

**DANIEL J. EVANS SCHOOL OF PUBLIC AFFAIRS
UNIVERSITY OF WASHINGTON
PBAF 522A/B: Financial Management & Budgeting
Winter 2007**

Dr. Leslie K. Breitner

Office: Parrington 207

Office Hours: M/W 11am – 1 pm and by appointment [Some Wednesdays are devoted to faculty meetings and I will need to cancel office hours. I will post to the course website.]

Phone: 206-616-8698

Fax: 206-260-9999

Email: breitner@u.washington.edu

Teaching Assistant: Erin Henderson

Office: Evans Student Lounge - 124D

Office Hours: TBA

Phone: 206-579-6492

Email: elcbell@u.washington.edu

522A: Monday/Wednesday, 1:30-2:50 pm, Parrington 108

522B: Monday/Wednesday, 3:30-4:50 pm, Parrington 108

Optional Review Session (both sections): Thursdays, 9:00-10:20 am, Parrington 310

Course Website: <https://courses.washington.edu/pbaf/kb/522-Wi07>

THE COURSE WEBSITE IS OPEN TO ANYONE WITH A UW NET ID. AFTER CLASSES BEGIN, IT WILL BE AVAILABLE ONLY TO STUDENTS REGISTERED FOR THE COURSE.

REQUIRED PREASSIGNMENT:

Anthony, Robert N. and Leslie K. Breitner, Essentials of Accounting, 9th Edition, Prentice Hall, 2006.

* Before beginning the course (preferably prior to the Christmas break), you should obtain and *begin* to work through the programmed learning text Essentials of Accounting, 9th Edition. It is available at the UW Bookstore, many other college bookstores and on the internet. This book will familiarize you with the basic vocabulary of financial accounting, which will be *assumed* for the course. This is not intended to require an onerous time commitment if you begin early enough-- please simply make an honest effort to get the basic vocabulary and mechanics down. I put a copy of the memo on the course web site indicating which parts of the book may be skimmed or skipped.

TEXTS AND READINGS:

In addition to Essentials of Accounting, there is a **required course e-packet** that contains all readings and cases for this course. The course packet is available only on the course website. All registered students will be charged a materials course fee to cover the use and copyright of the course packet. These materials will **not be on reserve in the library**. We are using copyright protected materials and they may be purchased only in the format provided. I have done this to keep the cost of the materials as low as possible.

COURSE DESCRIPTION AND OBJECTIVES

The course provides an introduction to financial and management accounting, and an overview of public and nonprofit budgeting systems. In addition to learning about financial statements (their meaning and use) and the meaning and behavior of costs, the course will cover specific processes, tools and techniques for budget analysis and the use of financial information in making management decisions. The course involves a variety of pedagogical techniques including case work with agency and other organizational budgets and financial decision-making tools.

This is a required course in the MPA program but is open to non-Evans School students on a space-available basis. A working knowledge of Microsoft Excel to build and use spreadsheets is necessary. Erin Henderson, our TA, will provide guidance about the use of Excel for those students with little or no experience.

Basically, the intent of the course is to provide a user-oriented introduction to accounting, financial management, and budgeting principles, techniques, and concepts. This will help to prepare you for managerial and/or analytical work in an environment where the use and understanding of financial information and budgeting are crucial to success (just about any environment!). The course is also concerned with public management of and through financial resources. My working assumption is that you have virtually no prior knowledge of accounting or budgeting, other than the Anthony and Breitner programmed textbook, which you should begin *as soon as possible*. Much of our attention will be focused on the meaning and utility of the information to managers and other users in the public and nonprofit sectors.

COURSE ROUTINE

The course will be taught primarily by the case method of instruction, supplemented by readings and occasional short lectures on selected topics. As you may know, the case method works extremely well when both students and the instructor are well-prepared. Otherwise, it is an extremely ineffective pedagogical tool. For this reason, you will be expected not only to read the assigned material for each class session, but also to analyze the cases fully as well. Often, this is best done in group work.

Many of the case exercises will require the use of spreadsheets and their analysis. I will often provide the templates for your use; you will note the formulae in the templates and the “solutions” so that you can translate to your own spreadsheet software. You may use the templates as a foundation for the case preparations. The templates will be posted to the course website. Please get in the habit of checking it regularly as announcements will also be posted there.

THE LEARNING PROCESS

In general, the learning process consists of developing new skills, which can be done only by practice. Just as a physician’s training would be incomplete if it consisted uniquely of memorizing texts and hearing case reports of patients, rather than working directly with cadavers and patients, your training will be incomplete if you do not attempt to solve the cases to the best of your ability before looking at someone else’s solution or the solution that I will post to the course website. Additionally, I think you will find the learning process considerably more enjoyable if you are involved in the case” discussions”, which can only happen in a productive way if you are well prepared. Further, a portion of your course grade will be influenced by your contributions!

Mastering the concepts in this course requires understanding how various financial systems work, and does not require much, if any, memorization. Inasmuch as the accounting system is somewhat counterintuitive, however, the best approach to understanding it is to work with it until you see how all the parts fit together. The budgeting and financial decision making tools will build on this introductory knowledge. This is not something that can be accomplished in a single sitting; rather, it requires constant “chipping away” in the form of regular preparation. Since the discussion of each case assumes you understand the material covered in the prior cases, you definitely must not allow yourself to fall behind.

WRITTEN ASSIGNMENTS

Please see the course calendar for the dates of the required written assignments and the final exam. Some written assignments will not be graded but *are required*. Since solutions to assignments will be posted immediately after their due date, assignments **may not be turned in late!**

STUDY QUESTIONS

The study questions are provided to help guide your preparation for case discussions. Many of the cases you will prepare could be used to illustrate a variety of different problems. The study questions give you some idea of how I intend to use the cases. They are not necessarily comprehensive—if you feel there is something else that needs to be analyzed that is not raised by the study questions, by all means prepare to discuss it. In fact, I consider it your responsibility to the other members of the class to do so. You should however, make some efforts to understand what the study questions are trying to ask and to carry out the analyses they suggest. You need not be able to finish every analysis or answer every question; that is what the class is for! But please make a diligent effort, and be able to say what you tried to do and why.

GRADING

Because of the need for regular preparation, and because the case method relies on both preparation and presentation of analysis, your performance will be rated, in part, on the quality of your contributions to the case discussions as well as on the submission of the written assignments. Class contributions can come in a variety of ways: (1) a good question about the material (e.g., questions that enhance the discussion); (2) undertaking key analyses (as opposed to restating factual points in the case); (3) helping to move the discussion ahead; or (4) making comments that bridge discussion points in a case analysis, thereby integrating the discussion and helping to make it more coherent. Some of the written assignments are graded. These, and the final exam, constitute the portion of the grade not covered by class contribution. **I like to get to know students so I will rely on you to have your name cards out during every class session!**

Students must achieve a grade of 2.7 or higher to complete this core requirement for the MPA degree. The weighting schema for the course follows.

Graded Assignments	60%
Final Exam	40%

Class contribution and the submission of the required, but not graded, assignments will positively or negatively influence the weighting scheme.

COURSE CALENDAR – The calendars for both sections (A and B) are contained in this document. If you are in one section but need to miss a class, you may attend the corresponding class of the other section.

Section A – Monday/Wednesday 1:30 – 2:50 pm Parrington 108

Section B – Monday/Wednesday 3:30 – 4:50 pm Parrington 108

TA Review Session – Thursday 9:00 – 10:20 am Parrington 310

Module I: Financial Statements and Financial Management Issues

How do I tell the financial story of this organization from the financial statements?

3 January – Session 1

Introduction and Course Overview

Review syllabus and Define Expectations

Discuss Essentials of Accounting

Reading: Review Essentials of Accounting

8 January – Session 2

Financial Accounting and Financial Statements

Reading: Young, “Note on Financial Accounting in Nonprofit Organizations”

Case: Higher Education Harvest

Study questions (over two classes):

1. What can we learn by looking at the balance sheet?
2. What else would we like to know about the financial condition of this organization?
3. Does it appear that Higher Education Harvard will be a **profitable organization** if Rebecca Wilson’s projections turn out to be accurate?
4. What concerns, if any, do you have about the profitability of the organization?

Written preparation: (Please see the posted instructions and templates on the course web site.)

First prepare a balance sheet (as of 31 December 1998) and an income statement (for 1998) for Higher Education Harvest. If you don’t attempt to prepare these written assignments, you will likely miss some of the steps critical to the process of doing them. For purposes of simplicity, use the Excel templates provided. You should fill in the shaded cells using the information provided in the case. The spreadsheet contains comments that are designed to help you. Cells with red triangles in the top right hand corner include comments. You may find rounding problems as you work through the assignment. Do not worry if your answers are off by a small amount. Remember, just attempt to do your best. Perfection is not an expectation! If your balance sheet does not balance, we will work through the steps to get it there during our next class session. Although you don’t need to submit this assignment, bring your work to class so that you have it in front of you when we discuss it.

10 January – Session 3

Financial Accounting and Financial Statements: Cash vs. Accrual

Reading: Young, Note on Financial Surpluses in Nonprofit Organizations”

Case: Higher Education Harvest (continued)

Study Questions: (see previous session)

Written Assignment due:

Prepare an income statement based on the pro forma financials for 1999 and a projected, or pro forma, balance sheet as of 31 December 1999, using the templates provided. Please submit **two pages** only. One will be a printout of your 1999 Balance Sheet and the other will be your 1999 Income Statement. This assignment will be checked as a required assignment and returned to you. PLEASE REMEMBER TO PUT YOUR NAME ON YOUR WORK. IF YOU WORKED ON THIS ASSIGNMENT AS PART OF A GROUP, PLEASE INDICATE THE NAMES OF ALL GROUP MEMBERS. **THIS ASSIGNMENT IS REQUIRED BUT WILL NOT RECEIVE A GRADE.**

15 January – MLK Holiday (No Class)

17 January – Session 4

How do I tell the story of this organization? - Using Financial Statements

Reading: Young, “Note on GAAP in Nonprofit Organizations”

Young, “Note on Financial Statement Analysis”

Case: WBLT Public Television

Study questions:

1. What motives would you expect lie behind each of the three conditions associated with the Heartland Bank and Trust credit line?
2. What should Scott Gilbert say in his presentation to WBLT’s managers and trustees? Consider in particular what interpretation he should give of WBLT’s anticipated net income.
3. What are the implications of the financial statements for the issues raised in the last two paragraphs of the case?
4. Is WBLT in good shape financially? What financial advice would you give to the station’s management and trustees?
5. Based on these projected statements, be prepared to discuss the organization’s profitability and liquidity.

Written assignment due:

Using the templates provided, prepare a pro forma income statement, balance sheet and statement of cash flows for 1999. Please turn in all three statements, with your name(s) on them, as a **required, but not to be graded, assignment**. As before, you may submit this assignment as a group.

22 January – Session 5

Financial Statement Analysis Continued

Reading: Young, “Note on Financial Statement Analysis” (REVIEW)

Case: WBLT Public Television (continued)

Study questions: See previous session.

No written assignment.

24 January – Session 6

Victory Over Accounting!

Reading: Review Prior Readings

Case: Van Buren Community Hospital

Assignment #1 due – See course web site for details. This is an “individual-effort” assignment. Please work on your own.

Module II: Cost

What does it cost and why do I want to know?

29 January – Session 7

Understanding Full Cost
Direct Costs, Indirect Costs, and Cost Allocation

Reading: Young, “Note on Full Cost and Differential Cost Accounting”, pp 1-12
Young, “Note on Pricing in Nonprofit Organizations” (**skim**)

Case: Harbor City Community Center

Study questions:

1. What is the purpose of full cost accounting?
2. Consider some environments where pricing may not be determined from full cost information.
3. What is the difference between a mission or revenue center and a service center?
4. What is a step-down allocation scheme and how does it work?
5. What do we do when employees are salaried in one center but work in others?
6. Does it matter that some services cost more than they bring in?

Written assignment due:

Using the template provided, determine the full costs for the revenue centers for Harbor City Community Center. Turn in your one-page spreadsheet. **This assignment will not be graded. Rather, it will be checked only as a required assignment.** PLEASE REMEMBER TO PUT YOUR NAME ON YOUR WORK. IF YOU WORKED ON THIS ASSIGNMENT AS PART OF A GROUP, PLEASE INDICATE THE NAMES OF ALL GROUP MEMBERS.

31 January – Session 8

Use of Costs in Managerial Decision Making

Reading: Young, “Note on Full Cost and Differential Cost Accounting”, pp 12-31

Case: Lakeside Hospital

Study question (over two classes):

1. What is the difference between Exhibits I and II? What is their link? Please be very brief but very specific.
2. Dr. Newell says that Dr. Lawrence’s treatment cost of \$425 is misleading. Show quantitatively why this is so and, using a few words, explain it.
3. What is the breakeven volume for the Dialysis Unit? What assumptions are necessary for calculating it? There is no specific right or wrong answer here...please just state the assumptions you make as well as the assumptions necessary when calculating this type of breakeven.

5 February – Session 9

Use of Costs in Managerial Decision Making

Reading: Young, “Note on Full Cost and Differential Cost Accounting”, pp 12-31 (REVIEW)

Case: Lakeside Hospital (continued)

Study questions:

1. Is the dialysis unit self-sustaining? Please explain.
2. Should the unit be eliminated? Please be prepared to provide a quantitative as well as a qualitative answer.
3. Other than closing the unit, what other options are available and what are their financial implications?

7 February – Session 10

Activity-Based Costing

Reading: Young, “Note on Activity-Based Costing”

Case: Città di Forenna

Study questions: Use the case questions to guide your preparation of this case.

No Written preparation.

Module III: Budgeting for Managers

How do I plan my programs with scarce resources?

12 February – Session 11

How to *Make* a Budget: Scenario Budgeting

Reading: “Creating Flexible Budgets Using Excel” (Will be posted to website)

Cases: In-class tutorial on scenario budgeting.

[PLEASE BRING A LAPTOP COMPUTER IF YOU HAVE ACCESS TO ONE. FOR THOSE WHO DO NOT OWN ONE, YOU MAY BE ABLE BORROW A LAPTOP FROM THE EVANS SCHOOL COMPUTER LAB.]

No written preparation but please come prepared having read the posted document and having done some pre-planning of your own.

14 February – Session 12

How to *Read* a Budget

Reading: Young, “Note on the Technical Aspects of Programming” (PREVIEW for next class)

Cases: Endicott Town Meeting

Study questions:

1. How is the Highway Department able to propose such a significant drop in tax revenue for the year 2000? What concerns do you have about this strategy?
2. Do you agree with either of the public comments on the Highway Department budget?
3. What suggestions might Anne offer regarding the preparation, presentation and implementation of the financial information?

Assignment #2 due – See course web site for details. This is an “individual-effort” assignment. Please work on your own.

19 February – Presidents’ Day (No Class)

21 February – Session 13

Resource Allocation and Capital Budgeting

Reading: Young, “Note on the Technical Aspects of Programming”

Cases: Grand Central Terminal: Restoring the Grandeur

Study questions:

1. If Peter Stangl asked you to prepare a memo that lays out an argument for and against each of the four options, recommends a choice among them and presents a rationale for that recommendation, what would be the main points in that memo?
2. How would you present your recommendation to the MTA Board of Directors, the President of Metro-North, the State Budget Director, and the Mayor’s Transportation Advisor? What concerns are you likely to encounter?

Written assignment due:

How does the Net Present Value of the increased retail rents compare with the unfunded costs of the Grand Central project? Attempt to calculate a NPV and bring your work to class to follow our discussion of this case.

26 February – Session 14

Revenue: Taxation Policy and Pricing

Case: Fare Deal: Pricing Public Transit in New York

Study questions for Fare Deal:

1. Does Peter Stangl have the appropriate information to make a decision? What information is most important? Why? What other information might he want?
2. Did the MTA handle the decision process appropriately? From an analytical perspective? From a political perspective?
3. Should revenue ever be sacrificed for ridership?
4. What about the equity considerations? What are they?
5. What fare policy would you recommend?

Written preparation:

You have been provided with a spreadsheet that contains model results for 500 fare policy packages. Please use the research model results and the information in the case to consider the problem from the perspective of Peter Stangl and from the group to which you have been assigned. There is nothing to submit for this case. We will work in groups in class to analyze and understand the various alternatives.

28 February – Session 15

Flexible Budgeting and Variance Analysis
Performance Budgeting

Reading: Young, “Note on Flexible Budgeting and Variance Analysis”

Case: Town of Bellington

Study questions: See case questions

Written assignment due:

TBA

05 March – Session 16

Public Sector Budgeting and Debt Management

Exercise: City of Bellevue, WA Comprehensive Annual Financial Report (CAFR)

Written assignment due:

Complete the one-page assignment posed to the website and submit it at the start of class.

07 March – Session 17

Course wrap-up and discussion of final assignment.

TAKE-HOME FINAL ASSIGNMENT TO BE POSTED DUE AT A TIME TO BE ANNOUNCED.