

## STM—400: Course Syllabus (Spring 2008)

### Financial Management for Public and Nonprofit Organizations

Professor Malcolm K. Sparrow, Littauer 206, Tel: 495-8359

Faculty Assistant: Camiliakumari Wankaner (Littauer 201) 495-5994

Class Meetings: Monday/Wednesday, 8.40-10.00a.m. Land Auditorium

Optional Review Sessions: Fridays: 8.40-10.00a.m. Littauer 382

---

#### Course Overview:

This course is designed for students who have experienced the practical importance of sound financial management in public or not-for-profit institutions but who lack any formal training in this area. The course demystifies basic financial tools and terminology, teaching the basics of financial accounting and managerial control. The first half of the course focuses on working with the numbers (and spreadsheets) as students learn the fundamentals of cash and accrual accounting, and the preparation and analysis of financial statements. The second half of the course examines the connections between various financial control systems and the purposes of an organization, enabling students to see clearly what different management reporting, cost accounting, risk management and modeling systems can and cannot do for them.

**For Whom:** The course is open to all KSG students, and to students from Harvard's other graduate schools, depending on space available. The course is *not open to undergraduates*. The substance of the course overlaps to some degree with STM-401m, and students who have taken STM-401m for credit, and who still choose to take STM-400, will only receive one module's worth of credit for STM-400.

**Pre-requisites:** STM-400 assumes little or no previous formal training in financial or managerial accounting. It is an introductory and survey course. Students will be required to have (or rapidly acquire) some familiarity with Excel spreadsheets (or equivalent). Students are also expected to begin

working through Anthony and Breitner's *Essentials of Accounting* (9<sup>th</sup> Edition) prior to the first class.

Topics covered include:

Principles of Financial Management (13 classes)

- ❑ cash and accrual accounting
- ❑ financial statements (balance sheet, income statements, statement of cash flows)
- ❑ financial statement analysis
- ❑ financial modeling
- ❑ endowment management

Principles of Managerial Accounting (6 classes)

- ❑ fixed, variable and semi-variable costs
- ❑ breakeven analysis
- ❑ direct and indirect costs, overhead and overhead allocation
- ❑ activity based costing
- ❑ purpose and function of budgets
- ❑ types and uses of investment instruments

Introduction to Risk Management and Fraud Control (2 classes)

- ❑ risk control, financial risk
- ❑ fraud control as a specific financial risk-management challenge

Review/Conclusion (3 classes)

Review Sessions: Optional review sessions will be held on Fridays. No new material will be introduced in these sessions; rather, they will be opportunities to clarify what we've already covered that week in class. They are designed for students who feel they need more time to assimilate the concepts already taught, who are confused about material presented in class, or who have fallen behind for any reason. We normally expect no more than 25% of students in the course to attend any one review session.

Study Groups: Students are encouraged to work in study groups throughout the semester. Written assignments (which are required, but which are not graded) may be submitted as the collaborative work of a group. Assignments thus submitted should be clearly labeled as a group product.

Requirements: This is a case-based course, and students are expected to engage seriously with each day's case, complete any written assignments based on the case, and come to class prepared to participate in a discussion that will go beyond the written assignment. In addition, students are expected to work through the programmed text *Essentials of Accounting*, completing it by the end of the third week of the course at the latest (preferably much sooner).

Course Grading and Written Assignments: The course grading will be weighted as follows: 60% for a 3-hour final examination; and 40% for due diligence in completing written assignments and preparing for class, and for contributions to the learning environment during the course.

Final Examination: The final examination will be closed book, and will include some multiple-choice, some short answer, and some brief case analyses. The final examination will be graded using the Dean's recommended grading distribution. The examination is scheduled for the afternoon of Monday 19<sup>th</sup> May, 2008. Because of Kennedy School rules and the nature of the exam, all students must take the final at the designated time, and you should clear any scheduling conflicts for the entire afternoon of 19<sup>th</sup> May. If you have an unavoidable conflict for that date, then KSG rules prohibit you from registering for the course.

Class Participation & Written Assignments: There is no substitute, in learning this material, for the hands-on experience of "working with the numbers." Therefore the course makes extensive use of short written assignments. Some of these (eight in total) are required, and some others are optional (but recommended). All written assignments submitted will be returned with feedback. The required written assignments will be graded pass/fail, and all that is required for a "pass" is a bona fide attempt to grapple with the assignment. The submission of these assignments provides the instructor and course staff an opportunity to diagnose substantive areas of misunderstanding, and to identify students in need of further help. Submission of all the required written assignments is regarded as an ordinary part of due diligence in the course. Written assignments must be submitted prior to class on the due date. Handwritten assignments will not be accepted. We recommend you keep a copy of your submitted work for you to refer to during the class discussion. Assignments will not be accepted

late, as solutions will either be distributed in class or posted on the web-site shortly after class.

Students who stand out as having made valuable contributions to the learning environment, either inside the classroom or outside it (in terms of working with, or assisting their peers) will improve their grades. All students in the course are expected to prepare for class, and to be prepared to contribute to the analysis of a case if called upon. Students will be cold-called.

Course Web-Page: Spreadsheets that support some of the homework assignments will be distributed electronically via the course web page.

## Guide to Course Materials:

Programmed Text: All students are required to acquire *Essentials of Accounting (9th Edition)* by Robert N. Anthony and Leslie K. Breitner, available at the Harvard Coop and through the various Internet booksellers.

Case Packets: The course case packets will contain all the cases examined in the course, together with a small number of supplementary readings. Case packets will be available at the Course Material Distribution Office. They will include the following items:

### For classes 1-5: (Introduction to Financial Management)

- KSG Case: Higher Education Harvest
- KSG Case: WBLT Public Television '99

### For classes 6-13: (Financial Management, continued)

- KSG Case: Endicott Town Meeting
- KSG Case: NH/VT Hospitalization Service
- KSG Case: Higher Education Harvest (Sequel)
- Crimson Press Curriculum Center: Merced College
- KSG Case: Glastonbury College (M.K.Sparrow, 2004)
- KSG Case: The Pena Family Budget
- "Note on Financial Accounting in Nonprofit Organizations". David W. Young. The Crimson Group, Inc.; c 1997; pp. 1-20,29-33
- "Note on Analyzing Financial Statements." David W. Young. The Crimson Group, Inc.; c 1997; pp. 1-26.
- "Note on Financial Surpluses in Nonprofit Organizations." David W. Young. The Crimson Group, Inc.; c 1997; pp. 1-9.
- "Note on GAAP in Nonprofit Organizations." David W. Young. The Crimson Group, Inc.; c 1997; pp. 1-20.

### For classes 14-24: (Managerial Accounting, Cost Accounting, etc.)

- KSG Case: Pierce Transit
- HBS Case (9-196-115): Indianapolis City Services (A)
- KSG Case: Fraud Control at Teleflex (A)
- HBS Case (9-195-215): I identify the non-profit.

Reserve Reading List: Text Books and Background Readings: In addition, students should acquaint themselves at least superficially with ALL of the books listed below, sometime during the course. These provide important background to the work of the course. All are held on reserve in the library, in multiple copies. Students are expected to pace their own background reading, and to dwell most heavily on materials most relevant to their own professional aspirations.

There are several textbooks which cover the basics equally well (and generally do so in a few chapters). You should try them all, and decide which one (or several) you want to use.

- Short, Fundamentals of Financial Accounting, Homewood, IL: Richard D. Irwin, 1993 (7th edition)
- Gross, McCarthy, & Larkin, Financial and Accounting Guide for Nonprofit Organizations. New York: John Wiley and Sons, 2005 (7th edition).
- Anthony, Robert and Young, David, Management Control in Non-Profit Organizations. Homewood, IL: Richard D. Irwin, 2003 (7th edition).
- Horngren, Datar & Foster, Cost Accounting: A Managerial Emphasis, Prentice Hall, 2003 (11<sup>th</sup> Edition).

## Class Schedule (Spring 2008)

Session	Date		Summary Description
1	(W) 30 <sup>th</sup> January		Class Introduction/Overview
2	(M) 4 <sup>th</sup> February	(*)	Case: Higher Education Harvest (1)
3	(W) 6 <sup>th</sup> February		Case: Higher Education Harvest (2)
4	(M) 11 <sup>th</sup> February	(*)	Case: WBLT Public Television '99
5	(W) 13 <sup>th</sup> February		Lecture: Fundamentals of Accounting
Presidents' Day (Holiday): Monday 18 <sup>th</sup> February			
6	(W) 20 <sup>th</sup> February		Case: Endicott Town Meeting
7	(M) 25 <sup>th</sup> February	(*)	Case: NH/VT Hospitalization Service (1)
8	(W) 27 <sup>th</sup> February		Case: NH/VT Hospitalization Service (2)
9	(M) 3 <sup>rd</sup> March	(*)	Case: Higher Education Harvest (Sequel)
10	(W) 5 <sup>th</sup> March		Case: Merced College
11	(M) 10 <sup>th</sup> March		Case: Glastonbury College
12	(W) 12 <sup>th</sup> March		Lecture: Perspectives on Accounting
13	(M) 17 <sup>th</sup> March	(*)	Case: Pena Family Budget
14	(W) 19 <sup>th</sup> March		Lecture: Introduction to Cost Accounting
SPRING BREAK: March 24 <sup>th</sup> - 28 <sup>th</sup>			
15	(M) 31 <sup>st</sup> March		Introduction to Activity Based Costing
16	(W) 2 <sup>nd</sup> April		Case: Pierce Transit
17	(M) 7 <sup>th</sup> April	(*)	HBS Case: Indianapolis City Services (A)
18	(W) 9 <sup>th</sup> April		Guest Lecture: Professor Linda Bilmes: Budgeting, theory & practice
19	(M) 14 <sup>th</sup> April	(*)	Practice Examination Review
20	(W) 16 <sup>th</sup> April		Lecture: Financial Instruments
21	(M) 21 <sup>st</sup> April		Case: Fraud Control at Teleflex (A/B/C)
22	(W) 23 <sup>rd</sup> April		Lecture: Fraud Control: State-of-the-Art
23	(M) 28 <sup>th</sup> April	(*)	HBS Case: Identify the non-profit.
24	(W) 30 <sup>th</sup> April		Summary, Wrap-up, Evaluations

Monday 19<sup>th</sup> May                      Final Examination: 2.00 pm-5.00 pm

(\*) indicates a Required Written Assignment, due at the start of class.

## DETAILED CLASS SCHEDULE

Session: 1                    (Wednesday 30<sup>th</sup> January)

Subjects for Discussion: Course Overview and Introduction to Accounting Principles. We will provide an overview of the way accounting is used to organize and report critical financial information.

Readings: Please begin working through the Essentials of Accounting workbook before this class. In terms of background reading, completing the workbook remains the priority for the first two weeks of the course. You should certainly aim to complete it by, or before, Wednesday 22<sup>nd</sup> February.

---

Session: 2                    (Monday 4<sup>th</sup> February)

Subjects for Discussion: The Balance Sheet: Structure, Logic and Terminology

Case: Higher-Education Harvest. (KSG Case, 8/7/2000)

Note: This case is split across two days.

### (Required) Written Assignment:

Prepare a balance sheet for Higher Education Harvest as of December 31, 1998. We will provide a Microsoft Excel spreadsheet ([HEHS-template1.xls](#)) that can serve as the template for the balance sheet. On the first tab (called "Worksheet") you can fill in all the changes that happen during 1998 to the various balance sheet accounts. 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.) The second tab ("Balance Sheet") fills in automatically from the calculations on the first tab. Please hand in *only* the balance sheet and the accompanying worksheet with the supporting calculations.

You may find minor rounding problems as you work through the assignment. Do not worry if your answers are off by a small amount. In fact, do not worry if your answers are off by a large amount! The idea here is to begin learning the ways in which various types of transactions affect different

balance sheet accounts. If you get your final balance sheet to actually “balance”, well done!

Study Questions: What can we learn by looking at the balance sheet? What else would we like to know about the financial condition of this organization?

---

Session: 3 (Wednesday 6<sup>th</sup> February)

Subjects for Discussion: The Income Statement: Structure, Logic and Terminology.

Case: Higher-Education Harvest (continued discussion)

(Optional) Written Assignment: Please prepare:

- a) A projected, or *pro forma*, balance sheet as of December 31, 1999.
- b) An income statement for Higher Education Harvest’s operation as of December 31, 1998.
- c) An income statement based on the *pro forma* financials as of December 31, 1999.

Again, we will provide an Excel template that helps you produce these documents. ([HEHS-template2.xls](#)).

Please note that Exhibit 6 in the case takes a little careful unraveling. It implies that cash collections for 1999 totaled \$162,000. If we begin with A/R of \$2,919, charge fees of \$180,000, and have an ending A/R balance of \$3,869, then the organization must have collected \$179,050! This is NOT the same figure as the sum of the column showing “fees collected immediately”. Clearly, some of the fees not collected immediately must in fact have been collected later—which seems perfectly reasonable.)

Study Questions: Does it appear that the Higher-Education Harvest will be a “profitable organization” if Rebecca Wilson’s projections turn out to be accurate?

---

Session: 4 (Monday 11<sup>th</sup> February)

Subjects for Discussion: Statement of Cash Flows. Differences between Cash and Accrual Accounting.

Case: WBLT Public Television 1999. (KSG Case, 1999)

(Required) Written Assignment: This case provides a lot of facts and figures, but the appendices do a lot of the work of connecting these together. Your task is to complete Templates I through IV at the back of the case, thereby producing a *pro forma* 1999 income statement, balance sheet, and cash flow statement for WBLT. You can either do this manually, on the paper; or, if you prefer, you can complete the assignment in spreadsheet format by using the electronic file provided (See WBLT\_templates.xls). This reproduces much of the information in the case, but you will be able to explore and (if you use formulas to fill in your answers instead of numbers) further develop the mechanical connections between the various statements.

Study Questions:

- a) What motives would you expect lie behind each of the three conditions associated with the Heartland Bank and Trust credit line?
- b) 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. What are the implications of the financial statements for the issues raised in the last two paragraphs of the case?
- c) Is WBLT in good shape financially? What financial advice would you give to the station's management and trustees?

---

Session: 5 (Wednesday 13<sup>th</sup> February)

Lecture: Fundamentals of Accounting. Review of the essential mechanics of the different financial statements.

Readings: You should, by now, have successfully completed working your way through the workbook "Essentials of Accounting." In preparation

for this lecture, please acquaint yourself with the following readings, provided in your case packets:

- "Note on Financial Accounting in Nonprofit Organizations". David W. Young. The Crimson Group, Inc.; © 2006; pp. 1-20,28-31
- "Note on Analyzing Financial Statements." David W. Young. The Crimson Group, Inc.; c 1997; pp. 1-24.

---

Presidents' Day (Holiday): Monday, 18<sup>th</sup> February

---

Session: 6 (Wednesday 20<sup>th</sup> February)

Subjects for Discussion: Relationship between the different financial statements (continued). Analyzing (as opposed to preparing) financial statements.

Case: Endicott Town Meeting. (KSG Case, 1999)

Additional Readings: Continued attention to the two readings detailed for the prior session, particularly the "Note on Analyzing Financial Statements."

Study Questions: From a technical perspective, as you read through the case and examine the statements provided, pay particular attention to the separation of cash and accrual considerations, and work out the extent to which these different categories have these been mixed up in the preparation of the financial statements.

From a managerial perspective, please consider the following:

- a) 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?
- b) Do you agree with either of the public comments on the Highway Department budget? Why or why not?
- c) What suggestions might Anne offer regarding the preparation, presentation and implementation of the financial information?

---

Session: 7 (Monday 25<sup>th</sup> February)

Subjects for Discussion: The distinctive nature of a “cash-up-front” business. The insurance business and the nature of contingency reserves. What matters and why: cash balance or accrual surplus?

Case: The New Hampshire-Vermont Hospitalization Service. (HBS Case-Herzlinger, not numbered) Note: this case is split across two days.

(Required) Written Assignment:

Present a spreadsheet showing a Statement of Changes in Financial Position (SCFP) for “next year” based on the projections in Exhibit 3 for December of the current year and on Exhibit 4 for December of the following year. You will probably have to do some artful matching up of categories, or reclassification of balance sheet items, to make this possible. Once you have done it, take time to interpret the statement you have produced. What story does it tell? Explain, in one short paragraph, what your statement reveals about the financial condition of NHVHS.

Study Questions:

- a) These are very messy statements, and the way in which they interact with each other is not, at first, very clear. Try to figure out what types of information are presented in exhibits 1 through 4. Which show cash information and which show accrual? (Don't worry at this stage about the model presented at the back of the case....we'll discuss this at the end of the first class, and you may use it in preparation for the second class).
- b) In your view, does this organization have liquidity problems or solvency problems, or both?
- c) How would the organization determine how much of a surplus would give NHVHS just the right amount of “cushion”: not so small that members' interests were endangered but not so large that the plan lost its incentive to maintain rigorous controls?
- d) Can you identify and define the targets, or outputs, that NHVHS wants to achieve?

---

Session: 8 (Wednesday 27<sup>th</sup> February)

Subjects for Discussion: Financial strategy in insurance. Also, the art of spreadsheet modeling.

Case: New Hampshire-Vermont Hospitalization Service (cont. discussion.)

Additional Readings: "Note on Financial Surpluses in Nonprofit Organizations." David W. Young. The Crimson Group, Inc.; © 2005; pp. 1-7.

(Optional) Written Assignment:

We have provided to you a simple model designed to help the managers of NHVT to make valid financial projections (see file [NHVHS-Model.xls](#)). The model structure is printed at the back of your case material. Your task is to select four inputs for the model that you believe to be plausible and/or attainable, and to tune the model so that you achieve whatever financial goal you believe to be appropriate. Be clear whether you are setting a cash or accrual target, and how long it should take to achieve. Be prepared to defend in class your selected goal and your choice of inputs. If you hand in a printout, show clearly your choices identified in the cells at the top of the spreadsheet, and show how the outputs (future financial results) relate to whatever goals you established as appropriate.

Additional Study Questions: What is "intergenerational equity," and how does this issue feature in the discussions of the commissioners and/or the managers of NHVHS?

---

Session: 9 (Monday 3<sup>rd</sup> March)

Subjects for Discussion: More practice with generating, and interpreting, a complete set of financial statements.

Case: Higher Education Harvest (Sequel). (KSG Case, 12/5/2000)

(Required) Written Assignment:

Using the templates provided (see file [HEHsequel\\_template.xls](#)) prepare the calendar-year 1999 balance sheet, income statement, and cash flow statement for Higher-Education Harvest.

Note: You might to choose to copy the “Worksheet 99” from the previous HEH assignment template ([HEH\\_template2.xls](#)) to help you capture all the changes in the relevant balance sheet items. Or you could do it without. Whichever way you prefer.

Study Questions:

- a) How is Rebecca’s decision (to leave) reflected in Higher-Education Harvest’s 1999 financial statements?
- b) How do you suppose Dr. Pierce and Kevin Dwire feel about their involvement with Rebecca and Higher-Education Harvest?

---

Session: 10            (Wednesday 5<sup>th</sup> March)

Subjects for Discussion: Endowment policy and management. Definition of endowment income.

Case:                Merced College, pp. 1-4 (David W. Young, 2005, Crimson Press)

Additional Readings: Peruse the (many) short sections in the following two books that relate to Endowment Policy and the definition of income. Be guided by the indexes, and by your own interests in different aspects of this issue.

- Gross, McCarthy, & Larkin, Financial and Accounting Guide for Nonprofit Organizations, and in
- Anthony, Robert and Young, David, Management Control in Non-Profit Organizations. Homewood, IL: Richard D. Irwin, 2003 (7th edition).

Study Questions:

- a) Consider the alternative rules for defining the spendable portion of the endowment. In the light of the college’s goals, which one is the most advantageous?
- b) Which one is the most prudent?
- c) Which one would you recommend? Be prepared to justify your recommendation, considering the role of an endowment for a nonprofit

organization, and any implications of your recommendation for fundraising.

---

Session: 11 (Monday 10<sup>th</sup> March)

Subjects for Discussion: Methods of showing restrictions on funds within financial statements. Fund Accounting: its purposes and practice.

Case: Glastonbury College (KSG Case, Sparrow, 1/26/2004)

Additional Readings: Please peruse the section on "Fund Accounting": in Gross, McCarthy, & Larkin, Financial and Accounting Guide for Nonprofit Organizations, pages 44-58.

(Optional) Written Assignment: Suppose the college chooses the mortgage option, and borrows \$2 million. How would you reflect this on the balance sheet? Indicate the changes to the balance sheet by imagining the mortgage were taken at the end of June 2004 (so you can simply amend the existing balance sheet accordingly).

Study Questions: Examine the structure of the balance sheet accounts presented by the previous budget director. What can you tell about the financial condition of the college, just from this one statement? For this college, is the use of Fund Accounting fulfilling its purpose?

---

Session: 12 (Wednesday 12<sup>th</sup> March)

Lecture: Perspectives on the Accounting Profession. Its purposes, competencies, and limitations. International comparison of accounting models.

Readings: "Note on GAAP in Nonprofit Organizations." David W. Young. The Crimson Group, Inc.; © 2005; pp. 1-18.

---

Session: 13 (Monday 17<sup>th</sup> March)

Subjects for Discussion: Relationship between capital and operating costs. Importance of segregating them, and consequences of failure to do so.

Case: The Pena Family Case. (KSG Case, Keating, Revised 3/21/2005)

Additional Readings: Horngren, Datar & Foster, Cost Accounting: A Managerial Emphasis, Prentice Hall, 2003 (11<sup>th</sup> Edition). First 10 pages of Chapter 21 (on Capital Budgeting), and as much of the rest of the chapter as interests you.

(Required) Written Assignment: Using the electronic spreadsheet provided (see file Pena Family-template.xls) calculate the effect of the Pena family's home purchase on their monthly expenses, and on their net worth. The spreadsheet is designed so that you only have to populate the blue-shaded cells with the relevant information from the case, and the formulas do the rest of the work. Submit a printed copy of ONLY the "Income Analysis" and "Personal Wealth Analysis."

Study Questions:

- a) What is your assessment of the family's financial condition?
- b) Would you advise them to go ahead with this purchase?
- c) What risks are they assuming by taking on this mortgage?
- d) Under what conditions will their home investment increase or decrease their personal wealth? How about their personal welfare?

---

Session: 14 (Wednesday 19<sup>th</sup> March)

Lecture: Introduction to Cost Accounting. Fixed, semi-variable and variable costs. Direct and indirect costs. Breakeven analysis.

Additional Readings: Horngren, Datar & Foster, Cost Accounting: A Managerial Emphasis, Prentice Hall, 2003 (11<sup>th</sup> Edition). First 10 pages of Chapters 1,2, and 3; and as much more of these chapters as interests you.

---

SPRING BREAK: 24<sup>th</sup> March - 28<sup>th</sup> March

---

Session: 15 (Monday 31<sup>st</sup> March)

Subjects for Discussion: Introduction to Activity-Based Costing

Case: We will discuss the pricing of KSG Executive Programs, using materials to be distributed in class.

Background Readings: Horngren, Datar & Foster, Cost Accounting: A Managerial Emphasis, Prentice Hall, 2003 (11<sup>th</sup> Edition). Pages 141-153 (on Activity-Based Costing, and the growing use of it.)

---

Session: 16 (Wednesday 2<sup>nd</sup> April)

Subjects for Discussion: Activity-Based Costing (continued)

Case: Pierce Transit and the Seattle Express (KSG Case, Jay H. Walder, 1997)

Study Questions: This is a very practical case, but with an extremely complex set of exhibits. It tests one's ability to remember what it was you wanted to know, and why! Examine carefully the *structure* of the exhibits, and work out the purpose of each. I imagine that you had to give a presentation, which would focus ultimately on exhibits 9,10 and 11 (figuring out what it costs to run the service internally, and what it might cost to expand the service). Come to class prepared to explain the structure and purpose of these exhibits, as if to a not-terribly-financially-sophisticated audience of policymakers.

Additional Readings: as for session 15 above.

---

Session: 17 (Monday 7<sup>th</sup> April)

Subjects for Discussion: Activity-Based Costing (continued), privatization of government services, performance accountability.

Case: Indianapolis: Activity-Based Costing of City Services (A). (HBS Case no. 9-196-115, 1996)

Study Questions: (a) Is the comparison of costs "per ton" appropriate when considering the cost of filling potholes?

(b) Comment on the ABC model developed by the project team. What are its strengths and weaknesses?

(c) Was it appropriate for the city to allow the municipal employees to see the ABC estimates, and then give them an opportunity to reduce their costs?

(Required) Written Assignment: Use the information relating to the Northwest and Northeast regions, presented in exhibits 5B and 6 of the case, to prepare a side-by-side comparison of past practice with the union's revised proposal in terms of costs per ton. Keep your comparison concise by merging and summarizing costs by category wherever appropriate. Explain in a few sentences where and how the team has proposed to achieve the cost reductions.

---

Session: 18 (Wednesday 9<sup>th</sup> April)

Guest Lecture: Professor Linda Bilmes: Budgeting, theory & practice

Readings: To be announced.

---

Session: 19 (Monday 14<sup>th</sup> April)

Practice Examination Review. Please bring your completed practice exam with you to class.

---

Session: 20 (Wednesday 16<sup>th</sup> April)

Subjects for Discussion: Investment Decisions, and Investment Instruments: Stocks (Common & Preferred), Commercial Bonds, Municipal Bonds, T-Bills, Junk Bonds, Commercial Paper, Mortgages, Money Market Instruments, Mutual Funds, Options (Puts/Calls), Futures, etc.

(Optional) Assignment: Call for volunteers to participate in this class, and a sign-up opportunity, will be presented during the prior class.

Additional Readings: Gross, McCarthy, & Larkin, Financial and Accounting Guide for Nonprofit Organizations. New York: John Wiley and Sons, 2000 (6th edition). Chapter 27 (Investments).

---

Session: 21 (Monday 21<sup>st</sup> April)

Subjects for Discussion: Cultural and organizational conflicts between risk-control and processing functions; performance metrics for fraud control; reactive, proactive, and preventive strategies, and their implications for organizational relationships; budgetary support for control operations; political management of unpleasant truths.

Case: "Fraud Control at Teleflex Health Insurance Co." Case (A). [KSG, Strategic Computing Program, 1996.] Cases (B) and (C) to be distributed in class.

Study Questions:

- a) What is the mission of the Special Investigative Unit, and how should their success be measured?
- b) How should the effectiveness of Teleflex's fraud control systems be measured?
- c) How should the budget for the SIU be set?
- d) What goals should Deborah Fagan set herself for the first year?

Note: Don't worry for now about Larry Lester and his associates. We'll catch up with their activities later.

---

Session: 22 (Wednesday 23<sup>rd</sup> April)

Lecture: Fraud Control & Financial Risk Control: The State-of-the-Art.

---

Session: 23 (Monday 28<sup>th</sup> April)

Subjects for Discussion: This case provides an opportunity to review what we have learned about the ways in which financial aspects of an organization's life are reflected in its financial reporting. Also, the chance to compare and contrast, through a classroom exercise, the financial peculiarities of different enterprises. Some Ratio Analysis.

Case: "I identify the Nonprofit" (HBS Case no. 9-195-215, revised January 2002)

(Required) Group Assignment: Some of the organizations described in this case seem to be facing bankruptcy, some are not in great shape, some are doing OK, and some are terrifically prosperous. Your job, as a group, is to:

- (a) decide which set of accounts relates to each of the seven organizations, and,
- (b) determine what kind of financial condition each is in.

As a group, you must pick ONE of the organizations, and come to class prepared to present, in no more than 5 minutes, your reasons for identifying that organization with whichever set of accounts you believe is theirs, and to summarize the basis for your judgment about their financial condition. You should bring to class a written note which clearly states the membership of your group, the organization you claim to have identified, and (in brief) your assessment of their financial condition. For this class you should sit with the other members of your group.

---

Session: 24            (Wednesday 30<sup>th</sup> April)

Subjects for Discussion:    Wrap up and review. Exam preparation. Also a practical summary guide to financial analysis. Course evaluations.

---