

Financials

This section is Milestone #5 of the Development Action Plan. The timeframe for completing this section is two weeks.

At the end of this section you will understand the:

- ▶ Cost Recovery Model
- ▶ Pricing Strategies
- ▶ Cost Recovery Financial Tracking Tool
- ▶ Recovery Statement

Before you begin . . .

There are really two levels of learning for this module. First you will be given insights into what the Cost Recovery Model is and how it relates to your CTC. Background information is provided on the model to assist you in creating a reasonable approach to budgeting and projecting how you will cover the expenses of your CTC. Remember the ultimate goal of the plan is to put the CTC in a position to be able to sustain itself financially.

The second level of learning is to understand how to use the Cost Recovery Financial Tracking Tool and Recovery Statement that are part of this package.

Additionally you will set your pricing strategies based on what you have learned and researched.

In completing this section you will need to consider:

- ▶ How will you provide upfront funding to launch your CTC programs?
- ▶ If you have already launched the programs, you will need to analyze where you are with regard to cost recovery. In other words, are you making enough to recover the costs you have incurred so far?
- ▶ What fees will you need to charge participants in order to recover the costs you incur?
- ▶ How will you reinvest surplus dollars back in to the CTC, should they exist?
- ▶ What kinds of programs will you offer with these surplus dollars?

⇒ *Let's Begin*

Cost Recovery Model/Pricing Strategies

In the simplest form, the cost recovery model assumes that it is the responsibility of the organization to recover the costs of expenses through the assignment of fees in exchange for providing a service. The fees help offset the expenses incurred to deliver the service.

This means that your CTC must determine how to charge a reasonable fee to participants, while at the same time recovering the costs to deliver that service. To do this you will need to consider the following elements:

- ▶ Total estimated number of participants who will attend the CTC each month
- ▶ What categories of fees you will set for participants (remember the “qualifying” criteria you developed for your target participants in your analysis of the IT Training Market?
- ▶ What your total projected expenses will be including facility and maintenance, furniture and fixtures, labor and salary requirements?
- ▶ What your capital requirements will be?

The elements listed above also effect your pricing strategy, because you will have to base your fees on the total amount of the expenses you will incur each month divided by the number of participants you realistically think will pay your CTC for the services you offer.

Analyze the Issues

✓	To assist you in your financial process, answer the following questions:
1.	What is a realistic number of participants you believe will come to your CTC each month and pay fees in exchange for services?
2.	Does your CTC offer a sliding scale for fees? If yes, estimate the number of participants for each level on your fee scale.

3.	<p>What are the total projected expenses you believe your CTC will incur each month? Include numbers from the work you completed in the operations portion of this curriculum:</p> <ul style="list-style-type: none"> Facility & Maintenance Equipment & Hardware Furniture & Fixtures Labor & Salary Requirements Expenses & Capital Requirements 						
4.	<p>Calculate the projected fees by completing the following:</p> <p>Take the total amount of the expenses your CTC will incur and divide it by the number of monthly paying participants.</p> <p>As an example, let's say there is an organization called "The Best CTC." They have projected that their total monthly CTC expenses are \$12,000.00. They have also determined that they can realistically serve about 70 participants per month.</p> <p>When calculated, this means that "The Best CTC" will have to charge each participant \$171.42, just to break even. This is assuming that everyone is charged the same fee.</p>						
5.	<p>Does the fee amount fit with what you know your target participants can afford? If no, then how will you restructure your pricing fees to accommodate your market? Examples might include:</p> <ul style="list-style-type: none"> ▶ Scholarships available ▶ Grant money available to reduce the participant fee ▶ Cut your monthly expenses to accommodate a more applicable fee <p>As an example, let's say "The Best CTC" knows that its target participants cannot afford to pay \$171.42. One option it has is to seek grant funding to help offset the costs for participants.</p> <table data-bbox="365 1585 998 1690"> <tr> <td>Total Expenses</td> <td>\$12,000.00</td> </tr> <tr> <td>Grant Funding</td> <td>(\$5,000.00)</td> </tr> <tr> <td>Amount of Recovery Required</td> <td>\$7,000.00</td> </tr> </table> <p>\$7,000 divided by 70 participants is \$100.00 per participant.</p>	Total Expenses	\$12,000.00	Grant Funding	(\$5,000.00)	Amount of Recovery Required	\$7,000.00
Total Expenses	\$12,000.00						
Grant Funding	(\$5,000.00)						
Amount of Recovery Required	\$7,000.00						

5. continued	<p>Another example of reducing fees for participants is to reduce expenses. Let's say "The Best CTC" cannot find a grant opportunity. In their operations planning they decided to hire 3 employees to serve participant programs. The salaries of these participants equal \$1,000 per month.</p> <p>One option they may need to consider is whether they truly need all 3 resources to be successful or if they can bring on one person and then add additional employees as the programs grow.</p>
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Cost Recovery Financial Tracking Tool

It is extremely important in a cost recovery model to track the inflow and outflow of dollars each month and to be able to see how quickly your CTC is recovering its costs.

To assist you in this endeavor this curriculum provides you with a Cost Recovery Financial Tracking Tool. There are two ways you can use this tool to effectively control and monitor your revenue and expenses.

The first is to use it to create a budget specific to your CTC. This budget will be a projection of what you believe your CTC will generate in revenue, what you believe your expenses will be, etc.

The second way to use the tool is to actually track what happens each month at your CTC. This is what is known as an "actual."

By comparing your actual (what really happens) to your budget (what you think will happen) you begin to get a better understanding for what to expect and what kind of revenue is really required to run your CTC.

On the pages that follow is an example of the Cost Recovery Financial Tracking Tool and directions on how to use it.

WIT MENA		Statements of Forecasted Cash Flow From Operations							
		1 The Best Community Technology Center FOR THE YEAR ENDING 31-12-06							
DESCRIPTION	JAN	FEB	MAR	APR	MAY	JUN	JUL		
REVENUE									
Training Fees	2,500	450	4,000	4,000	5,000	6,500			
[Enter item here]									
[Enter item here]									
[Enter item here]									
TOTAL REVENUE	2,500	450	4,000	4,000	5,000	6,500	0		
OPERATING EXPENSES									
Payroll	1,000	1,000	1,000	1,000	1,000	1,000			
Payroll Taxes	300	300	300	300	300	300			
Employee Benefits	0	0	0	0	0	0			
Technology Equipment Leases	0	0	0	0	0	0			
Internet Expense	100	100	100	100	100	100			
Rent - Office/Storage	500	500	500	500	500	500			
Utilities	75	75	75	75	75	75			
Marketing Expense - Local	200	200	200	200	200	200			
Telephone	400	400	400	400	400	400			
Insurance	250	250	250	250	250	250			
Office Supplies	25	25	25	25	25	25			
Postage	50	50	50	50	50	50			
Miscellaneous Expenses	0	0	0	0	0	0			
Bank Charges	0	0	0	0	0	0			
[Enter item here]									
[Enter item here]									
[Enter item here]									
[Enter item here]									
[Enter item here]									
[Enter item here]									
TOTAL OPERATING EXPENSES	2,900	2,900	2,900	2,900	2,900	2,900	2,900	0	
OPERATING INCOME	(400)	(2,450)	1,100	1,100	2,100	3,600	0		
CASH FLOWS FROM INVESTING ACTIVITIES									
Purchase of Equipment	7,000	0	0	0	0	0			
[Enter item here]									
[Enter item here]									
NET CASH USED BY INVESTING ACTIVITIES	7,000	0	0	0	0	0	0	0	
CASH FLOWS FROM OTHER ACTIVITIES									
Grants	0	0	0	0	0	0			
Donations	0	0	0	0	0	0			
[Enter item here]									
[Enter item here]									
NET CASH PROVIDED BY OTHER ACTIVITIES	0	0	0	0	0	0	0	0	
NET CHANGE IN CASH	(7,400)	(2,450)	1,100	1,100	2,100	3,600	0		
BEGINNING CASH BALANCE	2,000	(5,400)	(7,850)	(6,750)	(5,650)	(3,550)	50		
ENDING CASH BALANCE	(5,400)	(7,850)	(6,750)	(5,650)	(3,550)	50	50		

The graphic shown on the previous page is a six-month example of the fictitious organization called “The Best CTC.”

As you begin to explore the Cost Recovery Financial Tracking Tool, keep in mind that you are using this tool as a way to track progress. In doing that you will monitor:

- ▶ Operational revenue generated by services
- ▶ Operational expenses incurred by delivering those services
- ▶ Monies spent on capital purchases
- ▶ Monies received through other activities
- ▶ Overall cost recovery for your CTC

The tool is designed to assist your CTC in tracking cash flow from operations. It is not intended to be used as a financial statement that is in accordance with Generally Accepted Accounting Principles (GAAP). However, the Cost Recovery Financial Tracking Tool can be used to provide data to your accountant or accounting personnel as they prepare financial statements for the overall organization. It requires the appropriate interpretation of that data to create an accurate financial picture.

Similar to other templates in this curriculum, the Cost Recovery Financial Tracking Tool is a template with fields that allow you to input data, and other fields that are locked.

✓	<p>To get started with the Cost Recovery Financial Tracking Tool, let’s review the elements of the tool and what information is required for each element.</p> <p>On the graphic you will see circled numbers; those numbers correspond to the instructions below:</p>
1.	CTC Name Field. Enter the name of your CTC.
2.	Beginning Cash Balance. Enter the amount of “cash on hand” your CTC is starting with, if any. If you have none, enter \$0. Cash on hand may also equate to your amount of working capital.
3.	<p>Revenue. Enter the types of revenue your CTC will generate. The example shows one listing called Training Fees. Click on the additional lines to enter more. If you do not require more than one line, delete the text “Enter item here”. (The format of the tool is protected and will not allow you to delete rows.)</p> <p>Revenue is defined here as operational revenue generated from participant fees and collected on a monthly basis. It is your first goal to grow these revenue numbers to sustain the CTC, and second that you may have surplus recovery dollars to reinvest in additional programs.</p>

4.	<p>Operating Expenses. Enter the types of operating expenses your CTC will incur. The example shows a variety of expenses listed. Click on the additional lines to enter more. If you do not require more than one line, delete the text “Enter item here”. (The format of the tool is protected and will not allow you to delete rows.)</p> <p>Expenses are defined as recurring monthly costs that are incurred from providing the programs and services of the CTC. They do not include capital expenditures such as purchases of equipment.</p> <p>Total Operating Expenses. The tool automatically calculates the total expenses for each month that you enter into the data fields. The example shows a total of \$2,900 for January through June. This field does not require input.</p>
5.	<p>Operating Income. The tool automatically calculates the total amount of operating income based on the data you provide. The example shows that “The Best CTC” received \$2,500 in revenue for January, but had \$2,900 of expenses, leaving a negative balance of (\$400) in operating income.</p> <p>The negative amount is denoted by the parentheses around the number.</p>
6.	<p>Cash Flows from Investing Activities. Enter the amount of money used for long term purchases such as equipment. The example shows a total of \$7,000. Let’s say this is for a copier needed specifically for the delivery of a program service.</p> <p>If you do not require large, long term equipment purchases, delete the text “Enter item here”. (The format of the tool is protected and will not allow you to delete rows.)</p> <p>In the template, this amount is added to the Net Change in Cash (#8) because it is considered an asset to the CTC, not an expense. The \$7,000 does not represent an expense payment.</p>
7.	<p>Cash Flows from Other Activities. Enter the amount of money received from grants or other donations. The example does not show any cash flows from these sources.</p> <p>If you do not require these line items, it is not recommended that you delete them from the template since donations and grants or other income generating activities may become available at any time during the fiscal year.</p>

8.	<p>Cash Totals. At the bottom of the tool, you see “Net Change in Cash.”</p> <p>Net Change in Cash is the calculation of all the inputs you have entered into the tool, starting with the revenue and moving down the form to the field called Net Change in Cash. The tool has calculated each transaction (adding and subtracting where appropriate).</p>
9.	<p>Ending Cash Balance. If you had a Beginning Cash Balance (from Step 2) that amount is added to the Net Change in Cash (Step 8) and the total shows up in the last row called Ending Cash Balance.</p> <p>If this amount is in parentheses, it denotes a negative number. If this amount is without parenthesis it means you have a positive cash flow, indicating you have reached the break even point of your initial investment. As long as your expenses don’t out pace your revenues, you should continue to recover your costs from that point forward.</p>



The last statement in Step 9 is **CRITICAL** to understand.

Once you move from a negative ending balance to a positive one, it is true you have made progress. However don’t assume that you can increase your expenses immediately. You want to allow your recovery dollars to grow before you add additional personnel or programs to your expense items.

It is often the case that organizations try to grow too quickly and end up overspending to the point that they cannot recover. A more conservative financial approach will allow your CTC to be more flexible.

If you look at the example of “The Best CTC,” the company started with \$2,000 as a beginning cash balance (#2). In January they stated an inflow of \$2,500 in training fees (#3) and a total of \$2,400 in expenses (#4).

This left a negative balance of (\$400) (#5). “The Best CTC” ended up purchasing a new copier for their program for \$7,000 (#6). This transaction shows up as a deduction in cash, but would be considered an asset (not an expense) to the CTC.

“The Best CTC” did not have cash flow from other activities such as grants or donations, so they entered a \$0 in that field (#7).

The Net Change in Cash for January is a negative (\$7,400) (#8). Adding their \$2,000 beginning cash balance (#2) to their Net Change in Cash leaves their CTC with a negative balance of (\$5,400) in January.

Move to Action

Now it's your turn to try the Cost Recovery Financial Tracking Tool.

If your CTC has already started, use the tool to enter the data you have so far. Don't forget to enter the beginning cash balance you started with, and add revenues, expenses, purchases for equipment (if any), and gains from grants or donations (if any). Complete the form for as many months of data as you have and see where your CTC is in its cost recovery process.

If your CTC is just getting started, perhaps the best approach would be to complete the Cost Recovery Financial Tracking Tool first, as a way to formulate a budget, and second, as a tool to track your actual numbers.

Best Practice:

Save the Cost Recovery Financial Tracking Tool as many times as you need to by giving each version a new file name.

Example: Save it once as a budget tracking tool and save it once as an actual cost recovery tool.

Choose File > Save As > Rename the file (CTC_Budget 2006)

Choose File > Save As > Rename the file (CTC_Actuals 2006)

Look once more at "The Best CTC" example. If they determine they can charge participants \$100 for a program, and they intend to service 70 participants per month, their CTC will generate \$7,000 in revenue per month. This will be in addition to their \$5,000 grant which allowed them to lower the per participant cost. If they watch their expenses wisely it won't take them long to see their CTC in a positive cash flow position.

The best way to get comfortable with the Cost Recovery Financial Tracking Tool is to use it. Experiment with numbers to see how it calculates up and down and how your pricing model and level of expenses will affect the speed at which you can recover your costs.

Recovery Statement

The Recovery Statement provides your CTC with a way to account for any surplus revenue that is generated by the CTC and to give possible recommendations about how that surplus can be allocated for additional programs and services that correlate to the WIT Program.

The Recovery Statement is a Microsoft Word form. It allows you to enter the numbers calculated in the Cost Recovery Financial Tracking Tool that will generate a report showing either a surplus or deficit ending cash balance. An example of the Recover Statement is provided on the following page.

To use this tool, tab to the fields denoted in gray and enter the appropriate information. At the top, enter the name of your CTC and the beginning and ending dates for the timeframe you are reporting your surplus or deficit.

Enter the total revenue your CTC received during the period you are reporting (#3).

Enter the total operating expenses (#4). Subtract the total operating expenses from the total revenue to show the amount of operating income you had during the reporting period.

Transfer the operating income total from the first section of the statement down to the Operating Income field in the second section. Enter the amount of cash used by investing activities and the amount of cash provided by other activities (#6 & #7).

Subtract the amount of cash used by investing activities from the operating income, and then add the amount of cash provided by other activities. Enter that amount in the line called Net Change in Cash (#8). This amount should equal the last entry amount listed on the far right side of the Cost Recovery Financial Tracking Tool in the totals column.

Transfer the Net Change in Cash amount down to the third section in the Net Change in Cash field. Add in your beginning cash balance (#2) if you had one. Enter the total Ending Cash Balance number in the last field (#9).

If you have a positive ending balance, this is a recovered amount called surplus. If you have a negative ending balance, denote that amount using parentheses and understand that this is deficit.

The final step is to provide a statement of intent for how any surplus revenue will be reinvested into the CTC programs.

[Enter Name of CTC Here]

For the Period [Enter begin and end dates]

Revenue Total	+		
Operating Expenses Total	-		
Operating Income	=		\$

Operating Income	+		
Net Cash Used By Investing Activities	-		
Net Cash Provided By Other Activities	+		
Net Change in Cash	=		\$

Net Change in Cash	+		
Beginning Cash Balance	+		
Ending Cash Balance	=		\$

Statement of Intent for Recovery Revenue

[Enter description of how excess revenue will be used.]