## Transit 101

### Module 3: Financial Management

**March 11-12, 2015**

### Logistics

- Logistics:
  - 9AM-4PM daily
  - Restroom facilities
  - Phone calls, texts, social media, and emails
  - Lunch break
  - Short breaks about every hour
  - Discussion, questions, other ideas and views welcomed and encouraged

### Introductions

- Introduce yourself and briefly describe:
  - The strengths and weaknesses of your transit system’s financial management
  - The top things you would like to take away from this training

### Knowledge Evaluation Survey

- You were emailed a “before/after” knowledge evaluation survey, and asked to fill the “before” section before coming to class.
- At the end of the training, you will be asked to fill out the “after” section and turn the entire survey in before leaving.
- This tool will provide a picture of how your knowledge has improved as a result of the training.
- This should provide you and ODOT with guidance on areas for improvement.
Goals

- To learn the terminology and practices of good financial management
- To ensure the continued financial health of our transit systems so we can continue to provide service to our riders and communities
- To be able to clearly show the financial strengths and weaknesses of our systems, based on hard and accurate data

Financial Management Overview

- What is Financial Management?
  - Transit systems of all sizes need to be able to cover operating costs, and purchase and replace assets
  - It ensures a transit system has enough money now and in the future to stay in business and provide important transit service
  - Good financial management must meet the needs of the present, as well as strategically plan for the future

- Financial Management Consists of 8 Components
  - Accounting
  - Budgeting
  - Cash Management
  - Financial Reporting
  - Cost Modeling And Service Evaluation
  - Asset Management
  - Risk Management
  - Compliance With Financial Regulations and Best Practices

- We Will Go Into Detail on Each of These 8 Components During This Training
- Written and Adopted Policies and Procedures for Each Component
  - If you already have policies and procedures in place, you should review them with the information from this training to make sure they are complete
  - If you do not have them in place, you should do that very soon
Accounting

• Setting Up Your Financial Books and Accounting System
  – Organize your operating and capital expenses and revenues into a formal set of “accounts”
  – Enter the system’s expenses and revenues into the proper accounts
  – Use commonly accepted accounting policies and procedures

Accounting

• Accounting Describes What Has Been Done, Not What Will or Should Be Done
  – It is not the same as budgeting

Accounting

• Accounting by Itself Does Not Provide Enough Information to Make Wise Financial Decisions, Keep the Transit System Solvent, and Provide Needed Transit Services
  – But without accurate accounting, none of this can be accomplished

• Written Policies and Procedures Are Essential

Budgeting

• Organize Your Accounts Into a Formal Fully Allocated “Budget” with a One-Year Horizon (ODOT Rural Transit Grantees Use the Calendar Year, January-December)

• Use the Previous Year’s Budget as a Guide, Identifying Any Areas That Were Under Budgeted, and Those Areas That Are Predicted to Increase
Module 3

Budgeting

- Verify Expenses and Revenues (Including Your Sources of Local Match) Assumptions for a Balanced Budget, Identifying Any Surplus or Deficit
- Again, Written Policies and Procedures Are Essential

Cash Management

- Cash Flow Can Make or Break Your Transit System
  - Know what your cash/revenue requirements are
  - Know the timing of your revenue streams, including contracts, grants, etc.
- Grants Management Is Essential
- Written Policies and Procedures Are Essential

Financial Reporting

- Regularly Monitor Your Expenses and Revenues
- Take Action to Stay Within or Modify Your Budget
- Adopt Written Policies and Procedures

Cost Modeling And Service Evaluation

- A Fully Allocated Cost Model Ensures the Accurate Costing of Services and Service Changes
  - An Example is Provided in the Rural Transit Manual or Is Available From ODOT
- Adopt Written Policies and Procedures
Asset Management

- Asset Management Consists of
  - Managing fuel
  - Managing inventory
  - Managing the fleet
  - Managing facilities and land
- Adopt Written Policies and Procedures

Risk Management

- Planning for and Responding to Safety Incidents (Weather, Other Drivers, Mechanical Issues)
- Planning for and Responding to Security Threats (Attacks Against Riders, Drivers, Vehicles)
- Adopt Written Policies and Procedures

Compliance With Regulations and Best Practices

- Comply with all ODOT, FTA, and Other State and Local Regulations
- Strive for Successful Financial Audits and Performance Reviews
- Adopt Written Policies and Procedures

ACCOUNTING
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<tr>
<td><strong>Accounting Standards</strong></td>
<td><strong>Accounting Types</strong></td>
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</table>
| • ODOT Requires Rural Transit Grantees and Service Providers to Use Accrual Accounting Based on Generally Accepted Accounting Principles (GAAP), a Uniform System of Accounts (USOA), and to Be Compatible with NTD Reporting | • There Are 3 Types Of Accounting  
  – Accrual  
  – Cash  
  – Modified Cash  
  • Again, ODOT Requires Accrual Accounting for Rural Transit Accounting and Reporting |

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| **Accrual Accounting** | **Accrual Accounting**  
  • Accrual Accounting  
    – Most accurate and the most difficult financial reporting method  
    – Matches revenues and expenses to the period the revenue was earned or the expense incurred, regardless of when the cash was received or spent |  
  • Accrual Accounting, Cont’d  
    – Accrual accounting must be used for all Rural Transit Program accounting records  
    – Accrual accounting is a central theme in all aspects of transit financial management in Ohio |
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<tr>
<td><strong>Cash Accounting</strong></td>
<td><strong>Modified Cash Accounting</strong></td>
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<tr>
<td>- Simplest and easiest accounting method to understand</td>
<td>- Mixture of accrual and cash accounting</td>
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<td>- Governed by cash flow</td>
<td>- Expenses and revenues have economic lives longer than the current year and are divided into two parts</td>
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<td>- Expenses are recorded only when an expense is actually paid, and revenue is recorded only when actually received, regardless of when the expense was incurred or the revenue earned</td>
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<td>- Provides a distorted picture of the expenses and revenues due to timing delays</td>
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<tr>
<td><strong>Modified Cash Accounting</strong></td>
<td><strong>Capital Accounting</strong></td>
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<tr>
<td>- The Entire Portion of the Expense or Revenue Attributable to the Current Year Is Immediately Recorded as an Expense or Revenue (Cash Accounting)</td>
<td>- A Capital Item Has a Useful Life of More Than One Year</td>
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<tr>
<td>- The Remaining Portion Is Recorded as Either a Prepaid Expense (Asset) or an Unearned Income (Liability), and Is Deferred and Recorded in the Next Period to Which it Applies (Accrual Accounting)</td>
<td>- Examples Include</td>
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<tr>
<td></td>
<td>- Vehicles</td>
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<td>- Facilities</td>
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<td>- Equipment (tools, shop machines)</td>
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<td>- Computers</td>
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<td>- Must Be Able to Be Inventoried</td>
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Module 3

**Operating Accounting**

- Any Item With a Useful Life of Less Than One Year Is Considered an Operating Expense
- Examples Include
  - Fuel
  - Office supplies
  - Personnel costs

Module 3

**Accounts**

- Accounts for Operating Budgets and for Operating Income Statement Reports
  - Expense accounts
  - Revenue accounts
- Capital Items

Module 3

**Accounts**

- Be Sure To Establish A Cost Center In Your Accounting System For Each ODOT Project
  - Operating Assistance Grant
  - Capitalized Maintenance Grant
  - New Freedom Grant
  - JARC Grant
  - Intercity Operating Grant
  - Intercity Administration Grant
  - Rural Capital Project Grant(s)

Module 3

**Eligible Expenses**

- Transit Systems Should Review the Applicable Regulations for Allowable and Eligible Costs
  - A-122, for nonprofit organizations
  - A-87, for governmental entities
  - FTA Circulars 5010 and 9040
- ODOT will be conducting training this month on the new “super circular” that will replace all of these.
### Operating Accounts: Expenses

**Module 3**

- Operating Expenses
  - 501. LABOR
    - 01. Operators' Salaries and Wages
    - 02. Other Salaries and Wages

### Operating Accounts: Expenses

**Module 3**

- Operating Expenses
  - 502. FRINGE BENEFITS
    - Fringes may include
      - FICA, Pension Plans
      - Hospital, Medical, Surgical and Dental Plans
      - Life Insurance Plans
      - Short-Term Disability Insurance Plans
      - Unemployment Insurance, Worker’s Compensation Insurance
      - Sick Leave, Holiday, Vacation, Other Paid Absence
      - Uniform and Work Clothing Allowance, and Other

### Operating Accounts: Expenses

**Module 3**

- Operating Expenses
  - 503. SERVICES
    - 01. Management Service Fees
    - 02. Advertising Fees
    - 03. Professional and Technical Services
    - 04. Temporary Help
    - 05. Contract Maintenance Services
    - 06. Custodial Services
    - 07. Security Services (this is a new emphasis in MAP-21, and may be added to the rural invoice)
    - 99. Other Services

### Operating Accounts: Expenses

**Module 3**

- Operating Expenses
  - 504. MATERIALS AND SUPPLIES CONSUMED
    - 01. Fuel and Lubricants
    - 02. Tires and Tubes
    - 99. Other Materials and Supplies
### Operating Accounts: Expenses

- **Operating Expenses**
  - 505. UTILITIES
    - 02. Utilities Other than Propulsion Power

- **Operating Expenses**
  - 506. CASUALTY AND LIABILITY COSTS
    - 01. Premiums for Physical Damage Insurance
    - 02. Recoveries of Physical Damage Losses
    - 03. Premiums for Public Liability and Physical Damage Insurance
    - 08. Premiums for Other Corporate Losses
    - 09. Other Corporate Losses
    - 10. Recoveries of Other Corporate Losses

- **Operating Expenses**
  - 507. TAXES
    - 03. Property Tax
    - 04. Vehicle Licensing and Registration Fees
    - 05. Fuel and Lubricant Taxes (credits for fuel rebates)
    - 99. Other Taxes

- **Operating Expenses**
  - 508. PURCHASED TRANSPORTATION SERVICE
    - 01. Purchased Transportation Service
### Operating Accounts: Expenses

- **509. MISCELLANEOUS EXPENSES**
  - 01. Dues and Subscriptions
  - 02. Travel and Meetings
  - 03. Bridge, Tunnel and Highway Tolls
  - 07. Bad Debt Expense
  - 08. Advertising/Promotion Media
  - 99. Other Miscellaneous Expenses

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- **511. INTEREST EXPENSE**
  - 01. Interest Expense

  - In general, a rural transit system should not have interest expense because the general cost guidelines in A-87 do not allow it, except in certain circumstances.

  - FTA Circular 9040 states that short term interest is allowable, but is limited to short term interest of less than a year and cannot be for a revolving type of loan.

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- **512. LEASES AND RENTALS**
  - 04. Passenger Revenue Vehicles
  - 05. Service Vehicles
  - 07. Engine Houses, Car Shops, and Garages
  - 12. Other General Administration Facilities

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- **513. DEPRECIATION**
  - 04. Passenger Revenue Vehicles
  - 05. Service Vehicles
Operating Accounts: Expenses

- Depreciation is generally not allowed for federally-funded equipment
  - May only depreciate the local share for purchased equipment or assets purchased with local funds
  - May depreciate fixed assets (real estate and facilities) but cannot claim on the Rural Transit invoice

- Depreciation should rarely be claimed
  - E.g., ARRA purchases were 100% Federal
- Always talk with ODOT first before expensing any depreciation

- The chart of accounts for the transit system’s accounting system is more extensive than that reported on the Rural Transit Quarterly Operating Invoice
  - From an accounting perspective, capitalize and depreciate all assets consistent with the transit system’s capitalization depreciation policies
  - Always identify the funding source(s) for each asset

- Each operating expense is further assigned to either
  - Vehicle Operations (010)
  - Vehicle Maintenance (041)
  - Non-Vehicle Maintenance (042)
  - General Administration (160)
Operating Accounts: Revenues

- Transportation Operating Revenues
  - 401. PASSENGER FARES FOR TRANSIT SERVICE
    • Includes:
      - Full Adult Fares
      - Senior Citizen Fares
      - Student Fares
      - Child Fares
      - Disabled Rider Fares

- Non-Transportation Operating Revenues
  - 407. NON-TRANSPORTATION REVENUES
    • 01. Sales of Maintenance Services
    • 04. Investment Income
    - 409. LOCAL CASH GRANTS

- Special Transit Fares (contract revenues)
  - 402. SPECIAL TRANSIT FARES

- Incidental Charter Service Revenues
  - 405.02 INCIDENTAL CHARTER SERVICE REVENUES

- Advertising Revenues
  - 406.03 ADVERTISING

- Non-Transportation Revenues
  - 407. NON-TRANSPORTATION REVENUES
    • 01. Sales of Maintenance Services
    • 04. Investment Income
  - 409. LOCAL CASH GRANTS

- State E&D Fare Assistance
  - 412.02 STATE E&D FARE ASSISTANCE

- Other Federal Cash Grants (does not include 5311 funds)
  - 413. OTHER FEDERAL CASH GRANTS
Operating Accounts: Revenues

- Non-Transportation Operating Revenues
  - 430. CONTRIBUTED SERVICES (in-kind revenues)
  - 499. OTHER REVENUES

Capital Accounts

- Capital Items Include
  - Revenue vehicles
  - Major vehicle components
  - Vehicle rehabilitation (rare in rural systems)
  - Vehicle remanufacture (rare in rural systems)
  - Non-revenue vehicles

- Capital Items Include
  - Facilities
  - Equipment
  - Buildings
  - Vehicle maintenance shops and garages
  - Land
  - General administration facilities and equipment
  - Operating yards and stations

- Capital Items Include
  - Passenger stations
  - Passenger amenities, stops, shelters
  - Passenger parking facilities
  - Fare collection and processing equipment
  - Data processing equipment
  - Communication equipment
  - Office equipment and furnishings
Accounts References and Examples

- References
  - ODOT Rural Expense Accounts Table
  - ODOT Rural Revenue Accounts Table
  - ODOT Rural Chart of Accounts [from the Rural Transit Manual]

BUDGETING

Budgeting

- A Transit System's Budget is One of the Most Important Management Tools
  - A one-year financial guide to “staying on track”
  - Used to guide most management actions

- A Budget Provides Stern Feedback if You Do Not Meet Its Forecasts
- Requires You to Change What You and Your Transit System Are Doing to Meet Budget Assumptions, or
- Requires a Change in Assumptions to Meet Changing Conditions
- A Budget Is Never Silent; It Is Always Pulling and Pushing You and Your System
Budgeting

- Allows You to See Projected Expenses and Revenues for an Entire Year
- Must Be Organized in an ODOT-Required Format

Budgeting

- Be Sure to Have a Separate Budget For Each ODOT Project
  - Operating Assistance Grant
  - Capitalized Maintenance Grant
  - New Freedom Grant
  - JARC Grant
  - Intercity Operating Grant
  - Intercity Administration Grant
  - Rural Capital Project Grant(s)

Budgeting

- Is Absolutely Crucial to Reflect All Operating and Capital Costs and Revenues
- Provides a System Level Picture

Budgeting

- Does Not Break Down Costs by Route, Type of Service, Time of Day, Day of Week, Geographic Area, etc.
  - We will discuss service cost models later in this module
Budgeting

- Developing a Budget That Reflects Revenues and Expenses Over a Longer Period (e.g., 4 years) Can Show Particular Line Item Trends Which May Not Be Obvious in a One Year Budget
  - It also provides warnings about the sustainability of the budget and operations

• Developing A Budget, Cont’d
  - Clarifies your financial assumptions about the future
  - Those assumptions can be discussed and evaluated, and even changed as the year progresses
  - Is of no use if you do not monitor how close you are following your budget

• Your Budget Should Reflect Each Month of the 12-Month Period for Which it Covers
  - Each month is different, due to projected number of service days, holidays, snow days, special seasonal services, etc.

• Review the budget every month to monitor
  • How well you are tracking expenses and revenues
  • What budget changes or actions are needed
  • What corrective actions are needed with staff, contractors, vendors, and even riders

• The Budget Guides Your Actions, Programs, Services, Purchases, Grants, Revenues, Etc.
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Budgeting

- Use Historical Trends, Corrections from the Last Budget, Inflation Factors, and Reasonable and Documented Forecasts for Future Revenue and Costs
- Developing the Budget Should Be a Team Effort Between Key Staff and the Governing Board

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Budgeting

- Document Your Assumptions About the Forecast
- The Budget Should Reflect Accrued Expenses and Revenues, as Appropriate

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Budgeting

- The Budget May Have Several Special Line Items
  - Capitalized maintenance
  - Force account--the use of one’s own labor force to carry out a capital grant project
    • A force account plan must be submitted to, and approved by, ODOT (examples available in Rural Transit Manual)
  - In-kind contributions
  - Revenue and local match requirements
  - Farebox revenue and donations

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Budgeting

- In-Kind or Contributed Services May Be Used as Local Match Revenue
  - To include them as revenue, they must also be shown as expenses
  - Examples include
    • Office or garage space
    • Utilities
    • Maintenance
    • Copying
Budgeting

- A Proposal Has Been Made to Establish a New Category (New Column on the Rural Transit Invoice) for Contributed Services to Distinctly Identify Services Provided to the Transit System That Do Not Match a Cash Payment to the System
- The Column Would Be Used to Confirm That Contributed Services Revenues Matches Contributed Services Expenses

Budgeting

- An Annual In-Kind Service Plan Must Be Developed and Submitted to Support All In-Kind Expenses in Order to Claim In-Kind Costs on an ODOT-Funded Project
  - Must have prior ODOT approval

Budgeting

- Local Share/Local Match Is Equal to the Total Operating Expenses, Less
  - Farebox revenue collected
  - The eligible amount of Federal funds, and
  - The eligible amount of State funds

Budgeting

- Grantees Must Provide Sufficient Working Capital (Local Share) to Cover, at a Minimum, Three Months Operating Expenses
  - More About Working Capital Later in “Cash Management”
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Budgeting

• Revenues
  – Revenues eligible as local share for an operating project include
    • Local general revenue funds
      – Funds not dedicated for another purpose
    • Local dedicated funding, such as taxes on
      – Sales
      – Income
      – Property

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Budgeting

• Revenues, Cont’d
  • Advertising revenue
  • In-kind contributions
  • Donations, non-ODOT grants, and other contributions
  • Contract revenues or income from the transportation of a group of people for a specified cost, scheduled and paid by a third party

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Budgeting

• Revenues, Cont’d
  • Other allowable Federal funds
    – Federal funds whose use is not ‘restricted’
    – Examples are CDBG and Title XX; these types of funds may be directly granted to a transit system or may be in the contract section if contracted through another agency
    – Refer to Rural Transit Manual Chapter V for a list of other allowable Federal funds

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Budgeting References and Examples

• ODOT Operating Budget
• ODOT Capital Budget
• ODOT Capitalized Maintenance Budget

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CASH MANAGEMENT

Cash Management

• Maintaining Sufficient Cash
  – To pay the bills on time
  – Avoid “cash-outs,” not paying employees, and creating bad reputations with vendors
  – Remember: government subsidies are on a reimbursement basis, which means cash is needed for payments before subsidies are received (three months working capital)

Cash Management

• Reporting Cash Flow
  – On a monthly basis, report all transactions to the governing board (receipts, payments, cash on hand)
  – Make documentation available for viewing
  – Have another person (staff or governing board treasurer) review the report, ask questions, and sample the documentation, before submitting the report

Cash Management

• Reporting Cash Flow, Cont’d
  – Cash flow reports should reflect actual expenses and revenue
  – Should be on a cash basis
Cash Management

- Pay Bills in a Timely Fashion
  - Monthly, unless otherwise indicated
  - Be aware of due dates for bills and penalties for late payments
  - Provide accurate and complete documentation

- Examples of Payment Types
  - Personnel
  - Retirement funds
  - State agencies
  - Vendors of materials and supplies
  - Services
  - Capital purchases
  - Sometimes for loans/debts

- Keep the Money Coming in
  - Send out invoices as soon as possible, usually monthly
    - Includes ODOT quarterly operating, capitalized maintenance, and capital invoices
  - Provide accurate and complete documentation
  - Monitor late payments and follow-up regularly to ensure payment

- Examples of Invoices Going Out
  - ODOT
  - Local governments
  - Human services agencies
  - Foundations
  - Others
Cash Management

• Working Capital
  – Working capital is the same as cash reserve
  – Maintain a working capital fund “in the bank” of about 3 months of average monthly expenditures
  – Plan for special purchases, like vehicles, equipment, retirement payouts, etc.

• Working Capital, Cont’d
  – Secure a working capital line of credit at a bank, or under agreement with the city or county commissioners, etc.
  – Line of credit is for emergencies, or for large payments that exceed the normal cash availability
  – To be paid back as soon as possible
  – Cannot take out a long-term revolving type of credit

Cash Management

• Fare Media Include
  – Cash
  – Other media that should be treated like cash (Transfers, Tickets, Tokens, Passes, Scrip)

• Managing Fare Collection
  – Fare revenue includes cash fares and revenue from the sale of tickets, tokens, or passes
  – Establish strict policies/procedures and monitoring at all steps in the fare collection process to avoid the mismanagement of funds through error, fraud, or theft of cash or fare media
Cash Management

- There Are Many Ways and Opportunities for Mismanagement of Fares to Occur
  - Incorrect fare information and payment by the rider, or incorrect driver observations of fares being paid
  - Fraud (pocketing fares, recording the wrong fare, etc.)
  - Theft of fares from the farebox (or fare bag)

- Ways and Opportunities for Mismanagement of Fares to Occur, Cont’d
  - Theft during counting and recording the fares in the money room (or desk)
  - During deposit of fares in the bank

Cash Management

- Fare Technology May Improve Accuracy and Reduce the Opportunity for Fraud
- Good Cash Management Reduces the Opportunities (and Temptation) for Theft and Fraud
  - Ensure separation of duties

- Cash Security
  - Secure cash, fare media and financial records
  - Don’t leave cash and fare media laying around
  - Don’t leave financial records and checkbooks laying around
  - Limit the number of individuals who have access to cash and financial records
Cash Management

- Cash Security, Cont’d
  - Limit access to keys and access codes
  - Establish procedures and monitor the use of petty cash
  - Remove sources of temptation

- Credit Card Security
  - Store credit cards in secure locations (locked drawers with limited access, safe, etc.)
  - Establish strict use policies and procedures
  - Limit the number of individuals who have access to where the cards are stored
  - Conduct frequent online monitoring of credit card use to detect abuse
  - Remove sources of temptation

- Investing Agency Cash
  - Ohio has strict laws regulating safe and acceptable locations to invest public funds
  - Never risk the principal
  - Must be liquid and easily withdrawn
  - Must not be invested in speculative items like gold, rare coins, stocks, etc.
  - Refer to StarOhio for more information

- Arbitrage
  - May not “park” Federal funds and then earn interest from them
  - Need to spend them within 3 days
  - Similar for State funds

- Remember That Federal and State Funds Received Are the Reimbursement for Expenses Already Incurred
- Local Funds Do Not Have These Restrictions
Cash Management

- Electronic and Manual Methods
  - Use electronic methods of billing, payments, and bank depositing/withdrawing when possible
  - Use manual methods only when necessary
  - Focus on documentation and accountability

References
- ODOT Rural Quarterly Operating Invoice
- ODOT Rural Quarterly Operating Budget Variance
- ODOT Rural Quarterly Capitalized Maintenance Invoice
- ODOT Rural Capital Invoice (May Be Submitted More Frequently Than Quarterly, In Order To Minimize Accounts Receivable)

Financial Reporting

- We Do Not Let Our Drivers Operate a Vehicle With Their Eyes Shut and Hope That They Arrive Safely At Their Destination
- Likewise, We Should Not Let Ourselves “Operate” Our Transit System’s Finances Without Frequent Monitoring
  - Periodic financial reporting is one of the primary tools for monitoring and managing finances
Financial Reporting

• Monthly Financial Reports Should Include
  – Income statement
  – Cash flow statement
  – Grants reports
  – Variance reports (operating and grants)
  – Balance sheet
  – Productivity and service quality report
• Should Present Both the Current Period and the Year-to-Date Information

Financial Reporting

• Quarterly Financial Reports Should Include
  – ODOT invoices and productivity data (see section on Cash Management)
  – NTD quarterly data
• Annual Financial Reports Should Include
  – Benchmarking, peer comparison, trend analysis
  – Required National Transit Database (NTD) reporting by ODOT
  – Required ODOT reporting

Monthly Income Statement

• The Income Statement Was First in Use in the Business Sector, Then in the Government and Non-Profit Sectors
• It is Called an “Income” Statement Because of the Business Sector Model of Hoping to Turn a Profit and Having a Net Income at the End of the Month or Year
• Interesting Concept 😊
The Monthly Income Statement is Based on Operating Expenses and Revenues
- Developed on an accrual basis
- Shows if the transit system is receiving more funds than it is spending (in the black, positive income), breaking even (no income), or receiving less funds than it is spending (in the red, negative income)
- Ideally, Transit Will Be in the Black Each Month

Potential Impacts
- Different days in the month
- Weather
- Bad financial planning
- Unexpected expenses

Due to These and Other Circumstances, Some Months May Be in the Black, Some in the Red, and Some Breaking Even

By the End of the Year, the Transit System Should Be in the Black or Break Even
For the Same Reasons as May Occur at the Monthly Level, the Transit System May Be in the Red at the End of the Fiscal Year
This Should be Avoided if at All Possible
The Operating Variance Report (To Be Discussed Later) Will Alert You if Correction Action Is Warranted

Components of a Monthly Income Statement
- Columns for the last month (which is the focus)
- Columns for each of the previous months of the year
- A column for the same month one year ago, and
- A column for the total year-to-date
Monthly Income Statement

- Should Reflect the Total Expenses, the Total Revenues, and the Difference Between the Two
- Each Expense Account Line Item is Shown, Then Summed to Provide an Overall Expenses Total
- Each Revenue Account Line Item is Shown, Then Summed to Provide an Overall Revenue Total

Monthly Income Statement

- Essentially, the ODOT Quarterly Operating Invoice is an Income Statement
  - It is suggested that transit systems prepare an income statement for each month, rather than wait until the end of the quarter

Monthly Cash Flow Statement

- The Cash Flow Statement is Set Up Like the Income Statement, Except That It Is Based on the Cash Basis, Not Accrual
- It Also Represents the Accumulation of Funds In and Out Over the Month
- As Will Be Discussed in the Cash Management Section, Personnel, Vendors and Governments Expect Their Payments When They Are Due
  - This requires cash

Monthly Cash Flow Statement

- Transit Systems Must Forecast Cash Needs and Availability, Then Track it to Ensure There is Sufficient Cash When Needed
- At the End of the Cash Flow Statement, the Difference Between Cash In and Cash Out Is Shown, Then Added to a Running Cash Balance
Monthly Cash Flow Statement

- It is easy to get confused between income statements and cash flow statements — They show different things, but are related
- It is suggested that transit systems prepare a cash flow statement for each month, even though it is not required by ODOT.

Monthly Grants Report

- Grants management is crucial — Grants management is the lifeblood of rural transit systems
- Strive to meet all deadlines and requirements for budgeting, grant filing, reporting, invoicing and documentation
- Work closely with ODOT staff.

- Usually, a transit system does not have many grants open and it is relatively easy to keep track of them.
- However, a transit system that aggressively pursues grants (ODOT and otherwise) may find it prudent to keep a list of all active (and applied for) grants, and indicate their total value, local share, expiration date, and each capital and operating line item.

- Transit systems may also want to show how much of each grant was spent each month, the amount remaining, etc.
- Transit systems should prepare a monthly grants report to its own board, even though the current ODOT reporting frequency is quarterly.
Monthly Variance Reports

- A Variance is the Difference Between the Amount Budgeted and the Amount Spent/Revenue Received
- A Transit System’s Budget Shows Projected Operating Expenses and Revenues, and Projected Capital Expenses and Revenues, for Each Month of the One Year Budget Period

Monthly Variance Reports

- Projections Are Made for a Reason and Should Be Followed, or the Budget Revised or Amended, as Needed
- Monitoring Budgets is Similar to Driving a Vehicle: If There Is a Variance Between Where the Vehicle Is and Where It Should Be, Some Type of Corrective Action Is Warranted
- Ignoring a Variance Is Unwise

Monthly Variance Reports

- Management Action May Be Needed to Address Variances
  - Re-assignment of personnel to focus on the variance causes
  - Expenditure controls
  - Budget revision
  - More aggressive invoicing
  - More focus on capital grant expenditures
- What Are Some Examples of Budget Variances and Corrective Actions You Have Had to Take?

Monthly Variance Reports

- The Budget and Its Assumptions May Need to Be Revised or Amended
  - A revision realigns existing funds within the budget
  - A budget amendment increases the total amount of the budget, redistributing the additional funds within the budget
  - A budget revision or amendment does not ‘fix’ a problem. It does re-align expectations with reality so the budget (as revised or amended) can still be implemented with a balanced approach
### Monthly Variance Reports

- Note: Budget Amendments are Reviewed and Approved by ODOT on a Case-By-Case Basis, Depending Upon Available Funding

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<tr>
<td>- Two new columns added to the right of the reporting month column</td>
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<td>- The first new column shows the monthly budgeted amount</td>
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**Monthly Variance Reports**

- Components of a Monthly Variance Report, Cont’d
  - The second column shows the actual amount
  - The third column shows the difference between budgeted and actual, and also shows the actual amount divided by the budgeted amount in a % format (example: Budgeted = $1,000, Actual = $900, Actual/Budgeted = 90%)

---

**Monthly Balance Sheet**

- A Balance Sheet Shows the Overall Financial Health of the Transit System
- The Balance Sheet Is a Picture of One Point in Time
  - It does not present the flow of money in or out

---

**Monthly Balance Sheet**

- Balance Sheet Equation
  Assets = Liabilities + Net Worth
- The Larger the Net Worth, the Better

---

**Monthly Balance Sheet**

- A Close Examination of a Transit System’s Balance Sheet Can Show
  - How much of the transit system’s wealth is made up of cash on hand, vehicles, and facilities, or
  - What is owed to the system (taxes to be collected, contract revenue, etc.)
  - The relative mix of such assets is important and can be an indicator of potential strengths and weaknesses of the transit system
A Close Examination of a Transit System’s Balance Sheet Can Show, Cont’d

- It also shows the claims other entities have on the transit system’s assets, and if those claims are made up of accounts payable, loans, issued debt, grant liens on vehicles, accrued vacation or retirement, pending legal settlements, etc.
- The relative mix of such liabilities is important and can be an indicator of potential strengths and weaknesses of the transit system.

In a Private For Profit Business, the Net Worth Is a Measure of Stockholder Ownership in a Company

- This is Not the Case in a Transit System

A Transit System’s Net Worth Does Provide a Measure of How Much the System May Recover if it Were to Discontinue Service

- The Net Worth also Shows How Much Relative Exposure a Transit System Has to Its Creditors and Debt Holders, and Those with a Claim on the Vehicles, Facilities, and Cash

The Balance Sheet Is Often Shown Listing the Asset Line Items First, Then the Liabilities, Followed By the Net Worth, as of a Point in Time, for example, the End of the Reporting Month.

- The Assets, Liabilities and Net Worth Accounts Are Shown on the Following Slides
Monthly Balance Sheet

**ASSETS**

- 101. CASH AND CASH ITEMS
  - 01. Cash
  - 02. Working (Imprest) Funds
  - 03. Special Deposits, Interest
  - 04. Special Deposits, Dividends
  - 05. Special Deposits, Other
  - 06. Temporary Cash Investments

- 102. RECEIVABLES
  - 01. Accounts Receivable
  - 02. Notes Receivable
  - 03. Interest and Dividends Receivable
  - 04. Receivables from Associated Companies
  - 05. Receivable Subscriptions to Capital Stock
  - 06. Receivables for Capital Grants
  - 07. Receivables for Operating Assistance
  - 08. Other Receivables
  - 09. Reserve for Uncollectible Accounts

- 103. MATERIALS AND SUPPLIES INVENTORY

- 104. OTHER CURRENT ASSETS
  - 01. Unbilled Work for Others
  - 02. Capital Projects

- 111. TANGIBLE TRANSIT OPERATING PROPERTY
  - 01. Property Cost
  - 02. Leased-Out Property Cost
  - 03. Accumulated Depreciation

- 112. TANGIBLE PROPERTY OTHER THAN FOR TRANSIT OPERATIONS
  - 01. Property Cost
  - 02. Accumulated Depreciation
Monthly Balance Sheet

- ASSETS
  - 121. INTANGIBLE ASSETS
    - 01. Organization Costs
    - 02. Franchises
    - 03. Patents
    - 04. Goodwill
    - 05. Other Intangible Assets
    - 06. Accumulated Amortization

- 131. INVESTMENTS
  - 01. Investments and Advances, Associated Companies
  - 02. Other Investments and Advances
  - 03. Reserve for Revaluation of Investments

- 141. SPECIAL FUNDS
  - 01. Sinking Funds
  - 02. Capital Asset Funds
  - 03. Insurance Reserve Funds
  - 04. Pension Funds
  - 05. Other Special Funds

- 151. OTHER ASSETS
  - 01. Prepayments
  - 02. Miscellaneous Other Assets

- LIABILITIES
  - 201. TRADE PAYABLES
    - 01. Payables to Associated Companies
  - 202. ACCRUED PAYROLL LIABILITIES
  - 203. ACCRUED TAX LIABILITIES
## Monthly Balance Sheet

### Liabilities

- **204. Short-Term Debt**
  - 01. Notes Payable
  - 02. Matured Equipment and Long-Term Obligations
  - 03. Unmatured Equipment and Long-Term Obligations, Current Portion
  - 04. Matured Interest Payable
  - 05. Accrued Interest Payable
  - 06. Current Pension Liabilities

- **205. Other Current Liabilities**
  - 01. Unredeemed Fares
  - 02. CODs Unremitted
  - 03. Dividends Declared and Payable
  - 04. Short-Term Construction Liabilities
  - 05. Miscellaneous Other Current Liabilities

- **211. Advances Payable**
  - 01. Advances Payable to Associated Companies
  - 02. Other Advances Payable

- **221. Long-Term Debt**
  - 01. Equipment Obligations
  - 02. Bonds
  - 03. Receivers’ and Trustees’ Securities
  - 04. Long-Term Construction Liabilities
  - 05. Other Long-Term Obligations
  - 06. Unamortized Debt Discount and Expense
  - 07. Unamortized Premium on Debt
  - 08. Reacquired and Nominally Issued Long-Term Obligations

- **231. Estimated Liabilities**
  - 01. Long-Term Pension Liabilities
  - 02. Uninsured Public Liability and Property Damage Losses
  - 03. Other Estimated Liabilities
  - 241. Deferred Credits
Monthly Balance Sheet

• Example of monthly balance sheet

Monthly Productivity and Service Quality Report

• As We Learned in Module 2, There Are Many Important Indicators That a Transit System Can Use to Monitor Itself

Monthly Productivity and Service Quality Report

• Performance Indicators Include
  – Cost/one-way passenger-trip
  – Cost/vehicle-mile and cost/vehicle-hour
  – One-way passenger-trips/vehicle-mile and vehicle-hour
  – % late trips

• Performance Indicators Include, Cont’d
  – % no-shows
  – % cancellations
  – Number of trips denied
  – Number of complaints
  – Number of road calls
  – Number of accidents
Module 3

Monthly Productivity and Service Quality Report

• Some of This Data is Reported on the ODOT Quarterly Operating Invoice
• It Is Important to Review Productivity and Service Quality on a Monthly Basis
  — Excellent warning signs of problems that can be addressed sooner rather than later
  — Excellent hints that something is going well and maybe should be further enhanced or copied elsewhere in the transit system

Quarterly NTD Report

• Rural Transit Systems Must Submit Quarterly National Transit Database Data to ODOT for ODOT’s NTD Report, Including
  — Ridership
  — Vehicle-miles
  — Vehicle-hours
  — Accidents

Quarterly ODOT Reports

• Rural Transit Systems Must Submit to ODOT
  — Quarterly operating invoices
  — Quarterly capital invoices
  — Quarterly capitalized maintenance invoices
  — Quarterly productivity data
Annual Peer Report

- It Is Wise to Compare Your System to Your Peers Every Year, to Ensure That Your System Is Reasonably Comparable to Others
- Look At Cost Per Rider, Cost Per Mile, Cost Per Hour, Riders Per Mile, Riders Per Hour, Etc.

This Is Called:
- Benchmarking
- Peer comparison
- Trend analysis

Use ODOT’s Status of Transit as a Resource

Annual Peer Report

- Contact Your Peers In Other States
- What Is A Peer (Approximate)
  - Same/similar service area size and population
  - Same/similar type and amount of service and fleet
  - Same/similar budget

Annual ODOT Reports

- 4th Quarter, End of the Year Quarterly Invoice
- Required ODOT reporting
Why Fully Allocated Costs Are Needed

• The Sum of the Costs of All Services Must Equal the Total Rural Transit System Budget
• If It Does Not
  – All costs have not been included in the cost model
  – You do not have a complete and accurate picture of your costs
  – Your decisions may be flawed

Why Fully Allocated Costs Are Needed

• Our Goal - To Answer the Questions
  – How much does the transportation service cost?
  – How are we going to pay for it?
• In Order to Achieve These Goals, Agency and Program Managers Must Use Cost Analysis as a Key Element of Financial Planning

• A Fully Allocated Cost Model Is Needed to
  – Compare the costs of individual routes and services (even by time of day and day of week), so their cost-effectiveness can be evaluated, and changes made
Why Fully Allocated Costs Are Needed

- A Fully Allocated Cost Model Is Needed, Cont’d
  - Compare the costs of potential alternative services
  - Calculate the costs or savings of potential increases or decreases in service (frequency, capacity, hours and days of service)

- Calculate the costs or savings of proposed reorganizing or rationalizing services
- Calculate the cost of potential new services (may be difficult to estimate; rely on historical data for similar services, if available, applying present day costs)

- Make operational changes
  - Increases or decreases in services, revenues, and staff
  - Change procedures or other activities (such as marketing or public relations)
    - Report to the funding sources or purchasing agencies how money was spent and what revenues were realized
ODOT Transit 101

Module 3

Total Costs

- Total Costs = Fixed Costs + Variable Costs
- Total Costs = Direct Costs + Indirect Costs
- Total Costs = Operating Costs + Capital Costs

Fixed and Variable Costs

- Total Costs = Fixed Costs + Variable Costs
- Fixed Costs Do Not Vary with the Amount of Service Provided (e.g., Administrative Salaries)
- Variable Costs Change Relative to the Amount of Service Provided (e.g., Drivers' Wages)

- The Average Cost of Service Increases as Service Decreases
- The Average Cost of Service Decreases as Service Increases
  - This is because of the fixed costs
Module 3

Direct and Indirect Costs

• Total Costs = Direct Costs + Indirect Costs
• Direct Costs Are Strictly Related to the Public Transit Service
• Indirect Costs Occur in an Agency That Has Several Functions (Transportation, Case Management, Food Stamps, Etc.) and Where It Is Necessary to Break Out Those Costs That Are Related to Transit

Indirect Costs

– Usually require overhead costs (such as Executive Director time, phone system, etc.) to be split between transit and the other functions of the agency

Indirect Costs, Cont’d

– Documentation and reasonable assumptions are required
– For example if (after reviewing a time log for an acceptable duration) it found that the Executive Director devotes 10% of his or her time to transit, then 10% of all wages, fringes, and office costs would be assigned to transit

Indirect Costs, Cont’d

– A transit system that wants to allocate indirect labor costs based on a time study must first document the methodology and submit to ODOT for pre-approval
– The documentation must demonstrate that the study is properly designed, and the sample time period is long enough such that the results are statistically valid
Direct and Indirect Costs

• Indirect Costs, Cont’d
  – In the absence of an approved time study, all indirect labor costs must be supported by employee prepared detailed timesheets

• Indirect Costs
  – Certain central service costs
  – General administration of the organization
  – Accounting and personnel services performed within the organization that delivers public transit services
  – Costs of operating and maintaining facilities

• Direct Costs
  – 501.01 – Operator Salaries & Wages
  – 501.03 – Dispatcher Salaries & Wages
  – 503.05 – Contract Vehicle Maintenance
  – 504.01 – Fuel & Lubricants Consumed
  – 504.02 – Tires and Tubes Consumed
  – 508.00 – Purchased Transportation

• Indirect Costs Must Be Allocated in a Manner Consistent with Procedures Set Forth in OMB 2CFR Super Circular [formerly Circulars A-87 for government entities or A-122 for non-profits]
  • Training for Super Circular will be March 17-18 for governments, March 30-31 for non-profits
  • You Must Have An Indirect Cost Allocation Plan or Indirect Cost Rate in Order to Claim Reimbursement Under Federal Grants
Direct and Indirect Costs

- Negotiation and Approval of Indirect Rates
  - Generally, the Federal agency with the largest dollar value of awards to the nonprofit organization will be designated as the cognizant agency for the negotiation and approval of the indirect cost rates

- Negotiation and Approval of Indirect Rates, Cont'd
  - The designation is not changed unless there is a major long-term shift in the dollar volume of Federal awards

- Where a Local Government Only Receives Funds as a Subrecipient, the Primary Recipient Negotiates the Indirect Cost Rates and/or Monitors the Subrecipient's Plan

  - Section 5311
    - Primary Recipient: ODOT
    - Subrecipient: Rural Transit Grantee

- Indirect Cost Rates and Cost Allocation Plans Have Specific Documentation Requirements
  - Organization chart
  - Comprehensive annual financial report
  - Certification
  - Use of a standard chart of accounts
  - This list is not all inclusive; see ODOT guidance
Capital and Operating Costs

• Total Costs = Operating Costs + Capital Costs
• Operating Costs are Consumed in Less Than One Year (e.g., Wages, Fuel) and Generally Have a Unit Acquisition Cost Lower Than a Threshold Set by the State DOT

Capital and Operating Costs

• Capital Costs are Expenses for Long-Term Assets (e.g., Vehicles, Garages)
• Definitions May Be Set by the Grantor Agency

Capital and Operating Costs

• If the Cost of the Vehicle (Asset) Was Paid for by a Federal Program, You May Not Include Depreciation of that Asset in Your Charges to Other Federal Programs in the Cost of Service Provision

Some Basic Fully Allocated Cost Models

• Sometimes, keeping things simple is the best approach
• Unfortunately, that is not the case with fully allocated cost models
• Simple cost models have inherent weaknesses
• But, by making them a little more complex, the weaknesses are addressed, and you end up with a very powerful management tool
Some Basic Fully Allocated Cost Models

- Here are a few simple example models that might appear correct (but are not found to be so)
  - Average cost per mile
  - Average cost per hour
  - Average cost per passenger

- To calculate the cost of a route, take its miles or hours or passengers and multiply by the average unit cost

What is wrong with these models?

- They give different costs for the same route

Let's take an example and see what happens

- You have a system that has annual costs of $1,000,000, vehicle miles of 500,000, vehicle-hours of 25,000, and ridership of 100,000
- The system has four services
  - Service A: weekday peak, 100,000 miles, 4,000 hours, 30,000 riders
  - Service B: weekday midday, 75,000 miles, 4,500 hours, 35,000 riders
  - Service C: Saturday, 200,000 miles, 8,000 hours, 20,000 riders
  - Service D: Sunday, 125,000 miles, 8,500 hours, 15,000 riders

You want to know what each service costs
- Let's start with Service A
Some Basic Fully Allocated Cost Models

- First, Calculate the Average System Costs; We Will Use These Costs for All 4 Services
  - Divide total system annual cost ($1,000,000) by total system miles (500,000) to get average cost per mile of $2
  - Divide total system annual cost ($1,000,000) by total system annual hours (25,000) to get average cost per hour of $40
  - Divide total system annual cost ($1,000,000) by total system annual ridership (100,000) to get average cost per trip of $10

Calculate the Cost of Service A, Using Each of the Different Models

- 100,000 miles x $2/mile = $200,000
- 4,000 hours x $40/hour = $160,000
- 30,000 riders x $10/rider = $300,000

What? How Can We Get Three Very Different Answers for the Same Service? Which Model Is Correct? Any? All? None?

What If You Wanted To Rank Your Services Based on Costs?

- The rankings would be different depending on which cost model was used
- What good is a simple management tool that does not give us reasonable answers?

You Could Say “Let’s Just Use One Model Consistently, and Not Use the Others”

- Sooner than later, someone will pose the other models and bring the problem to light, much to your professional embarrassment

But, Maybe This Was Just a Fluke; Let’s try Another Example
Some Basic Fully Allocated Cost Models

• Let’s Cost Out Service B
  – Service B is slower than Service A, with 16.7 mph (75,000/4,500 = 16.7) vs. 25 mph (100,000/4,000 = 25) but carries more riders (35,000 vs. 30,000)
  – Maybe Service B Travels in a More Populated and More Congested Area Than Service A
  – What Does Service B Cost?

• Calculate the Cost of Service B Using the Same Average System Costs for Each of the Three Different Models
  75,000 miles x $2/mile = $150,000
  4,500 hours x $40/hour = $180,000
  35,000 riders x $10/rider = $350,000
  – Again, a Wide Discrepancy Among the Simple Models

• Costs for Service C
  – Using cost/mi of $2: $400,000
  – Using cost/hour of $40: $320,000
  – Using cost/rider of $10: $200,000

• Costs for Service D
  – Using cost/mi of $2: $250,000
  – Using cost/hour of $40: $340,000
  – Using cost/rider of $10: $150,000

• We Could Try Example After Example and Still Find the Same Problems
• Obviously, There Is Something Wrong with the Simple Models
Some Basic Fully Allocated Cost Models

- The One Good Thing Is That the Sum of the Costs of all Four Services Equals $1,000,000, No Matter What Simple Model We Use
  - For example, using cost/mile: A ($200,000) + B ($150,000) + C ($400,000) + D ($250,000) = $1,000,000

- See the Example Excel Spreadsheet of Simple Unit Cost Models

Some Basic Fully Allocated Cost Models

- What is Our Error?
  - Not realizing that some of the system costs are:
    - Variable costs that are attributable to miles operated
    - Variable costs that are attributable to hours operated
    - Fixed costs
  - It is that extra level of detail and disaggregation that will provide us with a useful fully allocated cost model

Correct Fully Allocated Cost Model

- Remember the earlier discussion about fixed and variable costs?
  - Total costs = variable + fixed
  - We can break this down further and show this as:
    - Total costs = variable mileage-related costs + variable hourly-related costs + fixed costs
Correct Fully Allocated Cost Model

- Examples of Costs Attributable to Miles Operated
  - Fuel
  - Fleet maintenance
  - Etc.
- Examples of Costs Attributable to Hours Operated
  - Wages
  - Fringes
  - Etc.

- Examples of Fixed Costs
  - Utilities
  - Legal
  - Administrative
  - Etc.

- There Are No Hard and Fast Rules on How to Assign Costs to Mileage, Hourly or Fixed, but
  - Project administration costs are almost always fixed
  - Understand the basis of each cost item and assign accordingly
  - Be logical
  - BE CONSISTENT

- Look at the Sample ODOT Invoice format and the Example Excel Spreadsheet to See How the Fully Allocated Cost Line Items Are Assigned to Variable Mileage, Variable Hours, and Fixed
Correct Fully Allocated Cost Model

- We See Five Main Columns
  - The cost account line item
  - The mileage related variable cost column
  - The hourly related variable cost column
  - The fixed costs
  - The total for the line item

- If We Sum Up Across Any Cost Line Item, We See That All Costs for That Line Item Are Fully Allocated, and the Total of the Columns is the Total of the Line Item
- If We Sum Up All the Way Down Any of the Three Columns (Mileage, Hourly, Fixed), We Will Get a Subtotal For That Column
- Adding All Three Subtotals Yields the System Cost (As It Should)

Correct Fully Allocated Cost Model

- All System Costs Have a Place in the Budget Matrix
- So, Now We Have Three Column Totals
  - Mileage related variable costs for the system
  - Hourly related variable costs for the system
  - Fixed costs for the system
- And, They All Add Up to the Total System Cost

- We Now Have All That We Need to Calculate the Fully Allocated Cost Model
- Remember When We Calculated Cost/Mile and Cost/Hour for the System Averages, in the Simple Models?
Correct Fully Allocated Cost Model

• Use the Same Math, and Calculate an Average Cost/Mile By Taking the Mileage Related Costs and Divide By the Number of System Miles
• Also Use the Same Math, and Calculate an Average Cost/Hour By Taking the Hourly Related Costs and Divide By the Number of System Hours

These Two New Unit Costs Will Each Be Less Than Those Calculated in the Simple Model, Since We Are Dividing by the Mileage Costs and the Hourly Costs, Each of Which is Lower Than the System Costs (Which Includes Mileage, Hourly, and Fixed Costs)

Let’s Go Back and Use the Numbers for the Four Route System That We Considered Earlier

For example, the $1,000,000 System Cost is broken down as follows
— $200,000 mileage related
— $700,000 hours related
— $100,000 fixed costs

To Get the New Mileage-Related Variable Unit Cost, Divide the Mileage Total ($200,000) by Total System Miles (500,000) to Get Average Cost Per Mile of $0.40

To Get the New Hour-Related Variable Unit Cost, Divide the Hour Cost ($700,000) by Total System Hours (25,000) to Get Average Cost Per Hour of $28
### Correct Fully Allocated Cost Model

- The Rest of the System Costs is Fixed ($100,000)
- But, What Do We Do with the Fixed Costs in Our Refined Model?
- For Most Demand Response Systems in Rural Areas, We “Bump Up” the Allocated Variable Expenses (Miles Cost + Hours Cost) to Include the Full System Costs

### Correct Fully Allocated Cost Model

- That Is: \(\frac{\text{Total costs}}{\text{total variable costs}} = \frac{\text{Total costs}}{(\text{mileage costs} + \text{hours costs})}\)
- In Our Example, This Would Be: \(\frac{1,000,000}{(200,000 + 700,000)} = 1.11\)
- This Is Called the Fixed Cost Proportional Factor

### Correct Fully Allocated Cost Model

- The Final Model Is: \((\text{Mileage unit cost} \times \text{miles} + \text{hours unit costs} \times \text{hours}) \times \text{fixed cost proportional factor}\)
- What????
- In Our Example, the Model Would Be: \((0.40 \times \text{miles} + 28 \times \text{hours}) \times 1.11 = \text{cost}\)
- That’s Not So Bad, Is It?

### Correct Fully Allocated Cost Model

- Refer to the Example Fully Allocated Cost Model Excel Spreadsheet
Correct Fully Allocated Cost Model

- Let's Try the Fully Allocated Cost Model With Service A From Our Previous Example:
  \( (0.40 \times \text{miles} + 28 \times \text{hours}) \times 1.11 \)
  \( (0.40 \times 100,000 + 28 \times 4,000) \times 1.11 = (40,000 + 112,000) \times 1.11 = 168,720 \)

  - This is between the three cost estimates that we calculated using the three simple models: $200,000 and $160,000 and $300,000

- If We Were to Do This With the Other Services, We Would Find That the New Model Always Falls Within the Ranges of the Simple Models

- See the Example Excel Spreadsheet

Correct Fully Allocated Cost Model

- How Much Would a New Service Cost at Our System?
  - Use the system's cost model: \( (0.40 \times \text{miles} + 28 \times \text{hours}) \times 1.11 \)
  - Say that the new service would add 2,000 hours and 40,000 miles annually, and would not require more overhead

  \( (0.40 \times 40,000 \text{ miles} + 28 \times 2,000 \text{ hours}) \times 1.11 \)
  \( = (16,000 + 56,000) \times 1.11 \)
  \( = 79,920 \text{ per year} \)
Correct Fully Allocated Cost Model

• Many Years of Using These Models in Many Transit Systems Has Proven Their Reasonableness and Usability
• While They Are Not Perfect, They Are Much, Much Better Than the Simple Models

Complexities

• Ridesharing
  – Occurs when the clients of two or more agencies that contract for service ride the same vehicle
  – Some rate structures will require sub-allocation of costs
    • Per Hour and Per Mile Pricing Methods

• Complexities

• Suggested Approaches
  – Pro-rate trip costs based on
    • Percent of Agency “A” passengers as percent of all passengers (percent x overall route cost)
    • Calculate trip cost based on total number of passengers ((Overall Trip Cost ÷ No. of Passengers) x Passengers Agency “A”)
  – Problems
    • Assumes uniform trip characteristics
    • Gives appearance of uniform rate

• Complexities

• Wait Time
  – Labor costs associated with wait time is a problem
  – Suggested approach
    • Adopt time-based pricing
    • Cost per hour
    • Added wait time charges on top of existing pricing strategy (e.g., $10.00 per hour)
Complexities

- Out of Area Service Trips
  - Use the cost allocation model as the pricing structure

- Mixed Fleets
  - Different operating cost structure of large buses over minivans/standard vans
  - Options
    - Adopt tiered pricing structure
    - Use uniform structure

- Brokered Trips
  - Adopt uniform rate structure despite differential costs/charges among multiple providers

- Contracted Services
  - Fully Allocated Cost Pricing Means System Administration Costs Plus Contractor’s Rate are Incorporated Into the Pricing Structure
Complexities

- Subsidies
  - Deduct subsidy amount prior to calculating average unit rates in your cost allocation model
  - Run cost model with and without subsidy so users understand true cost of service

ASSET MANAGEMENT

Transit Asset Management Plan

- Per Section 5326 of MAP-21, Transit Systems Will Be Required to Develop Transit Asset Management Plans That Include, at a Minimum
  - Capital asset inventories
  - Condition assessments of the assets
  - Investment prioritization

Capital Replacement Fund

- Capital Replacement Fund
  - Transit systems may set up a capital replacement fund to help offset the local share for assets to be purchased
  - Often charge an additional rate per mile or hour on contract services
  - Coordinate with ODOT
Fleet Management
- The Fleet and Maintenance Facility Are a Transit System's Biggest Assets
- A Fleet Maintenance Plan Should Be Developed That Provides for a Long Vehicle Life, a Safe Fleet, and the Lowest Overall Cost Over the Life of the Vehicles
- Maintenance Should Focus on Preventative, Accidents, and Unexpected Maintenance Needs

Facility and Land Management
- Transit Systems Are Required to Develop a Plan to Maintain their Facilities and Land

Inventory Management
- Inventory Management
  - Office equipment and supplies
  - Maintenance equipment, inventories, and supplies
- The factors that go into good inventory management are:
  - demand for the inventory
  - ability to label and track inventory
  - lead time to procure parts and materials
  - inventory holding costs
  - inventory ordering costs
  - shortage costs (costs associated with not having the inventory when it is needed)

Fuel Management
- Fuel Management
  - Cannot change the basic cost of fuel
  - But, can reduce fuel costs somewhat
- Reducing the Cost of Fuel
  - Location of the fueling depot(s); one central location or several within a reasonable corridor to reduce deadhead costs
  - Own the fuel depot, use public agency depots, or use private filling stations
Fuel Management

• Reducing the Cost of Fuel, Cont’d
  – Use care in scheduling and dispatching vehicles to reduce vehicle miles, and deadhead to/from fueling; specify when and where to fuel
  – Bulk purchase of fuel
  – Fuel futures to contain cost
  – Reimbursement of fuel tax

• Reducing the Cost of Fuel, Cont’d
  – Change the type of vehicles used for maximum fuel efficiency and capital costs
  – Change the type of vehicles used to be able to use different fuels
  – Improve vehicle maintenance and tuning
  – Smoother driving

• Reducing the Cost of Fuel, Cont’d
  – Monitor and control access to the fuel supply and purchases, whether they be on-site or at gas stations
  – Fuel is valuable
  – Fuel can easily “disappear” (steal and conceal)
    • Fuel can be disposed of quickly, used by the thief, or sold/given to friends and family, and sold on the black market

• Reducing the Cost of Fuel, Cont’d
  – The fuel usage records for vehicles and drivers must be monitored closely
  – Use surveillance cameras at fuel depots and in vehicle storage areas
  – Implement secure procedures for use of gas credit cards and/or fueling keys
5/11/2015

Risk Management

- Risk Management is the planned approach to protecting the riders, employees, and assets of the system from accidental or purposeful losses at minimum costs.

Risk Management

- Risk is the possibility of loss.
- Risk management is concerned only with pure risk, which is loss, not with speculative risk, which can involve gains (such as in gambling).

Risk Management

- Risks are caused by perils (which can cause losses).
- Hazards are conditions that create the chance of loss arising from a peril.
Goals

• The Goals of Risk Management Are to:
  – Protect the assets of the system from catastrophic losses
  – Minimize the long-term costs of managing risk
  – Establish a safe and secure system for employees and riders
  – Establish effective loss control and loss prevention measures

Types of Risk

• Types of Risk:
  – Personal
  – Property
  – Liability

• Personal Risks:
  – Loss of income or assets as a result of an ability to earn income
Types of Risk

- Property risks:
  - Loss of property through damage or destruction through fire, wind, etc.
  - Loss of property through theft, burglary, robbery
  - Loss of income as a result of property loss or expenses of making up for property loss

Liability Risks (Automotive, General):
- Loss of income due to bodily injury or property damage due to the negligence or carelessness of others
- Infringement on the rights of others, such as assault and battery, libel, slander or false arrest
- Contractual obligations

Safety and Security Planning

- Difference Between Safety and Security
  - Safety deals with natural and other non-intentional incidents or conditions
  - Security deals with intentional harm to people and property

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Module 3

Safety and Security Planning

• Emergency Planning:
  – Prepare
  – Prevent
  – Respond
  – Recover

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Module 3

Safety and Security Planning

• Prepare:
  – Identifying assets
  – Evaluating hazards and threats
  – Assessing vulnerabilities
  – Reducing vulnerabilities
  – Prioritization
  – Identifying responsibilities and lines of authority

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Module 3

Safety and Security Planning

• Prevent:
  – Reducing risk
  – Personnel selection and training
  – Awareness
  – Drug/alcohol testing

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Module 3

Safety and Security Planning

• Respond:
  – Coordination with emergency management agencies
  – Coordination with first responders
  – Service suspension
Safety and Security Planning

- Recover:
  - Restore service
  - Replace assets and employees
  - Work with riders
  - Funding

Types of Safety Issues/Occurrences:
- Transit causes the safety issue
- Transit is the target of a safety issue
- Workplace safety
- Bad weather
- Ice, snow, rain
- Floods
- Fires/smoke on board vehicle

Types of Safety Issues/Occurrences (cont’d):
- Extreme cold or heat
- Emergency evacuation
- Bloodborne pathogens
- Transport of oxygen
- Wheelchairs and scooters that can not be tied down
- Use of lift without wheelchair
- Entering, exiting and maneuvering in vehicles

Types of Safety Issues/Occurrences (cont’d):
- Approaching and leaving a vehicle
- Draw strings
- Stuff, bags
- Handoffs
- Attendants
- Losing a passenger
- Authorized and unauthorized passengers
Types of Safety Issues/Occurrences (cont’d):
- Special needs passengers
- Transporting children
- Firearms on drivers and passengers
- Loading and unloading
- Eating, drinking, choking on bus
- Going to the bathroom on the bus
- Incoherent passengers

Types of Safety Issues/Occurrences (cont’d):
- Wheelchair problems
- Tie downs
- Wheelchair lift safety
- Hazardous materials
- Consumers and employees with medical emergencies
  - Seizures
  - Heart attacks
  - Other

Types of Safety Issues/Occurrences (cont’d):
- Low functioning (cognitive and physical) passengers
- Seat belt usage
- Car seat usage
- Comfortable driving...no jerks or sudden stops or turns
- Backing up
- Railroad crossings

Safety Plan, Policies, and Procedures
- Measures:
  - Preventable and non-preventable accidents per 100,000 miles
  - Injuries
  - Fatalities
  - Value of damages
  - Complaints
  - Street observations
  - Records and reporting
  - Training and retraining schedules
### Module 3: Safety

**Driver and Other Precautions:**
- Driver and attendant requirements
- Drug/alcohol
- Criminal background
- Abuse registry
- Nurses registry
- Maximum/minimum ages
- Maximum/minimum health
- Driver medicals/physicals
- CDL and other licenses
- Diabetes and insulin for drivers

**Training and Practice:**
- Accident procedures...investigate, take pictures, deal with police, reporters, insurance, lawyers, informing Executive Director and Board, informing families of injured, emergency response for injured, grieving/aftershock
- Training for drivers, attendants, mechanics, dispatchers

**Training and Practice (cont'd):**
- Defensive driving training
- Passenger management
- Map reading training
- On the road/behind the wheel training
- At-desk training
- Refresher training

**Training and Practice (cont'd):**
- Sensitivity training
- When to call 911, when to administer First Aid, when to observe and not interfere
- HIPAA
- 1000 eyes
- Training for passengers
Safety

- Training and Practice (cont’d):
  - Rules and post them and enforce them
  - Acceptable behaviors for riders and employees
  - Emergency contacts

Security

- Types of Security and Emergency Preparedness Issues/Occurrences:
  - Biological attack
  - Nuclear attack
  - Regular bombing attack
  - Bomb threats
  - Hurricanes
  - Earthquakes

Security

- Types of Security and Emergency Preparedness Issues/Occurrences (cont’d):
  - Forest and community fires
  - Terrorist strikes
  - AFB emergency Highjackings
  - Assault on a bus
  - Weapons
  - Holdup/robbery

Security

- Types of Security and Emergency Preparedness Issues/Occurrences (cont’d):
  - Taunting and harassment
  - Sexual predators, rapes, accosting
  - Sexual harassment, age harassment, race harassment, etc.
  - Knives, guns, hitting, abuse verbal or physical
  - Threats
Module 3

Security

- Types of Security and Emergency Preparedness Issues/Occurrences (cont’d):
  - Spitting
  - Unruly passengers
  - Loss of telephone/cells/radios service
  - Loss of computer systems
  - FTA threat levels

Module 3

Security

- Types of Security and Emergency Preparedness Issues/Occurrences (cont’d):
  - Transit system, facilities, vehicles and passengers hit
  - Transit not hit but part of community response
  - Vulnerability and risk assessment and planning
  - Community coordination/interagency coordination

Module 3

Security

- Types of Security and Emergency Preparedness Issues/Occurrences (cont’d):
  - Emergency Management Agency
  - FTA security and emergency preparedness sites
  - When the authorities commandeer the resources

Module 3

Security

- Types of Security and Emergency Preparedness Issues/Occurrences (cont’d):
  - Who is in charge...command structure
  - Emergency contacts (passengers, staff, other agencies)
  - Who pays for OT resources, gas, damage, etc.
Security

- Training and Practice:
  - Make sure transit employees are trained via mock disasters to be prepared in an emergency
  - First response, later steps
  - In-house and community drills

FTA Regulations

- New FTA Safety Regulations
  - At this time, there are new proposed FTA regulations regarding transit system safety
  - Focus on Implementing a Safety Management System (SMS), with a Safety Plan Consisting of:
    - Safety policy
    - Safety risk management
    - Safety assurance
    - Safety promotion

- Safety Policy Sets Performance Targets
- Safety Risk Management Identifies and Evaluates Risks
- Safety Assurance Shows How the Effectiveness of Safety Controls Meeting Established Targets
- Safety Promotion Involves Safety Training, Awareness, and Communication

- There May Be a Requirement for Public Transportation Certification Training
- Safety Planning Would Coordinate with FTA’s Transit Asset Management and the State of Good Repair Emphases
- ODOT Will Provide Further Guidance
COMPLIANCE WITH FINANCIAL REGULATIONS AND BEST PRACTICES

Financial Integrity
- Financial Audits
- Ethics, Honesty, and Accuracy
- Internal Controls
- Financial Policies and Procedures
- Formal Methods
- Accountability: At Least Two Sets of Eyes/Hands

Government Reviews
- FTA/ODOT State Management Reviews (triennial reviews)
- ODOT and Other Audits
- Technical Assistance Reviews (TARs)
- Financial Capacity (NTD)
- Financial Condition (NTD)
- Satisfactory Continuing Control (NTD)

Section 5311 Funding
- New FTA Section 5311 FTA Regulations
  - New FTA Circular 9040.1G, issued October 24, 2014
  - The changes do not appear to be significant from the point of view of the rural transit system
  - However, you are encouraged to review these proposed regulations for yourself
  - ODOT will provide further guidance
Policies and Procedures

- Each Transit System Should Develop and Adopt Policies and Procedures That Are Appropriate for the Transit System and that Meet Accepted Standards
- ODOT Can Provide Sample Financial Management Policies and Procedures

Highlights of ODOT’s “TRANSIT ACCOUNTING DONE RIGHT”
see full PowerPoint in references

Roles & Responsibilities

- Ohio Department of Transportation (ODOT) responsible for:
  - providing oversight of Federal and State funds
    - ensuring that funds are used appropriately
    - ensuring compliance with Federal and State guidance
    - ensuring compliance with the terms of the contract

ODOT Oversight of Funds

- Two primary methods:
  - Desk Inspections
  - Audits (On-site)
ODOT Oversight of Funds

- Desk Inspections
  - Review audit reports issued by Auditor of State and Independent Public Accountants (IPAs)
  - Reconcile Schedule of Expenditures of Federal Awards
  - Confirm receipt/recognition of federal funds
  - Identify and follow-up on audit findings & issues
  - Bring significant or material issues to attention of the Office of Transit

ODOT Oversight of Funds

- Audits
  - Conducted on-site (4–5 days)
  - Cover a specific period of time (years)
    - Up to 3 years after final payment
  - Formal Entrance & Exit conference
  - Request documents in advance of on-site
  - Review, reconcile and verify
    - Financial statements to General Ledger
    - ODOT invoices to Transit source documents
    - Sample of transaction (revenue and expense)
  - Issue audit report
    - Findings for recovery
    - Corrective Action Plan

How is a Transit System Selected for Audit?

- Risk Assessment performed annually
  - Combination of financial and programmatic criteria
- Input from Office of Transit
  - Includes, but not limited to:
    - Federal funding/federal sources
    - Prior audit findings (AOS)
    - Prior QAR findings
    - Accuracy of invoicing

Transit System Responsibilities

- Follow Federal and State guidance
  - Office of Management and Budget (OMB) Guidance (See chart)
  - Ohio Revised Code
  - GAAP (Generally Accepted Accounting Principles)
  - FTA Guidance
  - ODOT Rural Transit Manual
- Comply with terms of contract
  - Requires the use of accrual accounting
### Additional ODOT Oversight Methods

- Produce annual report to assist Transits with Federal Reporting
  - AKA “Pink Book”
  - Available on ODOT – Audits website for Transits
- Review Cost Allocation Plans
- Review Charge Rates (Central Garage)
- Provide training and technical assistance

### Common ODOT Audit Findings

- Double dipping – claiming the same cost on both the operating and capital invoices.
- Depreciation on Federal funded assets.
- Misclassified Revenue
- Lack of supporting documentation.
- Math errors

### Common ODOT Audit Findings

- Incomplete or inaccurate fixed asset inventory listing.
- Unallowable expenses
- Lack of support for cost allocations or charge rates.
- Inaccurate, out-dated or unapproved cost-allocation plans

### Common ODOT Audit Findings

- Farebox issues abound
  - Segregation of duties
  - Internal controls
    - Safeguarding/security of cash, tokens
    - Tokens – Inventory, record keeping
    - Outstanding tokens – what is the liability
  - Chain of custody
    - Matching payments to manifest
Common ODOT Audit Findings

- Unallowable/Ineligible costs – Report in ineligible column
  - Executive Director costs
  - Late fees
  - Penalties on credit cards (over limit)
  - Credits due but not taken
  - Bad debt expense
- Contracts – (Please work with the Office of Transit to address)
  - Not charging fully allocated costs
  - Not charging actual trips/mileage to contracts
- Lack of succession planning – training, manuals, policies and procedures
- Lack of documentation – current financial policies and procedures
  - Others have policies and procedures, but are not following them.

Charge rates for mechanics labor/central garage must be supported/documented based upon actual incurred costs.

- Must be able to provide evidence for time-tracking of resources.

Operate on break-even basis, no profit motive when charged to Federal Programs

- cannot mark-up labor
- cannot mark-up parts
- Entity must have a reliable work order system capable of tracking labor, materials and supplies for each vehicle.

REFERENCES

- Additional References (provided to you via flashdrive download)
  - A. Financial Management
    - A.1 Rural Transit Manual (RTM) Ch 5 financial management
    - A.2 Rural QAR (TAR) questions
    - A.3 NRTAP fundamental financial management
    - A.4 Financial management for transit
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Module 3

References

- B. Accounting and Budgeting
  - B.1 RTM Ch V Accounting, Budgeting and Invoicing
  - B.2 RTM Ch V Attach V Rural Chart of Accounts
  - B.3 ODOT Rural Chart of Accounts
  - B.4 ODOT Rural Expense Accounts
  - B.5 ODOT Rural Revenue Accounts
  - B.6 ODOT Rural Accounting Done Right
  - B.7 ODOT 4-Year Capital and Operating Budget
  - B.8 ODOT Rural Budget
  - B.9 Greene CATS Operating and Capital Budget
  - B.10 Section 5311 Financial Audit Model

- C. Reporting
  - C.1 ODOT Rural Operating Variance and Invoice
  - C.2 Monthly Financial Report
  - C.3 Monthly Productivity Report
  - C.4 Monthly Ridership Report

- D. Cost Allocation
  - D.1 Cost Model Development (in this PowerPoint)
  - D.2 RLS Cost Allocation Model
  - D.3 Setting Contract Rates
  - D.4 Cost Allocation Transportation by the Numbers
  - D.5 Fully Allocated Cost Analysis
  - D.6 TCRP Report 144 Vol 1 Cost Sharing
  - D.7 TCRP Report 144 Vol 2 Cost Sharing

- E. Policies and Procedures
  - E.1 ODOT Policies and Procedures
  - E.2 Examples of Financial Policies and Procedures

- F. Other
  - F.1 TCRP Report 172 Transit Asset Management Plan
  - F.2 TCRP Report 156 Fuel Purchasing
  - F.3 TCRP Report 174 Transit Safety Culture
  - F.5 TCRP Report 150 Communicating with Vulnerable People in Emergencies
### Module 3 Conclusion

- Are You Ready To Be an Even Better Financial Manager of Your Public Transit System?
- Complete the “After” Portion of the Knowledge and Skills Evaluation Survey, and Turn in the Full “Before”/“After” Completed Survey
  - Where did you improve?
  - Where should you focus your efforts?

### Homework Assignment

- Prepare Your Transit Manager and Transit System Action Plans
  - Show How You and Your Transit System Will Acknowledge and Reinforce Strengths
  - Address Corrective Actions for Identified Weaknesses

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### Module 3 Conclusion

- Complete and Turn in the Course Evaluation Before You Leave
- Trade Business Cards, Phone Numbers and Emails With Your Peers
- Discuss the Need and Feasibility of Transit Manager “User Group” Blog and Social Media Connection to Share Ideas and Resources

### Homework Assignment

- Blank Action Plans Have Been Emailed to You
- Return the Complete Action Plans No Later Than 2 Weeks After This Training Session Ends
- Submit via e-mail to: Alex Schultze alex.schultze@dot.state.oh.us
## Remaining Modules

- **Module 4: Procurement**  
  - April 22-23, 2015
- **Module 5: Regulatory Compliance**  
  - May 20-21, 2015 (tentative; date may slide to July)

## Thank You!

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