Overview

In this module, students will be exposed to the key accounting concepts, basic financial statements and analytical techniques required for effective financial management. Using cases, problem sets and lectures, students will gain experience with the basic terminology and tools to read nonprofit and public sector financial statements. The course will also provide students with basic financial management tools including cost accounting, break even analysis, ratio analysis and financial planning/budgeting.

This course assumes no knowledge of financial accounting and there are no prerequisites for this course. If you already have experience in reading and understanding financial statements and accounting, this course is not appropriate for you. Accounting does not require mathematical skill – though students who enjoy quantitative and analytical problem solving will find the course content more rewarding.

<table>
<thead>
<tr>
<th>Teaching Fellow (“TFs”):</th>
<th>e-mail addresses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scott Overdyke</td>
<td><a href="mailto:scott_overdyke@hks11.harvard.edu">scott_overdyke@hks11.harvard.edu</a></td>
</tr>
<tr>
<td>Course Assistant (“CAs”):</td>
<td>e-mail addresses</td>
</tr>
<tr>
<td>Sonia Montoya</td>
<td><a href="mailto:sonia_montoya@hks11.harvard.edu">sonia_montoya@hks11.harvard.edu</a></td>
</tr>
</tbody>
</table>
NOTE: Course syllabus may be revised depending upon the actual flow of the course in the classroom. All changes will be posted in announcements on the Class Website.

Syllabus and Course Materials

We have developed a compendium of course readings, cases and financial statement examples that are included in the Course Packet available from the Course Materials Office. In addition, each class will include a powerpoint presentation slide deck which will be posted to the Course Website before each class. You are encouraged to bring a hard copy of this material to each class – this is particularly important for the financial statement examples since they will be referred to in the class presentation.

The Course Website is organized as follows for each class:

- Class outline – powerpoint slide deck of materials for class discussion
- Required readings – additional required reading material
- Optional readings – for those who would like to learn more about the topic – these materials will not be included on the final exam

Problem sets/case analysis and the Case Study are included in a separate folder on the course website

The syllabus provides the entire outline for the class including reading assignments, problem sets, case studies and in class discussions. The timing of certain items and specifics may change during the course depending on the individual needs of the students. The Course Website is the major source of communication for the Course – it is essential that you use it as such to ensure that you have current and complete information for the classes.

NOTE: If you would like to purchase a course packet of all the readings/materials on the course website in place of printing them out, please submit your request to me by September 3 and we will have a course packet prepared for purchase in CMO.

Optional Friday Review Session

Optional review sessions will be held on Fridays from 10:10-11:30AM in Land. No new material will be introduced in these sessions; rather, they will be opportunities to clarify what has 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 some reason. The discussion in the review sessions will be based on questions from students and also will include additional examples and problem sets for further review of the materials. While the sessions are optional, all students who enroll in the class should ensure that their schedule permits them to attend the Friday review sessions as necessary. Attendance at Review Sessions is factored into Class Participation.
Seeking Help Outside of Class

We encourage you to actively interact with classmates, our teaching fellow or the professor in order to learn the material. The first three classes are particularly critical to the entire course – so make sure you have those basics in place. **If you feel you do not understand a set of concepts either before or after the class session, you are strongly encouraged to attend review sessions. The review sessions are the major source of assistance for this module.** Alternatively, you may set up an office appointment or e-mail the professor or teaching fellow with your questions, comments and concerns.

The goal of these interactions is to raise questions and work through the material so that at the end of the interaction you have a better understanding of the key course concepts, reading and understanding financial statements, financial analysis tools and financial management terminology.

Other Course Materials

Certain cases, readings, and spreadsheets will be provided on the course website. Due to copyright laws, certain materials can not be distributed in this fashion. So, we have prepared an important course packet available at the Course Material Office.

**For each class, we have prepared outlines of the lectures. These will be available on the course web page in advance of class. We encourage you to print them out and bring them to class. The class discussion will focus on summaries of these outlines and important highlights.**

Note: Materials used in this class, including, but not limited to handouts, exercises, cases, discussion questions, charts, and graphs are copyrighted and may not be used for purposes other than the educational experience of this class without the written consent of the instructor.

Other Reference Materials


**Cold Calling and Class Participation**

Cold calling will be used during the class to keep discussions lively. Students may stand out either as having made valuable contributions to the learning environment or by being poorly prepared. Contributions to the learning environment include but are not limited to insightful comments or constructive questions in the classroom or by working with or assisting their peers outside of class. This includes participation in review sessions as well. Class participation will be used in determining grades for the course – especially for grades “on the margin”.

**Problem Sets and Case Studies**

Problem sets have three objectives: (1) to reinforce concepts introduced through the readings and class, and (2) to practice reading and interpreting financial statements. **We have prepared five problem sets/case analyses for grading in the course. Each student can elect which three of the five problem sets/case analysis they wish to prepare.** We have done this to balance student course work load with other classes and also allow students to select their areas of greater interest (this will be especially important toward the end of the module when case studies are due as well.) Problem set discussions (not calculations) should be typewritten since handwritten submissions can be difficult to understand or read. Students may wish to do all five problem sets to gain greater facility with the course materials and can submit for “extra credit” in grading. All five problem sets will be discussed in class or in the review sessions.

**In addition, students will be required to prepare one case study for grading as well as for class discussion.**

Problem sets and case studies are due at the beginning of the class on the date indicated in the syllabus. **To make the due dates clearer, we have added a summary of due dates on page 7 of this syllabus.** Any changes in due dates will be posted to the course website and announced in class. Late assignments will not be accepted unless an extension is granted prior to the due date and time. In the past, extensions have been granted due to illness and family-related matters.

**Group Work**

Collaboration and working with other students is one of the hallmarks at KSG that we encourage. This collaboration and peer “tutoring” can be a valuable part of the learning process. Students are encouraged to work together in small work groups (2-3 students) on the problem sets and case studies. However, it is expected that each student will independently prepare their own submission and work product to demonstrate their individual effort and contribution. The problem set or case study should also identify clearly that the work product was prepared in collaboration with other students with their names indicated. It is not acceptable to simply submit copies of the same analysis of discussion for the individual members of the work group.
Final Examination

A 2-hour final exam will be administered which will include some multiple-choice, some short answer, and some brief case analyses. A final exam review session will be held in the final class session which will include a powerpoint presentation of the key course materials for students to use in their review for the exam. You are permitted to bring a calculator for computational purposes only. However, PDAs are not allowed.

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 conflict well in advance.

Course Grading

Final grades for the course will utilize the guidelines and policies of KSG for grade distribution. Each case and problem set will be graded with a letter grade. Class participation will be graded in three categories. The grades will be determined based on the following allocation of effort:

- 45% in total – for 3 of 5 problem set and case analyses (15% each)
- 20% for case study
- 25% for final examination
- 10% class participation
# COURSE OUTLINE AND SYLLABUS

<table>
<thead>
<tr>
<th>Class</th>
<th>Day</th>
<th>Date</th>
<th>Topic</th>
<th>Assignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Thu</td>
<td>9/2</td>
<td>Introduction to Accounting and Financial Management</td>
<td>Readings</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Discussion of Sleep Apnea</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Financial Statements</td>
</tr>
<tr>
<td>2.</td>
<td>Tue</td>
<td>9/7</td>
<td>Basic Accounting Concepts and Principles</td>
<td>Readings</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Problem Set 1 – Basic Accounting Concepts</td>
</tr>
<tr>
<td>3.</td>
<td>Thu</td>
<td>9/9</td>
<td>Understanding Nonprofit Financial Statements</td>
<td>Readings</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Discussion of Road Map:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Pilgrim Services Financials</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Case Analysis 1 – Family Services of Peru</td>
</tr>
<tr>
<td>4.</td>
<td>Tue</td>
<td>9/14</td>
<td>Further Discussion of Nonprofit Financial Statements</td>
<td>Readings</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>SanJo University Financial Statements</td>
</tr>
<tr>
<td>5.</td>
<td>Thu</td>
<td>9/16</td>
<td>Systems of Internal Control and Criteria for Hiring</td>
<td>Readings</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Financial Managers</td>
<td>Discussion of American</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Cancer Society</td>
</tr>
<tr>
<td>6.</td>
<td>Tue</td>
<td>9/21</td>
<td>Introduction to Understanding Governmental Financial</td>
<td>Readings</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Statements and Accounting Principles</td>
<td>Road Map: City of Cambridge Financial Statements</td>
</tr>
<tr>
<td>7.</td>
<td>Thu</td>
<td>9/23</td>
<td>Further Discussion of Governmental Financial Statements</td>
<td>Class Exercise Gov’t financial statement concepts and policy</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Case Analysis 2: City of Cambridge</td>
</tr>
<tr>
<td>8.</td>
<td>Tue</td>
<td>9/28</td>
<td>Introduction to Financial Analysis: Break Even Analysis</td>
<td>Readings</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>and Cost Accounting</td>
<td>Class exercise Cost Allocation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Problem Set 2 – Break Even Analysis</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Problem Set 3: Pilgrim Financial Services (Ratios)</td>
</tr>
<tr>
<td>10.</td>
<td>Tue</td>
<td>10/5</td>
<td>Financial and Credit Analysis</td>
<td>Readings</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>PwC Health Care Benchmarking Survey</td>
</tr>
<tr>
<td>11.</td>
<td>Thu</td>
<td>10/7</td>
<td>Introduction to Financial Planning: Budgeting</td>
<td>Readings</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Case STUDY Pilgrim Financial Services (Budget)</td>
</tr>
<tr>
<td>12.</td>
<td>Tue</td>
<td>10/12</td>
<td>Integrated Financial Planning – Course Review</td>
<td>Review Course Summary</td>
</tr>
<tr>
<td>13.</td>
<td>Thu</td>
<td>10/14</td>
<td>Final Exam</td>
<td></td>
</tr>
</tbody>
</table>
# QUICK VIEW COURSE ASSIGNMENT DUE DATES

<table>
<thead>
<tr>
<th>Class</th>
<th>Description</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sleep Apnea Financial Statements</td>
<td>For discussion in class</td>
</tr>
<tr>
<td>2</td>
<td>Problem Set 1 – Basic Accounting Concepts</td>
<td>To be submitted</td>
</tr>
<tr>
<td>3</td>
<td>Case Analysis 1 – Family Services of Peru</td>
<td>To be submitted</td>
</tr>
<tr>
<td>4</td>
<td>San Jo University Financial Statements</td>
<td>For discussion in class</td>
</tr>
<tr>
<td>5</td>
<td>American Cancer Society – Case</td>
<td>For discussion in class</td>
</tr>
<tr>
<td>6</td>
<td>Governmental financial statements concepts and policies problem</td>
<td>For discussion in class *</td>
</tr>
<tr>
<td>7</td>
<td>Case Analysis 2: City of Cambridge CAFR, Financial Statements and Bond Offering</td>
<td>For discussion in class and to be submitted</td>
</tr>
<tr>
<td>8</td>
<td>Cost allocation exercise</td>
<td>For discussion in class</td>
</tr>
<tr>
<td>8</td>
<td>Problem Set 2 – Break even analysis</td>
<td>To be submitted</td>
</tr>
<tr>
<td>9</td>
<td>Problem Set 3 – Pilgrim Services Financial Ratios</td>
<td>To be submitted</td>
</tr>
<tr>
<td>10</td>
<td>PwC Academic Medical Center Benchmarking</td>
<td>For discussion in class</td>
</tr>
<tr>
<td>11</td>
<td>Case Study: Pilgrim Services Budget</td>
<td>For discussion in class and to be submitted</td>
</tr>
</tbody>
</table>

* Can also be submitted for extra credit
COURSE DESCRIPTION

Class 1 (Sept 2): Introduction to Accounting and Financial Management

CLASS OBJECTIVES:

- Provide a course overview emphasizing expectations and the nature of assignments.
- Understanding nonprofit and governmental organizations – define and differentiate
- Understand the basic structure of financial statements and how they relate to each other.
- Financial reporting for nonprofits – IRS, regulatory and other requirements

Read:

- Warren Ruppel, Not-for-Profit Accounting Made Easy, “Chapter 2 – Basic Financial Statements of a Not-for-Profit Organization” pages 43-63 (CP 67-87)

For discussion in class:

- Sleep Apnea financial statements (on course website)
  - What were your first impressions of these financial statements?
  - What questions did you have based on reading these statements?

Class 2 (Sept 7): Basics Accounting Principles and Concepts

CLASS OBJECTIVES

- Become familiar with basic accounting terminology and concepts
- Understand the key principles used by accountants to prepare financial reports
- Be able to distinguish between the cash and accrual accounting methods

Read:

- Warren Ruppel, Not-for-Profit Accounting Made Easy, “Chapter 1 – Understanding the Basics of Not-for-Profit Accounting” pages 1-42 (CP 23-64)
- Thornburg, Ann – “The NonAccountants Glossary for Nonprofit Financial Statements” (on course website)

Prepare for next class:

Problem Set 1 – Basic Accounting Concepts (on website)
Class 3 (Sept 9): Understanding of Nonprofit Financial Statements

CLASS OBJECTIVES:

- Examine other formats and types of nonprofit financial statements
- Accounting for major balance sheet, revenue and expense items
- Footnote disclosures

Read:

- “Road Map” for Pilgrim Services Financial Statements (Class Handout)
- Keating and McCarthy – “An Overview of Financial Stewardship” (on course website)

Discuss in Class:

- Pilgrim Services Financial Statements (in course packet) – be prepared to discuss major concerns you would have as a potential donor to PSS – what are the strengths and weaknesses of PSS based on your review of the financial statements. (CP 89-97)

Prepare for next class:

- Case Analysis 1 – Family Services of Peru (see course website)

Class 4 (Sept 14): Understanding of Nonprofit Financial Statements

CLASS OBJECTIVES:

- Review and discussion of financial statements for a University
- Understand endowments and investment accounting for nonprofit organizations
- Complete financial statement analysis of nonprofit financial statements

Read:

- McCarthy, Understanding Financial Statements (San Jo University Example) (on course website)
- Read the SanJo University Financial Statements (on course website)

Discuss in Class:

- SanJo University Financial Statements
**Class 5 (Sept 16): Introduction to Internal Controls**

**CLASS OBJECTIVES:**

- Understand basic internal controls and their importance in nonprofit and public organizations
- Identify key controls to prevent fraud and financial misstatement
- Identify qualities important in finance staff

NOTE: We will use the American Cancer Society as our case for class discussion.

**Read (all of these are on or links indicated on the course web page):**

- “Internal Controls in Nonprofit Organizations – The Case of the American Cancer Society, Ohio Division” (Gallagher, Radcliffe)
- McKinney, Jerome B., *Effective Financial Management in Public and Nonprofit Agencies*, “Chapter 3 – Internal Control Management”, pages 100-125 excluding Table 3-11 and Figure 3-2 (CP 99-122)

**Optional Readings:**

- “Internal Controls” (NACREF)
- “Internal Controls: Safety Tools that Should Make Cents for Every Nonprofit” (Michigan Nonprofit Association)
- “Nonprofits Face Special Challenges in Protecting Against Fraud” (Stonebridge Business Partners)
- “Auditing Nonprofits: Three Issues Encountered by Auditors” Vanessa Burnette, Virginia Society of CPAs

**Class 6 (Sept. 21): Introduction to Understanding Governmental Financial Statements and Accounting Principles**

**CLASS OBJECTIVES:**

- Understand governmental financial reporting
- Gain an understanding of the fund accounting groups used by governmental entities
- Understand the accounting principles followed by governmental entities
- Develop the ability to analyze and read governmental financial statements

**Read:**
• Wilson, Kattelus and Reck, Accounting for Governmental and Nonprofit Entities, “Chapter 2 – Principles of Accounting and Financial Reporting for State and Local Governments” pages 33-50 (CP 125-142)
• Coe, Charles K., Governmental and Nonprofit Financial Management, Chapter 8 – Auditing, pages 259-270 (CP 145-156)
• Read City of Cambridge Financial Statement “Road Map” (Class Handout)

Complete for discussion in next class (can also be submitted for extra credit)

• Governmental accounting and financial statements concepts and disclosures (on website)

Class 7 (Sept 23): Understanding Governmental Financial Statements cont’d

CLASS OBJECTIVES:

• Read and understand actual governmental financial statements
• Analyze and understand comprehensive financial reporting requirements for governmental organizations

Read:

• City of Cambridge Financial Statements for 2009, Bond Official Statement from March 2009 and CAFR (on City of Cambridge Website www.cambridgema.gov/publications.cfm

Complete the following for discussion in class (Case Analysis 2):

• If you were assessing the financial health of the City of Cambridge today in the current economic recession, which information would be useful in your assessment?
• After reading the CAFR which includes the audited financial statements, supplemental financial information and other information, do you believe this meets the definition of “transparency” in today’s society. Why and why not?

Class 8 (Sept 28): Introduction to Financial Analysis: Cost Accounting and Break Even Analysis

CLASS OBJECTIVES:

• Understand cost behavior including fixed and variable, direct and indirect costs
• Understand program cost allocation principles in nonprofit organizations
• Understand how break even analysis works
• Become familiar with utilizing this tool to make business decisions

Read:

• Thomas McLaughlin, *Financial Basics for Nonprofit Managers*, “Chapter 7 – Cost Accounting: How Much Does It Cost” pages 77-87; and “Indirect Costs and Other Despised Items” pages 145-152 (CP159-166)
• Warren Ruppel, *Not for Profit Accounting Made Easy*, “Chapter 5 – Accounting for Activities with Joint Costs and Indirect Cost Allocation” pages 109-124 (CP 169-184)

Prepare:

In Class Cost allocation exercise (on powerpoint slide presentation on Class Website)
Problem Set 2 - Break Even Analysis for next class (on Class website)

**Class 9 (Sept 30): Ratio Analysis - Basic Financial Ratios**

**CLASS OBJECTIVES:**

• Introduce the ratios and other tools used to analyze NGO financial statements
• Variance analysis and trend analysis
• Examine the categories of ratios: Liquidity, Profitability, Long term financial strength, Efficiency, Debt service ability
• Become familiar with other analytical tools used to asses performance
• Provide practical examples of how ratios are used in the evaluative process

Read:


Prepare:
• **Problem Set 3 to be handed in next class:** Pilgrim Services Financial Ratios (on course website)

**Class 10 (Oct 5): Financial Analysis - Credit Analysis**

**CLASS OBJECTIVES:**

- Application of ratios to assess the financial health of nonprofit organizations financial health.

**Read:**

- *PricewaterhouseCoopers 2008 Health Care Benchmarking Analysis (on course website)*

**Discuss in Class:**

*PricewaterhouseCoopers 2008 Health Care Academic Medical Center Benchmarking Analysis*

We will discuss the following questions in class – and this will be an important discussion for the “class participation” component of the grade – come prepared to discuss:

From the ratios presented in this summary, identify the strongest and the weakest AMCs. Also identify areas of concern or vulnerability for individual institutions based on the ratios. Which organizations would you put on the “Credit Watch List”? And what specific questions would you want to ask of specific institutions?

**Class 11 (Oct 7): Introduction to Financial Planning: Budgeting**

**CLASS OBJECTIVES:**

- Understand importance of budgeting in nonprofit organizations
- Understand key budgets: operating, cash and capital
- Determination of liquidity and working capital adequacy.
- Understanding the importance of cash management
- Identify techniques used to balance annual budgets.
- Assessing the impact of budgetary techniques on current and future periods.

**Read:**

*Optional Reading*

• Blackbaud White Paper, “Financial Management of Nonprofit Organizations (on course website)

*Complete Case Study for Pilgrim Services Society Budget* for submission in next class (on course website)

Answer the following questions after reading the budget discussion for Pilgrim Services. Your case analysis should also include all previous discussion on the financial statements of Pilgrim Services:

- What are the major issues in the planned budget for Pilgrim Services?
- What changes would you recommend in the planned budget for Pilgrim Services?
- What other actions would you encourage if you were the Executive Director of Pilgrim Services?

Your analysis should be no more than 2-3 typewritten pages not including any charts or additional financial analysis. We will use the case as part of the class discussion on budgeting.


**CLASS OBJECTIVES:**

- Understand importance of long term financial planning to overall financial strategy and organizational success
- Review and discuss actual examples of long term integrated financial plans of nonprofit organizations
- A complete powerpoint summary and discussion of the most important elements of the entire class will be presented and discussed with opportunity for questions
- Specifics on the final exam will be discussed

**Class 13 (Oct 14) – FINAL EXAM**