

FY 2012 LOCAL PUBLIC TRANSIT REVENUE AND EXPENSE MANUAL

with Nonfinancial Operating Data Definitions



BUREAU OF PASSENGER TRANSPORTATION

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Acronyms/Definitions

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| Act 51 | Act 51 of the Public Acts of 1951, as amended |
| CTF | Comprehensive Transportation Fund |
| CAP | Cost Allocation Plan |
| DR | Demand-Response (acronym used on PTMS) |
| FTA | Federal Transit Administration |
| JARC | Job Access and Reverse Commute Program |
| LH | Line-Haul (acronym used on PTMS) |
| NF | New Freedom Program |
| OAR | Operating Assistance Report submitted on PTMS |
| BPT | Bureau of Passenger Transportation |
| PTMS | Public Transportation Management System |
| Contract | means any legally binding agreement between parties regardless of the terminology used at the different governmental levels (e.g., federal grant, state master agreement and project authorizations, local contract). |

Purpose of Manual & Reporting Requirements

This Manual is used to report revenues and expenses on an Operating Assistance Report (OAR) submitted on PTMS for the following operating programs:

- State Operating Assistance
- Job Access and Reverse Commute
- New Freedom

Budget, quarterly, and annual reconciled OARs are required to be submitted through PTMS. Budgets are due on February 1st of each year. Annual reconciled OARs are due 40 days after the end of the state's fiscal year and must be based on that year (e.g., October 1st through September 30th). Quarterly OARs are due 40 days after the end of each quarter.

The CTF Specialized Services Program has its own manual called the "Specialized Services Manual" (effective 10/1/07) and can be found at our website <http://www.michigan.gov/mdotptd>. Scroll down to the "Resources" box; click on the drop down arrow; select "Audit/Accounting Information;" then click "Go."

Basic Guidelines

A: Expenses are eligible for reimbursement under the State Operating Assistance (Formula) Program if they are:

- Incurred for public transportation purposes;
- Reasonable and necessary for proper and efficient operations;
- Categorized according to this Manual;
- Supported by adequate source documentation;
- Treated consistently year to year;
- In accordance with Generally Accepted Accounting Principles (GAAP) unless otherwise provided for in this Manual;
- Based on an approved BPT cost allocation plan, if required;
- Based on the accrual accounting method;
- Not pass-through funds or funds transferred back to a general or similar fund;
- Not funded under another CTF or capital program. Refer to Appendix B for the proper reporting on the OAR of capital funds used for operating expenses;
- Not funded with federal and/or state grant/money dedicated to pay for a particular expense.

- B: Ineligible expenses improperly reimbursed in previous years that have been closed out can be, based on the discretion of the BPT, subtracted out in the year discovered.**
Proficiency in understanding when an operating expense is ineligible for State Operating Assistance reimbursement is mandatory in fairness to all transit agencies statewide. If there is any question as to whether or not an expense is eligible for State Operating Assistance, contact your BPT Project Manager to obtain a written response from BPT.
- C:** Generally, if 100% of an activity benefits general public transportation, 100% of the expenses associated with that activity may be considered eligible operating expenses. However, if the activity benefits both public transportation and some other entity and/or governmental unit and/or BPT program, then the expenses may require an approved cost allocation plan (refer to Appendix C). If you are not sure whether or not you need a BPT approved cost allocation plan, please contact your BPT Project Manager.
- D:** When this Manual is silent, OMB Circular A-87 applies. This Manual is primarily intended to be consistent with the basic guidelines and cost principles of A-87. Any inconsistency should be brought to the attention of your BPT Project Manager.

Revenues

Revenue is defined as all income generated as a result of providing public transportation service. Please note that:

- Retained earnings used to cover an operating deficit is not revenue in that year. Retained earnings is money earned and reported in prior years and should not be reported again when used.
- Monies received in the current year for prior year's expenses (e.g., the final Section 5311 payment and/or adjustments made to State Operating Assistance based on reconciled or audited distributions) are not revenue in the current year and should not be reported on the current year's OAR.
- Cash donations are considered local revenue. However, any expenses associated with earning the cash donations must be subtracted out as ineligible under 55008 Other Ineligible Expenses.

40100 Passenger Fares. Fees charged for passenger trips: (1) all monies put in the farebox including fares received from 50800 Purchased Transportation Services, (2) the cash equivalent of bus passes and transfers, (3) revenue earned from "Park and Ride" lots. If School Tripper Service is provided, it must be open to the general public.

40100 for JARC and NF:

40100 Passenger Fares earned for the Federal Section 5316 JARC and Federal Section 5317 NF cannot be used as local match, but must be subtracted out as ineligible under 57099 Other Ineligible Federal/State/Local.

40200 Contract Fares. Contractual fees paid by an organization (rather than by the passenger). This also includes federal and state funds, other than FTA or BPT funds, which are used to purchase service for passengers. This service must be available to the general public (“open door”).

40200 for JARC and NF Programs:

Income from contracts to provide human service transportation may be used as local match for JARC and NF operating assistance. If not used as local match, then income from contracts to provide human service transportation is used to reduce the net project cost and must be subtracted out as ineligible under 57099 Other Ineligible Federal/State/Local. Because MDOT does not provide match for New Freedom operating assistance, in most cases contract fares will not have to be backed out as ineligible for New Freedom programs. However, because MDOT provides the match for JARC operating assistance, contract fares are not used as local match and must be backed out as ineligible for JARC programs.

Please note: FTA program funds may not be used as a source of local match for other FTA programs, even when used to contract for service. For example, if a Section 5310 subrecipient has a service contract to buy service from a Section 5311 provider, the Section 5311 provider may not use the revenue from the Section 5310 service contract as local match for other FTA grants.

40400 Package Delivery/Meal Delivery Programs (e.g., Meals on Wheels) cannot conflict with public transit services, nor result in a reduction of service to transit passengers. Do NOT count packages/meals as passengers. Package delivery must be incidental to providing public transportation services. The comment field must state that the package delivery is “incidental service”. A BPT approved cost allocation plan is required for both package and meal delivery. The comment field must state “CAP applied”. Expenses associated with package and meal delivery are not eligible and must be subtracted out under 55008 Other Ineligible Expenses.

40500 Charter Service. The comment field must state that the charter service provided is being provided under an exception as defined in 49 CFR Part 604 – Charter Service. Charter hours and miles should be reported in the nonfinancial section under codes 630 Charter Service Hours and 631 Charter Service Miles.

Charter service cannot: (1) interfere with or detract from the provision of the public transportation service for which the equipment or facilities were FTA/MDOT funded; or (2) shorten the public transportation life of the equipment or facilities. For example, 1,000 miles of incidental charter shortens the life of the vehicle by 1,000 miles. Therefore, 1,000 miles must be added to the end of the useful life of that vehicle. Documentation must show that mileage and/or hours are recorded.

If charter is provided (under a 49 CFR Part 604 exception): (1) there must be a BPT approved cost allocation plan, (2) expenses associated with charter service must be subtracted out under 55015 Ineligible Charter Expense, and (3) 630 Charter Service Hours and 631 Charter Service Miles must be reported on the nonfinancial portion of the OAR. The comment field must state “CAP applied.”

Maintenance expenses paid by a capital contract are not eligible and must be subtracted out under 55011 Ineligible Preventive Maintenance. *For the annual reconciled OAR only*, the comment field must either: (1) list the revenue individually by state contract and authorization number, or (2) state that the annual audit will provide an assurance that no preventive maintenance expenses paid for under a capital contract are included in total eligible expenses to be reimbursed with 41101 State Operating Assistance.

41112 Planning/Capital Cost of Contracting is the state share revenue received (federal revenue is reported in 41312) under a capital contract to pay for planning and capital costs associated with providing transit service. Operating expenses paid by a capital contract are not eligible and must be subtracted out under 57602 Ineligible Planning/Capital Cost of Contracting. *For the annual reconciled OAR only*, the comment field must either: (1) list the revenue individually by state contract and authorization number, or (2) state that the annual audit will provide an assurance that no planning/capital cost of contracting expenses paid for under a capital contract are included in total eligible expenses to be reimbursed with 41101 State Operating Assistance.

41113 Capital Contract Reimbursement for Administrative Expenses is the state revenue received (federal revenue is reported in 41313) under a capital contract to pay for administrative expenses associated with that contract (including monitoring capital expenditures). The administrative expenses reimbursed under this code are not eligible and must be subtracted out under 57603 Ineligible Administrative Expense Paid by Capital Contract. *For the annual reconciled OAR only*, the comment field must either: (1) list the revenue individually by state contract and authorization number, or (2) state that the annual audit will provide an assurance that no administrative expenses paid for under a capital contract are included in total eligible expenses to be reimbursed with 41101 State Operating Assistance.

41114 Other Capital Contract Reimbursement for Operating Expenses is the state revenue received (federal revenue is reported in 41314) under a capital contract to pay for operating expenses (e.g., mobility management, lease expenses associated with office space or a building, contingencies, shop/maintenance equipment**, and miscellaneous bus equipment**). The expenses reimbursed by the revenue reported in this code must be subtracted out as ineligible under 57604 Other Ineligible Operating Expense Paid by Capital Contract. *For the annual reconciled OAR only*, the comment field must either: (1) list the revenue individually by state contract and authorization number, or (2) state that the annual audit will provide an assurance that no operating expenses paid for under a capital contract are included in total eligible expenses to be reimbursed with 41101 State Operating Assistance.

**Shop/maintenance and miscellaneous bus equipment can only be expensed if the equipment cost less than \$5,000 with a useful life of less than one year. Any purchases (or lease if applicable) that cost more than \$5,000 with a useful life of more than one year should be capitalized and then depreciated under 51300 Depreciation. If a purchase or lease is capitalized, then the revenue (federal, state, and/or local) is not reported in this code or anywhere else on the Regular Service OAR.

41199 Other MDOT/BPT Contracts and Reimbursements are revenue earned other than those specified in 41101 through 41114 and must be explained in the comment field. This code includes:

Note: If a transit agency provides both nonurban (Section 5311) and urban (Section 5307) services, a BPT approved allocation plan is required.

41311 Preventive Maintenance is the federal share to the 41111 Preventive Maintenance code and must be subtracted out under 55011 Ineligible Preventive Maintenance. If the state contract and authorization number(s) were not reported in 41111, then the comment field (*for the annual reconciled OAR only*) must either: (1) list the federal grant, and state contract and authorization number, or (2) state that the annual audit will provide an assurance that no preventive maintenance expenses paid for under a capital contract are included in total eligible expenses to be reimbursed with 41101 State Operating Assistance.

41312 Planning/Capital Cost of Contracting is the federal share to the 41112 and must be subtracted out under 57602 Ineligible Planning/Capital Cost of Contracting. If the state contract and authorization number(s) were not reported in 41112, then the comment field (*for the annual reconciled OAR only*) must either: (1) list the federal grant, and state contract and authorization number, or (2) state that the annual audit will provide an assurance that no planning/capital cost of contracting expenses paid for under a capital contract are included in total eligible expenses to be reimbursed with 41101 State Operating Assistance.

41313 Capital Contract Reimbursement for Administrative Expenses is the federal share to the 41113 and must be subtracted out under 57603 Other Ineligible Administrative Expense Paid by Capital Contract. If the state contract and authorization number(s) were not reported in 41113, then the comment field (*for the annual reconciled OAR only*) must either: (1) list the federal grant, and state contract and authorization number, or (2) state that the annual audit will provide an assurance that no administrative expenses paid for under a capital contract are included in total eligible expenses to be reimbursed with 41101 State Operating Assistance.

41314 Other Capital Contract Reimbursement for Operating Expenses is the federal share to the 41114 and must be subtracted out under 57604 Other Ineligible Operating Expense Paid by Capital Contract. If the state contract and authorization number(s) were not reported in 41114, then the comment field (*for the annual reconciled OAR only*) must either: (1) list the federal grant, and state contract and authorization number, or (2) state that the annual audit will provide an assurance that no operating expenses paid for under a capital contract are included in total eligible expenses to be reimbursed with 41101 State Operating Assistance.

41398 RTAP. Rural Transit Assistance Program provides funds to assist in training, technical assistance, research, and other support services for nonurbanized transit agencies. Expenses reimbursed by this program are not eligible and must be subtracted out under 57402 Ineligible RTAP.

41399 Other Federal Transit Contracts and Reimbursements are revenue earned other than those specified in 41301 through 41398 and must be explained in the comment field.

If state and/or local match is required, then report the dollar amount of the state match under 41199 Other MDOT/BPT Contracts and Reimbursements and the dollar amount of the local match under the appropriate local revenue code. For example, if the local match were funded with millage money or from the general fund, then that revenue would, most likely, already be included in the dollar amount reported in 40800 Taxes Levied Directly for/by Transit Agency or 40910 Local

Note:

- Reimbursements, credits, and/or refunds reported in this code are not considered local share.
- The redistribution of 41101 State Operating Assistance is not considered a refund or credit.

Expenses

Be sure to classify expenses by function: Operations, Maintenance, or General Administration.

Operation expenses are incurred when transporting passengers, such as:

- Drivers' wages and benefits.
- Supervising dispatchers, drivers, schedulers.
- Dispatching, radio monitoring.
- Oil, gas, tires.
- Insurance for revenue vehicles.

Maintenance expenses are incurred when maintaining transit assets, such as:

- Mechanics' wages and benefits.
- Supervising mechanics.
- Maintenance and repair of transit assets.
- Shop tools and supplies.

General Administration expenses are incurred in office functions, such as:

- Bookkeepers' and data processors' wages and benefits.
- Supervising office personnel.
- Counting fares.
- Financial activities (e.g., auditing, purchasing, marketing).
- Insurance except for insurance on revenue vehicles.

It is not always possible to relate costs directly to one functional category. For example, an employee may work as both a dispatcher and a bus driver; also, equipment may be used for maintenance and for administration or operations. In such cases, distribute or allocate costs among the various functions for which they are incurred. Costs should be distributed when it is possible to identify the specific portions that relate to each function supported. For example, the total cost of an employee involved in several functions can be distributed if the time spent on each function is known. When the portion of total cost spent on each function cannot be specifically identified, allocate costs among functions based on measures that most closely match the way the employee spent his/her time. The method used to allocate costs between functional categories does not need to be approved by BPT. Some OAR codes, such as 50401 Fuel and Lubricants and 50500 Utilities, require that all the expenses be put in only one functional category.

Allocations and distributions need not and cannot be exact; therefore, very costly or time-consuming methods are not recommended.

The expense associated with termination benefits, whether the termination was voluntary or involuntary, is not eligible unless actually paid.

The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are eligible if:

- They are provided under established written leave policies;
- The costs are equitably allocated to all related activities; and
- The basis of accounting is accrual. Accrual of leave time is eligible based on the lesser of the amount accrued or funded.

The cost of fringe benefits in the form of employer contributions or expenses for employee life, health, and other similar benefits are eligible provided such benefits are granted under established written policies. Fringe benefits include:

- FICA (Social Security tax and Medicare).
- Dental, hospital, medical, and surgical plans.
- Life and disability insurance plans.
- Uniform and work clothing allowances.
- Merit based pay bonuses approved by the transit agency's board.
- Workers' compensation and unemployment insurance. The type, extent, and cost of coverage must be in accordance with laws, governmental policy, and sound business practices. Provisions for a reserve under a self-insurance program for unemployment compensation or workers' compensation are eligible to the extent that:
 - The provisions represent reasonable estimates of the liabilities for such compensation, and the types of coverage, extent of coverage, and rates and premiums would have been eligible had insurance been purchased to cover the risks. However, provisions for self-insured liabilities which do not become payable for more than one year after the provision is made shall not exceed the present value of the liability.
 - Earnings or investment income on reserves must be credited to those reserves.
 - Contributions to reserves must be based on sound actuarial principles using historical experience and reasonable assumptions. Reserve levels must be analyzed and updated at least biennially for each major risk being insured and take into account any reinsurance, coinsurance, etc. Reserve levels related to employee-related coverages will normally be limited to the value of claims: (a) submitted and adjudicated but not paid, (b) submitted but not adjudicated, and (c) incurred but not submitted. Reserve levels in excess of the amounts based on the above must be identified and justified in the cost allocation plan or indirect cost rate proposal.
 - Accounting records, actuarial studies, and cost allocations (or billings) must recognize any significant differences due to types of insured risk and losses generated by the various insured activities or agencies of the governmental unit. If

individual departments or agencies of the governmental unit experience significantly different levels of claims for a particular risk, those differences are to be recognized by the use of separate allocations or other techniques resulting in an equitable allocation.

- Whenever funds are transferred from a self-insurance reserve to other accounts (e.g., general fund), refunds shall be made to the state and federal government for its share of funds transferred, including earned or imputed interest from the date of transfer.

Actual claims paid to or on behalf of employees or former employees for workers' compensation, unemployment compensation, severance pay, and similar employee benefits are eligible in the year of payment provided.

- The governmental unit follows a consistent costing policy, and
- They are allocated as a general administrative expense to all activities of the transit agency or governmental unit.

50201 Pensions. Pension plan costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the transit agency or governmental unit.

The accounting for pension costs is complex with its methods of measurement and recognition. Complying with pronouncements issued by the Governmental Accounting Standards Board (GASB) and the accounting principles established by the American Institute of Certified Public Accountants should not undermine the intent of Act 51 which is to reimburse public transportation expenses. Below is guidance to determine when pension expense is eligible to be reimbursed with 41101 State Operating Assistance.

- (1) For pension plans financed on a pay-as-you-go method, eligible expenses are limited to those representing actual payments to retirees or their beneficiaries.
- (2) Pension costs calculated using an actuarial cost-based method are an eligible expense, provided:
 - The established written policies of the transit agency or governmental unit meet the test of reasonableness;
 - The methods of cost allocation are not discriminatory;
 - The cost assigned to each fiscal year is determined in accordance with GAAP as prescribed in Accounting Principles Board Opinion No. 8 issued by the American Institute of Certified Public Accountants; and
 - The costs assigned to a given fiscal year are funded for all plan participants within six months after the end of that year. However, increases to normal and past service pension costs caused by a delay in funding the actuarial liability beyond 30 days after each quarter of the year to which such costs are assignable are ineligible and must be subtracted out under 58007 Ineligible Fringe Benefits.
 - The cost is actually expensed (in other words, not recorded as a prepaid assets); and

- The expense is actually "funded" (an actual out-of-pocket expense for the transit agency). Actuarial gains used to offset pension expense are not considered "paid." Costs paid more than six months after the end of the fiscal year are eligible in the year paid.

Note: The above bullet and the last bullet on the previous page, in the aggregate, means that pension cost must be both expensed in accordance with GAAP, and actually paid in order to be eligible to be reimbursed with 41101 State Operating Assistance. Pension costs are not eligible for 41101 State Operating reimbursement if the cost is either: (1) expensed, but not paid, or (2) paid, but not expensed.

Pension plan termination insurance premiums paid pursuant to the Employee Retirement Income Security Act (ERISA) of 1974 (Pub. L. 93-406) are eligible. Late payment charges on such premiums are ineligible and must be subtracted out under 58007 Ineligible Fringe Benefits.

Excise taxes on accumulated funding deficiencies and other penalties imposed under ERISA are ineligible and must be subtracted out under 58007 Ineligible Fringe Benefits.

A lump sum payment necessary to buy into a pension plan (e.g., Municipal Employee Retirement System) for prior years of service and the annual installments are eligible expenses as long as the above criteria are met.

A voluntarily payment of an unfunded accrued liability amount is eligible if it is an actual out-of-pocket expense, and the transit agency has no authority to request/obtain the money back.

Costs should be classified as either *Operations*, *Maintenance*, or *General Administration* based upon the 501xx Salaries and Wages classification. Pension expense not meeting the above criteria is not eligible and must be subtracted out under 58007 Ineligible Fringe Benefits.

If the transit agency or local unit uses derivative instruments or products in their pension investment portfolio, report the cost of the derivative and the market value at the end of the fiscal year in the comment field.

If there is any question as to whether or not a pension cost is an actual, out of pocket expense eligible for State Operating Assistance, contact your BPT Project Manager to obtain a written response from BPT.

PENSION OBLIGATION BONDS: The interest on bonds issued to fund unfunded actuarial accrued pension liability is eligible if the following criterion is met:

1. Interest rate on the pension obligation bonds is fixed.
2. Debt financing of the Unfunded Actuarial Accrued Liability (UAAL) is not more costly than regular pension financing over the remaining unamortized life of the UAAL, considering bond principle, interest, issuance costs, and any other relevant factors, as determined at the time of financing.
3. All net bond proceeds are made part of pension fund assets.

required (or performed in accordance with A-133) in the previous fiscal year, audit costs incurred in the current fiscal year are not eligible for federal reimbursement.

50399 Other Services. Please explain in the comment field.

- Professional & technical services (e.g., accountants, computer service, doctors, management and transit industry consultants, security services, engineering and planning firms, attorneys) that are rendered by persons who are members of a particular profession or possess a special skill and who are not employees or board members of the transit agency. Depending upon the service, the function classification could be *Operations*, *Maintenance*, or *General Administration*.

Note: Planning expenses paid for under a capital contract must be subtracted out as ineligible under 57602 Ineligible Planning/Capital Cost of Contracting.

- Attorney fees and related expenses incurred in pursuing a claim or legal dispute against the State of Michigan or any of its officers or agents, arising out of the administration of a CTF program, are not expenses eligible for purposes of reimbursement under Act 51. Attorney fees and costs that a public transit agency may be ordered to pay to another party in connection with a claim or legal dispute against the State of Michigan or any of its officers or agents are also ineligible for purposes of reimbursement under Act 51. Likewise, attorney fees and related expenses incurred in pursuing a claim or legal dispute against the federal government or any of its officers or agencies, arising out of the administration of a FTA program, are not expenses eligible for purposes of reimbursement under Act 51. Ineligible attorney fees and related expenses must be subtracted out as ineligible under 55008 Other Ineligible Expenses.
- Appraisal services procured for some purpose other than the purchase and/or sale of an asset. NOTE: The cost of an appraisal to purchase and/or sell an asset must be either: (1) capitalized, or (2) subtracted out as ineligible under 55008 Other Ineligible Expenses.
- Services provided on a temporary basis by persons who are not employees or board members of the transit agency. Depending upon the service, the function classification could be *Operations*, *Maintenance*, or *General Administration*.
- Professional contractual maintenance services provided by a qualified outside organization.
Maintenance
- Media advertising for employee vacancies. *General Administration*
- Environmental Cleanup: The transit agency shall be in compliance with applicable federal, state, and local statutes, ordinances, regulations, policies, and executive orders pertaining to the environmental and resource protection. Willful failure to comply will render any environmental cleanup costs an ineligible expense for either capital or operating reimbursement.
- Millage expense. *General Administration*
- Extended warranty costs.

50401 Fuel and Lubricants include the cost and tax of gasoline, diesel fuel, propane, compressed natural gas, lubricating oil, transmission fluid, grease, etc., for use in vehicles and equipment. CNG fuel credits for using alternative fuels must be subtracted out as ineligible under 54000 Ineligible Prior Year Refunds and Credits and explained in the comment field.

Note: Federal and state taxes are included in the price of gasoline. Governmental public transit agencies are usually exempt from paying these taxes. In the event these taxes have been paid on gasoline purchases, it may be possible for the transit agency to receive a refund. BPT has an external procedure on tax refunds on gasoline purchases. This external procedure is at <http://www.michigan.gov/mdotptd>. Scroll down to the “Resources” box; click on the drop down arrow; select “Reference Manual for Transit Agencies,” then click “Go.” When the “Reference Manual for Transit Agencies” page is presented, scroll to the “Accounting – Financial” section, click on “Tax Refunds – Motor Fuel Purchases.”

If a refund is received, do NOT net that refund against this expense code. Any refunds that offset or reduce this expense code must be subtracted out as ineligible under 54000 Ineligible Prior Year Refunds and Credits and explained in the comment field.

50402 Tires and Tubes. Tires purchased and/or leased under a capital contract must be subtracted out as ineligible under 57604 Other ineligible Operating Expense Paid by Capital Contract. *Operations*

50404 Major Purchases include big ticket items that cost less than \$5,000 (e.g., copiers, computer equipment, software, office furniture, *General Administration*; steam cleaner, storage shelving system, system/parts cleaning tanks, snow blower, *Maintenance*). All equipment purchased under a capital contract must be subtracted out as ineligible under 57604 Other ineligible Operating Expense Paid by Capital Contract. Depending upon the purchase, the function classification could be *Operations*, *Maintenance*, or *General Administration*. Please explain in the comment field.

Note: Any purchases (or lease if applicable) that cost more than \$5,000 with a useful life of more than one year should be capitalized and then depreciated under 51300 Depreciation. Refer to both the 51300 code and Appendix A for further explanation on depreciation and the subtraction of ineligible expenses associated with depreciation.

50499 Other Materials and Supplies.

- Bus parts, paint for buses. *Operations*
- Shop tools, shop supplies, miscellaneous hardware, paint for facilities. *Maintenance*
- Office and computer supplies. *General Administration*

Expenses paid for under a capital contract (e.g., preventive maintenance, miscellaneous bus equipment, and spare parts) must be subtracted out as ineligible under the appropriate code. Preventive maintenance expenses must be subtracted out as ineligible under 55011 Ineligible Preventive Maintenance. Miscellaneous bus equipment and the expense incurred for spare parts must be subtracted out as ineligible under 57604 Other ineligible Operating Expense Paid by Capital Contract.

50500 Utilities. Payments made to utility companies (e.g., telephone, electric, gas, water, sewer, etc.). *General Administration*

50603 Liability Insurance. The type, extent, and cost of coverage must be in accordance with laws, governmental policy, and sound business practices. These may include:

- Insurance premium payments provided the payments are necessary to maintain reasonable insurance protection. *Operations*
- Losses due to acts which the transit agency: (1) is liable for, (2) is not covered by insurance, but (3) has proper insurance coverage. Payments made in the current fiscal year are eligible even though the liability was incurred in a prior reporting period. If the transit agency is not properly insured, the losses are not eligible and must be subtracted out under 55008 Other Ineligible Expenses. *Operations*
- Losses not covered by insurance deductibles are eligible expenses (e.g., replacement of small hand tools).
- Provisions for a reserve under a self-insurance program are allowable to the extent that types of coverage, extent of coverage, rates, and premiums would have been allowed had insurance been purchased to cover the risks. However, provision for known or reasonably estimated self-insured liabilities, which do not become payable for more than one year after the provision is made, shall not exceed the present value of the liability. Whenever funds are transferred from a self-insurance reserve to another account (e.g., general fund), refunds shall be made to the state and federal government (if applicable) for its share of funds transferred, including earned or imputed interest from the date of transfer.

Costs of insurance to cover the risk of loss of, or damage to, MDOT/FTA property is eligible to the extent mandated by "Exhibit A - Insurance Requirements" of BPT's Master Contract. Michigan Transit Insurance Pool dues are eligible only to the extent paid and not in excess of the minimum amount required.

50699 Other Insurance includes all expenses except those reported under 50603 Liability Insurance (e.g., fidelity bonds, business records, errors and omissions, etc). *General Administration*

Note: Approximately ninety (90) percent of the transit agency's total insurance cost is reported under 50603 Liability Insurance *Operations* and ten (10) percent is reported under 50699 Other Insurance. *General Administration* If reported insurance expense varies from this standard, please explain in the comment field why less than 90% of insurance is reported under 50603 Liability Insurance and why more than 10% of insurance is reported under 50699 Other Insurance.

Expenses NOT included in 506xx Insurance are:

- In-house repair of damaged property (report this under 50102 Other Salaries and Wages, 50200 Other Fringe Benefits, and 504xx Materials & Supplies, or possibly 50399 Other Services).
- Property damaged beyond repair (report this under 51300 Depreciation or 50909 Loss on Disposal of asset).

- Wage and fringe expenses of employees who process insurance claims for and against the transit agency (report this under 50102 Other Salaries and Wages and 50200 Other Fringe Benefits).

Costs of insurance to cover a private contractor's defects in materials or workmanship are ineligible.

Do NOT net insurance refunds against this expense code. Any refunds that offset or reduce this expense code must be subtracted out as ineligible under 54000 Ineligible Prior Year Refunds and Credits and explained in the comment field.

50700 Taxes and Fees. Taxes levied against the transit agency by federal, state, or local governments (e.g., property tax). *General Administration* Fees include such things as commercial drivers' license, vehicle licensing, and registration fees. *Operations*

Taxes **not** included in this code are: (1) payroll withholding taxes, (2) sales and excise taxes on purchased materials and services (these are included in the base price of the material or service), and (3) fuel and lubricants taxes (which are included in 50401 Fuel and Lubricants).

50800 Purchased Transportation Service is where the buyer (prime contractor) is a 41101 State Operating Assistance recipient and the seller (third party operator) is a private or non-profit agency hired by the prime contractor to provide public transportation service.

This code should be used by the prime contractor to report the amount accrued for the transportation services purchased. The prime contractor does not report expenses incurred by the third party operator.

This code cannot be used if the prime contractor contracts with a third party operator to provide, for all practical purposes, the entire transportation services funded under Act 51. If a third party operator provides all the transportation services, the prime contractor must submit an OAR by each individual code as required by this Manual. If both the prime contractor and the third party operator are required to submit an OAR, then the same expense cannot be reported on the two different OARs.

Purchases over \$25,000 which utilize FTA/MDOT funds require an MDOT approved subcontract between the prime contractor and the third party operator. MDOT approval is not required if the prime contractor is certified in accordance with commission policy. Without certification or proper approval, the expenses associated with the third party contract are ineligible and must be subtracted out under 55008 Other Ineligible Expenses.

50902 Travel, Meetings, and Training. Expenses include attendance fees, food, lodging, and travel. Depending upon the training, the function classification could be *Operations*, *Maintenance*, or *General Administration*. For example:

- Financial Management for Transit: Accounting Training. *General Administration*
- Transit Vehicle and Equipment Seminar. The function classification depends upon who is attends the seminar. If a mechanic attends, the expense is classified as *Maintenance*. If a transit manager attends, the expense is classified as *General Administration*.
- Michigan Transit Conference. *General Administration*

- Transportation organization meetings (e.g., Michigan Public Transit Association, Community Transportation Association of America, MASSTrans, and American Public Transit Association). *General Administration*
- Small Bus Roadeo. The function classification depends upon who attends the Roadeo. If a driver attends, the expense is classified as *Operations*. If a transit manager attends, the expense is classified as *General Administration*.

50903 Association Dues and Subscriptions. Fees for membership in transportation organizations and subscriptions to transportation publications. *General Administration*. If the transportation organization incurs lobbying expenses, a percentage of dues paid will not be eligible and must be subtracted out under 55009 Ineligible Percent of Association Dues. The ineligible percentage is calculated annually based on the organization's total costs related to its lobbying costs. *General Administration*

50907 Lobbying expense incurred by the transit agency. All expenses associated with lobbying are not eligible and must be subtracted out under 58005 Ineligible Lobbying Expense. Lobbying is defined as any direct contact with a public official, whether face to face, by telephone, letter, electronic media, or any other means, the purpose of which is to influence the official's legislative or administrative actions. *General Administration*

Note: Expenses incurred conducting a millage election are eligible provided the information concerning the election is factual and neutral. *General Administration* Expenses are not eligible if they are influential in nature, and must be subtracted out under 58005 Ineligible Lobbying Expense.

50909 Loss on Disposal of Assets. Losses on the disposal of assets should be reported here and subtracted out as ineligible under 58009 Ineligible Loss on Disposal of Assets.

A loss should not be reported under this code, nor subtracted out as ineligible under 58009 Ineligible Loss on Disposal of Assets, if the property is given in exchange for part of the purchase price of a similar item and the loss is taken into account in determining the depreciation basis of the new item.

50999 Other Miscellaneous Expenses are expenses incurred other than those specified in 50902 through 50909 and must be explained in the comment field. If the miscellaneous expenses are not in accordance with the basic guidelines of this Manual, then those expenses must be subtracted out under 55008 Other Ineligible Expenses. Depending upon the expense, the function classification could be *Operations*, *Maintenance*, or *General Administration*.

51101 Interest on Long-Term Debt. When funding operating expenses, interest incurred on money borrowed for more than one year should be reported under this code. The interest expense is not eligible and must be subtracted out under 55006 Other Ineligible Interest Expense. *General Administration*

Note: Interest incurred on such things as capital assets or construction debt must be capitalized and is not reported on the OAR.

The State Infrastructure Bank (SIB) provides low-interest loans and credit enhancements to state and local, public and private agencies for transportation improvements critical to the economic and social well-being of Michigan's urban and rural communities. SIB interest expense is not eligible and must be subtracted out under 55006 Other Ineligible Interest Expense.

51102 Interest on Short-Term Debt. When funding operating expenses, interest incurred on money borrowed for less than one year should be reported under this code. This interest expense is not eligible:

- (1) To the extent of interest earned under 41400 Interest Income and must be subtracted out under 55006 Other Ineligible Interest Expense. *General Administration*
- (2) If the money is borrowed from a local unit of government of which the transit agency is a part, and the loaned funds belong to the local unit of government. *General Administration*

Note: Interest incurred on money borrowed for less than one year, but not paid back in one year is long-term interest and must be: (1) reported under 51101 Interest on Long-Term Debt, and (2) subtracted out as ineligible under 55006 Other Ineligible Interest Expense.

If a transit agency is operating in a deficit situation as defined by the State Share Revenue Act, interest on short-term debt is ineligible unless the transit agency has a Treasury approved Deficit Elimination Plan that authorizes the borrowing of that money.

51103 Interest on State Advances. Interest charged on advances of 41101 State Operating Assistance is not eligible and must be subtracted out under 58002 Ineligible Interest on State Advances. *General Administration*

51104 Interest on Capital Lease. A lease qualifies as a capital lease if one of the following criteria is met:

- The title to the asset passes to the lessee by the end of the lease term.
- The lease contains a bargain purchase option.
- The lease term is equal to or greater than 75% of the useful life of the asset.
- The present value of the minimum lease payments is greater than 90% of the fair market value of the leased asset.

The asset of the capital lease must be capitalized and depreciated under 51300 Depreciation. If the transaction does not meet any of the four criteria, the lease is an operating lease and should be reported under 51200 Operating Leases and Rentals.

51200 Operating Leases and Rentals. Lease and/or rental expenses are eligible to the extent that the rates are reasonable considering factors such as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and, the type, life expectancy, condition, and value of the property leased. Expenses not meeting this criteria are not eligible and must be subtracted out under 55008 Other Ineligible Expenses. Depending upon the type of lease or rental equipment, the function classification could be *Operations, Maintenance, or General Administration*.

Lease expense paid for under a capital contract must be subtracted out as ineligible under 57604 Other ineligible Operating Expense Paid by Capital Contract. Do not use 56004 Ineligible Expenses Associated with Rentals which is used when a transit agency incurs expenses renting out its own property. Expense incurred leasing tires should be reported in 50402 Tires and Tubes.

Note: With a lease-purchase agreement, the asset must be capitalized and then depreciated under 51300. Interest incurred on a capital lease must be expensed and reported under 51104 Interest on Capital Lease.

51300 Depreciation is a means of: (1) allocating the cost of assets to periods benefiting from asset use (the expense reflects an asset's loss in service value), and (2) determining fair market value when disposing of an asset prior to the end of its useful life.

Property which cost \$5,000 or more and has a determinable useful life of greater than one year must be capitalized and depreciated over the useful life of the property.

If an asset is purchased with:

- One hundred percent (100%) local funds, all of the depreciation expense associated with the asset is eligible for reimbursement under the federal and state operating assistance programs if: (1) the asset is reasonable and necessary, and (2) BPT approves the useful life of the asset. Report the depreciation expense in 51300 Depreciation, and nothing is subtracted out as ineligible under 55007 Ineligible Depreciation.
- Contractual funds (whether federal, state, or both), and the contract requires a local match, all of the depreciation expense associated with the asset is ineligible (even the local match amount because it is contractually required). Report the depreciation expense in 51300 Depreciation, and subtracted the entire depreciation amount out as ineligible under 55007 Ineligible Depreciation.
- Contractual funds (whether federal, state, or both), and local funds contribute to the purchase price (although the contract does not require local match). Report the entire depreciation expense of the asset in 51300 Depreciation, and subtract as ineligible the entire depreciation amount that was paid for with federal and/or state funds.

Depending upon the asset being depreciated, the function classification could be *Operations*, *Maintenance*, or *General Administration*.

See Appendix A for: (1) an explanation to request BPT's approval of the useful life of an asset purchased with local funds and (2) Useful Life Guidelines.

The Useful Life Guidelines offered in Appendix A are applicable to determine both the useful life of an asset for capital-needs planning purposes, and the yearly expense of an asset to be reimbursed by the State Operating Assistance Program. However, BPT only approves the useful life of an asset when the depreciation expense is eligible for reimbursement under the Federal and State Operating Assistance Programs.

If no "useful life" approvals are on file with the BPT, then 100% of depreciation may need to be subtracted out as ineligible.

Costs capitalized under a capital contract are depreciated under this code and subtracted out as ineligible under 55007 Ineligible Depreciation.

Ineligible Expenses

Ineligible expenses must be subtracted out as ineligible regardless of how small the dollar amount. Due to shared funding, and the vast differences in the sizes of transit agencies, "materiality" cannot be used as a justification not to subtract out an ineligible expense.

Ineligible expenses include expenses that are:

- Not reimbursable according to this Manual,
- Funded under another CTF or capital program (refer to Appendix B),
- Associated with certain revenues, and
- Contractually obligated to be reimbursed even though the transit agency did not receive the contract funds.

55007 Ineligible Depreciation include assets purchased with federal and/or state funds and/or local match. To determine when local match is eligible or ineligible, see the explanation under 53100 Depreciation.

Ineligible depreciation expense should be classified as either *Operations*, *Maintenance*, or *General Administration* based upon the 51300 Depreciation classification.

58009 Ineligible Loss on Disposal of Assets. Any loss reported in expense code 50909 Loss on Disposal of Assets must be subtracted out as ineligible under this code.

55015 Ineligible Charter Expense. Expenses associated with 40500 Charter Service. *Operations* A BPT approved cost allocation will be based on charter hours, not charter miles; and must use a transit agency's total operating cost, not total eligible expenses.

56001 Ineligible Expenses Associated with the Sale of Maintenance Service. Expenses associated with revenue 40710 Sale of Maintenance Services. *Maintenance*

56002 Ineligible Expenses Associated with Advertising Revenue. Expenses associated with revenue 40615 Advertising. *General Administration*

56004 Ineligible Expenses Associated with Rentals. Expenses associated with revenue 40715 Rental of Revenue Vehicles, 40720 Rental of Buildings or Other Property, and 40725 Parking Lot Revenue. Ineligible rental expenses could be classified as either *Operations*, *Maintenance*, or *General Administration* based upon the type of property rented.

55010 Other Ineligible Expenses Associated with Auxiliary and Nontransportation Revenue. Expenses associated with 40699 Other Auxiliary Transportation Revenues and 40799 Other Nontransportation Revenue. Depending upon the expense, the function classification could be *Operations*, *Maintenance*, or *General Administration*. Please explain in the comment field.

55005 Ineligible Local Contracts. Ineligibles associated with 40999 Other Local Contracts and Reimbursements. Additional explanation may be provided in the comment field. Depending upon

the contract and/or the expense, the function classification could be *Operations, Maintenance, or General Administration*.

55011 Ineligible Preventive Maintenance. Expenses reimbursed under revenue 41111 Preventive Maintenance (the state portion) and 41311 Preventive Maintenance (the federal portion). *Maintenance.*

57602 Ineligible Planning/Capital Cost of Contracting. Expenses reimbursed under revenue 41112 Planning/Capital Cost of Contracting (the state portion) and 41312 Planning/Capital Cost of Contracting (the federal portion). Depending upon the contract and/or the expense, the function classification could be *Operations, Maintenance, or General Administration*.

57603 Ineligible Administrative Expense Paid by Capital Contract are expenses reimbursed under revenue 41113 Other Capital Contract Reimbursement for Administrative Expenses (the state portion) and 41313 Other Capital Contract Reimbursement for Administrative Expenses (the federal portion). *General Administration.*

57604 Other Ineligible Operating Expense Paid by Capital Contract are expenses reimbursed under revenue 41114 Capital Contract Reimbursement for Operating Expenses (the state portion) and 41314 Capital Contract Reimbursement for Operating Expenses (the federal portion). Depending upon the contract and/or the expense, the function classification could be *Operations, Maintenance, or General Administration*.

57099 Other Ineligible Federal/State/Local. Ineligibles (e.g., usually it is either the expenses incurred or the revenue received as determined by the language of the contract) associated with 41199 Other MDOT/BPT Contracts and Reimbursements and 41399 Other Federal Transit Contracts and Reimbursements. Depending upon the contract and/or the expense, the function classification could be *Operations, Maintenance, or General Administration*. Additional explanation may be provided in the comment field.

Note: Local match required by a FTA and/or MDOT contract is necessary for fulfillment of that contract, and therefore, is ineligible along with the FTA grant and MDOT match. However, for an FTA operating grant that is 80% federal and 20% local, the local share required by the contract is an eligible expense.

40100 Passenger Fares earned for the Federal Section 5316 Job Access/Reverse Commute (JARC) and Federal Section 5317 New Freedom (NF) must be subtracted out as ineligible under this code. For example, if a JARC and/or NF service incurred \$100,000 in operating expenses and earned \$10,000 in farebox, then the farebox would be subtracted out as ineligible and the reimbursement would be based on \$90,000 of eligible expenses.

55004 Other Ineligible State Contracts. Expenses associated with 41199 Other MDOT/BPT Contracts and Reimbursements unless the contract has a federal portion, then use 57099 Other Ineligible Federal/State/Local. Depending upon the contract and/or the expense, the function classification could be *Operations, Maintenance, or General Administration*.

On a Regular Service OAR, do not report any expenses associated with CTF programs that have their own individual reporting requirements (e.g., JARC, Specialized Services). Expenses

associated with other CTF programs must be allocated based on a BPT approved cost allocation plan. Costs in excess of the contract amount to provide the contractually required amount of service cannot be included in State Formula expenses. However, cost incurred to provide service in addition to the contractually required amount of service can be included in State Formula expenses if the service is open door.

If a Formula recipient is hired by a Specialized Services subrecipient to provide service, the revenue received from the Specialized Service recipient is ineligible and must be subtracted out as ineligible under this code. For further explanation, consult the Specialized Services Manual effective 10/1/07.

57402 Ineligible RTAP. Expenses reimbursed under revenue 41398 RTAP. Depending upon the type of expense reimbursed, the function classification could be *Operations, Maintenance, or General Administration*.

58002 Ineligible Interest on State Advances. Interest charged on advances of revenue 41101 State Operating Assistance. *General Administration*

55006 Other Ineligible Interest Expense includes: (1) interest paid under 51101 Interest on Long-Term Debt, and (2) interest expense defined under 51102 Interest on Short-Term Debt. *General Administration*

55009 Ineligible Percent of Association Dues. See 50903 Association Dues and Subscriptions. *General Administration*

58005 Ineligible Lobbying Expense. See 50907 Lobbying. *General Administration*

58007 Ineligible Fringe Benefits. See 50201 Pensions and 50202 Other Post-Employment Benefits. Ineligible expenses should be classified as either *Operations, Maintenance, or General Administration* based upon the 501xx Salaries and Wages classification.

This code may have a negative ineligible expense amount if a transit agency actually paid a 50202 OPEB cost that was previously expensed in accordance with GASB 45.

55008 Other Ineligible Expenses include:

- Appraisal costs incurred:
 - 1: To sell an asset purchased with either locally and/or with a capital contract is not an eligible expense. Per 40760 Gains from the Sale of Capital Assets, the proceeds from the disposal of a capital asset can be retained by the transit agency if used to pay for public transportation expenses. Therefore, proceeds earned from the sale of an asset can be used to cover any expenses/costs associated with selling the asset.
 - 2: For some purpose other than the buying or selling property is an eligible operating expense, and should be reported under 50399 Other Services.

NOTE: To buy an asset. Appraisal costs should be capitalized rather than expensed. The cost of an appraisal is an allowable cost to a capital grant.

- Expenses associated with package delivery and meal delivery programs.
- Losses for which the transit agency is not properly insured.
- Expenses that do not meet the criteria established in 51200 Operating Leases and Rentals.
- Contributed services.
- Attorney fees and related expenses as explained in 50399 Other Services.
- Entertainment expenses.
- Alcoholic beverages, lottery tickets, and other nonbusiness expenses.
- Expenses incurred earning and/or making cash/charitable donations. Note: A transit agency may participate in a charitable event provided the purpose of participating in the charitable event is to benefit public transportation.
- Fines, penalties, damages, and other settlements resulting from violations of, or failure of the transit agency to comply with federal, state, or local laws and regulations.
- Bad debt expense.
- Contributions to a contingency reserve. The term "contingency reserve" excludes self-insurance reserves, pension funds, and reserves for normal severance pay.
- Costs of organized fund-raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions.
- Costs of investment counsel and staff and similar expenses incurred solely to enhance income from investments. However, costs associated with investments covering pension, self-insurance, or other funds allowed by this Manual are eligible.
- Expenses that do not comply with this Manual.

Depending upon the expense, the function classification could be *Operations*, *Maintenance*, or *General Administration*. Please identify these expenses in the comment field.

54000 Ineligible Prior Year Refunds and Credits. See 44000 Prior Year Refunds and Credits.

Nonfinancial Operating Data

610 Vehicle Hours. Total hours used to operate all revenue vehicles (e.g., bus drivers' time behind the wheel, bus drivers' time doing pre-trip inspection, bus drivers' time driving deadhead miles). Include vehicle hours associated with 50800 Purchased Transportation Service. For all practical purposes, 610 Vehicle Hours should equate to driver hours.

"Deadhead" Travel Time and Mileage: For demand-response, travel time and mileage before the first passenger pickup and after the last passenger drop-off. For fixed route, travel time and mileage to the first scheduled stop and after the last scheduled stop, whether or not passengers board or exit at those points.

611 Vehicle Miles. Total miles traveled by revenue vehicles including deadhead miles and 50800 Purchased Transportation Service miles.

615 Unlinked Passenger Trips - Regular (formerly Passengers – Regular). The number of passengers who board public transportation vehicles. Passengers are counted each time they board a vehicle no matter how many vehicles they use to travel from their origin to their destination. Include all passengers except those described in 616 - Elderly, 617 - Persons with Disabilities, and 618 - Elderly Persons with Disabilities.

616 Unlinked Passenger Trips - Elderly (formerly Passengers – Elderly). Number of passengers 65 years of age or older who board public transportation vehicles. Passengers are counted each time they board a vehicle no matter how many vehicles they use to travel from their origin to their destination. The age limit defining "elderly" may be lower under local option.

617 Unlinked Passenger Trips - Persons with Disabilities (formerly Passengers - Persons with Disabilities). Number of passengers not defined as 616 - Elderly and who have a physical or mental impairment that substantially limits one or more of the major life activities of the individual who board public transportation vehicles. Passengers are counted each time they board a vehicle no matter how many vehicles they use to travel from their origin to their destination.

618 Unlinked Passenger Trips - Elderly Persons with Disabilities (formerly Passengers - Elderly Persons with Disabilities). Number of passengers who meet the definition of both 616 - Elderly and 617 - Persons with Disabilities who board public transportation vehicles. Passengers are counted each time they board a vehicle no matter how many vehicles they use to travel from their origin to their destination. Passengers counted here should not be counted under 616 and 617.

621 Total Line-Haul Unlinked Passenger Trips (Passengers). The total number of passengers picked up on a regular schedule at designated bus stops, who board public transportation vehicles. Passengers are counted each time they board vehicles no matter how many vehicles they use to travel from their origin to their destination.

622 Total Demand-Response Unlinked Passenger Trips (Passengers). Total number of passengers that received door-to-door service who board public transportation vehicles. Passengers are counted each time they board vehicles no matter how many vehicles they use to travel from their origin to their destination

medical attention, this individual does not need to be reported as an injury. Rule of thumb: If they were transported, report it.

667 Property Damage Only (PDO) Accidents. Report the number of accidents involving a transit vehicle that causes damage to that vehicle and other vehicles and property but **does not result in any injury**. Report the PDO accidents that equal or exceed \$1,000 in damage. Property damage includes, but is not limited to the following: Transit and non-transit vehicle damage, Stations as well as non-transit facilities. Estimated damage includes transit property damage, damage to other vehicles, and property involved in the incident that are not owned by the transit agency.

668 PDO Accidents w/damage over \$25,000. Report the number of accidents as reported in code 667 where the damage is \$25,000 or greater.

Note: For Property Damage Only Accidents do not report a Fatal Accident or Injury twice. If an incident results in a fatality or injury per the definitions above, report the incident in the corresponding Fatal Accidents or Injuries code but do not report the same incident again in code 667 or 668.

Most Important

Seek Assistance From BPT Whenever Necessary

If you have any questions please contact your BPT Project Manager or visit our website at <http://michigan.gov/mdotptd>.

If you have any problems connecting to the PTMS, please contact Kathy Urda at (517) 335-2575 or at urdak@michigan.gov.

**APPENDIX A:
DEPRECIABLE/USEFUL LIFE - DEPRECIATION/REPLACEMENT SCHEDULE**

I. Terms:

Asset: Property which cost \$5,000 or more and has a determinable useful life of greater than one year.

Capitalize: To classify a cost as a long-term investment, rather than charging it to current year operations. However, the depreciation expense related to the capitalized cost will be a current year operations expense.

Depreciation Schedule, Depreciable Life, Replacement Schedule, Useful Life: the time of recovering the cost of using property. These four terms generally have the same meaning.

II. To Obtain BPT Approval of Useful Life:

In order to obtain approval of the useful life of an asset purchased with any local funds, please submit a written request to your BPT Project Manager that includes the following information:

- Description of the asset (e.g., 2007 GMC Pick-up Truck with snow plow; nonrevenue vehicle).
- Identification number of the asset (e.g., VIN #1GTGK24K7SE502591).
- Date placed in service.
- Use and condition.
- The state contract and authorization number if the asset was partially purchased with federal or state funds. If the asset was purchased entirely with local funds, then there would not be a state contract or authorization number.
- The cost of the asset.
- Asset Class (See VI. Determining Useful Life: A. New Assets, page 38 e.g., Trucks - light duty).
- Explanation of how the useful life was determined.
- Warranty coverage (e.g., type of coverage and duration).
- Method of depreciation. The straight line method of depreciation must be used.
- Any other information BPT may deem necessary.

Depreciation records indicating the amount of depreciation taken each fiscal year must be maintained.

Approval of the depreciation of replacement engines, transmissions, differentials, and drive axles, that were originally purchased with federal and/or state funds, will be based, in part, on the review of the transit agency's compliance with its maintenance plan.

Please note: BPT requests transit agencies to input the useful life of equipment and facilities into the PTMS. This useful life information is used to determine: (1) the transit agency's capital needs, and (2) when, and how much, federal and/or state funds are needed to meet the capital needs of the transit agency. Do not confuse the identification of useful life for capital need purposes with the requirement to obtain approval from BPT for the useful life of assets purchased with local money.

III. When Does Depreciation Begin:

Depreciation begins when the asset is placed in service or ready to be placed in service.

IV. Improvement/Replacement, Changes to Existing Asset:

If a new or used asset is purchased to improve, replace a part of, or modify (including attachments, accessories, or auxiliary and component parts) an existing asset, treat the improvement, replacement, or modification as a separate depreciable asset.

V. Multiple Units of the Same / Auxiliary and Component Parts:

Groups of equipment or furniture that consist of multiple units of the same or similar product with a total value of \$5,000 or more and a useful life of greater than one year should be capitalized.

Example: Tools and cart purchased together as a unit and costs \$5,000 would be capitalized and depreciated.

Groups of equipment not intended to be used in conjunction with each other and individually do not cost \$5,000 or more do not have to be capitalized.

Example: The Transit agency purchases three laptop computers at a price of \$2,500 each. These computers are for individual employee use, operate separately, and are not a part of the dispatch, GPS, or other system. These computers can be expensed and do not have to be capitalized.

Note: Regardless of the accounting policy of the property (expensed or capitalized), if property is purchased with a capital contract, it must be entered into PTMS.

VI. Determining Useful Life:

A. New Assets:

The following schedule should be used to determine the depreciable/useful life of a new asset. This schedule is not intended to be all inclusive. Depreciable/Use Life is obtained from Class Life (in years) from IRS Publication 946.

**THE SCHEDULE OF
DEPRECIABLE/USEFUL LIFE - DEPRECIATION/REPLACEMENT**

| Asset Class: | Description: | Depreciable/Useful Life: |
|---|---|---|
| Bus: Small Body on van cut-away | Light duty chassis - less than 30 feet | Delivered Prior to 1/1/08: 5 years or 150,000 miles. Delivered on or after 1/1/08: Altoona testing |
| Bus: Medium Body on truck chassis/Trolleys | Medium Duty chassis - less than 30 feet | Delivered Prior to 1/1/08: 7 years or 200,000 miles. Delivered on or after 1/1/08: Altoona testing |
| Bus: Medium Body on truck chassis/Trolleys | Heavy duty chassis - 30 feet to 34 feet | Delivered Prior to 1/1/08: 10 years or 350,000 miles. Delivered on or after 1/1/08: Altoona testing |
| Bus: Large | Heavy duty chassis - 35 feet to 60 feet | Delivered Prior to 1/1/08: 12 years or 500,000 miles. Delivered on or after 1/1/08: Altoona testing |
| Cars, Minivans, Standard van, Van Conversion: | under 13,000 lbs. g.v.w. | 4 years or 100,000 miles |
| Trucks | Light duty (under 13,000 lbs. g.v.w.), | 4 years |
| Trucks | Heavy Duty (over 13,000 lbs. g.v.w.) | 6 years |
| Office furniture and Fixtures | Desks, files, safes | 10 years |
| Office Equipment | Copiers, Radios (digital/analog, 911, Repeater, Voice antenna, Automatic vehicle locators), fax, phones | 5 years |
| Computers and peripheral equipment: | Computers, card readers, card punches, high speed printers, mass storage units, data entry devices | 6 years |

USEFUL LIFE SCHEDULE CONTINUED

| | | |
|------------------------------------|---|---------------|
| Software | Costs related to the purchase of the software should be capitalized. Costs of upgrades and enhancements that enable the software to perform tasks that it was previously incapable of performing should be capitalized. Fees paid for training, conversion costs and software maintenance are to be expensed. | 3 years |
| Maintenance Tools, Equipment | Power/hand tools, lawn mowers, snow blowers | 5 years |
| Maintenance Equipment and Fixtures | Vehicle Hoist/Lift (four/six post life, in-ground, drive-on, scissor lift-electric or hydraulic, Transmission flush and exchange unit, Floor Sweeper/Scrubber, Pressure washer/Steam Cleaner (Hot/Cold)/Parts Cleaner/Steamer - Upholstery Cleaner, Portable/Vehicle Installed Generator, Brake Lathes/Milling Machines/Drill press/Grinders, Lubrication and Fuel Dispensing Equipment, Carbon monoxide detectors/fuel leak detectors, Roller cabinets, portable tool stands, compressors, diagnostic equipment, Tractors - Utility, Lawn & Attachments (e.g. back blades, snow blowers, mower decks). | 12 years |
| Passenger Bus Shelter | | 10 - 15 years |
| Buildings | Administration, Maintenance Garages, Cold storage building/bus shelter | 40 years |

| | | |
|------|-----------------------|---------|
| Land | cannot be depreciated | 0 years |
|------|-----------------------|---------|

B. Used Assets:

If a used asset is purchased, the transit agency must determine a useful life based on such factors as: type of construction, nature of the equipment, past usage patterns, age, mileage, and technological developments. The asset class will remain the same as listed above under new assets. Acceptable methods to determine useful life include, but are not limited to:

- i: Transit agency's independent auditor to recommend a useful life,
- ii: Manufacturer's estimated useful life,
- iii: Internal Revenue Service guidelines (IRS Publication 946),
- iv: Industry standards.

APPENDIX B: FEDERAL GRANT PROGRAMS

Section 5307 and Section 5311 are federal formula grant programs that provide assistance for operating, capital, and planning. For both of these federal formula grant programs, there are two different types of revenue: operating revenue and capital revenue.

Federal Operating Revenue:

Section 5307 operating assistance reimburses up to 50 percent of a transit agency's net deficit while Section 5311 reimburses operating expenses based on a percentage calculated by the BPT. These federal formula funds are reported in 41302 Section 5307 and 41301 Section 5311, respectively, and does not need to be subtracted out as ineligible.

Federal Capital Revenue:

Both the Section 5307 and Section 5311 programs permit the use of capital funds to pay for operating expenses. **Operating expenses paid for under a capital contract cannot be reimbursed a second time under a formula program, whether federal or state.** Operating expenses include such things as:

- 1: Preventive maintenance, planning/capital cost of contracting, project administration, leased office space, bus rehab inspections, and contingencies.
- 2: The purchase of tires and other materials and supplies,
- 3: The purchase of assets with an initial, individual cost of less than \$5,000 and/or an estimated useful life of less than one year.

NOTE: the purchase of assets with an initial, individual cost of more than \$5,000 and/or an estimated useful life in excess of one year are capitalized. The revenue associated with these capitalized purchases are not reported on a Regular Service OAR. However, the annual depreciation associated with these capitalized purchases are reported in 51300 Depreciation and subtracted out as ineligible under 55007 Ineligible Depreciation

The following PTMS codes should be used when reporting operating revenues and expenses paid for under a capital contract:

Preventive Maintenance:

| | |
|--------------------------|---|
| Revenue Codes: | 41111 (State) & 41311 (Fed): Preventive Maintenance |
| Expense Code(s): | Use appropriate expense code(s) |
| Ineligible Expense code: | 55011 Ineligible Preventive Maintenance |

Planning and/or Capital Cost of Contracting:

| | |
|--------------------------|---|
| Revenue Codes: | 41112 (State) & 41312 (Fed): Planning/Capital Cost of Contracting |
| Expense Code(s): | Use appropriate expense code(s) |
| Ineligible Expense code: | 57602 Ineligible Planning/Capital Cost of Contracting |

Project Administration:

| | |
|--------------------------|--|
| Revenue Codes: | 41113 (State) & 41313 (Fed): Capital Contract Reimbursement for Administrative Expense |
| Expense Code(s): | Use appropriate expense code(s) |
| Ineligible Expense code: | 57603 Other Ineligible Administrative Expense Paid by Capital Contract |

All Other Operating Expenses:

| | |
|--------------------------|--|
| Revenue Codes: | 41114 (State) & 41314 (Fed): Other Capital Contract Reimburse for Operating Expenses |
| Expense Code(s): | Use appropriate expense code(s) |
| Ineligible Expense code: | 57604 Other Ineligible Operating Expense Paid by Capital Contract |

APPENDIX C: Cost Allocation Plans

Cost allocations are an essential part of doing business in terms of: planning, controlling costs, identifying funding sources (e.g., formula, contractual), and preparing financial statements. Examples as to when a cost allocation plan must be submitted to BPT for approval are given in an external procedure located at:

http://www.michigan.gov/documents/costallocation_51525_7.pdf.

A listing of BPT approved cost allocation plans can be obtained at:

http://www.michigan.gov/documents/costallocation_61937_7.pdf.

This listing is updated periodically. To determine if a plan was approved since the last update or to get a copy, contact the transit agency's Project Manager.

The total cost to provide public transportation service must be supported by formal accounting records and appropriately allocated. The allocated costs should not exceed the program or contract amount. Any additional costs are considered a part of your normal operating service. To the extent feasible, cost allocation plans should be presented in a single document. The cost allocation plan should be on file at the transit agency's office and should contain, but not necessarily be limited to, the following:

1. The method used to distribute costs, which must agree with the methodology approved by BPT. The method must be measurable (e.g., hours, miles, passengers, square footage, number of checks written, employee wages, etc.);
2. Identification of direct costs. Direct costs are those that can be identified specifically with a particular program. Examples of direct costs include 50101 Drivers' Salaries and Wages and 50800 Purchased Transportation Services.
3. Identification of indirect costs. Indirect costs are those that are: (1) incurred for a common or joint purpose benefiting more than one cost objective, and (2) not readily assignable to any one cost objective specifically benefited without effort disproportionate to the results achieved. Examples of indirect costs are operation and maintenance of buildings and the expenses of unit heads and their immediate staff.
- 4: Depending upon the program a methodology of how farebox will be allocated may be required in the cost allocation plan.

Approval/Documentation:

OMB Circular A-87 defines "Cost allocation plan" to mean a central service cost allocation plan, public assistance cost allocation plan, and indirect cost rate proposal. Each of these terms are further defined in the circular. Transit agencies who are direct grantees of FTA must submit cost allocation plans to the cognizant agency (which most likely will be FTA). **A copy of any cost allocation plan/methodology that: (1) was approved by FTA, and (2) used to allocate expenses reported on the PTMS must also be submitted to BPT for approval.** All approved cost allocation plans/methodologies must be retained for audit and other future review/oversight.

For information and/or assistance in developing a cost allocation plan, consult the following federal guidelines/regulation:

- Cost Allocation Plan requirements per FTA Circular 5010.1C
Web Address: http://www.fta.dot.gov/laws/circulars/leg_reg_4114.html
- PART 225 – Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87)
Web Address: http://www.whitehouse.gov/omb/circulars/a087/a87_2004.html
- Implementation Guide for Office of Management and Budget Circular A-87
Web Address: <http://rates.psc.gov/fms/dca/asmb%20c-10.pdf>

APPENDIX D: Cash and Investment Policies

A transit agency must comply with: (1) Sections 1 and 5 of "Investment of Surplus Funds of Political Subdivisions," Act No. 20 of the PA of 1943, being Sections 129.91 and 129.95 of the Michigan Compiled Laws, and (2) Section 6 of "Surplus Funds in Treasury", Act No. 105 of PA of 1855, being Sections 21.146 of the Michigan Compiled Laws

A transit agency should not keep a non-interest bearing cash balance that would exceed the amount required to sustain operations more than 30 days. Whenever the balance exceeds this limitation, the excess funds should be invested only in the following securities which have a maturity date on or before the date the funds are needed for disbursement:

- In bonds, securities, and other direct obligations of the United States or an agency or instrumentality of the United States.
- In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution (provided it offers no illegal discriminatory lending practices).
- In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- In repurchase agreements consisting of instruments listed above.
- In bankers' acceptances of banks in the United States.
- Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- In mutual funds registered under the Investment Company Act of 1940 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 - The purchase of securities on a when-issued or delayed delivery basis.
 - The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- In obligations described above if purchased through an interlocal agreement under the Urban Cooperation Act of 1967.
- In investment pools organized under the Surplus Funds Investment Pool Act.
- In investment pools organized under the Local Government Investment Pool Act.

Excess funds shall not be invested in a financial institution found to have engaged in an illegal, discriminatory lending practice related to a mortgage loan or home improvement loan application. Public Funds may not be deposited in financial institutions located in states other than Michigan.

Appendix E: Credit Card Policy

A transit agency must adopt a credit card policy in accordance with Public Act 266 of 1995 by resolution. The written credit card policy must:

- Name an officer or employee of the transit agency who is responsible for overseeing (e.g., issuance, accounting, monitoring, and retrieval) compliance with the credit card policy.
- State that the credit card can only be used by an officer or employee to purchase goods and services that relate to the official business of the transit agency.
- State that each time the credit card is used, documentation must be submitted that details the goods or services purchased, cost, date of purchase, and the official business.
- State that the officer or employee issued the card is responsible for its protection and custody.
- Require the officer or employee to notify the transit agency immediately if the credit card is lost or stolen.
- Require the officer or employee to surrender the credit card immediately upon termination from the transit agency.
- Require a system of internal controls to monitor the use of the credit card.
- Require approval of credit card invoices before payment.
- Require payment in full (including interest due) on an extension of credit under the credit card within 60 days of the initial statement date.
- State the disciplinary measures that will be taken for unauthorized use of the credit card.