

Budget Creation 101



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So you accepted a call to serve as a Lutheran school principal. You were excited to serve, applying wisdom gleaned through years of service to the educational leadership of a Lutheran school. Things were going along fine, you were enjoying success, and you were feeling the satisfaction that comes from knowing you are serving God as He intended.

Then it hits. You are to submit a proposed budget for the upcoming year. You quickly turn to your files and reference books saved from your Budget Creation Methods class.

Wait a second! What Budget Creation Methods class???

I feel your pain. Lutheran school principals are expected to be knowledgeable and expert in many areas. School finances, unfortunately, are typically not in the repertoire of aspiring administrators. We come up through the ranks making requests for supplies and materials, repairs and workshop registrations, and somehow our former principals provided. We never knew from whence the money came. Sure, we knew families paid tuition, and sometimes congregations offered financial support, but details were beyond our ken. Not anymore, however. Not anymore.

I've been where you are. Whether you're in a school where you must completely create and manage the budget or you are merely expected to give meaningful input, you likely need guidance and ideas. While I won't claim to be the absolute budget guru, I've learned some principles that I find essential, so here you go.

Budget Creation 101

1. First, I recommend developing a meaningful relationship with a spreadsheet program. Microsoft Excel®, for example, can keep your numbers in order, auto calculate totals, and easily compute your bottom line. It makes updating for a new budget year simple. If you don't know how to use a spreadsheet program, I suggest taking a class, buying "Spreadsheets for Dummies," or bringing a Vente Mocha for your secretary as you beg her assistance.

2. Begin the actual process by focusing on vision. Schools fail to grow when they worry more about what they can afford than what they hope to accomplish. Determine your staffing and program needs, and look at the costs.
3. Now, focus on staffing. Easily 80 percent of your school expenses will go toward staff compensation, including salary/wages, taxes, and benefits. Communicate with your treasurer or business manager, whomever actually pays the bills, to ensure you know the correct figures for all taxes and benefits paid out on behalf of each employee. If insurance premiums are adjusted mid-year, take an educated guess (aim high) as to the premium increase, and add that amount into your calculations. You are better off overestimating than coming out short.
4. Set the funds that you will need for all of the operational expenses of the school. Use the current year as a guide, adjusting the line amounts according to what you actually spent over the past year. Adjust as well for other anticipated costs. (Replacing a curricular series? Is it an accreditation visit year?)
5. Establish funding for new initiatives or programs. Accreditation goals may have you adding a lunch program or a librarian, or refreshing/replacing campus signage.
6. Now turn to income. Many income sources rely on the students you anticipate for the coming year. Set an enrollment number. I strongly encourage you to be conservative. A safe practice is to budget for zero growth. If you end up with growth, that's great. It's fine to have more funds available than budgeted, but the opposite is a problem. (Enrollment is declining, you say? *Don't plan for continuing decline; that would pretty much guarantee it!* Stick to zero growth planning, and then get back to work improving school quality and school/home relationships.)
7. Figure in income sources that are fixed. Perhaps a congregation provides an amount per student or an established subsidy. Maybe an endowment fund allots an annual amount for operating expenses. Even fundraising can fit, if there is a set quota per family, such as a Scrip sales profit requirement per child or per family.
8. Next, create your budget lines for fees and tuition. These are usually separate line items, one for each student fee (registration, technology, supply, etc.) and another for tuition. Most schools raise tuition slightly each year, keeping up with rising costs, so set tuition at what you think would reflect a palatable rate increase. When setting the tuition line amount, remember to deduct from the per student total discounts that your school offers, such as discounts for payments in full and for multi-child families.
9. Third Source Funding may provide budget revenue, but leave that out of the picture initially. The goal will be to see fundraising left for beyond-the-budget objectives.
10. Step back and look. How close does income get to covering expenses?
 - a. If expenses are covered, you are almost done. If you have a large surplus, you may trim back a tuition increase, or fund some things that you hesitated to place in the budget. There's nothing wrong with placing some funds in a "rainy day" reserve. A good practice is to establish a fund that holds sufficient money to keep the lights on and the staff paid for 3-6 months in the case where a disaster of some sort strikes (massively low enrollment, natural disasters, whatever).
 - b. If income fails to meet expenses, consider the size of the gap. You may be able to close it by increasing tuition, fees, or both just a bit more. You may also determine to plug the gap with Third Source Funding. **WARNING:** This is a risky proposition, and should only be used if you have an excellent track record of raising through gifts and fundraising significantly more than the amount needed to meet budget, AND you have a back-up plan should fundraising fall short. Back-up plans include having a contingency fund (rainy day fund) already in place.

Is that everything you should know about creating a school budget? Of course not, but if you were at a loss on how to proceed, you've been pointed the right direction. Now get to work, and don't forget to ask your colleagues in LEA more specific questions as they arise.