

**THE HELLER SCHOOL FOR SOCIAL POLICY AND MANAGEMENT
BRANDEIS UNIVERSITY**

HS248b
Financial Management
Spring 2008

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Schneider G4

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Course Description: The objective of this course is to prepare students to operate in financial contexts by integrating previous financial theories and concepts in a practical, accessible course of study. Specific objectives will include the following:

1. To learn some basic and advanced financial, analytical and managerial concepts.
2. To be able to apply those concepts to nonprofit financial matters in the context of actual practice as represented by case studies, and in class discussion.
3. To be able to evaluate budgets technically and in a strategic context.
4. To learn how to think and take action like a mission-based financial manager.
5. To be able to communicate effectively with financial personnel.

Management Discipline Skills and Competencies: This course develops students as educated consumers of financial information, not producers. It covers common financial management problems encountered by today's nonprofit professionals in a real world perspective based on sound financial and accounting theory. The course covers skills and competencies such as financial statement analysis, budget development and control, cash flow management, and asset management.

MBA Program Themes:

- Balancing mission and margin ('M' on the course schedule)
- Social enterprise (SE)
- Governance and accountability (A)

Course Requirements:

Grading will be according to the following formula:

15% Classroom participation

10% Regular preparation of case material

There are seven 'prepare' assignments preceded with a ! symbol. To earn an 'A' for 10% of your grade, you must hand in five of those assignments, hardcopy only, at the beginning of the class for which it was assigned. Each written assignment should be no more than a single typewritten page. The choice of format and content is entirely up to you. These five assignments will not be graded or returned to you. We will use them solely as a mechanism by which to ensure that all students are comprehending the material. They have the added benefit of giving you an opportunity to organize your analyses and prepare your class participation.

75% Three papers (indicated by *** on syllabus -- due at the beginning of that class). Note weighting of papers: first two = 20% each; budget exercise package = 35%.

NOTE: Any written assignment handed in after the beginning of the class in which it is due will lose one half grade for each late day: there will be no exceptions. Students choosing to submit an assignment late may not attend that evening's class.

Classroom Participation: The single most important purpose of this course is to give students the chance to learn some financial management concepts and to use them to develop coherent, integrated approaches to actual problems in financial management. Although some of this material is best presented in didactic format, a great deal of the learning in this class is expected to occur during classroom discussions of cases and exercises prepared prior to class. Most of the classes will cover technical matters plus managerial or policy applications of the material. In many cases, you will be asked to prepare a case analysis or recommendation as part of preparing for class. *As is true in practice, there will often be no single 'correct' answer to a given case.* However, you will always be expected to be technically correct and accurate in your analyses.

Comments that move the group discussion forward or that offer fresh insights or thoughtfully unique approaches to the material are the most valuable. Comments that re-cast some aspect of the case or exercise under analysis or that call attention to overlooked but relevant details are also valued. Participation that merely re-states the facts of the case, while sometimes helpful at the beginning of discussion, is the least valuable.

Be prepared to present and/or discuss any paper or written assignment during class.

Papers: The first two papers to be handed in must be typewritten and are to be limited to 1000 words (roughly four double spaced pages), not including exhibits, unless otherwise specified. Electronic submissions are preferred. For electronic submissions, submit a single Word (or comparable) file with charts and exhibits embedded in the file. Please use the following naming convention for the file:

YOUR LAST NAME # (of paper)FM

In the above example, if I were submitting the second required paper the name of the electronic file would be “McLaughlin2FM”. Papers will be considered to have been received on time if the electronic send date and time are before the start of class. Use my GT email for this purpose.

I suggest that you bring a paper copy of your files to class for reference purposes.

Course Reading:

1. McLaughlin, Thomas A. Streetsmart Financial Basics for Nonprofit Managers, 2nd edition, John Wiley & Sons (New York, 2002).
2. Various articles, notes and cases.

Students will also need an ordinary hand calculator for papers and all classes.

Crosswalk with previous coursework

Several classes include references to accounting and economics texts which those completing the prerequisites for the course are expected to have read for other coursework. These texts are as follows, with the code used in the syllabus in parentheses

Libby, Libby and Short, Financial Accounting, McGraw Hill/Irwin, 5th Ed. (LLS)

Gitman, Lawrence J., Principles of Managerial Finance, Brief Third Edition, Addison Wesley, 2003 (Gitman)

Provisions for Feedback: You will receive written feedback on each of the graded papers. Feedback will generally be a critique of your ability to:

- Analyze financial situations
- Use financial concepts to interpret material
- Build a financial case, including correct use of principles and techniques
- Achieve technical accuracy

Academic Integrity: Academic integrity is central to the mission of educational excellence at Brandeis University. Each student is expected to turn in work completed independently, except when assignments specifically authorize collaborative effort. It is not acceptable to use the words or ideas of another person- be it a world-class philosopher or your classmate – without proper acknowledgement of that source. This means that you must use footnotes and quotation marks to indicate the sources of any phrases, sentences, paragraphs or ideas found in published volumes, on the internet, or created by another student. Violations of university policies on academic integrity, described in Section 3 of *Rights and Responsibilities*, may result in failure in the course or on the assignment, and could end in suspension from the University. If you are in doubt about the instructions for any assignment in this course, you must ask for clarification.

Note that verbiage in Form 10K’s and 10Q’s may not be plagiarized.

Notice: If you have a documented disability on record at Brandeis University and require accommodations, please bring it to my attention prior to the second meeting of the class. If you have any questions about this process, contact Doina Iliescu, disabilities coordinator for The Heller School at x 63810, or at diliescu@brandeis.edu.

Course Schedule

I. Jan. 17. Overview of Financial Management and Corporate Structure in the Nonprofit Sector (A)

Read: Streetsmart Financial Basics for Nonprofit Managers, Chapters 1, 2

Attorney General's Guide for Board Members of Charitable Organizations
<http://www.ago.state.ma.us/sp.cfm?pageid=1801>

(Note: browse these sites as general background; if listed under reading assignments, read the linked publication)

www.guidestar.org

www.wiley.com

www.nptimes.com

www.independentsector.org

<http://www.boardsource.org/>

II. Jan. 24. Financial Analysis and Accounting Review

Read: Streetsmart, Chapters 3,4 & 5, Youth Haven

In-Class Exercise: Dashboard Creation for Growth, Stabilization, Turnaround

http://www.npcny.org/Form_990/990.htm

<http://www.quickmba.com>

<http://www.ceoexpress.com>

LLS Ch. 14

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III. Jan. 31. Accountability and Controls (A)

Read: The Sarbanes-Oxley Act and Implications for Nonprofit Organizations

Senate Finance Committee White Paper (“US Senate” on WebCt)

Materiality Principle

GAO Regulations – ‘Yellow Book’

In-Class Exercise: What’s REALLY Going on Here??

! Prepare: Analyze the financial health of The Apollo Group, parent company of The University of Phoenix. To do so, obtain their most recent 10K statement (financial statement for publicly held companies) from the following web site:

<http://www.sec.gov/edgar/searchedgar/webusers.htm>

Note: the 10K can be quite large to download and print.

Without cutting and pasting or in any way copying text from the company’s materials, answer the following questions about The Apollo Group:

1. Describe the company’s purpose and market(s).
2. Analyze the company’s liquidity, capital structure, profitability, and ownership structure (how shares are held, by whom, and the class of shares). What can you learn from the ownership structure?
3. Draw inferences about the company’s business model and the financial strategy it uses to accomplish it. What are its apparent policies regarding revenue sources, leverage, capital assets, cash management, and profitability?
4. If you were an investor, would you be willing to put \$500,000 or more into this company?

Be sure to take note of the differences in terminology between nonprofits and for-profits. For instance, ‘net assets’ is a nonprofit term, operating margin is not applicable in the same way, there are no grants receivable in a for-profit environment, etc.

Be prepared to present your analysis in class.

IV. Feb. 7. Analyzing Nonprofit Organizations (M)

*****Prepare Paper 1**

Using your work on the University of Phoenix from last week, follow these steps:

1. Research colleges or universities providing similar educational programs to similar student populations as the University of Phoenix in the same general geographic area (re-check their web site for locations and course offerings).

These web sites could be useful in finding a college:

<http://www.collegeboard.com/student/csearch/index.html>
<http://www.petersons.com/ugchannel/code/searches/srchCrit1.asp>
<http://www.usnews.com/usnews/edu/college/tools/search.php>

As necessary, use other web sites, printed college guides, your personal knowledge, etc. The college you select should compete for substantially the same student population as The University of Phoenix in the same general geographic area or online. Include documentation of this as an appendix or footnote, and include the college's URL in your paper.

2. Go to Guidestar.org to download the three most recent years of your selected college's IRS Form 990's.
3. Analyze the financial health of your selected college using the FINTOOL (or similar file on Web Ct). Insert the results in the paper itself as well as the same analysis for The University of Phoenix as an appendix or embedded chart. This does not count toward the word limit.
4. Compare and contrast The University of Phoenix with your selected college. What are the respective financial strengths and weaknesses of each? What are the financial differences between them? What can you infer to be the financial strategy of each organization? Which educational institution is likely to be most financially successful in the long term?

(Note: when submitting your paper either electronically or in hard copy, be sure to include copies of the three 990 forms you used. Use this naming convention for each 990: "NAME OF COLLEGE 990 200X".)

V. Feb. 14 Fundraising for Nonprofit Organizations: Thinking Cows (M)

Read: Streetsmart, Chapter 15

Donor Advised Funds

! Prepare: Tax Incentives for Charitable Giving

1. *Describe and evaluate the concept of "giving elasticity."*
2. *Are tax deductions infinitely "elastic"?*
3. *Is there a point of diminishing returns? Would it be possible to eliminate government as a provider of services through a policy of systematic tax deductions?*
4. *Is such a step desirable? Why or why not?*

www.unitedway.org

VI. Feb. 28. Operations Budgeting (I) (M)

Real Time Budget Development Exercise

What's Wrong With This Budget? (in class exercise)

Read: True Overhead Rate

! Prepare: Raiser Senior Services, Part A

List ten actions that would reduce expenses or raise revenue at Raiser Senior Services, and estimate the value of each in increments of \$10,000. What effect, if any, would your actions have on the market position of The Stratford?

www.detma.org/revenue/rating.html

http://www.dol.gov/elaws/see_adv.asp?Subset=ID>0

VII. Mar. 6. Operations Budgeting (II) (M)

Real Time Budget Development Exercise, continued

Read: Streetsmart, Chapter 11,12

Our Little Secret

www.cityfeet.com

<http://www.orgspaces.org/educateyourself/leasingterms.htm>

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NOTE: Consider starting your budget package exercise now

VIII. Mar. 13. Sources of Revenue and Their Effect on Organizations (A)

Read: Why Pay for it?

Materiality Principle

Administration vs. Program

Paying for Not Paying for Overhead

<http://www.foundationnews.org/CME/article.cfm?ID=3313>

Prepare: Performance Pay at MGOA (A-C) (HBS)

*****Prepare:** Terry Ann Lunt and Greater Boston Rehabilitation Services (Part A)
Includes FY 1992 financial statements

1. *Analyze the financial health of GBRS based on the case material and the financial statements, including both years.*
2. *Sketch a possible financial strategy for this organization in the form of recommendations to Terry Ann Lunt.*
3. *Discuss the role GBRS' non-governmental revenue played in its decision-making. How might its fiscal and economic health have been different if the agency had been more dependent on government funding? How does non-governmental revenue affect such areas as the demand for sophisticated financial staff, cash flow, efficiency of billing systems, accountability, and profitability? Why?*

Note: word limit for this paper is 1,000 words

<http://www.nptimes.com/fme/apr02/toc.html>

IX. Mar. 20. The Financial Structure of Mergers (Nonprofit and For-Profit); Valuations (M)

Read: Note on Mergers and Acquisitions and Valuations

Making the Deal Real

Giving Diligence Its Due

Valuing Private Businesses

! Prepare: Utah Arts Merger

Using the 990's posted on Web Ct, analyze the financial health of the Utah Symphony and the Utah Opera before and after the merger. Was the merger a financial success?

X. Mar. 27. Cash Flow and Capital Finance (M)

Read: Streetsmart, Chapter 8

Building Stronger Organizations, parts I and II only

In-Class Exercise: Cash flow vs. revenue recognition in Alzheimer's Associations

! Prepare: New England Aquarium

During the 1990's the New England Aquarium announced an ambitious plan to expand and re-make its site on the Boston waterfront. In December 2001 it announced that it would postpone indefinitely the final phase of its expansion plans. In November 2003 the Aquarium announced that it was laying off 20% of its staff as part of an effort to solve a severe cash crunch. What happened?

Using only the information on the FY 2002 audited financial statements and the IRS Forms 990 for the years 1997-2001, explain how the organization arrived at the point where it had to make that decision. Be sure to cover items such as investment policies, profitability trends, accounting age, cash balances, and the relationship between organizational strategy and financial capacity. If you have not already done so, it would be helpful to see at least the outside of the aquarium in person.

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XI. Apr. 3. Capital Structure and Social Enterprise (SE)

Read: Streetsmart, Chapter 10

The Blended Value Map, pp 35-54

Virtuous Capital: What Foundations Can Learn From Venture Capitalists
Social Enterprise: Private Initiatives for the Common Good

Adding it Up: Valuations

! Prepare: Zipcar

1. Analyze the September data to learn how the model is actually working.
2. What elements of the original plan appear to be changing?
3. How should Chase change the plan based on the September results?

www.redf.org

www.nationalgathering.org

XII. Apr. 10. Endowment Management -- Practical Concerns (M)

Read: Cash Flow and the Time Value of Money

! Prepare for in-class exercise:

- : Atlanta Park Medical Center v. Hamlin Asset Management
1. How much did Atlanta Park lose? How do *you* define loss? What period do you measure? Why?
 2. Should Atlanta Park pursue treble damages in its own suit or join the class at 40% for every dollar lost since 1/1/94?
 3. Calculate the potential risks and rewards for both options
 4. Discuss the proper exercise of fiduciary responsibility as it relates to this case

XIII. Apr. 17. Budget Exercise and Course Summary (M)

Read: Streetsmart, Chapter 14

*****Prepare:** Budget Package Exercise – presentations

NOTE: There is no minimum or maximum length requirement for this exercise, and no required format. Using some of the templates from the Streetsmart disk may make this assignment easier. This assignment may only be submitted in hard copy (in an emergency, e-mail all files and submit hard copy as soon as possible thereafter).

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