

# Financial Management Guide



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## SECTION 1. INTRODUCTION

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### A. FORWARD

The Montana Department of Transportation (MDT) administers federal and state grant programs to help fund operations and capital purchases for qualified transportation organizations. MDT receives the federal grant dollars from the Federal Transit Administration (FTA). FTA imposes requirements that grantees must meet to initially and continue to receive, federal grant funds from MDT. One of those requirements is to have strong financial management practices.

This guide is intended to clarify the federal requirements for financial management. The guide includes information on:

- A transportation budget and what the budget should include.
- Basic accounting principles and how to use those principles to create documents that meet federal guidelines.
- How to determine eligibility for reimbursement of costs.
- Sound internal control procedures and policies.
- Types of transportation revenue and how to use this revenue as local match.
- MDT reimbursement requirements.
- Rules for keeping financial records.
- Annual audit requirements.

### B. WHAT IS FINANCIAL MANAGEMENT?

Financial management means to have strong systems in place to use and account for grant funds properly. There are six fundamentals to a good financial system:

- **Financial Reports** that completely disclose all allowable and unallowable expenses.
- **Accounting Records** that can easily track day-to-day expenses and revenue.

- **Internal Control** that ensures assets are used for authorized purposes only.
- **Budget Control** that ensures expenses are in line with the original budget and budgets are tied to agency performance measures.
- Agencies only submit reimbursements for **Allowable Costs** as defined by the federal government.
- Agencies support accounting records with **Source Documentation**, such as cancelled checks, paid invoices, and timesheets.

### C. WHY IS FINANCIAL MANAGEMENT NECESSARY?

Rural and specialized transportation systems operate in environments with certain challenges (limited resources, multiple funding sources, and public accountability). Agencies need complete and accurate financial data to:

- Manage the system so that goals and objectives are met efficiently.
- Know the true cost of operating the system so that costs may be billed appropriately to the system's users.
- Report to funding sources (like MDT) how money was spent, what revenues were taken in, and the financial status of the organization.

## SECTION 2. BUDGETS

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### A. WHY ARE BUDGETS IMPORTANT?

Budgets are important to transportation service agencies because the document serves as a planning tool. A budget forces agency management to sit down and formally decide what they want and expect to happen in the future. During the annual budgeting process, agencies need to look at the following issues:

- Reducing or ending certain services
- Extending profitable services
- Adding new services
- Raising or lowering the rates being charged

As government grant funding becomes more competitive, it is important for an agency to be able to estimate operating costs ahead of time in order to decide how much to apply for and what services are important. Grant requests are more likely to be funded if a well-prepared budget shows estimated operating deficits and the cost of services provided.

### B. WHAT SHOULD MY BUDGET INCLUDE?

Budgets must have both expense and revenue programs. How to define expenses will be clarified in Section 3 of this document. How to define revenues will be clarified in Section 4 of this document.

It is very important to use the cost and revenue categories defined in Sections 3 and 4 consistently across the budget, accounting, and reporting process so that agencies can determine if budgetary operations are balanced, show an excess of revenues over expenses, or an excess of expenses over revenues.

Expenses need to be shown in the budget by the classification from which they are paid (e.g., transportation), by the activities for which the expenditures are made (e.g., vehicle operations), and by the objects of expenditures (e.g., driver salaries).

Revenues need to be shown by sources. Sources can be fares, agency contracts, or grants. Showing revenue by source allows for more accurate revenue estimates because factors that determine the amount of revenue coming in each year affect each source differently.

## SECTION 3. COSTS/EXPENSES

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### A. INTRODUCTION

Across the country, state Departments of Transportation report similar accounting problems with federal grant reimbursements during financial audits of transportation providers. These problems include:

- Operation costs claimed are not supported by documentation;
- Operation costs claimed are ineligible; and
- Costs claimed as indirect costs were not supported by an indirect cost plan.

To avoid problems, program providers need to follow the appropriate cost principles are defined below:

2 CFR Part 200

2 CFR Part 230 - Commercial Organization and NPO's FAR, 48 CFR Part 31

### B. TYPICAL COST CATEGORIES/TYPES OF COSTS

Typical cost categories are:

- Operations Costs – these costs typically are variable costs and will fluctuate with the programs volume of ridership.
  - Fuel and Oil Costs
  - Wages and Fringe Benefits
  - Registration Costs
  - Vehicle Storage Costs
- Preventative Maintenance Costs – these costs are used to maintain the useful life of vehicles.
  - Tires and Tubes
  - Fluid changes
  - Parts and Repair
  - Bus washes
- Administrative Costs - these costs tend to be fixed in nature and are incurred regardless of the operational level of the program.
  - Administrative Labor
  - Office Space
  - Insurance and Liability
  - Other Administrative Expenses

## 1 . Expense Definitions

**Driver salaries:** Includes all wages paid to drivers for the operation of passenger vehicles or the value of time spent driving.

**Dispatcher salaries:** Includes all wages paid to individuals responsible for the dispatching of passenger vehicles or the value of time spent dispatching.

**Fringe benefits:** Includes the cost of fringe benefits for drivers and dispatchers.

**Fuel and fuel additives:** Includes the cost of gasoline, diesel fuel, engine oil, and other lubricants.

**Tubes and tires:** Includes material for the maintenance of tires and purchase of tires.

**Vehicle insurance:** Includes the cost of vehicle and transportation-related types of insurance including liability and property damage, fire, and theft.

**Vehicle lease:** Includes the cost of leasing vehicles used to transport passengers.

**Vehicle license:** Includes the cost of licensing and/or registration tax on vehicles used to transport passengers.

**Purchased service:** Includes the cost of any portion of service purchased from another operator.

**Maintenance mechanic salaries:** Includes all wages paid to mechanics on staff or the value of their time spent on maintenance.

**Maintenance fringe benefits:** Includes the cost of fringe benefits for mechanics on staff.

**Maintenance service:** Includes the cost of outside contracts for maintenance of passenger vehicles.

**Maintenance materials and supplies:** Includes the cost of materials and supplies to maintain passenger vehicles.

**Maintenance facility:** Includes costs incurred by renting a facility in which vehicles are maintained by staff mechanics.

- Costs/Expenses -

**Maintenance equipment rental:** Includes costs of renting maintenance equipment and includes equipment rental costs not provided through a maintenance service contract.

**Maintenance utilities:** Includes all utility costs for maintenance facilities. If maintenance facilities are not metered separately, all utility costs should be included in the Administrative utilities costs.

**Administrator salary:** Includes all wages paid to the administrator of the agency for time allotted to the transportation program or the value of their time spent on transportation-type administrative duties.

**Manager salary:** Includes all wages paid to the manager of the transportation program for time allotted to the transportation program or the value of their time spent on transportation management duties.

**Clerical/Secretary salary:** Includes all wages paid for secretary/clerical support for the transportation programs or the value of their time spent on secretarial/clerical duties.

**Bookkeeper salary:** Includes all wages paid for bookkeeping support for the transportation programs or the value of time spent on bookkeeping duties.

**Other staff:** Includes all wages paid to other staff not categorized above supporting the transportation program or the value of their time. Other staff must be itemized.

**Fringe benefits:** Includes the cost of fringe benefits for the staff included in the salary categories above (i.e. FICA, unemployment insurance, health insurance, worker's comp.)

**Materials and supplies:** Includes all the cost of office materials and supplies.

**Telephone:** Includes all telephone rental, purchase, and installation costs.

**Office rental:** Includes the cost of renting office space for the transportation program.

**Utilities:** Includes all utilities costs for the administrative offices or for all facilities, if they are not metered separately, that are attributed to the space allocated for transportation.

**Office equipment:** Includes administrative costs not categorized above that contribute to the operation of the transportation program. All items must be specified.



- *Costs/Expenses* -

To determine if costs are categorized as administrative, operations, or preventive maintenance, see B. above.

## C. ALLOWABLE COSTS DEFINED BY THE FEDERAL GOVERNMENT

There are 10 cost standards under the circulars:

- Cost reasonableness
- Costs must be allocable (ability to be distributed properly)
- No prohibition under law
- Conformance with principles, grants, and regulations
- Consistency with policies
- Consistent accounting treatment
- Conformance with generally accepted accounting principles (GAAP)
- Prohibition of use as local match
- Net costs
- Documentation

### ***What do these ten cost standards actually mean?***

#### **1. Costs must be necessary and reasonable.**

In determining if a cost is reasonable, an agency must determine whether the cost is generally recognized as ordinary and necessary for operation of the public transportation program and the market prices for comparable goods or services.

**Example:** Supporting documentation indicates the cost paid for the goods or service is consistent with the price paid for the same goods or service by another Section 5311 grantee. If 10 grantees purchase a ream of paper at costs ranging from \$3.99 to \$5.99 per ream, a grantee requesting reimbursement of copy paper claiming \$28.99 per ream would not be reasonable.

A cost is necessary if the expenditure is required for performance or administration of the public transportation program and furthers the grant goals.

**Example:** Costs may be categorically considered necessary if they are consistent with an object category or account definition in the chart of accounts. Additionally, cost items that are routinely incurred by multiple grantees may be considered necessary.

#### **2. Costs must be allowable.**

The federal cost circulars impose an obligation on all recipients of federal funds to establish project accounts that can be used to accumulate (journals/ledgers), segregate (chart of accounts), and allocate (cost allocation plans) costs.

Direct costs are those expenses incurred by the agency that are directly related and strictly benefit only the public transportation program. Such costs are totally allocable to the transportation program.

Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective or program. Indirect costs must be allocated to the transportation program in accordance with an indirect cost allocation plan or use the 10% de minimis rate per 200.414, which is described in further detail later in this section.

#### **3. Costs must conform to any limitation or exclusions set forth in these principles, federal laws, and the terms and conditions of the federal award.**

The CFRs, along with circulars issued by FTA, provide for what costs are allowable. MDT uses these cost principles to determine the grant award for each agency. Therefore, an agency must follow the approved project budget in the grant agreement with MDT to make sure costs sought for reimbursement are allowable costs.

4. Costs must be consistently administered.

Agencies must consistently administer all their federal grants using the same accounting policies and procedures.

5. Costs must be accorded consistent treatment.

This standard requires agencies to consistently classify their expenses as direct or indirect under all of their grants. If “facility rent” and “utilities” are considered indirect costs under the agency’s grant from the Title III program of the Older Americans Act, then the same expenses must be considered indirect costs under the Section 5311 program or any other federal grant program.

6. Costs must not be recorded under or used as match to other awards.

This standard means that costs incurred and charged to one grant program cannot be billed again or claimed under another federal award. This standard also states that unless specifically permitted by legislation, costs associated with one federal award cannot be used to meet the local matching requirement of another federal grant.

Section 5311 grantees will take note that the non-urbanized area public transportation grant program benefits from a legislative exemption of this standard. Funds received by Section 5311 recipients from service agreements with a state or local social service agency or a private social service organization may be treated as local, rather than federal funds, even though the original source of such funds may have been another federal program.

7. Costs must be the net of applicable credits.

The total amount eligible for reimbursement under a federal award equals the allowable direct costs, plus the allocable portion of allowable indirect costs, minus the applicable credits for all items in the approved project budget. Applicable credits are reductions of expenditures that offset or reduce the expense items that are attributable to the transit program as either direct or indirect costs. Examples of such credits include purchase discounts, rebates, allowances, insurance payments.

8. Costs must be adequately documented.

Costs claimed under any federal award must be adequately documented. Documentation for most expenses incurred consists of vendor receipts and corresponding evidence that the vendor has been paid.

Purchased transportation service must have supporting documentation to show where the revenue from that purchase is being spent.

**Example:** Transit System “A” is reimbursed by MDT for \$5,000.00 of purchased transit service from Transit System “B.” System “B” cannot use the \$5,000.00 it received from System “A” as local match for grants from MDT. However, System “B” can use the \$5,000.00 for local operating or capital expenditures. This is only applicable if both agencies receive FTA funds.

Appendix A has a 12-page chart created by the Rural Transportation Assistance Program (RTAP) that breaks out what are allowable costs under operating and administrative categories. It is called “Guidelines of Allowability of Cost.”

## D. INDIRECT COSTS/COST ALLOCATION PLANS

Some public transit systems—such as units of local government or multipurpose nonprofit corporations—perform many departmental or program functions and would likely incur indirect expenses. In these cases, the expenditures benefit not only transit, but also other programs and departments.

Indirect costs are normally charged to federal grants using an indirect cost rate, the 10% de minimis rate per 2 CFR.414 or a cost allocation plan (local governments only).

### ***Will all transit agencies incur indirect costs?***

No. Agencies whose sole purpose is to provide public transit will not incur indirect costs.

### ***How to identify when a cost allocation plan is necessary:***

If a transit system incurs costs that:

- Are accumulated in the accounts of another department or division of the organizations; or
- Are incurred by nonprofit agency management that benefit multiple programs; and
- The level of effort to segregate those costs and assign them to the transit department is disproportionate to the benefits received:

...then the costs are likely indirect costs and should be allocated through use of an approved cost allocation plan, but if the cost can be directly tied to the federal project by use of a Payroll Activity Record (PAR) that can be charged directly.

## DOCUMENTATION OF EXPENSES

According to federal guidelines, costs must be adequately documented. For example, under FTA guidelines, accounting records must be supported by source documentation such as: cancelled checks, paid bills, payrolls, time and attendance records, and grant contract documents. Of all the documentation required, accurate documentation of employee compensation is the hardest to generate. Therefore, this section will focus on employee compensation records only.

There are two distinct situations that must be addressed in determining the proper documentation requirements for employee compensation.

### 1. Employees who work under a single award.

When an employee works under only a single federal award or whose time is charged totally to a single cost activity (e.g., administration), documentation must consist of payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of the governmental unit.

### 2. Employees who work under multiple awards.

When employees work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by (PAR) or equivalent documentation.

A PAR is necessary when employees work under any one of these conditions:

- More than one award;
- A federal award and non-federal award;
- An indirect cost activity and a direct cost activity;
- Two or more indirect activities that are allocated using different allocation bases; or
- An unallowable activity and a direct or indirect cost activity.

A PAR is a timesheet or log maintained by the employee that accounts for 100 percent of their time. The objective is to identify effort spent on multiple activities or programs. Breaks, meals, generic training, etc. can all be coded to a single activity such as “admin” or “other” which in turn would be reallocated to the activities or programs.

PARs must reflect “after the fact” distribution of actual activity, be prepared at least monthly to coincide with one or more pay periods, and must be signed by the employee.

An example of a PAR is below.

ABC Multipurpose Agency, Inc.  
Employee Time Record

Employee Name: Mary D. Smith  
(Please Print)

Period Ending: 15-Feb 20 01

Employee Signature \_\_\_\_\_

Supervisor's Signature \_\_\_\_\_

Date \_\_\_\_\_

Date \_\_\_\_\_

Project		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Period Total
Code	Name																
	PROGRAM-RELATED WORK																
	Transportation																0.00
	Administration	5.50	8.00														13.50
	Operations																0.00
	Senior Services																0.00
	Nutrition					8.00	8.00	8.00									24.00
	Outreach Services								4.25								4.25
	Homemaker Services								3.00								3.00
	Weatherization																0.00
	Commodities													8.00	8.00		16.00
	Other Program Services															8.00	8.00
TOTAL PROGRAM HOURS		5.50	8.00	0.00	0.00	8.00	8.00	8.00	7.25	0.00	0.00	0.00	1.00	8.00	8.00	8.00	68.75
AGENCY INDIRECT WORK																	
	General Agency Administration	2.50							0.75	8.00							11.25
	Fundraising												4.00				4.00
	Holiday																0.00
	Vacation Leave																0.00
	Sick Leave																0.00
	Other												4.00				4.00
TOTAL AGENCY INDIRECT HOURS		2.50	0.00	0.00	0.00	0.00	0.00	0.00	0.75	8.00	0.00	0.00	8.00	0.00	0.00	0.00	19.25
TOTAL HOURS		8.00	8.00	0.00	0.00	8.00	8.00	8.00	8.00	8.00	0.00	0.00	8.00	8.00	8.00	8.00	88.00

## SECTION 4. REVENUES/LOCAL MATCH

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### A. SOURCES OF REVENUE

There are four major categories of revenue for transportation services:

- Fares
- Agency Contracts
- Grants and Other Governmental Payments
- Other Sources (advertising, concessions)

#### 1. Fares

Farebox revenue includes: fares paid by passengers, pre-paid fare media used by passengers including multi-ride passes and tokens, prepaid passes, or other fare media purchased by passengers.

Farebox revenues do not include payments made to the transit provider by human service agencies under the terms of a purchase-of-service agreement.

#### 2. Agency Contracts

Contract revenues involve a funding agency (human service organization) contracting with a transit system to provide transportation for the passengers specified by the agency. Transit agencies may be involved in multiple contracts. Most often these contracts last for one year and will be negotiated annually. If the contract is with a non-human service organization, the contracts are considered fares.

### B. WHAT REVENUE/INCOME CAN BE USED AS LOCAL MATCH?

First, fare revenue **cannot** be used as local match. To reach a net operating expense, which is the basis for applying for 5311 grant operating assistance, the following equation must be followed.

Total operating expenses (minus) fares = Net Operating Expenses.

Net operating expenses are expenses that remain after operating revenues are subtracted from eligible operating expenses. At a minimum, operating revenues must include farebox revenues.

The following categories of income CAN be used as local match:

- State or local appropriations;
- Advertising, concessions
- Dedicated tax revenues;
- Private donations; and
- Net income generated from advertising and concessions.

As stated in Section 3, under the 5311 programs, funds received by agencies for service agreements (agency contracts) with human service organizations may be treated as local rather than federal funds, even though the original source of such funds may have been another federal program, and can be used as local match.

Section 5311 recipients have the option of treating income from contracts to provide human service transportation to either reduce the net project cost or to provide local match for Section 5311 operating assistance. The way an agency applies income from these contracts affects the calculation of net operating expenses and, therefore, the amount of Section 5311 operating assistance the agency is eligible to receive.

**EXAMPLE:** The Section 5311 project expends \$450,000 during the fiscal year. The system collects \$42,000 in farebox and related revenues. In the first example, the project uses revenues derived from the provisions of human service agency transportation (a purchase-of-service contract) as local match. The method maximizes the amount of 5311 funds the project is eligible for; however, the local share required is \$204,000, or 32 percent higher than the second example. Because \$100,000 of this comes from contract revenue, the actual local cost is \$104,000.

The amount of local match necessary to meet the match provisions of the Section 5311 program is less in the second example. In the second example, the same human service agency contracts are used as revenues that reduce the net operating cost. Application of these revenues in this manner reduces the amount of Section 5311 funds the project is eligible to receive, but also reduces the total local matching share. However, the full local match of \$154,000 must come from local sources and is \$50,000 higher than the actual local funding if the contract revenue is used as local match.

See the example on page 20.



**Example of Different Treatments of  
Human Service Agency Contract Revenue**

	Example 1	Example 2
Project Budget Summary	Contract Revenue Used as Local Match	Contract Revenue Used to Reduce Net Cost of Service
<b>Total Project Operating Expenses</b>	\$450,000	\$450,000
<b>Total Project Operating Revenues</b>		
Farebox and Related Revenues		
Fares	\$42,000	\$42,000
Human Service Agency Contracts	-	\$100,000
<b>Net Cost of Service</b>	\$408,000	\$308,000
<b>Project Funding</b>		
Federal Share	\$204,000	\$154,000
Local Share	\$204,000	\$154,000
Local Appropriation	\$104,000	\$154,000
Human Service Agency Contracts	\$100,000	-

In order to use human service contract revenue as local match or reduce the net cost in service, the contract revenue must be eligible according to federal guidelines.

1. Contract service expenses must be included in total rural public transportation costs.

The expenses associated with delivery of contract human service agency transportation must be included in the total operating costs for the Section 5311 project in order to use the revenues derived from that contract to either reduce the local matching share or to be used as local match.

2. Contract service must be operated as eligible mass transportation.

Human service transportation under contract must be operated as eligible mass transportation services (not charter services). To be considered eligible, the grantee must maintain control of the contract service, the

grantee must operate the service as “open door” and the grantee can schedule any other rider on the vehicle in addition to the agency’s clients.

**EXAMPLE:** A nonprofit organization provides both rural general public and Head Start transportation. The organization’s Head Start transportation program is operated as a separate department and the agency’s accounting structure was established with Head Start transportation as its own fund.

Even though the agency receives Head Start funding, which would normally be considered human service agency transportation, the agency cannot use these funds to match Section 5311 because the Head Start program is client-specific.

**EXAMPLE:** A county transportation department provides demand-responsive service. The agency enters into a contractual agreement to provide service to clients of the local senior center. Senior center clients ride on regularly scheduled demand-response runs operated by the system. The senior center uses Title III-B funds under the Older Americans Act to pay for these services. The county transportation department may use these funds as either revenue or local match.

Below is a list of federal program funds that can be used as local match for rural transit program projects.

**Federal Program Funds Which Can Be Used as Local Match  
for Rural Transit Program Projects**

<b>Agency</b>	<b>Program Title</b>
US Department of Labor	Foster Grandparents Retired Senior Volunteer Program (RSVP) Senior Companions Workforce Investment Act/Job Training Funds
Community Service Agency	Community Services Block Grant
US Department of Health and Human Services	Title III of the Older Americans Act Title XIX Title XX General Relief Head Start Temporary Assistance to Needy Families (TANF)
US Department of Housing and Urban Development	Community Development Block Grant

## MATCH RATIOS FOR THE MDT SECTION 5311 PROGRAM

	Minimum Local Share	Maximum Federal Share
Project Administration	20.00%	80.00%
Project Operating	45.89%	54.11%
Maintenance (Section 5311)	20.00%	80.00%

### C. NON-CASH REVENUES AS LOCAL MATCH

Non-cash revenue such as donations, volunteered services, or in-kind contributions are eligible to be counted toward the local match only if the value of each is formally documented and supported, and represents a cost that would otherwise be eligible under the project.

2 CFR Part 200.96 defines in-kind as: the value of non-cash contributions (i.e., property or services) that—

- (a) Benefit a federally assisted project or program; and
- (b) Are contributed by non-Federal third parties, without charge, to a non-Federal entity under a Federal award.

In addition, 200.306(j) further states for third-party in-kind contributions, the fair market value of goods and services must be documented and to the extent feasible supported by the same methods used internally by the non-Federal entity.

Furthermore, the in-kind donation must be:

- Verifiable from the recipient's records.
- Not included as contributions for any other federally assisted program.
- Necessary and reasonable for program objectives.
- Allowable under applicable cost principles.
- Not paid by the federal government under another award.
- Provided for in the approved budget for the grant award.

Fair market value of contributed or volunteer labor must be determined based on the regular rates paid for similar work in other activities of the organization or, in cases where the kinds of skills involved are not found in other activities of the organization, the rates must be consistent with those paid for similar work in the labor market. For example, if the agency has some paid and some volunteer drivers performing the same tasks, and those who are paid are paid at a rate of \$10.00 per hour, then the volunteer's time should be valued at \$10.00 per hour. If there are no paid staff members doing equivalent work, then the federal minimum wage amount should be used.

The agency must document all volunteer services in the form of timesheets signed by the volunteers.

## **SECTION 5. ACCOUNTING BASICS**

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### **A. DEFINITION OF ACCOUNTING CONCEPTS**

**Accounting** is a set of rules and methods by which financial and economic data are collected, processed, and summarized into reports that can be used to make decisions.

A **journal** is book where all original entries of the agency's financial transactions are recorded. The entries are recorded as either **debits** or **credits**.

A **debit** is an entry on the left side of a double-entry bookkeeping system that represents the addition of an asset or expense or the reduction to a liability or revenue.

A **credit** is an entry on the right side of a double-entry bookkeeping system that represents the reduction of an asset or expense or the addition to a liability or revenue.

The format of the journal is sometimes referred to as a "T" account, because the shape of the structured entry form looks like a "T." Each "T" account has a left side and a right side.

## Presentation of Debits and Credits in a Journal or General Ledger:

Account Title	
Debit (The left side)	Credit (The right side)

Typically, any agency will have, at minimum, four accounts: **assets**, **liabilities**, **income**, and **expenses**.

**Assets** are economic resources that provide potential future benefit. Assets are divided into current assets, fixed assets, and other long-term assets. Current assets represent resources to be consumed or converted to cash within one year. Fixed assets represent property, buildings, and equipment used in the performance of a service. For example, transit buses are a fixed asset. Other long-term assets represent any other asset that does not fit into the current asset or fixed asset categories.

**Liabilities** are obligations of the agency that will result in the probable future outlay of an asset. If an agency owes a gas station money on a credit card, this is a liability. If an agency borrows money from a bank, then this is also a liability. Liabilities are divided into current liabilities, long-term debt, and other long-term liabilities. Current liabilities are obligations due within one year. Long-term debt is money that has been borrowed that will need to be repaid after one year. Other long-term liabilities represent any other liability that does not fit into the current liability or long-term debt categories.

The listing of account names under the four main accounts is called the **chart of accounts**. The chart of accounts provides a uniform way to record the information necessary to produce the income statement and balance sheet (defined below).

The procedure for recording financial transactions, known as **double-entry bookkeeping**, requires each financial transaction to be entered in two or more accounts and involves two-way, self-balancing posting. At least one account is debited and at least account is credited in every transaction. Again, a debit is used to record increases in assets and expenses, and decreases in liabilities, capital, and revenue. A credit is used to record increases in liability, capital, and revenue, and decreases to assets and expenses. Regardless of the number of accounts involved in any transaction, the total dollar amount of the debits must always equal the total dollar amount of the credits. Normally asset and expense accounts will have debit balances and liability, capital, and revenue accounts will have credit balances.

The **general ledger** is the main accounting record of double-entry bookkeeping. A general ledger is a collection of the four accounts listed above and is built by posting transactions recorded in the journal. As with the journal, each general ledger is divided into a debits and credits section.

Because each bookkeeping entry debits one account and credits another account in an equal amount, the double-entry system helps ensure that the general ledger is always in balance, thus maintaining the **accounting equation**:

$$\text{Assets} = \text{Liabilities} + \text{Owner's equity}$$

**Owner's Equity** accounts represent the ownership accounts of the agency. If the agency is a partnership and each partner contributed a certain amount of money, then these cash contributions would be included in the capital accounts. Also included in the capital section are the accumulated earnings or losses of the agency since its inception, along with the current year's revenue and expense accounts.

The accounting equation is the mathematical structure of a **balance sheet**. The **balance sheet** and **income statement** are results of the general ledger. The **balance sheet** is a statement of the net financial condition of the transportation provider at the end of a fiscal period. It shows the NET balances of the assets, liabilities, and capital of the agency. The **income statement** is a summary of revenue and expenses of the transportation provider for a specific period of time.

## B. THE ACCOUNTING CYCLE

The accounting cycle begins when a transaction occurs. The transaction is then recorded in a journal. At month end, the journal(s) are posted to general ledger(s). The amounts recorded in the general ledger are used to prepare the financial statements.

The journal represents a chronological record of the business transactions of the agency. In order to provide useful information, the journal entries need to be classified and summarized. Transactions of a similar nature are grouped into a general ledger account. This process is called posting. Then general ledger accounts of a similar nature are summarized into financial statement line items. For example, all cash accounts (a checking account, a savings account) are combined into the Cash line item in the financial statements.

### 1. Recording a transaction in a journal.

Once a transaction occurs which needs to be recorded, a source document should be either obtained or created. A source document is a permanent record

of the transaction showing all relevant details and can come from outside the agency (i.e.: a vendor invoice) or from within the agency (i.e.: timesheets). If a problem with the transaction develops, the source document will be the record of the transaction. Therefore, source documents should be complete, accurate, and filed in a safe place.

The next step is to use the source document to record the transaction in a journal. A number of different journals can be created and used to complete this process. Typical journals are the general journal, the cash receipts journal, the cash disbursements journal, and the payroll journal.

CASH DISBURSEMENTS JOURNAL					
Date	Explanation	Debit			Credit
		Labor Expense	Fuel & Oil Expense	Vehicle Maint. Expense	Cash
Feb. 17		3,267			3,267
Feb. 18			639		639

2. Postings from the journal to the general ledger.

One ledger card needs to be prepared for each general ledger account. The ledger card will show the account description, account number, transaction date, explanation, debit, and credit amount for the transaction, and a running balance.

At the end of each month, or sooner, the transactions recorded in the journals need to be posted to the general ledgers. This means that the date of the transaction, debit or credit amount, and page number of the journal are recorded in the ledger for the account number being affected. Depending on the journal being used, each individual transaction may not need to be recorded in the ledger. For example, in the cash receipts journal, there will be a separate column in which to record all the debits to cash. This column can be totaled and only the total will be recorded in the ledger.

CASH LEDGER CARD					
Date	Posting Source	Transaction		Ending Balance	
		Debit	Credit	Debit	Credit
Jan. 1	Beginning Balance			3,162	
Jan. 31	Cash Receipts Journal	5,000		8,162	
Feb. 17	Cash Disb. Journal		3,267	4,895	
Feb. 18	Cash Disb. Journal		639	4,256	

3. Prepare financial statements.

Four financial statements need to be prepared at the end of every fiscal year, and should be prepared at the end of each month. The four financial statements are:

- Balance Sheet
- Income Statement
- Statement of Changes in Retained Earnings
- Cash Flow Statement

Often the income statement and statement of changes in retained earnings is combined into one document.

The balance sheet shows all the assets, liabilities, and capital accounts of the agency, although certain general ledger accounts will be combined into one balance sheet line item. The balance sheet is divided into two broad categories. The first category is “Assets” and the second is “Liabilities and Capital.” The total of the Assets section must equal the total of the Liabilities and Capital section.

The income statement summarizes the financial results of the transportation system over a period of time. All revenue sources are listed first, then all the expense items. Total revenue less total expenses equals the system’s net income or loss for the time period. The state of changes in retained earnings shows exactly what the name implies. This statement is often included at the bottom of the income statement.

The cash flow statement shows the cash flow from operating activities, investing activities, and financing activities. Because of the complexity of this report, a Certified Public Accountant may be needed to assist in the preparation of this report.

Examples of all three statements are provided in Appendix B.

## C. BASIS OF ACCOUNTING

Transactions can be recorded on either a **cash** or an **accrual** basis. A fundamental decision of a transportation agency is whether to use cash or accrual basis accounting. Under the cash basis, revenues and expenses are not recorded until cash is received and paid out.

Under the accrual basis, revenues and expenses are recorded when earned or incurred. Income is realized in the accounting period in which it is earned, regardless of when the cash from these fees and donations are received. Expenses are recorded as they are owed, instead of when they are paid.



Cash basis accounting does not recognize promises to pay or expectations to receive money or service in the future, such as payables, receivables, and prepaid expenses.

Generally, cash basis accounting is simpler for agencies that do not have significant amounts of these transactions, or when the time lag between the initiation of the transaction and the cash flow is very short.

The accrual basis of accounting, however, will give a much more accurate and complete picture of an agency's financial condition. Accrual basis accounting is more costly to maintain because it requires the bookkeeper to record more transactions, but with accounting software, it is much easier to manage.

## D. ACCOUNTING RECORDS/SOURCE DOCUMENTATION

Agencies are required to maintain accounting records that adequately identify the source and application of funds provided for grant-funded activities. All the documents referenced in Sections A-C must be accurately maintained and available for review.

Accounting records must be supported by such source documentation as described in the accounting cycle. Source documentation includes: cancelled checks, paid bills (invoices), payrolls, time and attendance records, and federal/state contract and award documents. Wage rate decisions should be included if applicable. Documentation of shared costs must follow the approved cost allocation plan.

## SECTION 6. INVOICES

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### A. EXPENSES REIMBURSEMENT

All operating and other payments made by MDT are on a cost reimbursement basis, up to the authorized amounts described in grantee contracts. MDT will not process reimbursement requests until all required information is provided in the correct format on the reimbursement request forms.

### B. BILLING SCHEDULE AND PAYMENTS

Reimbursement requests for operating and other expenses and must be submitted on a quarterly basis in the format prescribed by MDT, unless other arrangements have been made with MDT.

Reimbursement requests must be submitted no more than 30 calendar days after the end of the final billing period.

## **SECTION 7. RECORD RETENTION**

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### **A. REQUIREMENTS**

Agencies are required to keep copies of all financial and programmatic records, supporting documents, and statistical records. All records referenced in the previous sections are to be kept on file so that the federal and state government can access them if and when necessary.

### **B. HOW LONG ARE RECORDS TO BE KEPT?**

Required records should be kept for a period of three years from the date of submission of the quarterly reimbursement request.

Exceptions include indirect cost allocation plans and other cost allocation plans. If the plans are submitted to MDT for negotiation, then the three-year start date is the date of submission to MDT. If the agency is not required to submit the plan for negotiation, then the three-year start date is the end of the fiscal year that the plan covers.

## **SECTION 8. AUDITS**

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### **A. FEDERAL REQUIREMENTS**

Agencies need to comply with federal auditing requirements according to 2 CFR Part 200. This circular requires annual financial audits be performed by an independent auditor for any agency receiving more than \$750,000 in federal funds each year. Federal funds are not just transportation grant funds, but include all potential sources of federal funding.

### **B. AUDIT 101**

#### **1. What is an audit?**

An audit is a series of procedures performed on select transactions, account balances, and internal control features of the accounting system. These procedures must be performed under the supervision of a Certified Public Accountant (CPA).

The result of an audit is that the auditor will issue an opinion on the fairness of the financial statements reviewed. The audit opinion does not state that financial statements are “correct” or “accurate.” Instead, the opinion states that the financial statements present fairly the financial position of the agency.

## 2. Auditing vs. Accounting.

Auditing means examining the transactions and the internal controls of the transportation agency. Accounting is the recording of the transactions and development of the internal controls. Auditing issues an opinion on accounting, therefore, the person hired to complete the annual audit should be someone different than the person hired to complete the accounting functions.

## 3. Common information the auditor may request.

It is up to the individual performing the audit to decide what information he/she wants to use for the audit. The list below gives a general idea of the type of information requested:

- General ledgers.
- Bank statements and reconciliations of the bank statements to the general ledger balance.
- Fixed asset records showing, for each individual asset, the date acquired, original costs, depreciation life and method, accumulated depreciation, and depreciation expense during the year.
- Accounts payable trial balance (a list of all amounts owed to vendors as of year-end).
- Reconciliation of the accounts payable trial balance to the general ledger balance.
- Contracts with all customers.

These are only a few examples of the information the auditors may need. A good idea is to ask the auditors prior to the start of the audit for a list of schedules and information they will need. Then go over the list with the auditors to make sure both parties have the same understanding of the information requested.

## C. COMMON PROBLEMS DURING THE AUDIT PROCESS.

Some of the most common audit problems along with the solution are provided below:

**Problem:** Lack of sufficient detail to support accounting entries.

**Solution:** Ensure a good filing system is in place and keep all pertinent documents filed together.

**Problem:** Incorrect accounting entries.

**Solution:** If your agency staff is in doubt on how to record a transaction, ask your auditors immediately.

**Problem:** Insufficient detail in segregation of hours or miles to programs.

**Solution:** Make sure your agency is aware of reporting requirements and can provide the necessary information to meet these requirements. Information on vehicle-hours or miles must be obtained and stored daily; it cannot be recreated at the end of the year.

## SECTION 9. SOURCES AND RESOURCES

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### 1. UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

- 2 CFR part 200

### 2. FTA REQUIREMENTS

- FTA Circular 5010.1F “Grant Management Requirements”
- FTA Circular 9040.1G “Non-urbanized Area Formula Program Guidance and Grant Application Instructions”

### 3. TECHNICAL ASSISTANCE

- National Rural Technical Assistance Program (RTAP): “Fundamental Financial Management Training for Rural and Small Urban Public Transportation Providers”

Multi-State Technical Assistance Program (MTAP): “Comprehensive Financial Management Guidelines for Rural and Small Urban Public Transportation Providers”

## **SECTION 10. APPENDICES**

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Appendix A: Guidelines for the Allowable Cost Under the Section 5311 Program

Appendix B: Sample Financial Statements

## **Appendix A: Guidelines for the Allowable Cost Under the Section 5311 Program**

*Source: National Rural Technical Assistance Program*

### Guidelines for the Allowability of Costs Under the Section 5311 Program

Description	Expense Classification			Allowable Costs
	Administration	Operating	Preventive Maintenance	
Operators' Salaries and Wages		X		<ul style="list-style-type: none"> <li>- Salaries/wages of lead drivers or supervisors.</li> <li>- Salaries/wages of full- and part-time vehicle operators.</li> <li>- Salaries/wages of temporary vehicle operators.</li> <li>- Salaries/wages of Personal Care Attendants (PCA) or transit system escorts.</li> </ul>
Other Salaries and Wages		X		<ul style="list-style-type: none"> <li>- Salaries/wages of personnel performing call-taking, reservations, or radio dispatching functions.</li> <li>- Salaries/wages of the Director, Transportation Supervisor, or other management personnel.</li> <li>- Salaries/wages of assistant directors, or other mid-level supervisors performing administrative functions.</li> <li>- Secretaries and other administrative positions including, but not necessarily limited to: administrative assistants, clerks, typists, or data entry personnel.</li> <li>- Financial management positions including, but not necessarily limited to: finance director, director of accounting, accountant, payroll supervisor, payroll clerk, or accounts manager.</li> <li>- Salaries/wages of transit planning manager or supervisor, planners, or GIS technicians.</li> <li>- Salaries/wages of Marketing Manager or graphic artists.</li> <li>- Salaries/wages of modal supervisors, including, but not necessarily limited to: Rideshare Coordinator, Director of Special Services, etc.</li> <li>- Salaries/wages of Drug/Alcohol Testing Program Manager.</li> </ul>
Dispatchers' Salaries and Wages		X		<ul style="list-style-type: none"> <li>- Salaries/wages of personnel performing call-taking, reservations, or radio dispatching functions.</li> </ul>
Administrative Salaries and Wages	X			<ul style="list-style-type: none"> <li>- Salaries/wages of the Director, Transportation Supervisor, or other management personnel.</li> <li>- Salaries/wages of assistant directors, or other mid-level supervisors performing administrative functions.</li> <li>- Secretaries and other administrative positions including, but not necessarily limited to: administrative assistants, clerks, typists, or data entry personnel.</li> </ul>

**Guidelines for the Allowability of Costs Under the Section 5311 Program**

Description	Expense Classification			Allowable Costs
	Administration	Operating	Preventive Maintenance	
Administrative Salaries and Wages (continued)	X			<ul style="list-style-type: none"> <li>- Financial management positions including, but not necessarily limited to: finance director, director of accounting, accountant, payroll supervisor, payroll clerk, or accounts manager.</li> <li>- Salaries/wages of transit planning manager or supervisor, planners, or GIS technicians.</li> <li>- Salaries/wages of Marketing Manager or graphic artists.</li> <li>- Salaries/wages of modal supervisors, including, but not necessarily limited to: Rideshare Coordinator, Director of Special Services, etc.</li> <li>- Salaries/wages of Drug/Alcohol Testing Program Manager.</li> </ul>
Mechanic Salaries and Wages		X		<ul style="list-style-type: none"> <li>- Salaries/wages of Maintenance Supervisor, Director of Maintenance, or similarly classified positions.</li> <li>- Salaries/wages of Mechanics, Mechanic Helpers, Mechanic Assistants, or Machinists.</li> <li>- Salaries/wages of Yard Men or Utility Workers.</li> <li>- Salaries/wages of Building Maintenance Workers.</li> </ul>
Other Salaries and Wages	X	X		<ul style="list-style-type: none"> <li>- Salaries/wages of all personnel not classified above.</li> </ul>
FICA	X	X		<ul style="list-style-type: none"> <li>- Fringe benefits are classified and allocated to the appropriate classification in the same manner as salaries and wages.</li> <li>- Allowable costs under all fringe benefit cost objectives must conform to the standards set forth in 2 CFR part 200</li> </ul>
Pension Plans	X	X		
Hospital, Medical, and Surgical Plans	X	X		
Dental Plans	X	X		
Life Insurance Plans	X	X		
Short-Term Disability Insurance Plans	X	X		
Unemployment Insurance	X	X		
Worker's Compensation	X	X		
Sick Leave	X	X		
Holiday	X	X		
Vacation	X	X		
Other Paid Absence	X	X		
Uniform and Work Clothing Allowance	X	X		
Other Fringe Benefits	X	X		



### Guidelines for the Allowability of Costs Under the Section 5311 Program

Description	Expense Classification			Allowable Costs
	Administration	Operating	Preventive Maintenance	
Management Services	X			<ul style="list-style-type: none"> <li>- Management fees paid to outside (third party) organizations that perform turn-key transit system management function</li> <li>- Occasional consulting and special purpose studies provided by the selected management service company</li> <li>- Labor, services, and materials fees paid to an advertising agency in the development and production of advertising campaigns.</li> <li>- Labor and services fees paid by the grantee/operator to various professional and technical service companies, including, but not necessarily limited to: accounts, auditors, attorneys, investment bankers, and payroll service processing firms.</li> <li>- Labor and service fees paid to outside (third party) organizations for Section 5311 grant administration services (e.g., regional planning agency).</li> <li>- Labor and service fees paid to drug/alcohol vendors, including, but not necessarily limited to third-party administrator, MRO, BAT, SAP, collection sites.</li> <li>- Labor and service fees paid to programming/network maintenance/data processing firms.</li> <li>- Fees paid to personnel/temporary services firms to supply labor, on an interim basis, to the transit system.</li> <li>- Vehicles maintenance services performed by third parties under terms of a written contract arrangement.</li> <li>- Other vehicle maintenance services performed by third parties even without a written contract arrangement.</li> <li>- Fees paid to outside firms providing janitorial or custodial Services.</li> <li>- Fees paid to outside firms for the patrolling of vehicles, stations, yards, and buildings to detect and prevent criminal activity, fires, unsafe conditions, etc.</li> </ul>
Advertising Services		X		
Professional and Technical Services	X			
Temporary Services	X	X		
Contract Maintenance Services			X	
Custodial Services	X	X		
Security Services	X	X		

### Guidelines for the Allowability of Costs Under the Section 5311 Program

Description	Expense Classification			Allowable Costs
	Administration	Operating	Preventive Maintenance	
Office and Communications Equipment Repair	X			- Labor, service fees, and parts cost paid to outside vendors who clean, maintain, and make repairs to office, computer, or communications equipment, including, but not limited to: cellular phones, telephones, and mobile radios.
Building Repair and Maintenance	X	X		- Labor, services fees, and parts paid to vendors who make repairs to real property owned by the transit system.
Other Services	X			- Labor, service fees, and parts cost of repairs and maintenance performed on property owned and controlled by the grantee or operator not properly chargeable to any other object expenditure.
Fuel and Lubricants Consumed		X		- Costs of gasoline, diesel fuel, propane, compressed natural gas, lubricating oils, transmission fluid, grease, etc. for use in vehicles.
Tires and Tubes Consumed			X	- Lease or purchase of tires and tubes. - Cost of balancing and rotating tires. - Associated labor costs for outside vendors to perform tire balancing, rotation, and installation.
Inventory Purchases			X	- Purchases to replenish and maintain inventory and maintain stock quantities at normal level. Items include office supplies, etc.
Other Materials and Supplies			X	- Purchases to replenish and maintain inventory and maintain stock quantities of operating supplies at normal level. Items include vehicle maintenance parts, vehicle cleaning supplies, etc.
Driver Cell Phones		X		- Purchases minutes, plans and phones to be used by drivers and/or dispatchers for communication to coordinate rides.

**Guidelines for the Allowability of Costs Under the Section 5311 Program**

Description	Expense Classification			Allowable Costs
	Administration	Operating	Preventive Maintenance	
Other Materials and Supplies (continued)	X			- Purchases to replenish and maintain inventory and maintain stock quantities at normal level. Items include office supplies, etc.
	X			- General office supplies and materials, including, but not necessarily limited to paper, fax paper, pencils, pens, markers, typewriter ribbons, binder and paper clips, staples, notepads, adding machine paper, printer cartridges, printer toner, handheld calculators, personal information managers (PIMs), desk calendars, rulers, staplers, tape dispensers, etc. Such items should be of relatively little value, relatively consumable, and may or may not be subject to inventory control.
	X			- Computer software and related expenses including, but not necessarily limited to: software, software upgrades, screen savers, PIMs, operating system and networking software.
	X			- Cost of educational supplies and materials for instructional purposes, including, but not necessarily limited to: training videos, audio tapes, workbooks, and supplies.
	X	X		- Cost of first aid kits, bio-hazard kits, and replacement supplies.
	X	X		- Cost of materials and supplies not specifically identified in previous objects of expenditure for immediate consumption that directly relate to the transit program.
Propulsion Power		X		- The electrical power purchased from an outside utility company and used for propelling electrically driven vehicles.
Utilities Other	X	X		- Telephone and Internet connections services purchased from telephone or other telecommunications and/or Internet companies, including local, long distance, and cellular services, voice mail, paper services, leased lines, and data lines (including analog, cable modem, DSL, and T-1), and domain web hosting fee. Except for driver cell phones, which are Operating
		X		- Line lease fees to operate two-way radio communication services (e.g., repeaters, service from base station to facilities, etc.).

### Guidelines for the Allowability of Costs Under the Section 5311 Program

Description	Expense Classification			Allowable Costs
	Administration	Operating	Preventive Maintenance	
Utilities – Other	X	X		- Cost of all other utilities (excluding propulsion), such as electrical power purchased from an outside utility company, natural gas, water and sewer, and refuse collection.
Physical Damage Insurance	X			- Premiums applicable to an accounting period to insure the transit system from losses through damage to its own property caused by collision, fire, theft, flood earthquake, etc.
Liability and Property Insurance	X			- Premiums applicable to an accounting period to insure the transit system against loss from liability for its acts which cause damage to the person or property of others.
Uninsured Settlements	X			- Payments or accruals of actual liability to others arising from culpable acts of the transit system and which are not covered by public liability insurance.
Provisions for Uninsured Settlements	X			- Periodic estimates of liability to others arising from culpable acts of the transit system that relate to the current or a prior reporting period and which are not covered by public liability insurance. This object class also includes lump sum payments not covered by public liability insurance.
Recoveries of Settlements	X			- Payments or accruals of actual liability to others arising from culpable acts of the transit system and which are covered by public liability insurance.
Other Corporate Insurance	X			- Premiums applicable to an accounting period to insure the transit system from losses other than through damage to its property or liability for its culpable acts (e.g., fidelity bonds, business records insurance, etc.
Other Insurance	X			- Payments or accruals made for insurance not properly classified in other categories.
Licensing and Registration Fees	X			- The fees assess by federal, state, and/or local governments for granting authority to operate a motor vehicle.

**Guidelines for the Allowability of Costs Under the Section 5311 Program**

Description	Expense Classification			Allowable Costs
	Administration	Operating	Preventive Maintenance	
Purchased Transportation		X		<ul style="list-style-type: none"> <li>- Purchase of transportation service from a publicly owned transportation provider.</li> <li>- Purchase of transportation service from a privately owned transportation provider.</li> <li>- User-side subsidies provided by the grantee where the grantee supplements the cost of transportation by permitting passengers to buy tickets at less than full value.</li> <li>- Reimbursement to volunteers for mileage on personal vehicles for providing public transportation.</li> </ul>
Dues and Subscriptions	X			<ul style="list-style-type: none"> <li>- Fees for membership in industry organizations, including but not necessarily limited to: state transit associations, American Public Transit Association (APTA), and Community Transportation Association of America (CTAA) and subscriptions to eligible periodical publications, including but not necessarily limited to: <i>Passenger Transport</i>, <i>Community Transportation Reporter</i>, <i>Bus Ride</i>, <i>Metro</i>, etc.</li> </ul>
Travel and Meetings	X			<ul style="list-style-type: none"> <li>- Expenses reimbursed to transit system administrative employees and related officials for transportation and travel-related expenses, including but not necessarily limited to: transportation (airline fares and/or other fees, car rental, rental car gasoline, rental car insurance, mileage reimbursements, taxi and transit fares, and highway and bridge tolls; meals and hotel expenses while traveling overnight for conferences and other related business meetings, and miscellaneous expenses such as conference registration fees; and other charges consistent with the grantee's approved travel policy.</li> <li>- Expenses associated with annual meetings and employee appreciation dinners, including food expense, catering costs, and meeting room rental/fees.</li> </ul>
Bridge, Tunnel, and Highway Tolls		X		<ul style="list-style-type: none"> <li>- Payments made to authorities and other organizations for the use of bridges, tunnels, highways, and other similar facilities in the operations of transit system revenue vehicles, whether or not the vehicle is in revenue service.</li> </ul>
Entertainment Expense				<ul style="list-style-type: none"> <li>- Not eligible for reimbursement under the Section 5311 program pursuant to 2 CFR Section 200.438</li> </ul>



### Guidelines for the Allowability of Costs Under the Section 5311 Program

Description	Expense Classification			Allowable Costs
	Administration	Operating	Preventive Maintenance	
Charitable Donations				- Not eligible for reimbursement under the Section 5311 program pursuant to 2 CFR Section 200.450.
Fines and Penalties				- Not eligible for reimbursement under the Section 5311 program pursuant to 2 CFR Section 200.441.
Bad Debt Expense				- Not eligible for reimbursement under the Section 5311 program pursuant to 2 CFR Section 200.96.
Advertising/Promotional Media		X		- Advertising media fees and expenses, regardless of whether they are paid to an advertising agency or directly to the media. Examples are purchase of TV advertisements, newspaper advertisements, purchase of system giveaway items, etc.
Long-Term Debt Obligation		X		- Interest incurred on long-term debt obligations associated with capital purchases. Only allowable after a grantee or operator has sought all means of federal/state capital funding for the project.
Short-Term Debt Obligation		X		- Interest incurred on short-term debt obligations such as borrowing against a line of credit or other similar debt instrument to meet current operating and/or administrative obligations.
Transit Way Structures, etc.		X		- Leases and rentals of the physical facilities of the following types that are located along the routes where transit services are offered: land, roadway structures (i.e., tunnels, bridges, elevated structures, etc.) and guideways (i.e., track and roadbed).
Passenger Stations		X		- Leases and rentals of the physical facilities of the following types that are used for passenger stations and terminals: land, buildings and structures, office equipment, other equipment, furnishings (other than office equipment), passenger shelters (without attendants).
Passenger Parking Facilities		X		- Leases and rentals of the physical facilities of the following types that are used to provide parking space for the automobiles of transit patrons; land, building and structures (including paved structures), office equipment (such as cash registers), other equipment (such as automatic entry and exit control gates), furnishings (such as those for a parking fee collection booth).

**Guidelines for the Allowability of Costs Under the Section 5311 Program**

Description	Expense Classification			Allowable Costs
	Administration	Operating	Preventive Maintenance	
Passenger Revenue Vehicles		X		- Leases and rentals of rolling stock used exclusively or predominately for providing passenger transit services.
Service/Supervisory Vehicles		X		- Leases and rentals of rolling stock used for purposes other than providing passenger transit services (road supervision, road call service, etc.). - Leases and rentals of rolling stock used for purposes other than providing passenger transit services (vehicles used by transit system management in the conduct of transit business).
Operating Yards or Stations		X		- Leases and rentals of the physical facilities of the following types that are used for storing revenue vehicles and for dispatching trains/runs for revenue service: land, buildings and structures, office equipment, equipment other than office equipment, and furnishings.
Maintenance Facilities		X		- Leases and rentals of the physical facilities of the following types that are used as maintenance facilities for revenue vehicles: land, buildings and structures, office equipment, equipment other than office equipment and furnishings.
Data Processing Facilities	X			- Leases and rentals of the physical facilities of the following types that are used for performing data processing services: land (if a building is devoted exclusively to data processing services and is situated thereon), buildings (if devoted exclusively to data processing services), office equipment, other equipment (particularly main frame and ancillary computer equipment), and furnishings.
Revenue Collection Facilities		X		- Leases and rentals of the physical facilities of the following types that are used for collecting, counting, storing, and transporting revenue collections: land (if a building is devoted exclusively to revenue collections and processing and is situated thereon), buildings (if devoted exclusively to revenue collection and processing), office equipment, other equipment, including farebox, vaults, money counting and wrapping machines, etc., and furnishings.

### Guidelines for the Allowability of Costs Under the Section 5311 Program

Description	Expense Classification			Allowable Costs
	Administration	Operating	Preventive Maintenance	
Other Administrative Facilities	X			- Leases and rentals of the physical facilities of the following types that are used for performing the general administrative functions of the transit system: land, buildings, office equipment, equipment other than office equipment, and furnishings.
Depreciation and Amortization	X	X		- Eligible for reimbursement under the Section 5311 program pursuant to 2 CFR Section 200.436. Depending on the type of purchase could be Operating or Administrative.
Contributed Services	X	X		- Donated or volunteer services furnished to the transit system by professional and technical personnel, consultants, and other skilled and unskilled labor to perform services such as driving vehicles, dispatching vehicles, taking trip reservations, or other operations functions. The value of these services is not reimbursable either as a direct or indirect cost. However, the value of donated services may be used to meet cost-sharing or matching requirements in accordance with the provisions of the Common Rule.
	X	X		- Donated or volunteer services furnished to the transit system by professional and technical personnel, consultants, and other skilled and unskilled labor to perform services such as clerical duties or other administrative functions. The value of these services are not reimbursable either as a direct or indirect cost. However, the value of donated services may be used to meet cost-sharing or matching requirements in accordance with the provisions of the Common Rule.



*- Appendix B: Sample Financial Statements -*

**GORDON COUNTY COORDINATED TRANSPORTATION SYSTEM  
BALANCE SHEETS**

<b>ASSETS</b>	December 31,	
	1991	1990
<b>CURRENT ASSETS:</b>		
Cash	\$1,202	\$891
Accounts receivables	\$530	\$575
Prepaid expenses	\$712	\$659
	<u>\$2,444</u>	<u>\$2,125</u>
<b>FIXED ASSETS:</b>		
Transportation vehicles	\$145,721	\$145,721
Office equipment	\$2,078	\$2,197
Repair equipment	\$8,954	\$6,733
	<u>\$156,753</u>	<u>\$154,651</u>
Less - Accumulated depreciation	\$29,111	\$17,624
	<u>\$127,642</u>	<u>\$137,027</u>
<b>OTHER ASSETS:</b>		
Organization costs	<u>\$10,361</u>	<u>\$11,682</u>
<b>TOTAL ASSETS:</b>	<b>\$140,447</b>	<b>\$150,834</b>
<b>LIABILITIES AND CAPITAL</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$4,187	\$4,009
Accounts payable	\$1,811	\$1,609
Accrued expenses	\$925	\$1,107
	<u>\$6,923</u>	<u>\$6,725</u>
<b>LONG-TERM DEBT:</b>		
Less current portion	<u>\$18,903</u>	<u>\$23,090</u>
<b>CAPITAL:</b>		
Local government investment	\$20,000	\$20,000
Federal government capital grant	\$70,000	\$70,000
Local government capital grant	\$20,000	\$20,000
Accumulated earnings	\$4,621	\$11,019
Total capital	<u>\$114,621</u>	<u>\$121,019</u>
<b>TOTAL LIABILITIES AND CAPITAL:</b>	<b>\$140,447</b>	<b>\$150,834</b>

- Appendix B: Sample Financial Statements -

**GORDON COUNTY COORDINATED TRANSPORTATION SYSTEM  
STATEMENTS OF INCOME AND RETAINED EARNINGS**

	December 31,	
	1991	1990
REVENUES:		
Full adult fares	\$18,140	\$19,700
Senior center contract fares	\$16,700	\$17,210
Community college contract fares	\$24,910	\$25,700
State general operating assistance	\$13,150	\$11,550
	<u>\$72,900</u>	<u>\$74,160</u>
EXPENSES:		
Operator wages	\$23,412	\$22,808
Administrative wages	\$10,848	\$10,012
Fringe benefits	\$8,710	\$8,321
Professional services	\$6,099	\$5,850
Gasoline purchases	\$8,838	\$8,302
Utilities	\$5,074	\$4,212
Depreciation and amortization	\$13,229	\$11,012
Other operating costs	\$3,088	\$2,970
	<u>\$79,298</u>	<u>\$73,487</u>
NET INCOME (LOSS):	(\$6,398)	\$673
Accumulated earnings, beginning of year:	\$11,019	\$10,346
Accumulated earnings, end of year:	\$4,621	\$11,019

**GORDON COUNTY COORDINATED TRANSPORTATION SYSTEM  
STATEMENTS OF CASH FLOWS**

	December 31,	
	1991	1990
Cash flows from operating activities:		
Net income (loss)	(\$6,398)	\$673
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	\$13,229	\$11,012
Change in assets and liabilities:		
Accounts receivable	\$45	(\$87)
Prepaid expenses	(\$53)	(\$12)
Accounts payable	\$202	\$62
Accrued expenses	(\$182)	\$211
Net cash provided by operating activities:	\$6,843	\$11,859
Cash flows from investing activities:		
Capital expenditures	(\$2,523)	(\$8,363)
Cash flows from financing activities:		
Payments from long-term debt	(\$4,009)	(\$3,981)
Net increase (decrease) in cash:	\$311	(\$485)
Cash at beginning of period:	\$891	\$1,376
Cash at end of period:	\$1,202	\$891