

**THE CARNEGIE FOUNDATION FOR THE
ADVANCEMENT OF TEACHING.
STANDARD FORMS FOR
FINANCIAL REPORTS OF COLLEGES,
UNIVERSITIES, AND TECHNICAL
SCHOOLS. BULLETIN NUMBER THREE**

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HENRY S. PRITCHETT

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**576 FIFTH AVENUE
NEW YORK CITY**

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INTRODUCTION

THE present bulletin is the result of a prolonged inquiry concerning the practice of universities and colleges in the United States in the rendering of public financial statements of their receipts and of their expenditures. It represents also the results of many conferences with the financial officers of colleges and universities, as well as with public accountants and others familiar with the object which such financial statements should serve.

Tax-supported institutions are required by law to print an annual detailed statement of their receipts and expenditures. These reports in some cases simply give the list of separate vouchers. While this may have a value in complying with the state law, such reports serve only a limited purpose in showing the actual operations of the institutions concerned. Nevertheless, it is true that the tax-supported institutions have had a real source of strength by reason of this enforced publicity.

Among endowed institutions only a small minority publish annual financial statements. The great mass of institutions of higher learning in the United States bearing the name college or university make no public accounting of the disposition of the moneys which they receive.

It seems clear that both from the standpoint of its own efficiency no less than from the standpoint of its obligation to the public, every public institution like a college should print annually a report as to the use of the moneys which it has received. It is in the hope of facilitating this public duty, and with the hope further of bringing about some uniformity in these reports, that the present study was undertaken. In its prosecution the effort has continually been made to avoid the complexities of too great detail and to reduce the information which ought to be given to the simplest and most intelligible form.

In order to do this it is necessary to know with some definiteness two things: (1) Who are the persons who make use of financial reports from colleges; and (2) What do those who examine such reports wish to ascertain from them?

From the somewhat extended inquiry which has been made it may be stated with definiteness that the reports of the financial officers of colleges are read by very few people, and these may be classified in the following three groups:

1. Trustees, alumni, and friends of the institution who are directly interested in its welfare;
2. Men of means who contemplate gifts to colleges or who have made such gifts;
3. Individuals and agencies like the United States Bureau of Education engaged in a study of educational methods and cost.

It seems also clear from the inquiries which I have been able to make that these three groups seek to ascertain essentially the same fundamental facts concerning the financial conduct of colleges and universities, with the addition that students of edu-

cation are interested not only in the statistics of a single institution, but in comparative statistics as well.

It may be assumed also that each of these groups of readers of financial reports desires in the first place the presentation of the financial status and conduct of an institution in gross. They all ask three fundamental questions:

1. What is the total income of the institution for the year?
2. What is its annual expenditure?
3. What are the assets at the end of the year?

A considerable number of those who examine reports are satisfied when these leading facts are known, and all subsequent information which can be given consists really of details concerning these three exhibits. The practical questions which have to be met are: What are the significant details to show? and, To what extent must the analysis of assets, liabilities, income, and expenditure be carried in order to show the significant needs or to test the quality of the expenditure?

The answers to these questions depend not so much on expert accounting skill as upon sound business judgment, combined with some educational appreciation of the relation of the cost of education to its efficiency.

In the schedules presented herewith Schedule A shows the gross summaries which indicate the condition of the institution at the end of its fiscal year and its income and expenditures during the year. These give the concise view of the financial status of the institution which the reader first desires to know. The schedules which then follow are intended to offer, in such detail as may be sufficient and not burdensome, the significant items of assets, liabilities, receipts, and expenditures.

While details are included which will be needed only in the case of a large institution with many departments, the report is also arranged for the use of any college, however simple its organization. To provide the material for such an exhibit as is here suggested it is only necessary that the ordinary details of bookkeeping shall be undertaken in some systematic form.

I venture to urge again the duty of every college, whether supported by taxation or by endowment and tuition fees, to make annually a report to the public of its financial operations. The state institutions, as I have stated, are required by law to do this; the absence of such a practice has been a source of much of the looseness which has characterized the financial conduct of many colleges. The college has everything to gain by opening its books to the public, and those who give to colleges will more and more generally insist upon having a definite statement of the use which the college has made of its money. No college which refuses to do this deserves to be entrusted with money. There can be no question, also, but that colleges and universities will be less worldly and less commercial in their standards in proportion as they accept clearly their financial limitations. In the light of complete publicity

sound financial standards as well as sound educational ones will tend to drive out poor standards.

Second, I wish to urge that, whether a college follows the exact schedules suggested here or not, those who make its financial reports should seek to segregate those items of income and expense which reveal the significant lines of expenditure, such, for example, as salaries of teachers, the cost of administration, the upkeep of the physical plant, the expenses of different departments, and the like.

Every effort has been made to simplify as far as possible the schedules which follow, and it is necessarily assumed that they will be adjusted by each institution to meet its own needs. As before stated, these schedules are designed primarily as a form for an acceptable annual exhibit of the financial operations of an educational institution. On the other hand, they are suggestive of a method of bookkeeping. But it must be remembered that the actual keeping of the accounts from day to day, especially the designing of a cash-book best suited to the needs of an institution and best adapted to a minimum expenditure of energy, has in recent years become a profession. In whatever method the books are kept the data here called for should be easily obtainable from them.

A word may be said concerning the best date for the beginning of the fiscal year. At present there is no uniformity in practice among institutions of learning in this matter. The majority of institutions which issue financial statements begin the year as of date July 1, and this is apparently the most convenient date. It is, therefore, suggested that colleges and universities adopt July 1 as the beginning of the fiscal year in the interest of uniformity and comparability. It seems to be the only date upon which agreement could be had, and it has the additional advantage of coinciding with the fiscal year of the general government, of many states, and of many business enterprises.

While the schedules which follow are in most cases self-explanatory, the following statements are made in the interest of greater clearness.

SCHEDULE A

No comment is necessary regarding this schedule. It gives in most condensed form a view of the income and expenditure and the assets and liabilities of the institution.

SCHEDULE B-1

This schedule shows under a group of distinguishing headings the income for the year.

SCHEDULE B-2

This schedule shows an analysis of the first item of the preceding schedule. Such an exhibit is of value both from the educational and the financial standpoint. Colleges have been in the habit of receiving many students at reduced tuition, in many cases giving to a considerable group free tuition. The burden which this entails is

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not generally understood. Whether it be a wise practice or not those interested in the college ought to know what this practice actually costs. The acceptance of a scholarship fund generally means an assumption by the college of an additional load. Such a fund is not an endowment of the college, but a subsidy to students dispensed by the college. The fact ought to be made clear in a financial statement both for the benefit of the college and of those who mean to give.

SCHEDULE C-1

This schedule shows under appropriate heads the large items of expenditure, such as the costs of teachers' salaries, administration, laboratory maintenance, upkeep of the physical plant. The effort has been made to introduce only significant groupings. While the form covers the operations of a large university its applicability to those of a small college is evident.

SCHEDULE C-2

The preceding table shows the large items of expenditure. The details of these expenditures can be carried out to any length. The object sought is to go only so far as will serve the needs of those who use such reports. Any trustee of a university who is sufficiently interested to study such a report will desire to know not only the distribution of the income as between the college, the law school, and the medical school, for example, but he will also wish to know how much the college spends upon the teaching of history, how much upon mathematics, and upon other departments. When the institution is a college, this information is likewise desired. Schedule C-2 shows the departmental expenditures in such detail as seems desirable.

SCHEDULE D: BALANCE SHEET

The balance sheet should, of course, contain all of the assets and all of the liabilities of the institution at the close of business on the last day of its financial year, say June 30. Each class of assets and of liabilities should be grouped under distinguishing headings, as shown in the form, without too much detail, so that the balance sheet will show at a glance the financial condition of the institution. Full details making up the totals of the various items shown on the balance sheet should be given on separate schedules, forms for which are presented and explained on the following pages.

The balance sheet is divided into three parts, as follows:

1. Current assets contrasted with current liabilities and balanced by an account which may be either a surplus (of assets) or a deficiency.
2. Investments contrasted with endowments and other permanent funds, exhibiting a surplus (of investments) or a deficiency.
3. Educational plant assets, land, buildings and equipment, contrasted with endowments and other funds, or capital accounts, which have been expended upon the plant.