Jargon Buster: Demystifying College Budgets & Finances

I. Revenue Terms

A. **Comprehensive Fee:** Gross tuition (sticker price) + Room charges (residence hall) + Board plan (campus dining) + Fees (activity fee, technology fee, etc.)

B. **Gross Tuition Revenue:** The total amount of tuition and mandatory fees charged to all students before any financial aid, scholarships, or discounts are subtracted. Also called the sticker price.
   - Why it Matters: The starting point for calculating tuition income.

C. **Institutional Aid (or College-Funded Aid):** Grants, scholarships, and tuition waivers that the college funds directly from its own resources (e.g., from the operating budget, endowment income, or specific donated funds).
   - What it's NOT: Federal Pell grants, state grants, or external scholarships (separate aid sources).
   - Why it Matters: This is the "discount" the college offers from its sticker price.

D. **Net Tuition Revenue:** The actual amount of tuition revenue the college receives after deducting all institutional aid.
   - Formula: Gross Tuition Revenue - Total Institutional Aid = Net Tuition Revenue
   - Why it Matters: For tuition-driven institutions like the colleges, this is the most crucial figure for budget planning and financial health. Net tuition revenue per student needs to be increasing each year in order to fund the ever-increasing costs of a operating private college.

E. **Tuition Discount Rate:** The percentage of gross tuition revenue that the college gives back to students in the form of Institutional Aid.
   - Formula: (Total Institutional Aid / Gross Tuition Revenue)
   - Why it Matters: A key indicator of a college's pricing strategy and how much of its own funds it dedicates to making college affordable. A higher rate means less net revenue per student.

F. **Endowment:** A very long-term savings account with an infinite time horizon where the principal is invested to generate income, and only a portion of the income or a specific percentage of the principal's value is spent each year. The goal is for the principal to grow or remain stable over time.
   - Why it Matters: Endowments provide a stable, perpetual source of funding for scholarships, professorships, programs, and general operations, thus reducing reliance on tuition. The endowment is not one fund, it is many different funds, most of which are gifts restricted by the donor for a particular purpose (a scholarship to a student from a particular town, a named professorship in history, etc.)
   - Why it especially matters now: Levying additional taxes on investment earnings of college endowment earnings continues an appealing strategy to some. Higher taxes on endowment earnings means fewer funds for scholarships, professorships, etc.

G. **Endowment Spending Policy (or Draw Rate):** The policy or percentage rate (normally around 5%) that determines how much money is drawn from the endowment each year to support the college's operating budget. This is typically a mathematical calculation – not an annual decision – determined using the multi-year average of the endowment's market value.
   - Why it Matters: Balances current needs with preserving the endowment for future generations.

H. **Quasi-endowment**: funds functioning like an endowment, but instead of being restricted by a donor, are instead designated by the Board. Such funds are commonly invested alongside the other endowment assets, the spending from which supports general operations of the college. Because the Board approves the designation of funds, should they choose, they can also change that designation.

I. **Auxiliary Enterprises:** Business-like activities that provide services to students, faculty, and staff, and charge a fee directly related to the cost of the service.
  - Examples: Student housing (dorm fees), dining services (meal plans), bookstores, sometimes athletic event revenue, summer camps, etc.
  - Why it Matters: These operations are generally expected to be self-sustaining and often contribute a small surplus to the overall budget.

II. Expense Terms

A. **Operating Expenses:** All the costs incurred to run the college's day-to-day activities during the fiscal year.
  - Examples: Salaries and benefits, utilities, supplies, maintenance, travel, administrative costs, program expenses.
  - Why it Matters: Represents the ongoing cost of delivering education and running the institution.

B. **General and Administrative**: costs associated with the overall operation and management of the college, and not specifically tied to instruction, research, public service or student services. Examples of these expenses include business and HR office functions, audits, tax compliance, bank fees, human resources, legal counsel, and senior leadership compensation.

C. **Capital Expenditures (also referred to as 'CapEx'):** Money spent on acquiring, upgrading, and maintaining physical assets such as buildings, equipment, or land. These are large, non-recurring expenses that benefit the college over many years.
  - Why it Matters: Crucial for maintaining campus infrastructure and supporting the academic mission. In addition to being supported by operating revenue, it is often funded through debt (to build or remodel buildings), fundraising (for a specific project or during a capital campaign), or specific reserves. Some colleges rely on year-end surplus to fund capital expenses, which becomes problematic in years where there is not a surplus to use.

D. **Debt Service:** The cost of paying back principal and interest on money the college has borrowed (bonds, loans). Borrowing is an important strategy to leverage the assets of the institution to build (or renovate) facilities that support the mission of the college.
  - Why it Matters: Additional debt means taking on additional principal and interest payments, which are covered by the operating budget. Too much debt can strain the operating budget. Once issued, debt service payments are a fixed, non-negotiable expense that must be budgeted for.

E. **Deferred Maintenance**: Delaying necessary maintenance or repairs on buildings, equipment and other infrastructure.
  - Why it Matters: The delay is often caused by lack of funds. The older the buildings on campus, the more challenging it is to keep up with the maintenance needs. The more that maintenance is delayed, the larger the list of needs grows. Examples include roofs, windows, plumbing, heating or cooling equipment, lab equipment.

III. Budgetary Process & Management

A. **Budget Deficit or Surplus:** When expenses exceed revenues (deficit); when revenues exceed expenses (surplus).
   - Why it Matters: Ongoing deficits are unsustainable and can lead to financial instability. Consistent surpluses allow for reinvestment and growing reserve balances.

B. **Reserves:** Funds set aside by the college for unexpected expenses, strategic investments, or to provide financial stability during lean times.
   - Why it Matters: Reserves act as a financial buffer, similar to a personal emergency fund.

C. **Carryover or Rollover Funds**: Some organizations allow departments (or cost centers) to carry over or rollover some or all of their unused funds from one year to the next. This should drive smarter spending decisions since there should not be a 'use it or lose it' mentality with these funds. Similarly, it should also incentivize spending from restricted accounts (endowments or gifts) since access to carryover funds is available.
   - Why it Matters: Not surprisingly, when resources are scarce, the practice of allowing carryover funds is much less common. Instead of allowing funds to be carried over, underutilized budgets help support the bottom line of the college by going unused, and thus decreasing expected expenses.

D. **Strategic Budgeting:** Aligning the allocation of financial resources directly with the college's long-term strategic plan and priorities.
   - Why it Matters: Ensures that spending supports the college's mission and goals, rather than just maintaining the status quo.

E. **Budgeting Methods**: There are many approaches to building and operating a budget at a small private college.
   - Incremental budgeting is a very common approach. This process starts from last year's budget and makes minor adjustments. It is a simple approach, but can also be less strategic since it does not incentivize any cost savings, and inefficiencies in the budget can also remain year after year.
   - A Zero-Base budget does not begin from last year's budget, it starts from zero, and each expense item must be justified, reviewed and approved. This is an administratively time-consuming process and is onerous for anyone who manages a budget since it is their responsibility to justify each expense. It can be most helpful if used with a specific budget or program, rather than across the board.

F. **Budget Contingency:** money set aside within a budget to cover unexpected expense overages or revenue shortfalls that may occur. Its purpose is to provide flexibility and mitigate risk. It is common for contingency to be reduced or eliminated in challenging tight budgetary times.

G. **Structural deficit:** A persistent budget imbalance where expenses are greater than revenues. A deficit could be temporary, but a structural deficit is longer term and demonstrates a mismatch between long-term spending commitments and revenues generated.

IV. Core Financial Statements & Concepts

A. **Cost Center:** a department or function that incurs expenses but does not generate revenue. The biology department budget would be an example of a cost center and could include subcategories within it, often called object codes, assigned for supplies, materials, professional services, travel, etc.
   - Why it matters**:** Organizing a budget and financial reporting around cost centers provides insight into spending and can help institutions allocate resources more efficiently.

B. **Fiscal Year (FY)**: The 12-month period for which an organization plans its budget and reports its financial activities. Commonly July 1 to June 30 (e.g., FY26 runs from July 1, 2025 to June 30, 2026).

C. **Statement of Financial Position (Balance Sheet):** A snapshot of the college's financial health at a specific point in time.
   - Analogy: like a family's list of assets vs. debts owed as of today
   - What it Shows: Assets (what we own), Liabilities (what we owe), and Net Assets (what's left – our equity or reserves).

D. **Statement of Activities (Income Statement):** A summary of the college's financial performance over a period of time.
   - Analogy: like a family's income and expenses over a year
   - What it Shows: All revenues received and expenses incurred over a specific period (e.g., a fiscal year), resulting in a surplus or deficit.

E. **Restricted vs Unrestricted Funds**: The distinction between ‘restricted’ and ‘unrestricted’ funds is defined by whether a donor has imposed a particular use for the funds (restricted, for use as a scholarship for example) or whether there is no such donor-imposed restriction (unrestricted, for general use).
   - Why it matters: A restriction on funds provides less flexibility in their use.

F. **Designated and Undesignated Funds**: Within the funds that are unrestricted, some are designated for a particular purpose by the Board. Undesignated, unrestricted funds have neither a donor-imposed restriction nor an internal, Board-imposed restriction.
   - Why it matters: A designation on funds provides less flexibility in their use.

G. **Physical Plant**: the totality of the physical infrastructure of your campus. This includes all buildings, grounds, utilities, equipment and the staff that care for and manage these areas.
   - Why it matters: In order to be successful, teaching, learning, student life, and administrative support functions all depend on the physical plant.