UNIVERSITY AT ALBANY
Rockefeller College of Public Affairs & Policy
PAD-640 NONPROFIT FINANCIAL MANAGEMENT
Spring 2013
Wednesdays 5:45 to 8:50 PM in Milne 215
Professor Purtell

YOU ARE RESPONSIBLE FOR MEETING ALL OF THE COURSE REQUIREMENTS SET FORTH IN THIS DOCUMENT

PLEASE READ THIS ENTIRE DOCUMENT

COURSE OBJECTIVES AND DESCRIPTION: The course focuses on planning, reporting and financial decision making in nonprofit organizations, topics identified by nonprofit managers as being crucial to organizational survival and success. We will cover these topics in two modules:

1. Business planning both as a proactive exercise and a tool for organizational control
2. The related issues of risk, reporting, governance and financial analysis in nonprofit organizations

The course includes lectures, problem solving and a term project. The course is structured to integrate both academic and practical approaches and perspectives on current nonprofit organizations’ financial problems. Please note the heavy workload in the last three weeks of the course and plan your time accordingly.

Business Plan: During the course, students will form teams to prepare a business plan for an existing or startup nonprofit organization of your own design. We will review the basic business-planning concepts during the first two classes. Teams will be formed during the first class and finalized in the third class. By the end of the fourth class, each team will be expected to submit a half page summary of their approach to developing the plan. Throughout the rest of the semester, we will devote the first ten to fifteen minutes of each class to the planning process. The business plans will be due at the beginning of class fourteen. Business plans are very labor intensive. Get an early start.

Class Discussion: Student participation and discussion is expected. Come to class prepared to discuss issues raised in the class assignment or to explain your solutions to assigned problems to the best of their ability. To do this, you need to read the class assignments before the lecture.

TEXTS AND COURSE MATERIAL:

Required Texts

The McGraw Hill Guide to Writing a High-Impact Business Plan, by James B. Arkebauer,
McGraw Hill Publishers. This is referred to as Arkebauer throughout the syllabus.

Optional Text

*Financial Management for Public, Health, and Not-for-Profit Organizations* by Stephen A. Finkler. This is referred to as Finkler in the assigned readings. This is the text you used in PAD-501. You do not have to buy the book but may want to have access to it if you feel you need to review any of the concepts from the core course.

Additional Reading contains materials drawn from a variety of nonprofit finance texts and journals are also required for the course. You will be able to access PDF versions of the readings from Blackboard. These materials were drawn from the following sources:


Bromberger & Thompson (1993) “Getting Organized” Lawyers Alliance for New York. This is referred to as Getting Organized.


Young, Dennis (2007) “Financing Nonprofits: Putting Theory into Practice” Altamira Press. This is referred to as Young.

**Additional Readings and Assignments:** There are additional readings listed throughout the syllabus. Some can be found on the web sites listed and others have been downloaded to Blackboard. In addition, I will post assignments to Blackboard a few weeks before they are due.
Guidestar: You will have premium access to Guidestar. I will post the information you will need to access the site on Blackboard. Guidestar is at http://www.guidestar.org/index.jsp.

Class Notes: The notes used in the lectures will be available on Blackboard.

Financial Calculator: You will need a calculator, like the one you bought for PAD-501 for exams and to check your spreadsheet work.

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Telephone: 442-5276
Email: rpurcell@albany.edu
Office Hours: Thursdays 4:30 PM to 7:00 PM and by appointment

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PREREQUISITES: PAD-501

Course Modifications: The goal of this course is to cover a limited number of advanced nonprofit finance and planning topics thoroughly. We will adjust the pace and content of the course to meet that goal. As a result, there are likely to be changes to the syllabus during the semester. They will be announce in class and posted to Blackboard.

GRADING
1. 50% of your grade will be based on the assignments outlined below.
2. 25% of your grade will be based on the business plan that your group prepares.
3. 25% of your grade will be based on the final examination. You must pass the final to pass the course.

4. There is no provision for extra credit in this course. Stay up with the readings. Be sure to allow sufficient time to complete your assignments and hand them in on time.

The Business Plan (25 Points): The business plan is due at the beginning of class fourteen. This is a time-consuming assignment. Do not put it off until the last minute. Late business plans will be penalized one-half grade for every two days that they are overdue. I expect the plan to be a professional product. Plans must contain the following four elements and include the fifth if the plan calls for foundation or contract funding:

The business plan is an especially labor intensive project. Each team member should plan on devoting approximately forty or more hours to the planning effort over the semester.

1. An executive summary of not more than three single-spaced pages. The executive summary must be written last. You should be aware that a good executive summary is never written in a formal sense. If the plan has been properly constructed, you should be able to extract the executive summary from the body of the plan by organizing the first sentences from each section of the plan to form the paragraphs of the summary. If you do this and either the summary does not flow logically or you are missing a critical part of your argument, the plan is flawed. Fix the plan not the summary. If the executive summary has not been “extracted” from the body of the plan, you will lose ½ grade on the plan.

2. The body of the plan: A detailed plan that follows the outline in Arkebauer, the material at the on-line Free Management Library (see the URL below) and the material discussed in the planning lectures. The plan should be no more than thirty-five to fifty single-spaced pages. As you write the plan, you will find that some of the elements in Arkebauer’s outline do not make sense for your business concept. You may also find things missing. For example, a well-written plan for a not-for-profit organization may require a discussion of the policy implications of the actions you are proposing. If that is the case, add a section. Also, remember to include sections describing your operating model, the economics of the proposed business, and anticipated business risks along with your strategies to manage them. We will be discussing these three concepts in class. Stay flexible. No planning guide works for every case.

3. Pro-forma financial statements for three years on a quarterly basis with annual summaries for each year. The statements must include projected income statements, forecasted balance sheets and statements of cash flows. The three statements must be internally consistent. You must prepare the pro-formas using a spreadsheet. An operating model that shows how you intend to operate the business combined with your forecast of the proposed organization’s operating volume will be the basis for your pro-forma projections. To prepare the quarterly statements given the expected timing of cash receipts and payments, your model may have to be monthly with quarterly summaries.

4. A detailed explanation of the assumptions that were used to produce the pro-formas of not more than five single-spaced pages.
5. If you plan to approach foundations for funding or bid on government social service contracts, you must also include an evaluation plan as part of the business plan.

**Business Planning Resources:** The Free Management Library has a number of business planning resources including sample nonprofit business plans. The site can be found at: [http://managementhelp.org/businessplanning/index.htm](http://managementhelp.org/businessplanning/index.htm). You may want to refer to it throughout the semester.


**Assignments:** In addition to the business plan, you will be required to complete a number of assignments throughout the semester. They are listed throughout the syllabus.

**Many of these assignments will require you to use a spreadsheet. Where that is the case, I will not accept raw spreadsheet output.** You must format your solutions using a word-processing program and provide sufficient narrative to both explain how you arrived at your answers. Be sure to support those answers with data. All assignments must be printed out and either handed in at the beginning of the class session or put in my box before the start of class. **Except where noted, no email assignments will be accepted. If you have a last-minute crisis, fax the assignment to me at 518-442-5298.** Make sure that you get your work in on time.

**Time Commitment:** Like most finance courses, this one is likely to be time consuming. It will also be fast paced. Please be sure you make the time you need. Also, please note the number of assignments that are due at or near the end of the course. Be sure to stay up with the work and start all of your assignments early.

**Blackboard:** All students will be automatically enrolled in the Blackboard system. Blackboard at [http://www.albany.edu/its/blackboard upgrade.htm](http://www.albany.edu/its/blackboard upgrade.htm) is a web-based system that allows you to correspond with faculty, get class handouts, and check your grades. We will be using **Blackboard 9.1.** The faculty will also use this system to communicate with you regarding announcements and course assignments. **You should check your Albany email account regularly! If this email account is not your primary email address, you can have your mail forwarded automatically to your primary account.**

**Email:** All students should check their e-mail at least once a week throughout the term. **This is your responsibility!** Blackboard can be accessed through any Internet service or the various computer labs on campus. If you do not check your Albany email address, be sure to forward your mail to an address you check on a regular basis.
Module 1 - Business Planning

CLASS 1 to 7: THE BUSINESS PLANNING PROCESS: In classes one, we will discuss the overall structure of the course, and start to talk about the business-planning process. That discussion will last through class six. In classes three and four, students will present and get peer feedback on their business concepts. During class seven, we will talk about operating models.

Planning teams will be formed at the beginning of the second class. Let me know by email if you have a preference as to your teammates.

Class 1 Readings – the broad planning process:
1. **Blackboard** – Bowman - “Nonprofits in History and Law” p. 65 to 80
2. **Arkebauer.** You should finish reading Arkebauer by class three.
3. **Blackboard** - Sahlman, “How to Write a Great Business Plan”. This provides a humanistic counterpoint to Arkebauer’s technical approach to business planning.

Class 2 Readings – sources of funding and capital structure:
1. **Blackboard** – Swoboda and Swoboda, “Managing Nonprofit Financial and Fiscal Operations” – “Nonprofit Funding Sources” p. 167 to 180
2. **Blackboard** – Oster - Chapter 8 Bornstein “Securing Financial Capital” p. 113 to 129
   http://nonprofitfinancefund.org/files/docs/2010/NPQSpring03.pdf
4. **Blackboard** – Oster - Chapter 1 Dees, Gregory, “Putting Nonprofit Business Ventures in Perspective” p. 3 to 18
6. **Web Based** - Davis, “Borrowing with Tax-Exempt Bonds”

Class 3 Assignment:

(5 points) – A two-page outline of your business concept and the proposed work schedule for your team’s business plan is due at the beginning of class three. (1 point) During class three, each team will present their business concept and defend them in an “objection’s clinic” format. In addition, you will need to search for possible sources of funding for your assigned organization and write three pages on alternative sources of funding and how you would position your
organizations to receive funding from them. (1 point) Hint: Go to Guidestar (http://www.guidestar.org/index.jsp) and look at the mix of funding sources for organizations that are similar to the one you are working on. These assignments will be graded on a best-efforts basis.

Class 5 Readings – marketing, nonprofit ventures, implementation and evaluation:

1. **Blackboard** – Oster - Chapter 4 Lovelock, Christopher, “Targeting the Market and Developing a Marketing Plan” p. 42 to 60
2. **Blackboard** – Oster - Chapter 10 Steckel “Forming Strategic Alliances” p. 147 to 160
3. **Blackboard** – Oster - Chapter 13 Caesar and Baker “Fundamentals of Implementation” p. 207 to 223
4. **Blackboard** – Oster - Chapter 14 Alter “Real-World Challenges of Implementation” p. 224 to 246
5. **Blackboard** – Oster - Chapter 17 Aubry “Taking Your Venture to Scale” p. 281 to 301
6. **Blackboard** – Oster - Chapter 16 Bell-Rose “Using Performance Metrics to Assess Impact” p 269 to 280

Class 6 Readings – the operating model and mechanics of starting a nonprofit:

2. **Blackboard** - Getting Organized – Chapter 1 "Corporations versus Unincorporated Associations"
3. **Blackboard** - Getting Organized – Chapter 3 “Incorporation Procedures Under the New York Not-For-Profit Corporation Law”
4. **Blackboard** - Getting Organized – Chapter 4 “Organization and Operation of Not-For-Profit Corporations under N-PCL” pages 53 to 55 and 65 to 81.
5. **Blackboard** - Getting Organized – Chapter 6 “Exemptions from Federal Tax”
7. **Blackboard** - Getting Organized – Chapter 8 “Exemptions From New York State and Local Taxes”
8. **Blackboard** - Getting Organized – Chapter 9 “Reporting Requirements for Tax-Exempt Organizations”
9. **Blackboard** - Getting Organized – Appendix “Forms”

Class 6 Assignment:

(3 points) – Identify the documents that you would need to prepare to register a nonprofit organization with the state and federal governments. Prepare a list of
the information you would need to complete these documents. These assignments will be graded on a best-efforts basis.

CLASS 7: **PLANNING, FORECASTING AND THE FINANCIAL STATEMENTS:** In class seven, we will complete our discussion of the operating model and review the financial statements. We will also discuss the techniques for analyzing and forecasting the drivers behind an organization’s future operating and financial performance. Finally, we will integrate the two concepts with the operating model and talk about how to model an organization to produce a set of integrated pro-forma financial statements. Peterson covers the theory behind generating a set of integrated pro-forma financial statement and introduces the idea of organizational modeling. **However, the mechanics of modeling the statements are not included in the readings. The only guide to modeling the statements is in your class notes. Please review the notes before class.**

**Class 7 Readings:**

1. **Blackboard** – Peterson - Chapter 17 pages 802 (starting at “Pro-Forma Financial Statements”) to the end of page 812. These readings cover forecasting, the structure of the pro-forma financial statements, and a brief description of the modeling process.
2. **Blackboard** – **Class Notes.** Review the class notes covering the mechanics of modeling the statements and review the related Excel spreadsheets on Blackboard. These spreadsheets provide snapshots of the modeling process.
3. **Optional Reading:** To review the structure of and interrelationships among the financial statements, read Chapters 9 and 10 in **Finkler.** You will need to understand these concepts to prepare the pro-forma financial statements.

**Module 2 – Risk, Regulatory Reporting & Financial Analysis**

**CLASSES 8 and 9:** **Risk and Satisfactory Financial Condition:** We will look at the issue of what it means for a nonprofit organization to maintain a satisfactory financial condition. As part of that analysis, we will look at the concept of diversification from a corporate finance perspective using the related concepts of covariance and variance to analyze the degree of diversification in nonprofit revenue portfolios. This discussion may carry over into class 10.

**Class Readings:**

1. **Blackboard** – ARNOVA “Finances in Nonprofits and Public Policy”
3. **Blackboard** – Chapter 8, Brealey Myers and Allen – Intro to Risk and Return – Portfolio Risk, p 180 to 193
4. **Blackboard** - Note on "Adapting Investment Portfolio Models to Nonprofit Variance Analysis"


7. **Blackboard** – Young Chapter 13 Kearns – Income Portfolios p. 291 to 314

8. **Blackboard** – Young Chapter 14 Greenlee & Tuckman – Financial Health pages 315 to 335


**Class 8 Assignment:**

(10 points) – There are materials on Blackboard (Excel model and a write up on Capital Pet Rescue - CPR) describing CPR’s operating model and cash flow patterns. Your assignment is described at the end of the CPR document. Your proformas must include an activity statement, a balance sheet and a cash-flow statement. You must also send me an electronic copy of your completed model as well as the write up described in the assignment. Be sure to specify any new assumptions you used in the final model. Make sure you build the model in such a way that changes in any controllable input will be reflected in all three statements. Also, make sure that your balance sheet is balanced at all times.

You will receive **two** points if you make a good-faith effort to complete the forecast. You will only receive **three** points if your statements remain balanced after inputs are changed and all changes in assumptions are fully reflected in all of the statements. The remaining **five** points will be based on the quality of your analysis of the CPR’s financial prospects.

**Class 9 Assignment:**

(5 points) - I have posted a short case to Blackboard with a related spreadsheet containing data describing the mix, proportions, correlations, variances and
standard deviations for five sources of nonprofit revenue. The assignment is to calculate the least and most risky portfolios of two three and four revenue sources. Hint: You will need to calculate the variances of each revenue source and the covariances among all pairs of revenue sources to complete the assignment. Be sure to read: Brealey Myers and Allen – "Intro to Risk and Return – Portfolio Risk" as well as the note on "Adapting Investment Portfolio Models to Nonprofit Variance Analysis" before you prepare the analysis. You may use the Excel method described in the Risk Prep tutorial "Modeling Portfolio Variance in Excel" or calculate the variances using the method outlined the "adapting" note. **Be sure to look at the class notes before you try this assignment. They will show you how to implement the risk-measurement model in Excel.**

**CLASS 10: Nonprofit Reporting and Sarbanes Oxley.** In class 10, we will look at IRS form 990 and other nonprofit regulatory reporting requirements. We will also talk about how the Sarbanes Oxley (SOX) legislation might impact nonprofits directly and through state actions.

Class Readings:

1. **Blackboard** - Getting Organized – Chapter 9 “Reporting Requirements for Tax-Exempt Organizations”
4. **Web Based** - Nonprofit Coordinating Committee of NY - New York Registration and reporting requirements for nonprofit organizations” http://www.npccny.org/info/gti5.htm
6. **Blackboard** – B&A. Chapter 1. Redesigned Form 990
7. **Blackboard** – J&F - Chapter 1 “Overview of the Legislation and Its Implications for Nonprofits” p. 1 to 26
8. **Blackboard** – J&F - Chapter 6 “Raising the Bar of Accountability: SOX Best Practices and the Board” p. 85 to 102
11. **Web Based**- Nonprofit Agendas – “Nonprofit Watchdogs- Who are they and what are they looking for?”
    http://www.markspaneth.com/AUL/data/3/Publications/423.NPA_April%20May08.pdf

Class 10 Assignments:
(3 points) – Go to Guidestar. Select 5 nonprofit organizations, get as many years of data as you can and prepare an analysis of their financial vulnerability, and relative levels of revenue volatility and concentration. If you can find the information, also calculate the portfolio risk for the organizations based on the variances of the revenue sources and their covariances.

(3 points) – Go to Guidestar and complete the class 10 assignment number two. That assignment is described on Blackboard.

CLASSES 11 to 14: Financial Analysis: In classes 11 to 14, we will revisit the financial analysis process and prepare several case analyses of actual nonprofit organizations.

In class 11, we will start by reviewing the proformas financial statement model you prepared for class 7 and talk about the strategies you developed to help CPR address the problems their first forecast of the statements identified. Then, we will quickly review the financial analysis process and work together to identify the key issues for the St Catherine’s Center for Children, the organization we used for the fall 2011 final exam in PAD-501. We will start with the questions posed on the exam and prepare a statement of the two to three key issues for St. Catherine’s.

In class 12, we complete the analysis of St. Catherine’s and repeat the exercise using Nashville Public Radio during the second part of the class.

In class 13, we start to work on a third nonprofit financial analysis for the Animal Humane Society. In class 14, each student will each make a ten-minute presentation of the key issues in the Animal Humane Society analysis as they see them and submit a memo with their case analysis complete with the appropriate data supporting your key issues contentions. That analysis must be based on information drawn from the organization’s financial statements and notes and supported by your own analysis.

Class 11 Readings:

1. Finkler - Chapter 14 “Financial Analysis” p. 514 to 551

Class 11 Assignments:

(1 points) Go to Guidestar and find three organizations that are as comparable to St. Catherine’s as possible and, by the Sunday evening before class 11, send me a list. Please work together as a class to find the organizations and prepare the spreadsheets as described below. Please submit a single list. Send the comparables information by the Sunday night before class 11. In addition, think about just how comparable these organizations really are and what you will do to overcome the problems.
When you have selected the organizations, go to http://www.pdf2excel.org/ and use the utility there to convert as many years of financial statements as you can find to spreadsheets. After using the utility, you may have to reformat some of the numbers but most of them should have been correctly pasted into the worksheet cells. Please send me the spreadsheets for the comparable organizations by the Monday evening before class 11.

(2 points) – Review Chapter 14 - the financial analysis chapter - in Finkler. Then, read the notes in all of the audited financial statements for St. Catherine’s, calculate the common size ratios and any other ratios you believe will help your analysis, and prepare your list of red flags. Turn in your copy of the ratios at the beginning of class. Be sure to keep a copy to use during the case discussion. Be prepared to discuss what you have found.

Class 12 Assignments:

(3 points) Take all of the information you have about St. Catherine’s and prepare a two-page memo that identifies the key themes for St. Catherine’s. Be sure to support your claims with date from the statements and notes. You will be asked to present your preliminary findings and list of “red flags” at the beginning of class. This assignment will be graded on a best efforts basis.

(1 points) – Go to Blackboard and download a copy of the financial statements and spreadsheet for Nashville Public Radio. Then, go to Guidestar and find three comparable organizations – you may choose the comparables and prepare the spreadsheets as a class - and any sector statistics as you can find to use in your financial analysis. Enter the financial data for the comparables in a spreadsheet and send me copies of the spreadsheet and the other materials you have collected. Please send me the comparables information by the Sunday night before class 12 and send the spreadsheet by the Monday night before class 12.

(2 points) Read the notes in all of the audited financial statements for Nashville Public Radio, calculate the common size ratios and any other ratios you believe will help your analysis, and prepare your list of red flags. Turn in your copy of the ratios at the beginning of class. Be sure to keep a copy to use during the case discussion. Be prepared to discuss what you have found.

Class 13 Assignments:

(2 points) Take all of the information you have about Nashville Public Radio and prepare a two-page memo that identifies the key themes for the organization. The case for your themes must be supported by data. You will be asked to talk about your themes and “red flags” at the beginning of the class. This assignment will be graded on a best efforts basis.
(2 points) – Go to Blackboard and download a copy of the financial statements and the spreadsheet for the Animal Humane Society. Find three comparable organizations and any sector statistics as you can find to use in your financial analysis. Then, prepare an analysis of that organization following the guidelines for the St. Catherine’s analysis. Enter the financial data for the organization and the comparables in a spreadsheet and send me copies of the spreadsheet and the other materials you have collected. Please send the comparables information by the Sunday night before class 13 and send the spreadsheet by the Monday night before class 12.

As part of your analysis, read the notes in all of the audited financial statements for the Animal Humane Society, calculate the common size ratios and any other ratios you believe will help your analysis, and prepare your list of red flags. Turn in your copy of the ratios at the beginning of class. Be sure to keep a copy to use during the case discussion. Be prepared to discuss what you have found.

Class 14 Assignments:

(8 points) – The final individual assignment for the course will be to prepare a written financial analysis and a presentation for the Humane Society. You should be prepared to present your findings at the beginning of the last class. You will each be given 10 minutes each for your presentations. We will spend the remainder of the first half of the class discussing the case. You must turn in individual memos and make individual presentations. However, I encourage you to meet with others to discuss the case. Just make sure your final analysis is your own. Both the case memo and your presentations will be graded.

(25 points) – In class 14, each team will submit their business plans and make fifteen-minute presentations. You should choose a specific audience and focus your presentation on the factors that would be most likely to influence that audience. Your audience could be a foundation, a potential corporate partner, a joint-venture partner of the management of an existing organization where you plan to implement your business concept. The choice of audience is up to each team but, once chosen, be sure to focus on their needs not yours. Your job is to sell the idea and get the funding and other support needed to make your idea a reality.

CLASS 15: FINAL EXAMINATION - 25% OF FINAL GRADE:

The final examination will cover all topics in the course outline. The final exam will focus on the materials in the class notes, assignments and class discussions. You may bring two pages of notes, 8 1/2 x 11, double sided to the final exam.