



FAA LOGISTICS CENTER FINANCIAL DICTIONARY

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This icon represents a note. Double-click the note to read it and click on the left-hand corner to close.

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Direct and Indirect Cost



- ◆ Direct Costs are those incurred for the benefit of one specific cost object.
- ◆ Indirect Costs are incurred for the benefit of more than one cost object
- ◆ A Cost Object is a product, process, department or customer to which costs are assigned



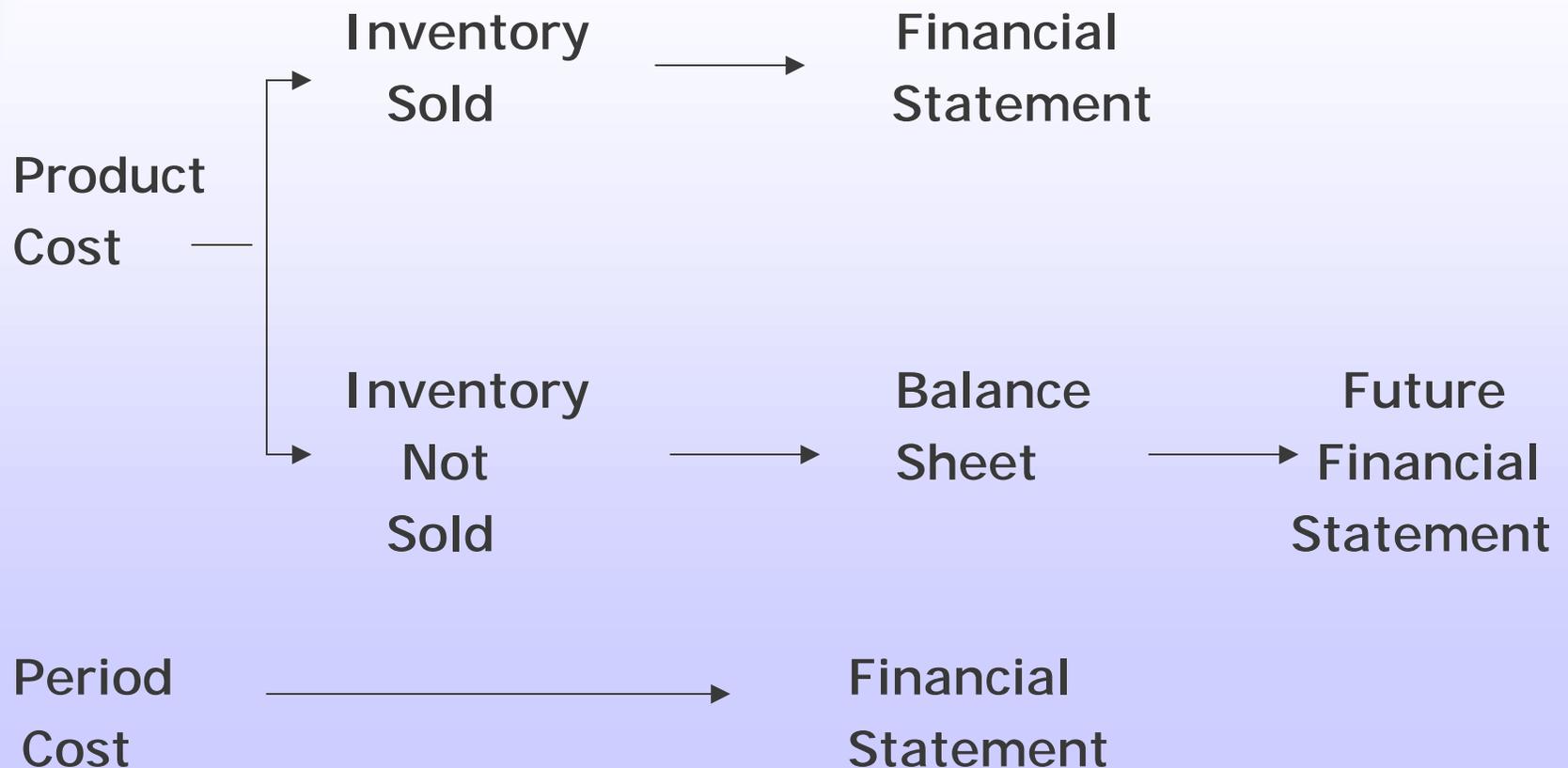
Fixed and Variable Costs Contribution Margin

- ◆ Fixed cost – a cost that does not change with changes in the volume of activity.
- ◆ Variable cost – a cost that changes in proportion to changes in the volume of activity.
- ◆ Contribution margin – the sales price of a product less its total variable cost.



Product And Period Costs

- ◆ Product cost – are capitalized as a part of inventory and flow with the inventory (repair parts)
- ◆ Period cost – expire with a period of time. They are expensed on the financial statement in the period incurred (office supplies)





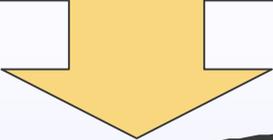
Repair Cost and Repair Price

- ◆ Repair cost is comprised of direct labor, direct materials and a proportionate amount of indirect costs which includes supervision, engineering support, frozen job orders and other costs associated with the operation of the repair facility.
- ◆ Repair price is the repair cost plus the recapture of expenditures required to recover the Logistics Center operating costs.



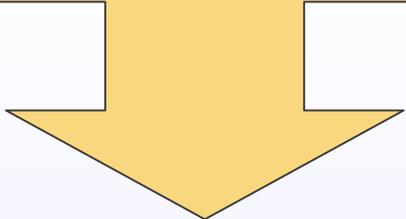
REPAIR COST

Direct labor-traced to a specific NSN



Direct Material-traced to a specific NSN

Overhead-Spread across all NSN's
Supervision
Production Controllers
Engineering Support
Indirect Labor
Frozen Job Orders



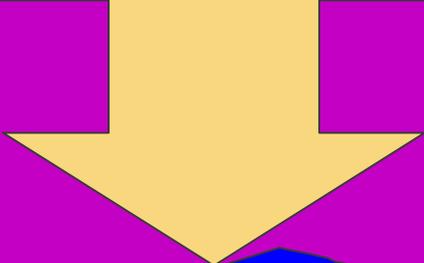
C
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REPAIR PRICE



RECOVERY RATE
I/M
Engineering Support
Finance & Budget
Management
Systems Support
Customer Care
Distribution Costs





Profit Center and Cost Center

- ◆ Profit center - incurs costs and generates revenue.
- ◆ Cost center – incurs cost or expenses without generating revenues.



FINANCIAL STATEMENTS "MANAGING THE BOTTOM LINE"

In the 1999-2002 FAA Logistics Center Strategic Plan under the "Learning and Innovation Perspective," is a strategic objective to "Implement effective internal cost accounting and financial management information system." The following section is intended to assist in the understanding of the FAALC financial statements which were designed to help meet the above stated objective.



Comparing The Budget Process and Financial Statements

- ◆ The objectives of the budget process is to track spending to insure we do not overspend (become deficient) and that the money is spent for its intended purpose.
- ◆ The financial statements on the other hand go a step farther to measure the effectiveness of the resources expended.

SALES



- ◆ The value of an item or value of a service performed by the FAALC for an external customer in the normal course of business. The sales value allows for full cost recovery of FAALC operating costs. This includes issues of expendable, initial issues, and non-returned core items or repair services that include commercial repair charges and FAALC in-house repairs.
- ◆ Sales are derived from LIS activity (with retail pricing applied) as processed in Data Mart.
- ◆ Sales by division are allocated by the IM number assigned to the NSN.

In thousands	FY 99		Oct-99
	Average Baseline	Percent of Sales	
Sales			
Material Products	4,247	45.04%	4,084
E & R - In House	2,495	26.46%	2,569
E & R - Commercial	1,269	13.46%	1,116
Direct Ship	1,355	14.37%	1,661
Other Service	63	0.66%	609
Net Sales	9,428	100.00%	10,039

Financial Statements
"Managing the Bottom Line"

Sales Categories

- ◆ Material Products
 - Value of items sold, stocked and shipped by the FAALC to an external customer.
- ◆ E&R In-House
 - The repair value of core items exchanged and repaired by the FAALC repair facilities, then sold as serviceable to an external customer. Includes material, labor and overhead for repair cost.
- ◆ E&R-Commercial
 - Repair value of core items exchanged and repaired by a commercial source or other federal agency and sold by the FAALC to an external customer.
- ◆ Direct Ship
 - Value of expendable products and E&R services stocked and shipped from an external source to an external customer.
- ◆ Other Service
 - The value of services and products supported by a Universal Service Agreement (USA).



Cost of Goods Sold

- ◆ The cost of products and services provided including the utilization of inventory on hand.
- ◆ Cost of goods sold is derived from LIS activity processed through Data Mart.

In thousands	FY 99 Average Baseline	Percent of Sales
Sales		
Material Products	4,247	45.04%
E & R - In House	2,495	26.46%
E & R - Commercial	1,269	13.46%
Direct Ship	1,355	14.37%
Other Service	63	0.66%
Net Sales	9,428	100.00%
Cost of Goods Sold	(6,458)	-68.50%

Financial Statements
"Managing the Bottom Line"

Cost of Goods Sold vs Obligations



- ◆ Obligations for product costs from DAFIS MIR do not equal the cost of goods sold on the FAALC financial statements. Timing and pricing differences exist between DAFIS and LIS activity.

Expenses	Business Costs	In thousands
Personnel Compensation		(2,352)
Personnel Benefits		(598)
Comp and Benefits Transfer		901
Travel		(31)
Transportation		(265)
Rental		(9)
Printing		(2)
Contractual Services		(509)
Supplies		(106)
Equipment		(74)
Land & Structure		(4)
Center Delivery Function USA		
Total		(3,050)

Inventory Expenditures in DAFIS \neq Cost of Goods Sold

Inventory and CDLS Items	Product Costs	
Other Serv - Not Otherwise Class		(2,797)
Direct Labor and Benefits		(901)
PDS Allocation		(463)
Inventory - Stocked Items E & R		(1,171)
Invent-Stock Item - Non-Exc E&R		(1,431)
Invent-Nonstock Dirct Ship Item		(247)
Inventory - Supplies/Materials		(972)
Total		(7,981)
Total Obligations		(11,030)

Gross Margin

- ◆ The difference between sales and cost of goods sold. For the FAALC this should be the amount of cost recovery yield.

In thousands	FY 99 Average Baseline	Percent of Sales	Oct-99
Sales			
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E & R - In House	2,495	26.46%	2,569
E & R - Commercial	1,269	13.46%	1,116
Direct Ship	1,355	14.37%	1,661
Other Service	63	0.66%	609
Net Sales	9,428	100.00%	10,039
Cost of Goods Sold	(6,458)	-68.50%	(6,765)
Gross Margin			
Material Products	1,427	33.61%	1,432
E & R - In House	917	36.78%	949
E & R - Commercial	446	35.13%	397
Direct Ship	117	8.67%	147
Other Service	63	100.00%	351
Total Gross Margin (1)	2,971	31.51%	3,275

Financial Statements
"Managing the Bottom Line"

Product Division Expense

- ◆ Product Division expenditures which are not considered inventory or product costs but rather a cost of doing business.

In thousands

	FY 99 Average Baseline	Percent of Sales	Oct-99
Sales			
Material Products	4,247	45.04%	4,084
E & R - In House	2,495	26.46%	2,569
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Business Costs



Expenses			
Air Craft	(43)	-0.46%	(43)
Automation	(47)	-0.50%	(117)
Radar	(42)	-0.45%	(505)
Communications	(110)	-1.16%	(126)
Product Services	(402)	-4.27%	(169)
Nav/Land/Weather	(87)	-0.92%	(198)
Distribution	(683)	-7.24%	(739)
Director	(111)	-1.18%	(30)
BSG	(504)	-5.34%	(463)
QSG	(230)	-2.44%	(423)
ISG	(449)	-4.76%	(295)
Total Expenses	(2,708)	-28.72%	(3,107)

Product Division Expense

Direct Labor and Benefit Transfer



- ◆ The Direct Labor and Benefit Transfer is the subtraction of repair facility direct labor and benefits (a product cost) from Personnel Compensation and Benefits reported as a business expense on the financial statements.
- ◆ The percentage of repair labor to total payroll is calculated on a quarterly basis and applied to actual labor and benefit costs reported in DAFIS MIR.

In thousands <u>Expenses</u>	FY 99		
	Baseline	Oct-99	Nov-99
Business Costs			
Personnel Compensation	(2,352)	(2,371)	(2,298)
Personnel Benefits	(598)	(564)	(591)
Comp and Benefits Transfer	901	824	840
Travel	(31)	(13)	(15)
Transportation	(265)	(49)	(184)
Rental	(9)	(12)	
Printing	(2)		
Contractual Services	(509)	(642)	(693)
Supplies	(106)	(25)	(65)
Equipment	(74)	(248)	(60)
Land & Structure	(4)	(317)	
Center Delivery Function USA		13	13
Total	(3,050)	(3,404)	(3,053)
Less Product Services		303	201
Net Total Expense	(3,050)	(3,101)	(2,853)
Inventory and CDLS Items			
Product Costs			
Other Serv - Not Otherwise Class	(2,797)	(2,308)	(1,682)
Comp and Benefits Transfer	(901)	(824)	(840)
AML-610 PDS 312	(463)		
Inventory - Stocked Items E & R	(1,171)	(947)	(405)
Invent-Stock Item - Non-Exc E&R	(1,431)	(1,925)	(971)
Inventory Stocked Items E & R			
Invent-Nonstock Dirct Ship Item	(247)	(819)	(642)
Inventory - Supplies/Materials	(972)	(998)	(895)
Total	(7,981)	(7,821)	(5,434)
Total Obligations	(11,030)	(11,225)	(8,488)

Distribution Expense

- ◆ Includes PC&B, travel, transportation costs, supplies, equipment and other operating expenses of the Distribution Center.
- ◆ Transportation costs and the PC&B of the Transportation Branch are allocated monthly on the financial statements to the Product Divisions based on the proportionate share of current month costs collected in the mechanical shipping database.
- ◆ All other Distribution costs are allocated monthly on the financial statements to the Product Divisions based on a proportionate share of a rolling three month total of issue and receipt activity processed in the Distribution Center as reported in Data Mart.



Director Expense

- ◆ Includes PC&B, travel, supplies, contract services, equipment and other operating expenses of the Director's office and support staff.
- ◆ Director expense is allocated proportionately on the financial statements to the Product Divisions based on a rolling three months of all sales categories.



Business Systems Group Expense

- ◆ Includes PC&B, travel, supplies, contract services, equipment and other operating expenses of the division.
- ◆ Business Systems Group expense is allocated proportionately on the financial statements to the Product Divisions based on the following:
 - rolling three months of all sales categories X 75% of Expenses
 - rolling three months of touch sales X 25% of Expenses (Touch sales excludes Direct Ship Sales)
- ◆ Functions include finance and budget, cataloguing, learning and innovation, training and staffing, inventory control, acquisition logistics team, store credit team and logistics data management team.

Financial Statements
"Managing the Bottom Line"



Quality Systems Group Expense

- ◆ Includes PC&B, travel, supplies, contract services, equipment and other operating expenses of the division.
- ◆ Quality Systems Group expense is allocated proportionately on the financial statements to the Product Divisions based on a rolling three months of touch sales (all sales categories excluding direct ship).
- ◆ Functions include process assessment team, disaster coordinators, customer care center team, supplier partnership team and ISO administration team.



Information Systems Group Expense

- ◆ Includes PC&B, travel, supplies, contract services, equipment and other operating expenses of the division.
- ◆ Contract services include mainframe timeshare charges, software and computer maintenance support and programming.
- ◆ Information Systems Group expense is allocated proportionately on the financial statements to the Product Divisions based on a rolling three months of all sales categories.

Margin From Operations



◆ The difference in the gross margin and total expenses.

	In thousands	
Sales		
Material Products	4,247	45.04%
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Other Service	63	100.00%
Total Gross Margin (1)	2,971	31.51%
Expenses		
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QSG	(230)	-2.44%
ISG	(449)	-4.76%
Total Expenses	(2,708)	-28.72%
Margin From Operations	262	2.78%

“THE BOTTOM LINE”



Inventory Turnover

- ◆ Inventory turnover measures the time period (in fraction of years) it takes to utilize the inventory.
- ◆ Holding cost incurred for retaining an asset.
- ◆ Measures how well we manage our assets in response to our customer needs. This is a measure of the strategic objective to reduce cost from the financial stakeholder perspective of the FAALC 1999-2002 Strategic Plan.

- ◆ In Data Mart turnover is computed as follows:

$$\frac{\text{Annualized value of issues}}{\text{Average inventory value}}$$

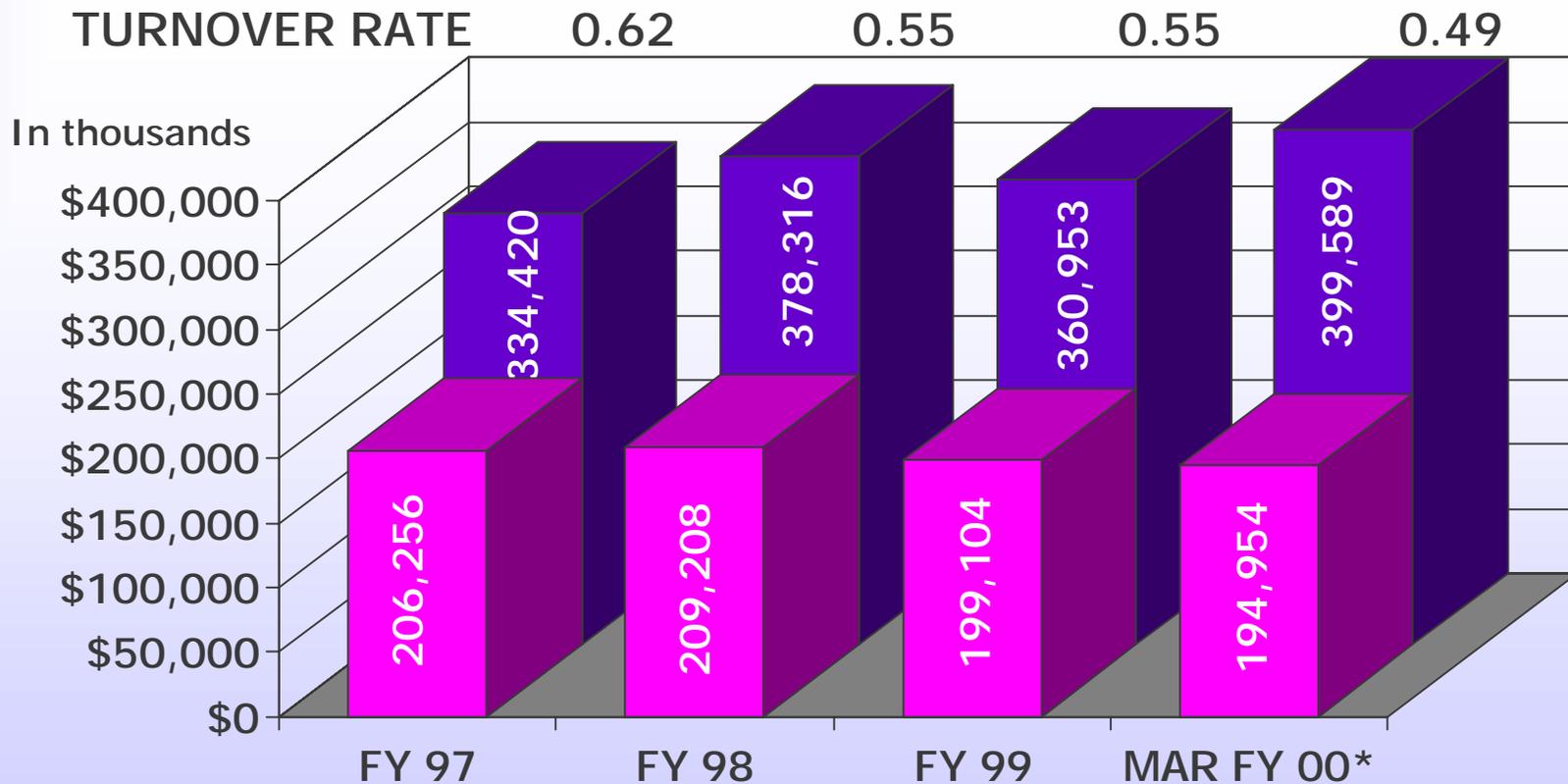
Resource Utilization

Inventory Turnover	0.40	0.40	0.38
Annualized Return on Capital	0.44%	0.20%	0.60%
Sales/Employee	15.81	13.43	15.35
Gross Margin/Employee	5.16	4.49	5.12

Financial Statements
"Managing the Bottom Line"



Total Inventory Turnover Without Insurance Stock



Components of turnover →

■ Annualized Cost of Goods ■ Average Inventory Value

Source: DATAMART

Date: March 31, 2000

*About \$22 M related to ARSR 4 was funded by the Program Office.

Annualized Return on Capital

- ◆ Annualized return on capital is the average Margin From Operations annualized to get a full year effect and divided by Average Inventory (FAALC's primary capital). Using averages allows for changes due to growth, decline or other significant influences on the business.
- ◆ Serves as an indicator of operating efficiency. Measures the effectiveness which management has employed total assets.

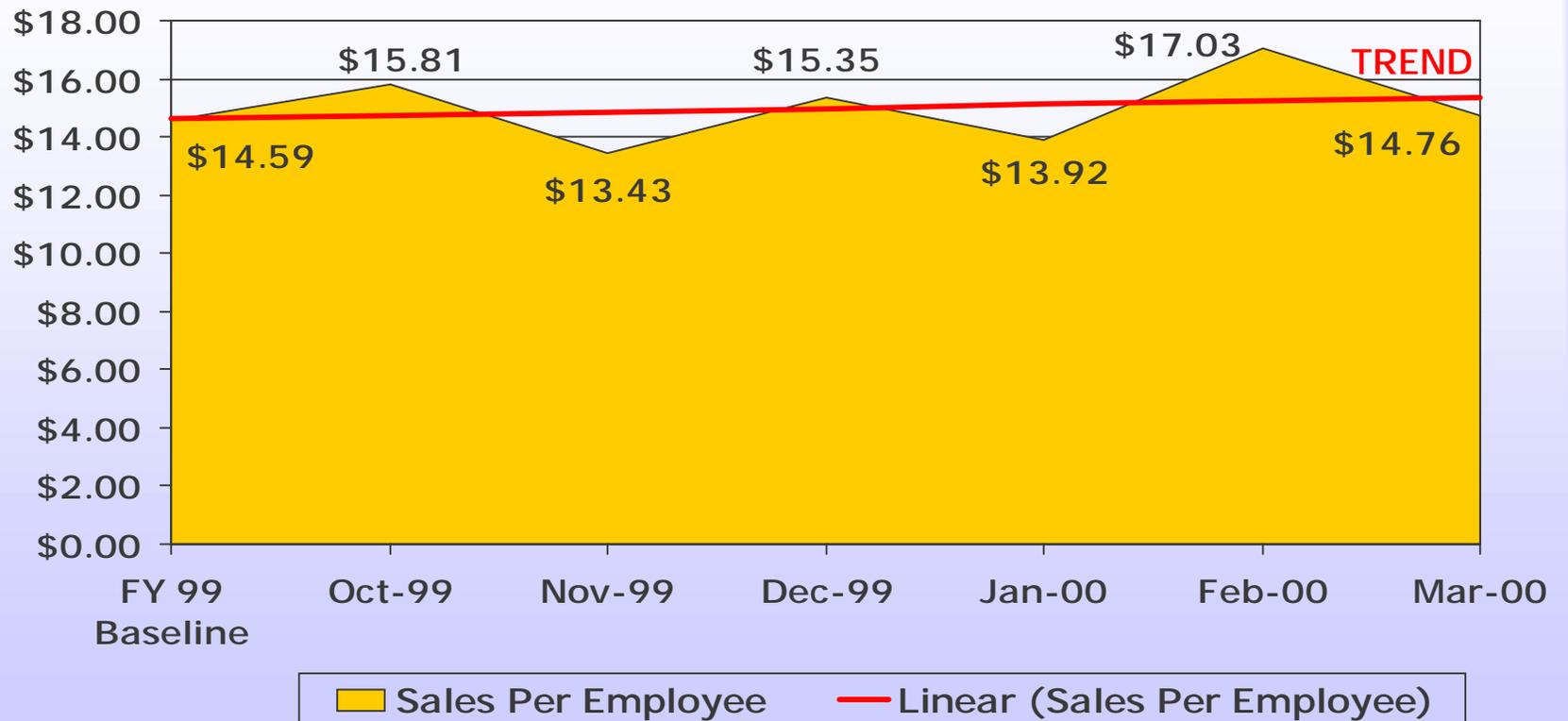
Margin From Operations	168	(14)	539
Resource Utilization			
Inventory Turnover	0.40	0.40	0.38
Annualized Return on Capital	0.44%	0.20%	0.60%
Sales/Employee	15.81	13.43	15.35
Gross Margin/Employee	5.16	4.49	5.12
Inventory	459,660	459,906	459,723
Number of Employees	635	634	625

Financial Statements
"Managing the Bottom Line"

Sales Per Employee

- ◆ A measure of output or resource utilization calculated by dividing Net Sales by the total number of employees.

In-thousands

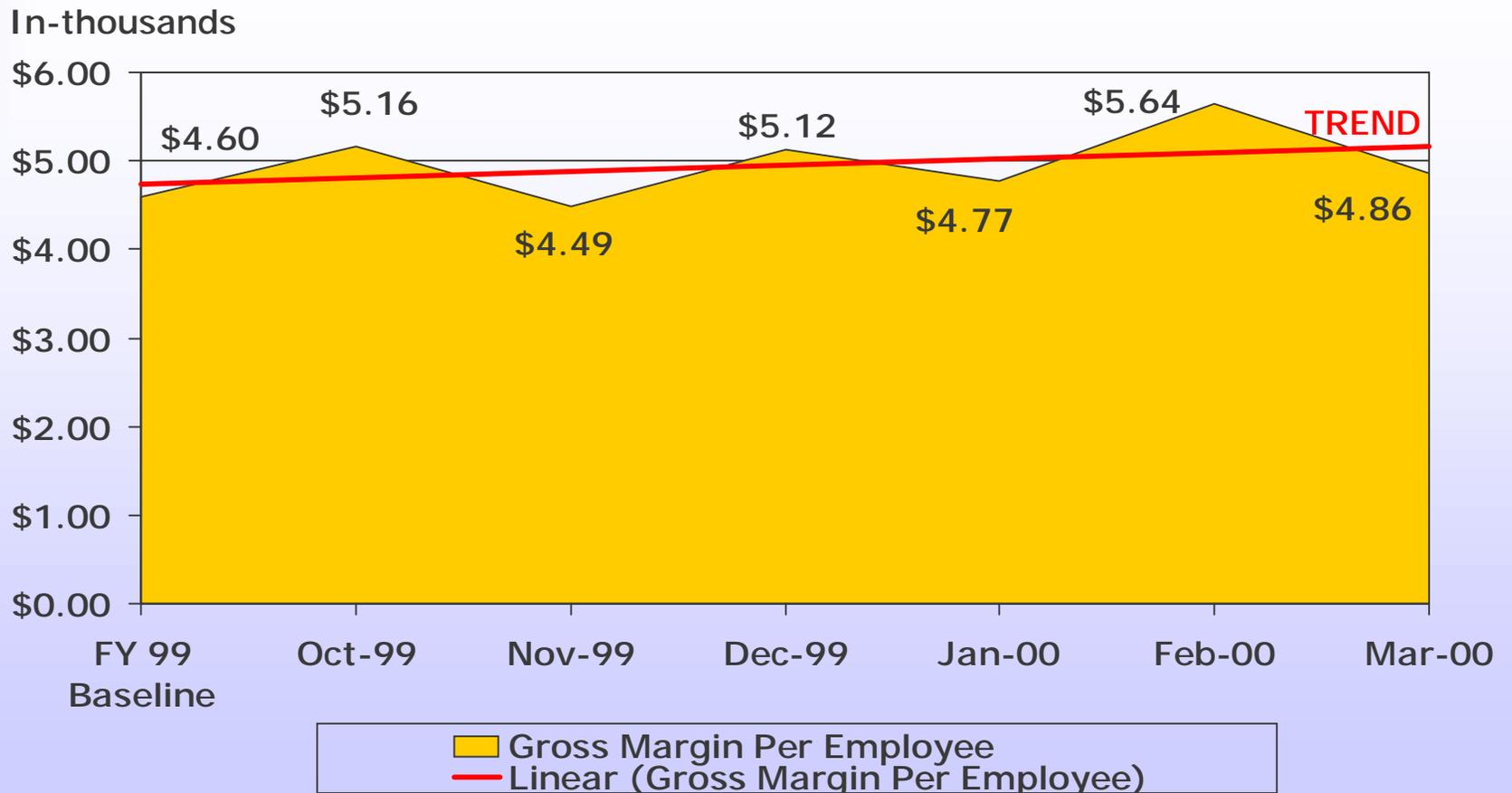


Source: Data Mart, CPMIS

Date: March 31, 2000

Gross Margin Per Employee

- ◆ A measure of output or resource utilization calculated by dividing Gross Margin by the total number of employees.



Source: Data Mart, CPMIS

Date: March 31, 2000



THE BUDGET "MANAGING CASH"

Accounting and budget guidance can be obtained from the "Accounting Codes Handbook, Mike Monroney Aeronautical Center" which is published by AMZ-120 each fiscal year. Questions can be addressed to the Business Systems Group Budget Team.



Appropriations and the Budget

- ◆ Appropriation – Congressional authorization to incur obligations and make payments from the US Treasury for specific purposes.
↓
- ◆ Allotment – an agency's authorization of its organizations to incur obligations.
↓
- ◆ Budget – a plan for the coordination and control of resources and expenditures.

The Budget
"Managing Cash"



Obligations

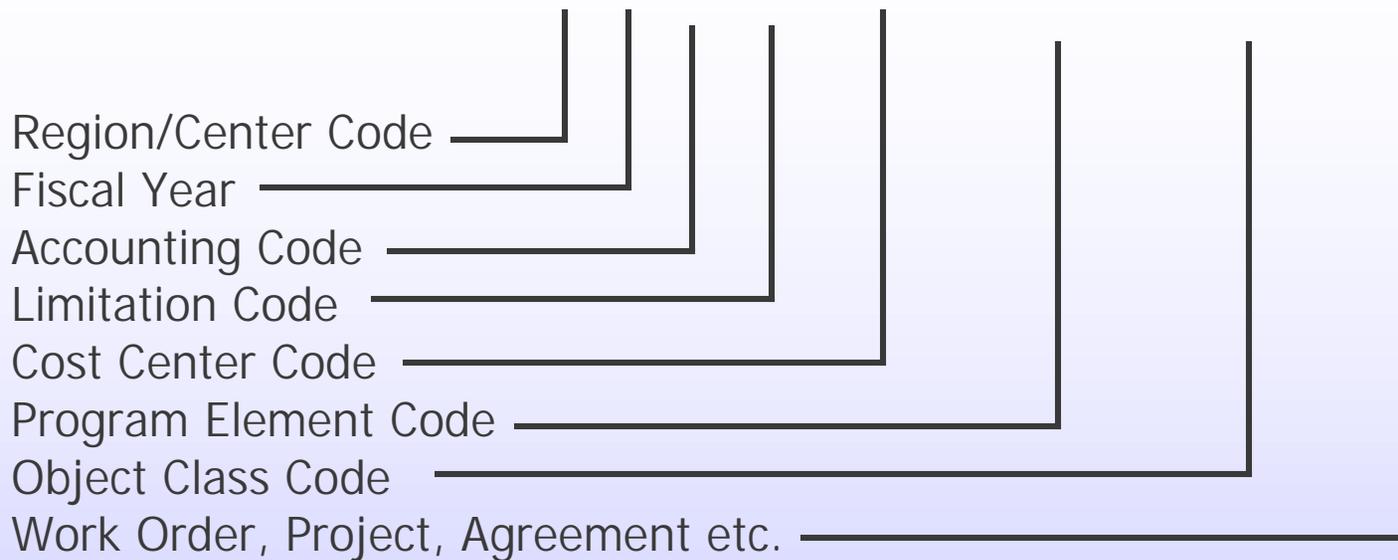
- ◆ A transaction which establishes a legal requirement for the disbursement of funds.

- ◆ Stages of an obligation:
 - UDO – Undelivered Order – Entered into a contract to receive goods or services which have not been received or paid for.
 - AEU – Accrued Expenditure Unpaid – Goods or services have been received but not paid for.
 - Expenditures – Final stage of an obligation, payment of an invoice.



ACS – Accounting Classification String

A 0 01 0 / RQ00 / 312 / 2650 / X---



FY 00 OPERATIONS ACCOUNTING STRING

The Budget
"Managing Cash"



Doc ID – Document Identification

- ◆ Doc ID is made up of 4 fields
 - 1st field = Doc Type (Purchase Order, credit card, etc)
 - 2nd field = Doc FY (originating year of the document)
 - 3rd field = Doc Number (unique way of identifying the document- P.O. number, name of person making adjustment, contract number etc.)
 - 4th field = Doc Suffix (3 position numeric, normally 000 by default.) Rolls over for each line item in a document.



Cost Center Codes

- ◆ Used to accumulate costs in designated areas of responsibility such as division and branch levels.
- ◆ The first three digits designates the FAALC division as follows:
 - RQE – Office of the Director
 - RQB – Business Systems Group
 - RQQ – Quality Systems Group
 - RQG – Information Systems Group
 - RQD – Distribution Center
 - RQR – Radar Product Division
 - RQF – Aircraft Product Division
 - RQP – Product Services Division
 - RQA – Automation Product Division
 - RQC – Communications Product Division
 - RQN – Navigation/Landing/Weather Product Division

The Budget
"Managing Cash"



BUD/STAT Report

- ◆ Compares fiscal year to date obligations to the financial plan indicating amount and percentage of the financial plan which is not currently utilized on a specific date.
- ◆ Source of obligations is DAFIS MIR. DAFIS MIR is updated nightly which in turn the BUD/STAT report can also be updated on a daily basis.
- ◆ Fin Plan – Financial Plan – Initial allocations done within the BSG based on historical data and future projections.

The Budget
"Managing Cash"

BUD/STAT Report

DAFIS MIR
PROCESS DATE

FY 00 FAALC SUMMARY

05/23/00

ORGANIZATION	FINANCIAL PLAN (FP)	OBLIG AS OF 5/11/00 8:38 PM	FIN. PLAN BALANCE	%OF FP USED
312/313/316 SUMMARY				
PC&B (11 &12)	36,735.3	24,234.3	12,501.0	66.0%
OVERTIME (non-add) (1151)	589.0	351.8	237.2	59.7%
AWARDS(non-add) (115H)	1.1	6.5	(5.4)	592.5%
PCS (non-add) (1210-15)	0.0	0.0	0.0	0.0%
TRAVEL (21)	124.8	156.4	(31.6)	125.3%
TRANSPORTATION (22)	2,460.6	1,247.6	1,213.0	50.7%
RENTALS (23)	64.8	22.2	42.6	34.2%
PRINTING (24)	389.4	170.7	218.7	43.8%
CONTRACTUALS (25)	35,128.2	23,899.6	11,228.6	68.0%
SUPPLIES (26)	35,508.1	22,770.5	12,737.6	64.1%
EQUIPMENT (31)	771.3	944.1	(172.8)	122.4%
LAND/STRUCTURES (32) + TORT CLAIMS (42)	316.7	316.7	0.0	100.0%
Subtotal w/o PC&B	74,763.9	49,527.9	25,236.0	66.2%
Subtotal with OT, Awd, &PCS	75,354.0	49,886.2	25,467.8	66.2%
GRAND TOTAL	111,499.2	73,762.2	37,737.0	66.2%

OBJECT CLASS
MAJOR

The Budget
"Managing Cash"

BUDGET



Capital Investment Policy

- ◆ The Corporate Board has a policy that all capital expenditures in excess of \$20,000 be approved by the Corporate Board using a standard presentation and a discounted cash flow method.
- ◆ Capital expenditures are some of the hardest decisions for management because they usually involve large amounts of money, evaluating the benefit requires making future projections and usually a decision can not be reversed.

The Capital Investment
Decision

Capital Investment Decision

- ◆ The economic trade-off between the resources expended now and the expectation of future cash benefits to be obtained.
- ◆ Should support an organization's business strategies.
- ◆ Apply ground rules to ensure results are thorough, consistent and meaningful.
 - Definition of the problem which includes alternatives and risks
 - Nature of the proposed investment (Competing, mutually exclusive or sequential outlay investments etc.)
 - Estimates of future costs and benefits
 - Reasoning based on incremental cash flows
 - Exclusion of sunk costs (Excluding past expenditures even though related to the new investment decision)
 - Application of the time value of money to future incremental flows discounted back to present value. The discount rate is called the hurdle rate and is the target rate for an acceptable return on the investment. The FAALC uses a target rate (hurdle rate) of 10%.



Capital Investment Model

Example

Project Name	<u>Data Mart</u>
Investment Amount	<u>\$450,000</u>
Discount Rate	<u>10%</u>
Project Life	<u>5 Years</u>

Year	Cash Flow	Disct Factor	Present Value	Cumulative PV
0	(633,432)	1	(633,432)	(633,432)
1	193,599	0.909091	175,999	(457,433)
2	332,509	0.826446	274,801	(182,632)
3	340,822	0.751315	256,065	73,433
4	349,342	0.683013	238,605	312,038
5	358,075	0.620921	222,336	534,374

Pro Forma (Projected Costs & Benefits)

	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Software & Support	(450,000)					
Start up	(183,432)					
Software Maintenance/Support		127,730	(130,923)	(134,196)	(137,551)	(140,990)
Operating Results Improvement		218,000	357,520	366,458	375,619	385,009
Labor Savings/Information gathering		103,329	105,912	108,560	111,274	114,056
Cash Flow	(633,432)	193,599	332,509	340,822	349,342	358,075
ROI		30.56%	65.62%	89.68%	137.88%	282.65%



Example of Proposal

Page 1 of 7

Background

The FAALC does not have a complete integrated financial system or easy access to financial and operating information. The two primary systems are DAFIS and LIS. DAFIS is limited in scope in that it does not provide information on sales, gross margin, growth of business or provide operating information that is necessary to make good financial and operating decisions.

DAFIS is also limited by a lack of good report writing feature and it is difficult to extract information in the format that is needed.

LIS is an old system and the current business requirements have changed from the original design philosophy. While LIS did a good job for what it was designed to do there are now many new demands on LIS. For example, LIS was not designed as a financial reporting system but it is the only source for information such as sales and other important financial information. Likewise, LIS is limited in report writing capability and is difficult to extract information in the format needed. Also LIS has many different codes for extracting information and accurate interpretation of the meaning of the information sometimes depends on the skill of the users.

There is a strong need for easy access to reliable financial and operating data to improve the decision making process at FAALC. Currently financial and operational data is gathered by many different people from eclectic sources and there is no integration of the quality or reliability of the information. Furthermore, in many cases there simply is not adequate information to make informed spending decisions.

Example

Page 2 of 7

Proposal

Establish a Data Mart for financial and performance information for the FAALC. To accomplish this task the FAALC must purchase the required software, training, and consulting to ensure its success. The Data Mart would then serve as a central repository for business information with automatic updates from various systems, e.g., LIS, DAFIS, Production Control, CAS, and others. Estimated time to production on the Data Mart is 6 months from the receipt of the software and initial training.

Advantages

The Data Mart software package will provide many advantages including the following:

- Key tool to increase the level of business knowledge for FAALC management.
- The tool to provide financial statement by Product Division
- Will provide alignment of financial data and accountability
- The system can be in place a relevant short time frame.
- More timely information
- Better quality of information for decision making

Example

Page 3 of 7

Risk

The following risks are identified for the project:

1. Lack of experience by FAALC personnel in implementing this new technology.

The Data Mart is state-of-the-art technology in the information industry. FAALC information specialists are not experienced in this technology. To mitigate this risk, a combination of adequate training and the hiring of Oracle Data Mart engineers to guide us through the process will reduce this risk to a minimum. Both of these actions are part of the initial system acquisition costs. In addition, we are purchasing sufficient training for end-users, who are also unfamiliar with this technology.

2. Potential for “scope creep” which increases the potential for failure of the project.

Scope creep is defined as continually changing the requirements that affect the scope of the project. The original mandate from the management team was to implement a financial and performance measure Data Mart. The scope must be maintained at that level until implementation of the Data Mart. After implementation, additional data elements for other purposes can easily be added without affecting the success of the Data Mart project.



Risks continued

3. Lack of involvement and/or acceptance from the customer.

The lack of sufficient involvement in the project by the customer (identified as the Business Systems Group initially) could result in a Data Mart solution that does not meet the needs of the FAALC for good business information. This would result in low acceptance of the Data Mart and essentially reduce its effectiveness to near zero. This risk is easily eliminated by providing a full-time member on the Data Mart team from the Business Systems Group who understands the business information needs in business terms for the period of the project (estimated at 6 months). Also, as the information in the Data Mart becomes available, the BSG and Managers must make it clear that this information is what will be used to make business decisions. In addition information is needed, it should be added to the Data Mart as it is identified.



Alternatives

1. Full data warehouse. This alternative could be more expensive to develop and would probably take three or four years to develop a full blown data warehouse. The need for more timely information is now rather than later.
2. Status Quo. This alternative would require that the FAALC continue to make spending, financial and operating decisions without adequate information. Inadequate systems and information with the coming FAA Financial Fund for Material Handling plus shrinking budgets will lead to the demise of FAALC.
3. Modify existing system. This alternative would be very expensive and would require several years to develop. It also would impact the existing system's function as a production process and after all the expense and time to make the change, FAALC would still not have a modernized method for financial and performance reviews.

Example

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Economics

The following assumptions were used to develop the economics for the project:

1. The project life is five years with a ten percent hurdle rate. The initial cash out lay for the software and support is \$450,000 plus \$183,432 to develop the system.
2. Labor saving is based on the average number of hours required to produce ad hoc reports through LIS. In addition there is a factor for gathering information from sources other than LIS such as through DAFIS, ABS, MIR and others This factor is 50% of the calculation used for LIS. The LIS calculation is based on the hours used to produce ad hoc report for 1997.
3. The operating results is based on anticipated improvement for the Product Divisions. The assumption is based on the value of having financial statements as a management tool compared to operating in the blind without financial statements. The value used as a benefit for having financial statement is a very conservative one half of one percent of sales. Sales are projected as about 90million FY 99. Only one half of the benefit is used for FY 99. The sales projection decreases by 20 % for FY 00.
4. Inflation is projected at 2.5% per year.

The Capital Investment
Decision

Example

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Summary

The Data Mart software package will enable FAALC to take a large step toward having the tools to manage the business more like the private sector. Good quality and timely finance information will enable better decisions and increase the business knowledge level of the organization. The accumulated present value of cash flow will exceed the hurdle rate in the third year for this project. The return on investment is 30.5% in the first year. The BSG and AML-100 request your approval of this project.

The Capital Investment
Decision