

## **Budget Simulation Final<sup>1</sup>**

Work independently to complete the following budget exercise—your response will be a part of your final exam. First, review Part I of the following scenario. *Note: Part I is the scenario that you worked on in class back in October. I made some changes in that I have eliminated the social worker and the intern from Chico State. I have added a licensing fee and professional charge for NAEYC membership and First Aid training.*

Once you have read PART I, go to Part II for the actual assignment.

### **PART I: The Original albeit slightly changed 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 1<sup>st</sup>.

**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.

**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?

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<sup>1</sup> 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.

**Ms. F:** Not that we pay for.

**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 it 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:** Yes, licensing fees have gone up to \$200 annually and we also have a center membership in NAEYC that costs \$90 a year. Also, we pay Red Cross a \$150 stipend to do First Aid/CPR training with the staff in August. Other than that, I can't think of anything else.

Assumptions: You can assume 100% enrollment and no bad debt. Income is only that which is identified in the scenario and monthly tuition charges per child. Program is non-profit and budget at end of year requires that expenses equal income.

## PART II: THE FINAL EXAM QUESTION

### **Exam Question:**

Read the following scenario concerning recent events at Groves' Child Development College.

### Scenario

You have just replaced Ms. Frost as the Groves' Child Development College director. At the same time, a foundation has given the program a large amount of money. The provisions of the foundation funds are that the Groves' Child Development College should continue the program for 3-5 year old children, and it should make it a **high quality program** that pays good salaries to its teachers and staff. The foundation has set up a fund that would pay whatever Groves' Child Development College needed to continue to charge the same fees for parents *and* be able to spend more to improve the quality of their program, especially the salaries. Each year the director of the program, is to ask the foundation for funds that needed that year to balance the budget

### Assignment

As Director, you will make an annual budget based on the Part I scenario on presented earlier in this paper. Then you will take that budget, and create a new revised annual budget based on the good news presented in Part II. You will then add a new line item to the income side of the budget, called Foundation Fund. Leave it blank until you revise the expenditure side of the budget.

After discussion with the center board and the Foundation directors, you agree that for the first year, everyone will receive a 15% raise. Additionally, the Foundation agrees to cover more of the health care costs for staff thus raising the fringe benefit rate from 18% to 22%. Revise the salaries and any other items necessary to make the foundation's wishes a reality. (This means that you should begin the process of NAEYC accreditation – check [www.naeyc.org](http://www.naeyc.org) for fees. Also, you can add any other expenditures you believe is necessary to make the program **high quality** but be sure to indicate in a section labeled “budget notes” what those expenses are.

Once you have created your new expenditure side of the budget, total the expenses. Determine the amount to ask the Foundation for that will balance the budget and place that amount in the line item called Foundation Fund.

**Turn in both budgets to complete the exam. Label the first Budget Scenario, Part I and the second Budget Scenario Part II. BE SURE THAT YOUR NAME IS ON YOUR BUDGETS.**