

Budget Simulation Exercise¹

Read the following scenario and complete the assignment. Email me your Excel Spreadsheet that completes the assignment. This can be done with a partner and one spreadsheet emailed to me with both names on it. Also, indicate on the email both names.

Scenario

Groves' Child Development College was established in 1990 to serve families in Northern California. It is licensed to serve 48 children between the ages of 2 years 9 months and 5 years. Marcela Frost became the second director in early 1999. Her role was principally administrative; a head teacher/site supervisor was responsible for children's program. Ms. Frost spent much of her time with the parents.

The annual task of budget preparation was handled by a member of the board of directors who established the yearly budget after consultation with the director. In October 2003, that task fell to you as a board member.

In order to prepare the first draft of an operating budget, you decide to sit down with Ms. Frost to gather information. The budget you are preparing is for the 2004 year. The draft you develop will be discussed and voted on by the full board. You have taped the conversation and have transcribed it for your review. The transcription is below.

YOU: As I understand it, the largest expense is salaries, right?

Ms. Frost: Yes, we have six teachers who earn \$8.50 an hour for a 35-hour week, and Sara, the educational supervisor who gets \$10.50 an hour. Sara works 40 hours a week.

Y: And the center operates 52 weeks a year?

Ms. F: Right. Then there is my salary. I'll be making \$28,750 a year starting January 1st.

Y: How about fringe benefits: social security, unemployment tax, and health insurance?

Ms. F: We have all of that, for all of us who are on the payroll half-time or more. We've figured fringe at 18% of salary for the last few years, so I guess we should stick to that figure. I do think we ought to cover the cook with our benefits, figured on a pro-rated basis. I'd like to cover the social worker too.

Y: Substitute teachers?

Ms. F: We've spent \$2500 already this year on substitutes, but an awful lot of our staff were sick last winter. I'd guess \$1,500 is reasonable figure for next year.

Y: Any part-time help?

Ms. F: Not that we pay for. We have one student teacher from Chico State. And exchange for supervising that student, we get one voucher each semester that allows someone on our staff to take a course there. That's worth at least \$900 a year when you consider fees and tuition that they charge there.

¹ Adapted from Morgan, G. (1989) *The bottom line for children's programs: What you need to know to manage the money*. Watertown, MA: Steam Press.

Y: How about rent?

Ms. F: That's going to stay the same next year: \$14,500. The increase is going to be in utilities. We're paying about \$3000 a year for that. I hear that natural gas prices are going to be higher this year and electric rates seem to be holding steady for now.

Y: And the maintenance for the program?

Ms. F: The same as this year. We have a contract with a firm that does that for \$500 a month.

Y: What does it cost to feed the children?

Ms. F: We budgeted \$12,000 for this year and we're just barely going to be able to stick to that figure. I'd estimate that next year's food bill will be 8% higher. The Food Program money paid us \$10,000 this year and right now, I don't think we'll be able to get more than that from them this next year. And Bart's salary is going up too. He's our cook. He works half-time for us and he's making \$7275 a year with us; but that is going to jump to \$7750 a year January 1.

Y: What are you spending on supplies?

Ms. F: If you mean classroom supplies (art materials and things like that), we've budgeted \$175 a month since I've been here. We've been able to stick to that, so I'd keep it the same, although it would be nice to be able to enrich the program a little more. Office supplies (like stationery, pencils and pens) and housekeeping supplies (like toilet paper, dishwashing liquids, paper towels, etc) have always been lumped together. This year's figure is \$1200 and that seems about right. We may spend a little bit under on some types of supplies, but if we do, we'll just spend the difference on classroom materials.

Y: What else? Any other administrative expenses?

Ms. F: Phone and postage are budgeted at \$1800 this year. I'd raise that to \$2000 to be on the safe side. And we spend \$400 a year on advertising the center. That won't change. Our insurance costs have already been set at \$3500 for next year.

Y: Have we forgotten any category or expenses?

Ms. F: I'm not sure where you'll want to put these, but just last week we hired a social worker to start on December 1st. She'll be working for us on a one-third time basis. That's figured on an annual salary of \$25,000. She'll be spending some time here at the center and we share her with the Head Start on East Avenue.

Assignment: Make an annual expense budget from this information Calculate monthly tuition charges that would need to be charged per child to balance this budget. For this exercise, you can assume 100% enrollment and no bad debt.

After you have developed your expense budget based on these figures, calculate a second budget in which each hourly employee gets a .50 raise per hour in June. Also, give the director a 3% raise effective in June. Calculate what tuition costs would be under this scenario as well.