>$8,000.</td>
<td>4,600.</td>
<td>1,700.</td>
<td>1,700.</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td><strong>$155,958.</strong></td>
<td><strong>$90,328.</strong></td>
<td><strong>$35,040.</strong></td>
<td><strong>$30,590.</strong></td>
</tr>
</tbody>
</table>

Revenue less expenditures: ($57,558.)
GENERAL FUND

Cafeteria

REVENUE:

19 Weekly Boarders at $550. $10,450.
21 Non Residents at $720. 15,120.
33 Permanent Boarders at $600. 19,800.

Community assessment (prorated) $14,900.

TOTAL REVENUE: $60,270.

EXPENDITURES:

Contracted Services: $50,000.

Revenue less expenditures: $10,270.
GENERAL FUND

Residence

REVENUE:

19 Weekly Boarders at $400. $7,600.
21 Non-residents at $480. $10,080.
33 Permanent Boarders at $400. $13,200.

$30,880

Laundry Fee 3,175.

Surcharge for Private Rooms 1,570.

TOTAL REVENUE: $35,625.

EXPENDITURES:

Salaries $22,400.
Laundry 1,000.
Share of Operation and Mtce and Fixed Ch. 12,950.

TOTAL EXPENDITURES: $36,350.

Revenue less expenditures: ($725.)
### GENERAL FUND

#### Summary of Educational, Cafeteria and Residence

<table>
<thead>
<tr>
<th></th>
<th>Revenue</th>
<th>Expenditures</th>
<th>Over (under)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Educational:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior School</td>
<td>$64,800</td>
<td>$90,328</td>
<td>($25,528)</td>
</tr>
<tr>
<td>Middle School</td>
<td>$18,175</td>
<td>$35,040</td>
<td>($16,865)</td>
</tr>
<tr>
<td>Junior School</td>
<td>$15,425</td>
<td>$30,590</td>
<td>($15,165)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$98,400</td>
<td>$155,958</td>
<td>($57,558)</td>
</tr>
<tr>
<td><strong>Cafeteria:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$60,270</td>
<td>$50,000</td>
<td>$10,270</td>
</tr>
<tr>
<td><strong>Residence:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$35,625</td>
<td>$36,350</td>
<td>($725)</td>
</tr>
<tr>
<td></td>
<td>$194,295</td>
<td>$242,308</td>
<td></td>
</tr>
</tbody>
</table>

Excess of revenue over (under) expenditures for the General Fund: ($48,013.)

According to the financial policy of the religious order that operates the school, the deficit will be made up by the following transfers and/or additions:

Transfer $725. from Cafeteria to Residence.
Transfer $9,645. from Cafeteria to Educational
$10,270.

"Net" contributed services of the community (to be given to Educational): $48,313.

Deficit: ($48,013.)

Balance in General Fund: $300.
PERTINENT STATISTICS DRAWN FROM THE FOREGOING:

1. Allocation of school expenses:

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>13.5%</td>
</tr>
<tr>
<td>Instruction</td>
<td>64.0%</td>
</tr>
<tr>
<td>Operation &amp; Maintenance</td>
<td>12.9%</td>
</tr>
<tr>
<td>Fixed Charges</td>
<td>3.0%</td>
</tr>
<tr>
<td>Capital Outlay</td>
<td>6.6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0%</td>
</tr>
</tbody>
</table>

2. Sources of "Educational" revenue:

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition and fees</td>
<td>60.5%</td>
</tr>
<tr>
<td>Contribution from &quot;Cafeteria&quot;</td>
<td>6.1%</td>
</tr>
<tr>
<td>Gifts</td>
<td>2.6%</td>
</tr>
<tr>
<td>Contributed Services</td>
<td>30.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0%</td>
</tr>
</tbody>
</table>

3. Average cost per child: $600.

4. Average cost per child per school division:

   - Senior School: $600.
   - Middle School: $635.
   - Junior School: $555.

5. Average deficit per child: $220.

6. Average deficit per child per division:

   - Senior School: $170.
   - Middle School: $300.
   - Junior School: $275.

7. Enrollment:

   - Senior School: 58% of total
   - Middle School: 21% of total
   - Junior School: 21% of total

8. Boarders comprise 28% of total enrollment.

9. No. of Seniors who began in Junior or Middle School: 46%
   No. of Seniors who began in Senior School: 54%

10. Percentage of contributed services turned in to General Fund: 56%
   Percentage for salaries: 58% (or $141,825.)
12. Salary expense for "Educational": 74% (or $116,365.)
13. Cost of library acquisitions and audio-visual material per student: $22.00
14. Cost of cafeteria per day per person: $1.85.

THE FUTURE

For the forthcoming year, boarding fees will remain the same but

tuition fees will be:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3</td>
<td>$300</td>
</tr>
<tr>
<td>4-6</td>
<td>$350</td>
</tr>
<tr>
<td>7-9</td>
<td>$450</td>
</tr>
<tr>
<td>10-12</td>
<td>$500</td>
</tr>
</tbody>
</table>

Should enrollment remain constant at 260 pupils, the added revenue will be $18,850. Should a projected enrollment of 285 pupils materialize, the extra revenue generated would be $26,500. Physical facilities at present could accommodate 300-325 pupils. As of May 20, pre-registration was as follows:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Pupils</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3</td>
<td>40</td>
</tr>
<tr>
<td>4-7</td>
<td>56</td>
</tr>
<tr>
<td>8-12</td>
<td>144 pupils</td>
</tr>
</tbody>
</table>

240 pupils

Of the 240, 60 have registered as boarders. Due to the inauguration of the modified Open Area program in the lower classes, Grade 4 will be considered as part of the Middle School. These numbers are encouraging; further applications are expected from June to September. A required registration fee ($10. for day pupils, $50. for boarders) keeps the number of drop-outs at a minimum. The school has not done extensive advertising in the past; however, so far this year, the sum of $300. has been spent on advertising in local, provincial, and out-of-province newspapers.
Studies indicate that enrollment in the lower grades in many independent schools in the area has declined recently. Some schools are either phasing out this section or have already discontinued it. The CSC School has considered both alternatives, but has decided to retain the lower grades and introduce a modified Open Area Program (Grades 1 – 3) in the forthcoming year. The Elementary School Library (Grades 1 – 7) will continue to be built up.

With fewer religious than formerly, serious thought has been given to closing the boarding school; yet it is the only Catholic boarding school on the lower mainland. For the first time this year, a housemother was hired to assist the religious. However, most of the burden still falls on the latter, the greater part of whom also teach full time in the school, or fill administrative positions. Work outside the school is also beginning to take the time of the religious—religion classes in the parish, and so on.

The religious order that operates the school feel that the school fills a need in the Province. At present they have no thoughts about discontinuing the school and moving elsewhere. Yet enrollment is falling. They are realistic enough to know that tuition fees must have some limit, but tuition is practically the only source of revenue. Although partial aid is now given to independent schools in some areas of the United States, no aid to assist independent schools appears forthcoming from the Province where the CSC School operates.
CHAPTER VII

CONCLUSION

CONCLUSIONS

The main conclusion to be drawn from this study is that improved financial management in an independent school will improve the over-all administration of the school. The following facts support this statement:

1. The financial information system presupposes that the principles of organization are adhered to, that is, all responsibilities have been assigned and that responsibility is coupled with corresponding authority.

2. The practice of school budgeting presumes that short-range and long-range planning is an integral part of school policy.

3. "Reporting by responsibility" provides a feedback mechanism whereby expenditures are traceable to the department or person incurring them.

4. Fragmented decision-making is avoided because the principal is considered the ultimate authority in the school, although he shares his responsibilities with others.

All these factors are essential for effective school administration and are important components of the financial information system as presented in these pages.

Another conclusion which follows from the above is that with the implementation of the system, the way in which a school is presently managed will change. As previously remarked, implementation is not so much a change from manual to mechanical accounting. More importantly, it requires another philosophy of school administration. To the degree that this change is translated into practice will the financial information system achieve its purpose.
Finally, we can conclude from this study that the higher quality of information produced by the system will inevitably make greater demands on the school administration. Alternative courses of action will be forthcoming from a more precise flow of financial information, requiring in turn the ability to objectively assess the alternatives and make what are considered to be the necessary decisions. Because no one person can possibly perceive all sides of a matter, the practice of shared decision-making becomes almost inevitable.

An independent school administration, content with the present way of conducting school affairs or unwilling to experiment with new ideas, would be unable to introduce this financial information system. Only an administration which is open to innovation and its consequences will derive maximum benefits from it.

RECOMMENDATIONS

This study revealed the fact that in the area of independent school management in general and financial management in particular, there are further topics to be investigated. Only a lack of time prevented the writer from doing so.

There are three main points that the writer recommends for further investigation.

1. A "management information system" for the independent school

The benefits to be derived from this financial information system are obvious. Therefore, one cannot help concluding how much greater the benefits would be if a "management information system" was employed in the school. The financial information system would be a subsystem of the total
110.

system with a common data base serving all parts of school administration. The topic bears further investigation and research.

2. **Clear financial policies for each school**

   It was not the purpose of this study to dictate specific financial policies for an independent school. Rather, the writer has presented principles and stressed throughout the study that these principles must be applied in local situations. Therefore, it seems of critical importance for each school to assess its own position and to set forth specific financial policies. The policies would probably cover such subjects as fee structure and policy concerning the payment and collection of fees, the disposition of surplus funds (if any), and the fiscal objectives of the auxiliary enterprises. Thorough research on this topic seems called for.

3. **Similar accounting and reporting practices for local independent Schools**

   This could be a task for a finance committee of a provincial or district association of independent schools. To aid individual independent schools, more information is needed than just capital investments, total operating costs, and tuition fees. Greater detail and precision would assist each school in planning and in daily operations and, at the same time, present to parents, benefactors, and government a picture of how the school's resources are managed. This could be regarded as a service provided to its supporters. Again, research on this project could not but benefit the independent school.

   This study has not solved the problems of the independent school. Rather, it has focused on one problem area, namely, financial management, and proposed a financial information system modelled on current public
school standards and incorporating into it the principles and practices of modern commercial enterprises. Not all the problems of the independent schools would disappear if sufficiently large sums of money became suddenly available to them. But money would certainly make it easier to live with other problems and seek solutions to them. Financial problems, great as they are, are not going to be solved in isolation from other problems. But one must first isolate these financial problems, examine them on the micro-level before they can be clearly seen in the total educational pattern.
BIBLIOGRAPHY

BOOKS


Effective Paperwork Management. Toronto: Canadian Institute of Chartered Accountants, 1964.


Municipal Accounting and Auditing. Chicago: National Committee on Governmental Accounting, 1951.


ARTICLES AND PERIODICALS


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EXHIBIT I

THE INDEPENDENT SCHOOL
CANADA

ANNUAL FINANCIAL PLAN
19__ - 19__

Salaries and Wages

<table>
<thead>
<tr>
<th>NAME</th>
<th>POSITION</th>
<th>ANNUAL SALARY/WAGE</th>
<th>EDUCATIONAL</th>
<th>RESIDENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Distributed to:

TOTAL

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
</table>
EXHIBIT II

THE INDEPENDENT SCHOOL
CANADA

ANNUAL FINANCIAL PLAN

19 - 19

Contributed Services of the Religious

<table>
<thead>
<tr>
<th>NAME OF RELIGIOUS MEMBER</th>
<th>POSITION</th>
<th>VALUATION</th>
<th>EDUCATIONAL</th>
<th>RESIDENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Distributed to:

TOTAL

_______   _____

_______   _____
EXHIBIT III

THE INDEPENDENT SCHOOL
CANADA

BUDGET REQUEST

19__ - 19__

Date: ______________________

DEPARTMENT: ______________________

Actual Expenditures for the previous year: $ __________
Budgeted Expenditures for the current year: $ __________

ITEMS REQUESTED FOR THE COMING YEAR

<table>
<thead>
<tr>
<th>ITEMS REQUESTED FOR THE COMING YEAR</th>
<th>ESTIMATED COST</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>__________</td>
</tr>
</tbody>
</table>

SALARIES (if applicable):

<table>
<thead>
<tr>
<th>NAME</th>
<th>NO. OF YEARS EXPERIENCE</th>
<th>CATEGORY</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

TOTAL

SIGNED: ______________________
## EXHIBIT IV

THE INDEPENDENT SCHOOL
CANADA

ANNUAL FINANCIAL PLAN

19 - 19

### Budgeted Income

<table>
<thead>
<tr>
<th>REVENUE CENTER</th>
<th>PRIOR YEAR</th>
<th>CURRENT YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Budgeted</td>
</tr>
</tbody>
</table>

### I. EDUCATIONAL
- Tuition
- Registration and re-registration
- General Fee
- Gifts
- Community Contribution

### II. CAFETERIA
- Board
- Day Student Services
- Community Fee

### III. RESIDENCE
- Room
- Sur-charge
- Laundry

### IV. STUDENT BODY ACTIVITIES
- Activity Fee: Senior School
  - Middle School
  - Junior School
## EXHIBIT V

THE INDEPENDENT SCHOOL
CANADA

ANNUAL FINANCIAL PLAN

19__ - 19__

Budgeted Expenses

<table>
<thead>
<tr>
<th>Expense Category</th>
<th>Prior Year Actual</th>
<th>Current Year Budgeted</th>
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EXHIBIT V (continued)

THE INDEPENDENT SCHOOL CANADA

ANNUAL FINANCIAL PLAN

19__ - 19__

Budgeted Expenses

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<th>Senior School</th>
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EXHIBIT VI

THE INDEPENDENT SCHOOL
CANADA

ANNUAL FINANCIAL PLAN

19__ - 19__

Budgeted Expenses

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EXHIBIT VII

THE INDEPENDENT SCHOOL
CANADA

ANNUAL FINANCIAL PLAN
19 - 19

Budgeted Expenses
Residence

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TOTAL

_______  _______
## EXHIBIT VIII

THE INDEPENDENT SCHOOL
CANADA

ANNUAL FINANCIAL PLAN

19__ - 19__

Budgeted Expenses
Student Body Activities

<table>
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127.
## Exhibit IX

**The Independent School Canada**  
**Annual Financial Plan**  
19__ - 19__

### Revenues: Educational

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<th>Grade</th>
<th>Estimated No. of Students</th>
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**Totals**

**Estimated contribution to be made by the community:**

**Gifts**

**Estimated total revenue:**
EXHIBIT X

THE INDEPENDENT SCHOOL
CANADA

ANNUAL FINANCIAL PLAN

19__ - 19__

EXPENDITURES: Educational

<table>
<thead>
<tr>
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<td>Health Services</td>
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129.
EXHIBIT XI

THE INDEPENDENT SCHOOL
CANADA

ANNUAL FINANCIAL PLAN

19__ - 19__

REVENUE: Cafeteria

<table>
<thead>
<tr>
<th>Category</th>
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TOTAL

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TOTAL
EXHIBIT XII

THE INDEPENDENT SCHOOL
CANADA

ANNUAL FINANCIAL PLAN
19__ - 19__

REVENUE: Residence

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Surcharge:

| Laundry:          |                  |             |                   |
| Weekly            |                  |             |                   |
| Permanent         |                  |             |                   |
| Non-resident      |                  |             |                   |
| TOTAL             |                  |             |                   |

EXPENDITURES: Residence

<table>
<thead>
<tr>
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EXHIBIT XIII

THE INDEPENDENT SCHOOL
CANADA

ANNUAL FINANCIAL PLAN

19__ - 19__

REVENUE: Student Body Activities

<table>
<thead>
<tr>
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EXPENDITURES: Student Body Activities

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## Monthly Forecast of Cash

**EXHIBIT XIV**

**THE INDEPENDENT SCHOOL**

**CANADA**

**MONTHLY FORECAST OF CASH**

**for the year ended 19__**

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<td>Residence</td>
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<td>Student Body</td>
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<td>CASH BALANCE AT THE END OF THE MONTH</td>
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</table>
EXHIBIT XV
THE INDEPENDENT SCHOOL
CANADA
SUMMARY OF THE BUDGET
General Fund
19 - 19

<table>
<thead>
<tr>
<th></th>
<th>Educational</th>
<th>Student Body Activities</th>
<th>Cafeteria</th>
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<td>Over (under) for the year</td>
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TOTAL ANTICIPATED SURPLUS (DEFICIT) FOR THE YEAR: __________

EDUCATIONAL (by division)

<table>
<thead>
<tr>
<th></th>
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<th>Middle School</th>
<th>Junior School</th>
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<tbody>
<tr>
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<td>Library</td>
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<td>Fixed Charges</td>
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<tr>
<td>TOTAL</td>
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</tbody>
</table>

Pending Board approval, the appropriation to the _______ Department (division) will be: __________.

Signed: ________________
Principal
EXHIBIT XVI

THE INDEPENDENT SCHOOL
CANADA

CONFIRMATION OF BUDGETARY REQUEST

19__ - 19__

To the Head of the ________________ Department.

As approved by the Board of Trustees, your budgeted appropriation for the above fiscal year is: ________________.

<table>
<thead>
<tr>
<th>ITEMS (if applicable)</th>
<th>ESTIMATED COST</th>
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Total: __________

SALARIES (if applicable)

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<tr>
<th>NAME</th>
<th>NO. OF YEARS EXPERIENCE</th>
<th>CATEGORY</th>
<th>AMOUNT</th>
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</table>

Total: __________

Total Appropriation: ________________

Signed: ________________

Principal

Business Manager
EXHIBIT XVII

THE INDEPENDENT SCHOOL
CANADA

STATEMENT OF EXPENSES

FOR THE MONTH OF _____ AND THE PERIOD ENDED _____

To the Head of the ________________ Department:

<table>
<thead>
<tr>
<th>Current Month</th>
<th>Over (under) Budget for Month</th>
<th>Year to Date</th>
<th>Over (under) Budget for Year</th>
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<tbody>
<tr>
<td>Actual</td>
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Expenses:

Encumbrances:

TOTAL:

UNENCUMBERED BALANCE: ________________

Signed: _____________________________  Business Manager
EXHIBIT XVIII
THE INDEPENDENT SCHOOL
CANADA
STATEMENT OF REVENUES, EXPENDITURES AND TRANSFERS
General Fund
For the Month of ____ and the period ended ____.

TO THE PRINCIPAL (and/or Religious Superiors)

<table>
<thead>
<tr>
<th></th>
<th>Current Month Actual</th>
<th>Over (under) Budget for Month</th>
<th>Year to Date Actual</th>
<th>Over (under) Budget for Year</th>
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<tr>
<td>Tuition</td>
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<tr>
<td>General Fee</td>
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<tr>
<td>Gifts</td>
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<tr>
<td>Community Fee</td>
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<tr>
<td><strong>Student Body Activities</strong></td>
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<tr>
<td>Cafeteria</td>
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<td>Residence</td>
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<td>Residence</td>
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<td><strong>Total:</strong></td>
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<td>Excess of revenue over (under) expenditures</td>
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<td>Transfers and appropriations</td>
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</table>
EXHIBIT XIX
THE INDEPENDENT SCHOOL
CANADA
STATEMENT OF EXPENSES
For the month of ___ and the period ended ___

TO THE PRINCIPAL (and/or religious superiors)

<table>
<thead>
<tr>
<th></th>
<th>Current Month Actual</th>
<th>Over (under)</th>
<th>Year to Date Actual</th>
<th>Over (under) Year to Date</th>
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<td>Salaries</td>
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<td>Operation and Maintenance</td>
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<td>Salaries</td>
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<td>Contracted Services</td>
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<td><strong>STUDENT BODY ACTIVITIES</strong></td>
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<td>Senior School</td>
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<td><strong>Total:</strong></td>
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Current Month Actual: ___
Over (under) for Month: ___
Year to Date Actual: ___
Over (under) Year to Date: ___
## EXHIBIT XX

### THE INDEPENDENT SCHOOL
### CANADA

### BALANCE SHEET

**AS AT**

<table>
<thead>
<tr>
<th>TOTAL</th>
<th>GENERAL FUND</th>
<th>ENDOWMENT FUND</th>
<th>AGENCY FUND</th>
<th>PLANT FUND</th>
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</tbody>
</table>

### ASSETS

- **Cash:**
  - In Bank and on Hand
  - Savings Account
  - Accounts Receivable
- Prepaid Expenses
- Investments
- Notes Receivable

### LIABILITIES AND FUND BALANCES

- Accounts Payable
- Advance Payments from students
- Accrued Liabilities
- Notes Payable
- Fund Balances
  - Unrestricted
  - Restricted
  - Investment in Plant

### CHANGES IN FUND BALANCES

- Balance at beginning of period
- Excess of revenues over (under) expenses
- Transfers
- Other Changes
- Balance at end of period
EXHIBIT XXI

THE INDEPENDENT SCHOOL
Canada

STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES AND TRANSFERS

For the Year ended ________.

REVENUE:

Educational
- Tuition
- Registration and Reregistration
- General Fee
- Gifts
- Community Fee

Student Body Activities
- Senior School
- Middle School
- Junior School

Cafeteria
- Board
- Day Student Services
- Community Fee

Residence
- Room
- Surcharge
- Laundry

Total Revenue: 

EXPENDITURES:

Educational
- Administration
- Instruction
- Operation and Maintenance
- Fixed Charges
- Capital Outlay
- Debt Service

(continued)
EXHIBIT XXI (Continued)

THE INDEPENDENT SCHOOL
CANADA

STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES AND TRANSFERS

For the Year ended _____.

EXPENDITURES:

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<tr>
<th>Student Body Activities</th>
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<tbody>
<tr>
<td>Senior School</td>
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<td>Residence</td>
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<td>Supplies</td>
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<table>
<thead>
<tr>
<th>Total Expenditures</th>
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TRANSFERS TO:

<table>
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<tr>
<th>Total Transfers</th>
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Excess of Revenue over (under) Expenditures and Transfers:
EXHIBIT XXII
THE INDEPENDENT SCHOOL
CANADA
SCHEDULE FOR GENERAL FUND REVENUES AND EXPENDITURES

Educational
For the Year ended ________.

<table>
<thead>
<tr>
<th>REVENUES:</th>
<th>TOTAL</th>
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<th>MIDDLE SCHOOL</th>
<th>JUNIOR SCHOOL</th>
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<tbody>
<tr>
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<table>
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<th>MIDDLE SCHOOL</th>
<th>JUNIOR SCHOOL</th>
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<td>Capital Outlay</td>
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<td>Debt Service</td>
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<td><strong>Total:</strong></td>
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</tbody>
</table>

EXCESS OF REVENUES OVER (UNDER) EXPENDITURES __________________________
EXHIBIT XXIII

THE INDEPENDENT SCHOOL
CANADA

SCHEDULE FOR GENERAL FUND REVENUES AND EXPENDITURES

Student Body Activities

For the Year ended ________.

<table>
<thead>
<tr>
<th></th>
<th>TOTAL</th>
<th>Senior School</th>
<th>Middle School</th>
<th>Junior School</th>
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<tbody>
<tr>
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</table>

EXCESS OF REVENUES OVER (UNDER) EXPENDITURES: __________________
EXHIBIT XXIV
THE INDEPENDENT SCHOOL
CANADA
SCHEDULE FOR GENERAL FUND REVENUES AND EXPENDITURES
Cafeteria
For the Year ended ___________________

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<th>REVENUE:</th>
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<tr>
<td>Weekly Boarders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent Boarders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-resident Boarders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Day Student Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community Fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| EXPENDITURES:                   |       |       |
| Contracted Services            |       |       |
| **TOTAL**                      |       |       |

EXCESS OF REVENUES OVER (UNDER) EXPENDITURES: ____________________________
EXHIBIT XXV

THE INDEPENDENT SCHOOL
CANADA

SCHEDULE FOR GENERAL FUND REVENUES AND EXPENDITURES

Residence

For the Year ended ______

REVENUE:

Room:

Weekly Boarders
Permanent Boarders
Non-resident Boarders

Surcharge

Laundry

TOTAL

EXPENDITURES:

Salaries

Contracted Services

Supplies

TOTAL

EXCESS OF REVENUES OVER (UNDER EXPENDITURES:  


EXHIBIT XXVI

THE INDEPENDENT SCHOOL
CANADA

SCHEDULE OF TRANSFERS WITHIN THE GENERAL FUND

For the Year ended ________.

<table>
<thead>
<tr>
<th>TOTAL</th>
<th>Educational</th>
<th>SBA</th>
<th>Cafeteria</th>
<th>Residence</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Balance, July 1, 19__.

Additions to:

|       |             |     |           |           |

Deductions:

|       |             |     |           |           |

Balances, June 30, 19__.
### CHART OF ACCOUNTS

**General Fund**

<table>
<thead>
<tr>
<th>A. REVENUES</th>
<th>B. EXPENDITURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>A 100</td>
<td>B 100</td>
</tr>
<tr>
<td>Educational</td>
<td>Educational</td>
</tr>
<tr>
<td>A 200</td>
<td>B 200</td>
</tr>
<tr>
<td>Student Body Activities</td>
<td>Student Body Activities</td>
</tr>
<tr>
<td>A 300</td>
<td>B 300</td>
</tr>
<tr>
<td>Cafeteria</td>
<td>Cafeteria</td>
</tr>
<tr>
<td>A 400</td>
<td>B 400</td>
</tr>
<tr>
<td>Residence</td>
<td>Residence</td>
</tr>
</tbody>
</table>
EXHIBIT XXVIII

THE INDEPENDENT SCHOOL
CANADA

CHART OF ACCOUNTS

Revenue Classification

A 100 Educational
   A 110 Tuition
   A 120 Registration and Re-registration
   A 130 General Fee
   A 140 Gifts
   A 150 Community Fee

A 200 Student Body Activities
   A 210 Senior School Activity Fee
   A 220 Middle School Activity Fee
   A 230 Junior School Activity Fee

A 300 Cafeteria
   A 310 Board
   A 320 Day Student Services
   A 330 Community Fee

A 400 Residence
   A 410 Room
   A 420 Surcharge
   A 430 Laundry
EXHIBIT XXIX

THE INDEPENDENT SCHOOL
CANADA

CHART OF ACCOUNTS

Expenditure Classification

B. 100 EDUCATIONAL

B 110 Administration
B 111 Salaries
B 112 Contracted Services
B 113 Other expenses
   B 113-a Office supplies
   B 113-b Public relations
   B 113-c Printing and publishing
   B 113-d Postage
   B 113-e Bank charges

B 120 Instruction
B 121 Salaries
   B 121-a Senior School
   B 121-b Middle School
   B 121-c Junior School
   B 121-d Substitute teachers
   B 121-e Librarian

B 122 School Library
   B 122-a Senior School
   B 122-b Middle School
   B 122-c Junior School

B 123 Audio-visual
   B 123-a Senior School
   B 123-b Middle School
   B 123-c Junior School

B 124 Teaching supplies
   B 124-a Duplicating services
   B 124-b Art
   B 124-c Science
   B 124-d Music
   B 124-e Other
EXHIBIT XXIX (Continued)

THE INDEPENDENT SCHOOL
CANADA

CHART OF ACCOUNTS

Expenditure Classification

B 125 Other expenses for instruction
  B 125-a Professional books and subscriptions
  B 125-b Travel expenses
  B 125-c Membership fees
  B 125-d Other

B 130 Health Services
  B 131 Salaries
  B 132 Other expenses

B 140 Operation and Maintenance of Buildings and Grounds
  B 141 Salaries
  B 142 Contracted Services
    B 142-a Custodial
    B 142-b Scavenging
  B 143 Heat for Buildings
  B 144 Utilities
    B 144-a Water
    B 144-b Electricity
    B 144-c Gas
    B 144-d Telephone and telegraph
  B 145 Supplies
  B 146 Routine Repairs and maintenance

B 150 Fixed Charges
  B 151 Contribution to employee benefits
    B 151-a Canada Pension Plan
    B 151-b Workman's Compensation
  B 152 Insurance
  B 153 Taxes
EXHIBIT XXIX (Continued)

THE INDEPENDENT SCHOOL
CANADA

CHART OF ACCOUNTS

Expenditure Classification

B 160 Capital Outlay (from current funds)
   B 161 Sites (improvements)
   B 162 Buildings
      B 162-a Remodelling
      B 162-b Improvements
   B 163 Equipment and Furniture
      B 163-a For Administration
      B 163-b For Instruction
      B 163-c For Operation and Maintenance

B 170 Debt Service
   B 171 Principal
   B 172 Interest

B 200 STUDENT BODY ACTIVITIES
   B 210 Senior School
   B 220 Middle School
   B 230 Junior School

B 300 CAFETERIA
   B 310 Contracted Services

B 400 RESIDENCE
   B 410 Salaries
   B 420 Contracted Services
   B 430 Supplies