

Budgeting Methodologies

1. Operating budgets (organization-wide)
2. Operating budgets (unit/program/project)
3. Capital Budgets
4. Cash Flow Budgets
5. Opportunity budgets
6. Zero-based budgeting

Supporting the Master Budget:

1. Revenue budgets
 - a. Contributed
 - b. Earned
 - c. In-Kind
2. Cash budgeting/forecasting
3. Expenditure budgets
 - a. Salaries, wages and benefits
 - b. Other human resources (consultants)
 - c. Fixed costs
 - d. Semi-variable costs
 - e. Variable costs
4. The forecasted budget for a business plan (MAM 750 & MAM 751)
[monthly cash flow projections – leading up to earnings before interest, taxes, depreciation and amortization]

Required Text:

Author: Dropkin, Murray and Jim Halpin and Bill LaTouche, *“The Budget Building Book for NonProfits”* (Jossey-Wiley & Sons, Jossey-Bass: Publisher), 2007. ISBN#978-0-7879-9603-1 (paper.CD) referred to as BBBNP

Suggested Reading:

Author: Dropkin, M & Hayden, A; **Title:** The Cash Flow Management Book; **Publisher:** Jossey-Bass; **Edition:** 2001; **ISBN:** 0-7879-5385-7

Handouts developed by the Professor will constitute additional required readings and homework assignments.

Grading:

Fifty percent (50%) of the Grade will come from a project (35 points as management and 15 points as Board – see on page 4 and 5) in which the student will select a local arts organization and obtain a copy of their most recent audit report and related financial and public information – working with at least three other students, will:

A. Prepare a report that will:

1. Develop a name and a mission for their arts organization
2. Assign roles to each of the team members – for 4/5 person teams:
 - A. CEO
 - B. CFO
 - C. Artistic Director
 - D. Development Director
 - E. Assistant Artistic Director for Education (only when there are 5 people on a team)
3. Provide for a document that will be presented to the Board of Trustees (and will be available to funders, when requested) that will start with the essential elements of the organization and provide the basis of a comprehensive budget by describing the schedule/season/calendar and programs of the organization for the year being budgeted (this is a narrative, an executive summary);
4. Provide a one page budget summary (organization-wide, accrual budget)
5. Provide for a detailed line item budget by programs, general & administrative and, fund raising, public relations, etc.
6. Provide a cash flow budget (one page with a column for each month)
7. Provide a capital budget

B. Assumptions:

1. inflation is at 3%
2. cost of living is at 2%
3. All of the computers will have to be replaced (there are 15 computers and a file server). The full cost of this, including installation, is \$26,000. The estimated useful life of the system is five years. The replacement will occur on the first day of the fiscal year being budgeted.
4. Your team is to obtain as detailed a copy of an audit report from an arts organization of your team's selection, as is possible. You are to become familiar with that organization, as if it were the organization you created, including knowing the contents of its website. No matter what year is indicated for that audit report, you are to consider the numbers contained therein as the numbers for the year that just ended for your organization (actuals).
5. Your team is to add 3% to each of the actual numbers and consider that your approved budget for the year your organization is currently in.
6. Your team is to arbitrarily decide what positions and what amounts are funded in salaries and wages monies.
7. Your team is to create appropriate information, where it has not been able to obtain from the organization or where the amounts are very broad.

The people on your team have been assigned. Only because of significant reasons will a team member be allowed to move from one team to another. Just because you live near, work near or know another student is not ample justification for a re-assignment.

The team is the management team for the purpose of presentation to your Board. (approximately 20 minutes). Your Board is actually another team from this class. Just in case you are wondering, your management team will not be evaluating your Board when they present. Your presentation as management is worth 35 points of the 50 points towards your grade.

Your team will also be assigned the role of the Board for another management team, wherein you will be presented with their budget. In this role, you will be looking to determine if their presentation meets the proper professional presentation of a budget and is one that you can support. At the end of the

presentation, your group (the Board) will convene for no more than ten minutes and decide whether or not to adopt the budget that has been presented. If you elect not to adopt it, you will need to detail your concerns and have them come back on April 24 to re-present their budget.

The critical issues for the Board review, in addition to the dialogue that goes on during the presentation, are to determine if management truly has a viable and a realistic financial plan, that it is in proper form and that you believe, as a Board member, you can support it. Your grade for this portion will reflect this. (15 points)

C. The accrual budget is to be in a format consistent with the Statement of Activities and is to have added to it a summary at the bottom showing the functional budget, as well. [format is in the textbook]. There is to be a one page narrative and a one page summary, in addition to the other schedules.

D. There is also to be: (this is in addition to the elements in Part A – above)

- A) a mission statement; (separate page(s))
- B) an organization chart; (separate page (s))
- C) assumptions made in constructing the budget; (separate page(s))
- D) goals to be accomplished in the budget year.(separate page(s))
- E) Your season
- F) detailed fund raising budget – contributed income (so that the Board knows what they have to do if they adopt this budget).

Rule II – Distribution. Each team is to send each member of the class their one page summary and one page cash budget.

Rule III – You are to have emailed the Professor and your Board (the team scheduled with your same date) with your materials attached no later than 48 hours prior to your presentation date.

Rule IV – Actual Presentation – plan on no more than twenty (20) minutes of actual talk time. (Board response should be about 10 minutes)

Rule V – Your goal – whether as Board member or presenting management is to be sure that the proposed budget is well defined and can withstand the challenges to the principles of budgeting discussed in class. Board members will be graded for their articulated demonstration of the principles of budgeting in questioning management, their awareness of what passing the budget means to them for oversight and fund-raising. (HINT: This is not the time to “find out” about the organization).

Rule VI – The board has two options – after reviewing the budget with management during class, to make a motion to accept the budget as presented (or as management can readily agree to amend right away)or; to direct management to incorporate critical factors in the budget that the Board feels has been omitted and to resubmit the budget. This latter option will impose an additional presentation on the part of both teams – and we will reserve April 24 for that purpose. (HINT: It is better to require a re-submission, than to accept a budget that fails to meet the critical principles)

This is the rating sheet used during the presentations:

For the Presentation [TEAM # 1]rated by: _____ April 2, 2009

ITEM	Max.Score	Score	Remarks
A. Introduction [name, mission, introduce the individuals and their role]	1		
B. The Season [Explain how it was constructed, how it differs from the prior season and why]	3		
C. Budget summary narrative [Provide a concise combination of how/why this financial plan was constructed, how it differs from the current year, why there may be significant differences and anything else of significance – this should come from the one page summary that is presented to everyone]	3		
D. Assumptions [Provide the assumptions used in creating the budget]	1		
E. Budget summary – amounts [Provide an organization-wide budget, based upon accrual accounting that includes both the operating and capital funds – remember this is a summary and should depict functionality (i.e. – program, general/administrative and fund raising). The reader should easily be able to see how much money needs to be raised (contributed) and earned. Management can include on this page an additional analysis of fixed, semi-variable and variable costs – limit to 1 page]	5		
F. Mission Statement, Organization Chart	1		
G. Analysis of Fund Raising Plan	2		
H. Detailed budget (accrual) by Function with the categories of income and expenditures [This is to	5		

include all discrete programs and then a column for General/Administrative and another column for Fund Raising]			
I. Cash budget (by month, using a similar format as used for “H” above, modified as needed) (HINT: the totals for the cash budget would not equal the same totals as for the accrual budget, unless you can explain why)(HINT: there may be two additional considerations: excess cash should be invested; a line-of-credit or some other form of borrowing may need to be accessed)	3		
J. Capital Budget (HINT: you need cash to pay for these items, too)	2		
K. Handling of the board inquiries and acceptance of the board resolution	5		
L. Overall presentation style, order, comfort with the material, etc.	4		
TOTAL	35		

For the Board [TEAM # 5] hearing Team #1

A. Demonstration of understanding of the organization	2		
B. Reference to materials by proper names of accounts, functions, other terminology, formats, etc. and an understanding of the purpose of each report and the implication that the resulting amounts have on the budget itself and the overall organization	3		
C. Demonstration that any of the amounts that seem significantly different, excessively high or low or just need further explanation are posed to management	3		
D. Demonstration that the flow of data is correctly displayed/reported and is either explained in a written form and/or through the presentation	3		
E. Deliberations (need to be done out loud so that the entire class can hear the exchange) reflect an understanding of what was presented, of the strengths and weaknesses of both the presentation and the reports and how this budget will impact the future of the organization – including the monies needed to be raised for the budgeted year)	3		

F. Demonstrated understanding of the role of the board within this process	1		
TOTAL	15		

rated by: _____ April 2, 2009

Presentation Schedule:

Team #	Team Members	Management	Board	Date to present
1	Bae, Hyo Jung Calhoun Katsufakis, Allison DeBisschop, Danielle Wu, Wan-Chun Cordray, Andrea	1	5	April 3
2	Bahar, Laurel Um, Sunhee Gelatt, Katherine Sahara, Mie Kitchen (*), Amanda	2	3	April 3
(*)	For Board		w/Group 3 to hear Group 6	
3	Kitchen (**), Amanda Gemmell (**), Sarah Lee, Eun Joung Ricks, Elizabeth Robertson, Shawn Hurst, Andrew	3	6	April 10
(**)			Only to hear Group 6	
4	Yantis, Emma Freeman, Danea Marrow, Carita Choate, Chris	4	2	April 10
5	Chang, Jammie Hooke, "Mike" Irwin, April-Marie Shin, Yang Hyun Gemmell(***), Sarah	5	1	April 17
	*** For Board		w/Group 3 to hear Group 6	
6	Basich, Courtney McCloskey, Elizabeth Ji, Ying Frey, Sarah McKelvia, Jamel	6	4	April 17

GRADING (other):

Twenty-five (25%) percent of the Grade will come from a mid-term exam based solely on budgeting terminology, various budgeting methodologies and the integration of accounting with planning.

Twenty-five (25%) of the Grade will come from a final exam that will require the analysis of a budget of a comprehensive arts organization responding to both objective questions and to a critical review of trends that have already appeared and some that might appear in the not too distant future.

Week	Lecture title	* Reading for this session
1 (1/22)	Review of Accounting, General accepted accounting Principles (GAAP), Accrual Basis, Chart of Accounts	
2 (1/29)	Basic concepts of budgeting: Participatory and incremental; methodologies Course project-Team assignment dates and outline	Part I (sections 1-6) & (Part Two (Ch. 18)BBBNP
3 (2/5)	Building the budget: Historical accounting; budget policies; budget calendar; the rest of the staff;	(Part TWO; 7 -10)BBBNP
	Course Project Proposal – Organization name/mission	
4 (2/12)	Contents, organization-wide, programs/units; Budget elements: income, expenses, categories, sub-categories, budget narrative	Part TWO; 11-14 BBBNP
5 (2/19)	Estimating income and expenses; allocating administrative overhead; revising.	Chapter TWO 15-17 BBBNP
6 (2/26)	Cash and Capital Budget	CHAPTER TWO (19 & 22) BBBNP
7 (3/5)	Mid-Term Exam	
3/12	RECESS (Spring)	
8 (3/19)	Presenting Budget	Part TWO (20-21)BBBNP
9 (3/26)	Control, encumbrance, revisions; monitoring; cash forecasts for business plans – format (MAM750 & MAM751)	PART Two (23)

10 (4/2)	Class Presentations (Management Groups 1 & 2)	
11 (4/9)	Class Presentations (Management Groups 3 & 4)	
12 (4/16)	Class Presentations (Management Groups 5 & 6)	
13 (4/23)	Class Presentations (if needed)/Evaluation of the budget and the process	
14 (4/30)	Review date	
15 (5/7)	Final Exam	

- *** READING FOR THIS SESSION = This must be read before the class for this date**

GRADING SCALE

A+ 100-97

A 96-94

A- 93-90

B+ 89-87

B 86-84

B- 83-80

C 79-70

F 69-

An incomplete grade (IN) is used only if the student requests it in writing. An IN counts as a failing grade until completed, and it automatically turns into an F if a grade is not turned in by the deadline in the Schedule of Classes.

Students with Disabilities and Learning Differences

If you have a diagnosed disability or learning difference and you need academic accommodations, please inform me at the beginning of the semester and contact the Disabilities Resource Center (SUB I room 234, 703-993-2474). You must provide me with a faculty contact sheet from that office outlining the accommodations needed for your disability or learning difference. All academic accommodations must be arranged in advance through the DRC.

Official Communications via GMU E-Mail

Mason uses electronic mail to provide official information to students. Examples include communications from course instructors, notices from the library, notices about academic standing, financial aid information, class materials, assignments, questions, and instructor feedback. Students are responsible for the content of university communication sent to their Mason e-mail account, and are required to activate that account and check it regularly. According to **the** University catalog, all students and faculty are to use their **GMU.EDU** email address. Some commercial email addresses may be filtered out of the **GMU.EDU** system. No official information can be sent to students unless on the Mason email system.

Honor Code

GMU Honor Code: <http://www.gmu.edu/catalog/apolicies/index.html#Anchor12>

Honor Code: To promote a stronger sense of mutual responsibility, respect, trust, and fairness among all members of the George Mason University community and with the desire for greater academic and personal achievement, we, the student members of the university community, have set forth this honor code: Student members of the George Mason University community pledge not to cheat, plagiarize, steal, or lie in matters related to academic work.

Students in this class are bound by the Honor Code, as stated in the George Mason University Catalog. The honor code requires that the work you do as an individual be the product of your own individual synthesis or integration of ideas. (This does not prohibit collaborative work when it is approved by your instructor.) As a faculty member, I have an obligation to refer the names of students who may have violated the Honor Code to the Student Honor Council, which treats such cases very seriously.

No grade is important enough to justify cheating, for which there are serious consequences that will follow you for the rest of your life. If you feel unusual pressure about your grade in this or any other course, please talk to me or to a member of the GMU Counseling Center staff.

Using someone else's words or ideas without giving them credit is *plagiarism*, a very serious Honor Code offense. It is very important to understand how to prevent committing plagiarism when using material from a source. If you wish to quote verbatim, you must use the exact words and punctuation just as the passage appears in the original and must use quotation marks and page numbers in your citation. If you want to paraphrase or summarize ideas from a source, you must put the ideas into your own words, and you must cite the source, using the APA or MLA format. (For assistance with documentation, I recommend Diana Hacker, *A Writer's Reference*.) The exception to this rule is information termed *general knowledge*—information that is widely known and stated in a number of sources. Determining what is general knowledge can be complicated, so the wise course is, "When in doubt, cite."

Be especially careful when using the Internet for research. Not all Internet sources are equally reliable; some are just plain wrong. Also, since you can download text, it becomes very easy to inadvertently plagiarize. If you use an Internet source, you must cite the exact URL in your paper and include with it the last date that you successfully accessed the site.

Writing Center

Students who are in need of intensive help with grammar, structure or mechanics in their writing should make use of the services of Writing Center, located in Robinson A116 (703-993-1200). The services of the Writing Center are available by appointment, online and, occasionally, on a walk-in basis.

Students are encouraged to sign up for the Mason Alert System by visiting the website <https://alert.gmu.edu>, and please place this information on course syllabi. Students can also be reminded that an emergency poster exists in each classroom explaining what to do in the event of crises and that further information about emergency procedures exists on <http://www.gmu.edu/service/cert>.

Please direct any questions about the above information to:

Linda Miller, Associate Dean, Academic Affairs (lmille6@gmu.edu)

Victoria Salmon, Assistant Dean, Graduate Programs (vsalmon@gmu.edu)

Alice Watts, Academic Coordinator (awatts@gmu.edu)