CHATHAM AREA TRANSIT®

Accounting

Policies and Procedures

Manual

Adopted November, 2012, Revised April, 2013 and December, 2016

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INTRODUCTION

Chatham Area Transit Authority (CAT) has major responsibilities, which include the operation of a public transportation system and the planning, design and programming of transportation projects.

CAT receives funding from both the federal government and the state. Therefore, CAT adopts accounting policies and procedures that are consistent with federal regulations and the laws of the state of Georgia. These procedures apply to all financial transactions irrespective of the source of the funds. Specific requirements for transactions involving funding by the Federal Transit Administration are so identified.

CAT is currently managed and operated under a delegated management agreement and procedures required by this agreement are incorporated into this manual.

CHAPTER I - FINANCIAL OPERATIONS, GENERAL LEDGER AND CHART OF ACCOUNTS

A. <u>Overview</u>

This manual puts in place basic accounting, billing, and cash control policies and procedures designed to protect and secure Chatham Area Transit Authority, ensure the maintenance of accurate records of financial activities and ensure compliance with governmental and private funding source reporting requirements. Where this manual conflicts with specific federal or State regulation or with CAT’s Board policy, the regulations or board policy shall prevail.

B. Responsibilities of Financial Operations

The Financial Resources Unit is responsible for the financial operations of the Authority as follows:

General Ledger
Budgeting
Cash and Investment Management
Asset Management
Grants and Contracts Administration
Cash Receipts
Cash Disbursements
Accounts Payable
Payroll
Financial Statement Processing
External Reporting of Financial Information
Bank Reconciliations
Reconciliation of Sub-Ledgers
Compliance with Government Reporting Requirements
Annual Audit
Leases

Under the direction of the Executive Director and the Authority Board, the Chief Financial Officer, together with the assistance of staff, is responsible for preparing financial reports for appropriate officials, board officers, and outside agencies. Written monthly operating reports are provided to the Executive Director, the Board of Director’s Finance Committee, and the full Board of Directors. The CFO together with CAT finance staff is responsible for preparing the Authority's annual audited financial statements which are certified by an independent Certified Public Accountant firm.

C. Organization

Financial Resources Unit is a five member department consisting of a Chief Financial Officer, an Accounting Manager, an Authority Accountant, and Accounting Clerk and a Cash Room Assistant.

D. General Ledger and Chart of Accounts

1. Introduction and Policy

The general ledger is defined as a group of accounts that supports the information shown in the major financial statements. The general ledger is used to accumulate all financial transactions of CAT, and is supported by subsidiary ledgers that provide details for certain accounts in the general ledger. The general ledger is the foundation for the accumulation of data and reports.

CAT uses the MUNIS Software System to record accounting transactions. MUNIS provides for separate, self-balancing sets of accounts in accordance with generally accepted accounting principles and procedures for governmental entities.
CAT's policy is to establish a chart of accounts which accumulates all financial transactions of the authority. The chart of accounts includes fund/account codes for general ledger activity and organization/account codes for subsidiary ledger entries.

2. Chart of Accounts

The chart of accounts is the framework for the general ledger system, and therefore the basis for CAT's accounting system. The chart of accounts consists of account titles and account numbers assigned to the titles. General ledger accounts are used to accumulate transactions and the impact of these transactions on each asset, liability, net asset, revenue, expense and gain and loss.

CAT's chart of accounts is comprised of six types of accounts:

1. Assets
2. Liabilities
3. Net Assets
4. Revenues
5. Expenses
6. Gains and Losses

All employees involved with account coding responsibilities or budgetary responsibilities will be issued a current chart of accounts. On a monthly basis, as the chart of accounts is revised, an updated copy is distributed to these individuals.

The chart of accounts is monitored and controlled by the Accounting Manager. Responsibilities include the handling of all account maintenance, such as additions and deletions. Any additions or deletions of accounts should be approved by the CFO, who ensures that the chart of accounts is consistent with the organizational structure of the authority and meets the needs of each department.

3. Fund Format

The Authority operates as an enterprise fund under the proprietary fund accounting framework. The accounting and financial reporting practices of enterprise funds are similar to those used for business enterprises and focus on capital maintenance and the flow of economic resources. Revenues are matched with expenses and changes in net assets are determined using accrual accounting methods.

Each eight digit general ledger fund account always starts with zero and is followed by seven digits which identify the ledger's purpose.

General ledger funds consist of:

010-XXXXX - Operating Fund accounts used for recording transactions associated with transit operations.

030-XXXXX - Grant Fund accounts used for recording transactions associated with grant funded activities.

4. Account Code Structure

For the general ledger, there are four digit account codes which identify specific assets, liabilities, and net assets.

The general ledger codes follow this pattern:

0X0-1XXXX Assets
0X0-2XXXX Liabilities
0X0-3XXXX Fund Balance
0X0-4XXXX Revenues
0X0-5XXXX Expenses

A complete list of account codes is available by generating MUNIS Chart of Accounts Report. The report also shows how codes are grouped and totaled for various reporting purposes.

5. Subsidiary Ledgers

CAT maintains a subsidiary ledger billings and the related accounts receivable. The Accounting Manager oversees the monthly invoicing and related receipt collections.

The accounting clerk post the billing and receipts transactions for customers billed through the subsidiary ledger.

6. Fiscal Year of Organization

CAT's fiscal year begins July 1 and ends June 30. Any changes to the fiscal year of the organization must be ratified by majority votes of the Board of Directors.

7. Accounting Estimates

CAT utilizes numerous estimates in the preparation of its interim and annual financial statements. Some of those estimates include:

1. Useful lives of property and equipment
2. Adequacy of receivables

3. Fair market values of investments
4. Interim revenue and expense allocations

It is CAT's policy that all such estimates shall be reassessed, reviewed, and approved by the CFO on an annual basis. Documentation shall be maintained supporting all key conclusions, bases, and other elements associated with each accounting estimate. All material estimates, and changes in estimates from one year to the next, shall be disclosed to the Finance Committee, the Board, and CAT's external audit firm.

8. Journal Entries

All general ledgers entries that do not originate from a subsidiary ledger shall be supported by journal vouchers or other documentation, which shall include a reasonable explanation of each such entry. Examples of such journal entries include:

1. Recording of non-cash transactions
2. Corrections of posting errors
3. Non-recurring accruals of income and expenses

Certain journal entries, called recurring journal entries, may occur in every accounting period, quarterly, or annually. These entries may include, but are not limited to:

1. Depreciation of fixed assets
2. Amortization of prepaid expenses
3. Accruals of recurring expenses
4. Amortization of deferred revenue

Support for recurring journal entries shall be in the form of a schedule associated with the underlying asset or liability account or, in the case of short-term recurring journal entries or immaterial items, in the form of a journal voucher.

It is the policy of CAT that all journal entries not originating from subsidiary ledgers shall be authorized in writing by the CFO by initialing or signing the entries.

CHAPTER II – REVENUE AND CASH RECEIPTS

CAT receives revenue from several types of transactions. Revenue for each of these types is recognized in the financial statements as described below.

A. Revenue Recognition

1. Passenger Fares

The Passenger Fares category includes all fares collected for fixed route and paratransit service. Passenger fares revenue is recognized as received and recorded in the general ledger by the accounting clerk.

2. Special District Transit Tax

Special District Transit Tax revenue is recorded when received. The majority of tax receipts occur in November, December, May and June each year. Interim financial reports show budget variances associated with the timing of receipts and revenue and the associated receivables accounts are adjusted to actual by audit adjustment annually.

3. Advertising Revenue

CAT finance staff administrates the billing for fees generated from advertising on revenue vehicles. Gross receipts from advertising fees are recorded as revenue and the associated commissions paid are recorded as expense.

4. Interest and Non-Transit Revenue

Interest received on cash balances is recorded monthly by journal entry. Miscellaneous Non-Transit revenue is recorded as received and consists mainly of fees paid for producing customer identification cards.

5. Contract Revenue

Contract Revenue is recorded when billed through the Accounts Receivable subsidiary ledger.

6. Federal Grant Awards

CAT receives both operating assistance and capital assistance under various federal grant awards. Operating assistance is recorded as earned in the operating fund general ledger. Capital assistance for capital assets, capital projects and passenger amenities programs is recorded in the grant fund general ledger.

B. <u>Cash Receipts</u>

1. Overview

The cash receipts policies and procedures ensure that all in-coming funds are properly recorded and safeguarded through separation of duties and proper documentation. Executive management designates which staff is authorized to collect in-coming funds.

2. Procedures

a. Cash will be accepted from customers for payment of fares, ID cards, etc. Cash may be accepted from staff or others in payment of amounts due to CAT in amounts less than $20.00 for copies, faxes, or other expenses.
b. Mail is to be opened promptly and distributed by designee from Planning Department.
c. All checks, money orders and cash are promptly logged into a “Cash Receipts Log” maintained by cashier and then given to the cash room assistant for processing. The cash room assistant will restrictively endorse the back of any checks received; and enter into the “Cash Receipts Log” prior to distributing checks to designated staff.
d. Documentation for receipts (letter, stubs, etc.) is provided with the checks/cash when forwarded to designated staff for processing and deposit.
e. Funds awaiting bank deposit are kept in a locked file/safe with access limited to staff designated by the CFO.
f. Cash Room Assistant verifies the checks and cash to documentation received, makes copy of checks and prepares deposit for delivery to bank.
g. Cashier deposits are collected by outside transport with daily passenger fares.
h. Bank confirmations are delivered to the Authority Accountant to attach to back up documentation. The deposit is entered into the accounting system by the Accounting Clerk, and then filed in chronological order into a Cash Receipts file/folder for the month.
i. At the end of the month, the accounting clerk prepares a summary of cash receipts log verifying that all bank account totals add up to total funds received for the month and then prints out the summary, retaining one copy, for the auditors, and forwarding

a second copy to the Authority Accountant or other designee to verify against the deposits listed on the bank statement(s).

CHAPTER III – Expenditures and Disbursements

A. Overview

The expenditure and disbursements policies and procedures are designed to ensure that disbursements are properly made based on adequate documentation and proper authorization.

Authorization for expenditures will follow the approval limits and procurement procedures set by CAT's Procurement Policies and Procedures Manual. Finance staff will ensure that the appropriate level of approval is obtained for each disbursement.

Payment for supplies or services will be made based on invoices, not statements. In the event that an invoice for services or supplies is lost, a memo explaining the expense and detailing cost is submitted with the request for payment and approved by the CFO or their designee.

All vendors must submit an IRS form W-9, Request for Tax Payer Identification and Certification or equivalent to the Finance Department prior to payment. A determination is made by the Authority Accountant and approved by the CFO, on the need to file an annual IRS Form 1099-Misc. on payments made to vendors. Form W-9s should be mailed to all current vendors each year prior to Form 1099 preparation to assure information is current.

B. Procedures

Requests for Payment

a. Requests for Payment (RFP) are submitted with the original invoice attached. The RFP is coded by the staff requesting the payment as to the fund and expense code to be charged. The RFP is signed by an authorized staff member indicating approval of the expenditure.
b. RFP/Invoices are processed by the Authority Accountant. Each invoice is marked "ENTERED" or "POSTED" when entered as a payable in the accounting system and the check and all corresponding documentation is marked "PAID" when the payable is processed for payment.

Check Writing Procedures

a. Checks are processed weekly.
b. Checks are written through accounting software**.** The CFO will designate staff with access to the check printing system. Except where specifically authorized by the Executive Director the CFO does not process checks.
c. Checks are automatically numbered and electronically printed on blank check paper using MICR cartridge toner.
d. A summary sheet is prepared for each check run that serves as a transmittal and documents the review and approval of the CFO and the Executive Director.
e. Checks are not to be post-dated, signed blank, or made out to cash.
f. A copy of each check is attached to the RFP/Invoice plus any other documentation, such as purchase orders or shipping documents, and filed in check number order in the respective Paid vendor files.
g. Voided or spoiled checks will have the signature block torn off and will then be filed in numerical order with the cancelled checks received from the bank.

Check Approval Process

This procedure is designed to ensure that all checks have adequate documentation and authorization and that there are no missing checks or checks written to phantom vendors.

a. The RFP is reviewed by the Authority Accountant for proper account coding, appropriateness of expenditure, and authorized signatures.
b. The RFP is compared with the invoice and the check amount. The summary transmittal is initialed by the CFO to indicate the review has been completed and the documentation is in order.
c. The batch of checks is reviewed in check number sequence to assure no checks are unaccounted.
d. The summary transmittal will be reviewed by the CFO to assure that the first check in each batch of checks begins with the next sequential check after last batch processed. The summary transmittal is initialed by the reviewer to indicate that all checks in the current batch have been verified to assure there is no gap in the check sequence.
e. If there are no questions to be resolved, the summary transmittal and signed checks are returned to the Accounting Manager as authorization to mail or release the check to the vendor.
f. Checks are mailed to vendors by the Accounting Manager unless specific arrangements had been made in advance for pickup of checks at the office. If a check is picked up, the person picking up the check must provide identification which agrees with the payee on the check or must have verifiable written authorization from the payee to pick up the check.

Electronic Payment and Transfers

These procedures ensure that unauthorized transfers will not be made. Procedures may vary based on the system of the banking institution.

a. Required documentation for all transfers is the same as for Requests for Payment.

b. Electronic banking allows wire transfers, electronic transfers, stop payments on checks, and account balance inquiries be initiated and completed via computer or telephone.
c. Wire transfers, electronic transfers, and stop payments cannot be set up and approved by the same person.
d. Password security is set to allow wire transfers, electronic transfers, and stop payments to be set up by staff designated by the designated finance staff.
e. Transfers can only be approved and sent by the CFO or CEO as administrator. Internal transfers between the operating and grant accounts must by documented and approved by the CFO.
f. When a wire transfer, electronic transfer, or stop payment has been set up by the accounting staff, the documentation supporting the transaction is given to the CFO for verification and approval before the transaction is initiated.
g. Electronic transfers are approved by the CFO and/or CEO and completed by designated Finance staff.

C. Petty Cash

Purpose

Petty cash funds are to be used for small, incidental purchases. Procedures have been established to encourage an effective administration and internal control of cash handling operations. CAT's petty cash fund will be $500.00.

Procedures for Expenditures and Reimbursements

1. Receipt must be obtained for each petty cash expenditure. Such receipts normally include cash register or handwritten vendor receipts, paid vendor invoices, or properly approved "Received of Petty Cash" slips. For each expense, the following information must be documented.

    a. Payee (employees who make purchases from personal funds and are reimbursed through petty cash should sign the receipt),

b. Date of purchase,

c. Amount

d. Purpose or description of purchase

2. To obtain replenishment of petty cash funds, a Petty Cash Reimbursement form must be used. The form, with all applicable receipts attached, shall be submitted to Finance for processing.

Prohibited Uses

1. Petty cash funds may not be deposited into personal bank accounts.
2. Petty cash funds must not be commingled with other monies, such as personal funds of employees.
3. Purchases of goods and services for more than $50 should not ordinarily be made with petty cash.
4. Petty cash funds may not be expended for:
    a. Employment salary and travel expenses or similar payments to Individuals
    b. Payment of personal checks or IOU's
    c. Payroll advances, travel advances, and loans to employees
    d. Cashing checks for employees or other individuals

Maintenance and Security of Funds

1. Petty cash funds should be properly secured at all times. Access to the funds should be restricted to one-person , the petty cash custodian.

2. Cash on hand and receipts for disbursements must always equal the assigned amount of the petty cash fund. Therefore, the custodian responsible for the petty cash fund must keep a log of each transaction

with paid receipt describing the goods or service purchased.

Review of Petty Cash Funds

1. Monthly, the Petty Cash custodian is responsible to count the petty cash fund to ensure that the fund has the correct total of petty cash and reimbursement vouchers. A record of these counts is to be reviewed by the Accounting Manager on a monthly basis.

CHAPTER IV – ASSET, LIABILITY AND NET ASSET ACCOUNTS

A. Overview

A description of each of the Authority's accounts along with policy and procedures related to each follows.

B. Assets

1. Cash and Cash Management

CAT seeks to maximize its return on surplus operating funds. To meet this objective, one interest bearing operating account is maintained.

The CFO establishes and maintains all CAT bank accounts. Personnel in the following positions and the Chairman of the Board of Directors are authorized to sign checks and approve ACH and wires drawn on the general operating and payroll accounts. Those positions are:

CEO
CFO

It is the policy of CAT to promptly notify the Authority's financial institution of changes in authorized signatures upon the departure/resignation of any authorized signer.

Bank Reconciliations

The Finance Department receives bank statements directly from the financial institution, usually within three business days following the close of each month. The employee assigned to reconcile a bank account opens the statement and reviews its contents for unusual or unexplained items, such as unusual endorsements on checks, indications of alterations to checks, etc. Unusual and unexplained items shall be reported to the CFO immediately. The employee assigned to reconciling bank accounts should not have check signing authority.

All bank reconciliations are reviewed and approved by the CFO on a monthly basis. Any adjusting journal entries resulting from preparing bank reconciliations are approved by the CFO. Reconciling items that require research are followed up by the individual performing the reconciliation with the appropriate department.

Cash Flow

The CFO monitors cash flow needs on a daily basis to eliminate idle funds and to ensure that payment obligations can be met. Cash transfers between accounts are performed on an as-needed basis.

Wire Transfers

Employees authorized to approve wire transfers from Authority bank accounts for vendor related payments are included in Chapter III, B., Electronic Payment and Transfer. Vendor payments are not to be made via wire unless required by the vendor and/or approved by the CFO. All other vendor payments are to be made via check.

2. Inventory

It is the policy of CAT to accurately account for all inventories on a quarterly and year end basis and to price them in accordance with GAAP.

It is the policy of CAT to account for purchased inventory items at cost, using the first-in, first-out method of valuation. Unit cost shall be computed by adding freight, insurance and other shipping costs to the actual cost of purchased inventory, dividing this total amount by the number of units purchased.

It is the policy of CAT to perform a physical count of inventory on an annual basis. Any inventory items that appear damaged, obsolete or otherwise unable to be sold will be excluded from the counts. A detailed record of the physical count will be kept by the individuals involved in taking the inventory.

At the conclusion of the physical count, the inventory count sheets will be extended by applying the most recent unit costs to the physical quantities of each item on hand. The general ledger balance will be adjusted to reflect the total inventory on hand as determined by the physical count.

3. Prepaid Expenses

It is the policy of CAT to treat payments of expenses that have a time-sensitive future benefit as prepaid expenses, such as insurance and taxes, and to amortize these items over the corresponding time period. For purposes of this policy, payments of less than $500 will be expensed as paid and not treated as prepaid expenses, regardless of the existence of a future benefit.

Prepaid expenses with future benefits that expire within one year from the date of the financial statements will be classified as current assets. Prepaid expenses that benefit future periods beyond one year from the financial statement date will be classified as non-current assets.

As part of the account coding process performed during the processing of accounts payable, all incoming vendor invoices will be reviewed for the existence of time-sensitive future benefits. If future benefits are identified, the payment will be code to a prepaid expense (asset) account code.

Finance staff will maintain a schedule of all prepaid expenses. The schedule will indicate the amount and date paid, the period covered by the prepayment, the purpose of the prepayment, and the monthly amortization. This schedule will be reconciled to the general ledger balance as part of the monthly closeout process.

4. Prepaid Insurance

CAT typically pays for insurance premiums when coverage begins. Usually, coverage is bought for a year in advance. CAT records prepaid insurance premiums as an asset, reflecting insurance coverage for the future that has already been paid. Premiums are amortized monthly to the center/department that receives the insurance coverage.

5. Investments

CAT's investment policy is to preserve and protect the Authority's assets, as well as the maintenance of liquid reserves to meet obligations arising from unanticipated activities, by earning an appropriated return on investments.

The Board of Directors has supervisory authority over investing activities.

CAT records investments in equity securities with readily determinable market values, debt securities, and assets held in trust at fair market value. Investments received as gifts are recorded at fair market value at the date of donation.

Permanently restricted investments are subject to restrictions requiring that the principal be invested in perpetuity. Income and net realized and unrealized gains or losses from these investments are classified based on donor restrictions, if any.

Short-term investments generally have a maturity of three months to one year from the purchase date. Investments are classified as short-term with maturities beyond one-year due to their highly liquid nature. All short-term investments are recorded at market value using the specific identification method; unrealized gains and losses are reflected in net unrealized gain or loss on securities.

Long-term investments have a maturity beyond one-year from the purchase date, except as noted above. Long-term investments are subject to market and credit risks customarily associated with debt, equity, and real estate.

6. Property and Equipment

It is the policy of CAT to capitalize property and equipment with a unit cost of $1,000 or higher, in accordance with OMB Circular A-110. Items with a unit cost below this threshold shall be expensed in the year purchased.

CAT complies with FASB 93, of the Financial Accounting Standards Board in recognizing depreciation on long-lived assets and providing proper disclosure in the financial statements.

Both real and personal property are recorded at cost and depreciated using the straight-line method of depreciation. CAT uses a half-year convention in the year of acquisition and disposition. This means depreciation is calculated for a half year only, in the year of acquisition and disposition, regardless of how long the asset is held that year. Estimated useful lives are established by class of asset and range from 5 to 50 years.

6. Leases

Prior to assessment of whether a lease is capital or operating, CAT shall determine whether the lease involves a construction project. Construction costs related to a lease shall be accounted for as a capital asset.

It is the policy of CAT to classify all leases in which the Authority is a lessee as either capital or operating leases. CAT shall utilize the criteria described in Statement of Financial Accounting Standards No. 13 in determining whether a lease is capital or operating in nature. Under those criteria, a lease shall be treated as a capital lease if, at the time of entering into the lease, any of the following factors are present:

1. The lease transfers ownership to CAT at the end of the lease term;
2. The lease contains a bargain purchase option;
3. The lease term is equal to 75% or more of the estimated economic life of the lease property; or
4. The present value of the minimum lease payments is 90% or more of the fair value of the leased property (using, as the interest rate, the lesser of CAT's incremental borrowing rate or, if known, the lessor's implicit rate).

All leases that do not possess any of the four preceding characteristics shall be treated as operating leases. In addition, all leases that are immaterial in nature shall be accounted for as operating leases.

All leases that are classified as operating leases and immaterial capital leases shall be accounted for as expenses in the period in which the obligation to make a lease payment is incurred. For leases with firm commitments for lease payments that vary over the term of the lease (i.e. a lease with fixed annual increases that are determinable upon signing the lease), the amount that CAT shall recognize as monthly lease expense shall equal the average monthly lease payment over the entire term of the lease. Differences between the average monthly payment and the actual monthly payment shall be accounted for as an asset or liability of the Authority.

All leases that are classified as capital leases shall be treated as fixed asset additions of CAT. As such, upon the inception of a capital lease, CAT shall record a capitalized asset and a liability under the lease, based on the net present value of the minimum lease payments (or the fair value of the leased asset, if it is less than the present value of the lease payments). Periodic lease payments shall be allocated between a reduction in the lease obligation and interest expense. The capitalized asset recorded under a capital lease shall be depreciated over the term of the lease, using the straight-line method of depreciation.

CAT shall maintain a standard checklist to facilitate the steps to be performed to identify leases related to construction and to determine proper classification between operating and capital leases. In addition, CAT shall also maintain a control list of all operating and capital leases. This list shall include all relevant lease terms, including a schedule of future annual lease payment obligations.

CAT shall also maintain a control list of all operating and capital leases. This list shall include all relevant lease terms, including a schedule of future annual lease payment obligations.

Leases with fixed (determinable amounts stated in the lease) increases in monthly rental payments shall be accounted for in a manner that results in an equal monthly rent expense being reported in each month over the entire initial lease term. Accordingly, monthly rent expense in the first year of such leases shall be greater than the monthly cash payment, with the difference being recorded as a liability. This liability will be reduced in the later years of the lease when the monthly cash rent payment is less than the monthly rent expense. To the extent future rent increase are not determinable at the beginning of the lease (because they are based on inflation or other factors), the preceding policy shall not apply and monthly rent expense shall be equal to the monthly cash payment, except as noted below.

Abatements of monthly rent payments, cash incentives, and other lease incentives shall be accounted for in a manner that results in an equal amount of monthly rent expense over the term of the lease agreement (before considering the effects of inflation-based rent increases, which will increase rent expense over the term of a lease). As a result, incentives received up front or over the early months of a lease, shall be established as a liability in CAT's accounting records (as deferred lease incentives or some similar name). This liability shall be amortized as an offset (credit) to rent expense over the term of the lease agreement.

Leasehold improvements and deferred rent incentives are amortized over the initial lease term. If such lease term is changed prior to the expiration of the initial lease term, it is the policy of CAT that such amortization be revised to reflect the remaining lease term as of the effective date of the lease modification.

C. <u>Liabilities</u>

1. Accrued Liabilities

The accounting department shall establish a list of commonly incurred expenses that may need to be accrued at the end of an accounting period. Expenses that shall be accrued by CAT at the end of an accounting period include:

Legal Fees
Audit Fees
Planning Fees

CAT records a liability for deferred revenue (revenue received but not yet earned) in accordance with the revenue recognition policies described in the Revenue section of this manual.

2. Accrued Leave

Vacation and Personal Leave

Personnel policies of CAT permit employees to carry forward varying amounts of unused leave per year. Any unused leave is payable to an employee upon termination of employment. Accordingly, CAT's records a liability for accrued leave to which employees are entitled. The total liability at the end of the fiscal year shall equal the total earned but unused hours of leave, up to a maximum, multiplied by each employee's current hourly pay rate.

Sick Leave

Sick leave that is not used at the end of each fiscal year shall not be accrued as a liability of CAT.

3. Notes/Bonds Payable

It is the policy of CAT to maintain a schedule of all notes and bonds payable, mortgage obligations, lines of credit, and other financing agreements. This schedule shall be based on the underlying loan documents and shall include all of the following information:

1. Name and address of lender
2. Date of agreement or renewal/extension
3. Total amount of debt or available credit

4. Amounts and dates borrowed

5. Description of collateral, if any

6. Interest rate

7. Repayment terms

8. Maturity date

9. Address to which payments should be sent

10. Contact person at lender

An amortization schedule shall be maintained for each note and bond payable. Based upon the amortization schedule, the principal portion of payments due with the next year shall be classified as a current liability in the statement of financial position of CAT. The principal portion of payments due beyond one year shall be classified as long-term/non-current liabilities in the statement of financial position.

Demand notes and any other notes without established repayment dates shall always be classified as current liabilities.

Unpaid interest expense shall be accrued as a liability quarterly and at fiscal year end.

A detailed record of all principal and interest payments made over the entire term shall be maintained with respect to each note payable. Periodically, the amounts reflected as current and long-term notes payable per the general ledger shall be reconciled to these payment schedules and the amortization schedules, if any, provided by the lender. All differences shall be investigated.

D. Net Assets

It is the policy of CAT to classify net assets based upon the existence or absence of restrictions as follows:

Unrestricted Net Assets – Net assets that are not subject to restrictions.

Temporarily Restricted Net Assets – Net assets subject to stipulations that may or will be satisfied through the actions of CAT and/or the passage of time.

Permanently Restricted Net Assets – Net assets subject to stipulations that the Authority permanently maintain certain contributed assets.

Net assets accumulated by CAT that are not subject to imposed restrictions, but which the Board of Directors of the Authority has earmarked for specific uses, are segregated in the accounting records as “board-designated” funds within the unrestricted category of net assets.

Restrictions may be associated with either a time period (e.g. a particular future time period) or a purpose (e.g. specific programs). A purpose stipulation will be considered a restriction only if it is more specific than the broad limits resulting from the nature of the Authority, the environment in which it operates, and the purposes specified in CAT’s enabling act.

The Authority shall report in its statement of activities a reclassification from restricted to unrestricted net assets if any of the following events occur:

1. Fulfillment of the purpose for which the net assets were restricted (e.g. spending restricted funds for the stipulated purpose)

2. Expiration of time restrictions imposed
3. Withdrawal of a time or purpose restriction

It is the Authority's policy to provide within its financial statements footnote disclosures that describe the different types of temporary and permanent restrictions associated with the Authority's net assets as of the end of each fiscal year.

CHAPTER V – FINANCIAL REPORTING AND MANAGEMENT

A. Financial Reporting

CAT's policy is to prepare accurate financial statements in accordance with generally accepted accounting principles and distribute them in a timely and cost-effective manner.

The standard set of financial statements described below will be produced on a monthly and annually basis. These financial statements shall be prepared on the accrual method of accounting.

Preparing financial statements and communicating key financial information is a necessary and critical accounting function. Financial statements are management tools used in making decisions, in monitoring the achievement of financial objectives, and as a standard method for providing information to interested parties external to the organization. Financial statements may reflect year-to-year historical comparisons or current budget to actual comparisons.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires CAT to make estimates and assumptions about the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The basic financial statements of CAT that are maintained on an organization-wide basis are:

1. **Statement of Financial Position** – reflects assets, liabilities and net assets of the organization and classifies assets and liabilities as current or non-current/long-term.

   Assets are probable future economic benefits obtained or controlled by the organization as a result of past transactions or events. Assets of CAT are classified as current assets, fixed assets, contra-assets, and other assets.

   Current assets are assets that are available or can be made readily available to meet the cost of operations or to pay current liabilities. Some examples are cash, temporary investments, and receivables that will be collected within one year of the statement of financial position date.

   Fixed assets (property and equipment) are tangible assets with a useful life of more than one year that are acquired for use in the operation of the organization and are not held for resale.

   Contra-assets are accounts that reduce asset accounts, such as accumulated depreciation and reserves for uncollectible accounts receivable.

   Other assets include long-term assets that are assets acquired without the intention of disposing them in the near future. Some examples are security deposits, property, and long-term investments.

   Liabilities are probable future sacrifices of economic benefits arising from present obligations of the organization to transfer assets or provide services to other entities in the future as a result of past transactions or events. Liabilities of CAT are classified as current or long-term.

Current liabilities are probable sacrifices of economic benefits that will likely occur within one year of the date of the financial statements or which have a due date of one year or less. Common examples are accounts payable, accrued liabilities, short-term notes payable, and deferred revenue.

Long-term liabilities are probable sacrifices of economic benefits that will likely occur more than one year from the date of the financial statements. An example is the non-current portion of a mortgage loan.

Net assets are the difference between total assets and total liabilities.

2. **Statement of Revenues and Expenditures** – presents revenues, gains, and other support, expenses, and changes in net assets of the Authority, by category of net assets (unrestricted, temporarily restricted and permanently restricted), including reclassifications between categories of net assets.

Revenues are inflows of the Authority or other enhancements of assets, or settlements of liabilities, from rendering services, delivering or producing goods, or other activities that constitute the Authority's ongoing major or central operations. Examples include passenger fares, special district transit tax, contract revenues and federal operating and capital assistance.

Expenses are outflows or other using up of assets or incurrences of liabilities from rendering services, delivering or producing goods, or carrying out other activities that constitutes CAT's ongoing major or central operations. Expenses are classified by functions, such as, program expense, management and general expense, and fund-raising expense.

Authority expense includes the following categories:

a. Operation and Maintenance – includes all expenses for the administration, supervision, operation, maintenance, preservation, and protection of the Authority's physical plant.
b. Board Support – includes expenses for Board travel and administrative expenses related to recording of board meetings.

3. **Statement of Cash Flows** – reports the cash inflows and outflows of the organization in three categories: operating activities, investing activities, and financing activities.

Monthly and annual financial statements and supporting schedules shall be reviewed and approved by the CFO prior to being issued by Finance Department.

Once approved, a complete of set of monthly and annual financial statements shall be distributed to the Finance Committee of the Board of Directors and the full Board of Directors for review by each body.

B. Budgeting

1. <u>Overview</u>

Budgeting is an integral part of managing CAT and is concerned with meeting organizational goals and objectives. The budget is designed and prepared to direct the efficient and prudent use of the Authority's financial and human resources. The budget is management's commitment to a plan for present and future organizational activities to ensure a going concern. It provides an opportunity to examine the composition and viability of the Authority's programs and activities simultaneously in light of available resources.

2. Preparation and Adoption

It is the policy of CAT to prepare a budget annually. The Authority CFO gathers proposed budget information and prepares the first draft of the budget. Budgets proposed and submitted by each department should be accompanied by a narrative explanation of the sources and uses of funds and explaining all material fluctuations in budgeted amounts from prior years.

CAT staff presents draft budget to the Board of Directors at an initial Budget Workshop. Members of the Board are asked to review initial budget presentation and provide feedback. After adjustments for Board input, a final draft budget is prepared and presented to the Executive Director for discussion, revision, and initial approval. The final draft is then submitted to the Finance Committee of the Board of Directors, and finally to the entire Board of Directors for adoption.

It is the policy of CAT to adopt a final budget before the beginning of the Authority's fiscal year. The purpose of adopting a final budget at this time is to allow adequate time for the accounting department to input the budget into the accounting system and establish appropriate accounting and reporting procedures (including any necessary modifications to the chart of accounts) to ensure proper classification of activities and comparison of budget versus actual once the year begins.

3. Monitoring Performance

It is the policy of CAT to monitor its financial performance by comparing and analyzing actual results with budgeted results. This function shall be accomplished in conjunction with the monthly financial reporting process.

On a monthly basis, financial reports comparing actual year-to-date revenues and expenses with budgeted year-to-date amounts shall be produced and presented to the Board.

4. <u>Budget Modification</u>

After the budget has been approved and adopted by the Board of Directors reclassification of budgeted expense amounts within account classifications may be made by Executive Director, with approval from the Authority Board. Reclassification and any budget modification resulting in an increase in budgeted expenses or decrease in budgeted revenues can be made only with approval of the Authority Board.

C. Annual Audit

It it's the policy of CAT to arrange for an annual audit of the Authority's financial statements to be conducted by an independent accounting firm. The independent accounting firm selected by CAT will be required to communicate directly with the Authority's Board upon the completion of their audit. In addition, members of the Board are authorized to initiate communication directly with the independent accounting firm.

Selecting an Independent Auditor

CAT will review the selection of its independent auditor in the following circumstances:

1. Anytime there is dissatisfaction with the service of the current firm.

2. When a fresh perspective and new ideas are desired.

3. Every 5 years to ensure competitive pricing and a high quality of service. This is not a requirement to change auditors every five years, simply to re-evaluate the selection.

The selection of an accounting firm to conduct the annual audit is a task that should be taken very seriously. The following factors will be considered by CAT in selecting an accounting firm:

1. The firm's reputation in the nonprofit community.
2. The depth of the firm's understanding of and experience with not-for-profit organization and federal reporting requirements under OMB Circular A-133.
3. The firm's demonstrated ability to provide the services requested in a timely manner.
4. The ability of firm personal to communicate with CAT's personnel in a professional and congenial matter.

If CAT decides to prepare and issue a written Request for Proposal (RFP) to be sent to prospective audit firms, the following information will be included:

1. Period of services required.
2. Type of contract to be awarded (fixed fee, cost basis, etc.)
3. Complete description of the services requested (audit, management letter, tax returns, etc.)
4. Identification of meetings requiring their attendance, such as staff or Board of Director meetings.
5. Organization chart of CAT

6. Chart of account information.

7. Financial information about the Authority.

8. Copy of prior year reports (financial statements, management letters, etc.)

9. Other information considered appropriate.

10. Description of proposal and format requirements.

11. Due date of proposals.

12. Overview of selection process.

13. Identification of criteria for selection.

Minimum Proposal Requirements from prospective CPA firms will be:

1. Firm background.

2. Biographical information (resumes) of key firm members who will serve CAT.

3. Client references.

4. Information about the firm's capabilities.

5. Firm's approach to performing an audit.

6. Copy of the firm's most recent quality/peer review report, including any accompanying letter of findings.

7. Other resources available with the firm.

8. Expected timing and completion of the audit.

9. Expected delivery of reports.

10. Cost estimate including estimated number of hours per staff member.

11. Rate per hour for each auditor.

12. Other information as appropriate.

Preparation for the Annual Audit

CAT will be actively involved in planning and assisting the Authority's independent accounting firm in order to ensure a smooth and timely audit of its financial statements. In that regard, the accounting department will provide assistance to the independent auditors in the following areas:

Planning – The Authority CFO is responsible for delegating the assignments and responsibilities to accounting staff in preparation for the audit. Assignments will be based on the list of requested schedules and information provided by the independent accounting firm.

Involvement – Authority staff will do as much work as possible in order to assist the auditors and, therefore, reduce the cost of the audit.

Interim Procedures – To facilitate the timely completion of the annual audit, the independent auditors may perform selected audit procedures prior to the Authority's year-end. By performing significant portions of the audit work as of an interim date, the work required subsequent to year-end is reduced. Authority staff will assist as much as possible in order to provide requested schedules and documents to auditors during any interim fieldwork that is performed.

Throughout the audit process, it will be the policy of CAT to make every effort to provide schedules, documents and information requested by the auditors in a timely manner.

Concluding the Audit

Upon receipt of a draft of the audited financial statements of CAT from its independent auditor, the Authority CFO will perform a detailed review of the draft, consisting of the following procedures:

1. Carefully read the entire report for typographical errors.

2. Trace and agree each number in the financial statements and accompanying footnotes to the accounting records and/or internal financial statements of CAT.

3. Review each footnote for accuracy and completeness.

Any questions or errors noted as part of this review will be communicated to the independent auditor in a timely manner and resolved to the satisfaction of the Executive Director.

It will also be the responsibility of the Authority CFO to review and respond in writing to all management letter or other internal control and compliance report findings and recommendations made by the independent auditor.

D. Record Retention

CAT retains records as required by law and destroys them when appropriate. The destruction of records must be approved by the appropriate department director and the CFO.

CHAPTER VI – FEDERAL AWARDS AND GRANT ADMINISTRATION

A. Grant Application Process

The Planning Department is responsible for the coordination and preparation of all grant applications. The grant application must be in accordance with current Office of Management and Budget (OMB) and Federal Transit Administration (FTA) guidelines.

Capital projects for the projected Federal fiscal year's allocation are identified during the annual budget process. The Chief Development Officer and the planning staff compile a schedule of proposed projects with assistance from the Finance Department and Executive Director. The Board of Directors makes the final determination as to which projects will move forward.

Transportation Improvement Plan (TIP): The Planner prepares the Program of Projects (POP) document which outlines the planned project, the estimated cost, federal and local share, and the federal source expected to fund the project. The Program of Projects is approved by the Executive Director and the Board.

Once presented to and approve by the CAT Board, the projects are included in the Transportation Improvement Plan (TIP) by the Savannah Chatham Metropolitan Planning Commission (MPC) and sent to the Georgia Department of Transportation (GDOT) for adoption into the state's plan. The MPC forwards a copy of each year's TIP to CAT and it is maintained on file by the Finance and Development Departments.

B. Procedures

1. The initiator or "User" department prepares a brief narrative of the proposed project and forwards it to the Planning Department. At a minimum, the Planning staff requires the following information: a brief description of the project, justification, the total estimated cost, line item description, and project milestones.

2. The Planner electronically inputs the application information into FTA's Transit Award Management System (TRAMS), a communication link between the FTA and its grants recipients. The Chief Development Officer then informs the Chief Financial Officer that the application is pending FTA's preliminary review.

3. Once the Planner enters application data into TRAMS system, they contact the regional office to inform them of the entry. The regional office reviews the document and assigns a project number.

4. Planning prepares a Board resolution to submit the application. Each resolution describes the project and provides the financial impact to the Authority. The Board Chair signs the resolution and a copy is maintained by the Finance Department and also made a part of the application package. Using the FTA TRAMS system, the CFO electronically PINS or signs the grant application. The application is then considered submitted.

5. The FTA informs the CFO that the grant has been awarded and is ready to be executed. The Executive Director or CFO electronically executes the grant contract and informs the Board of this action.

C. Annual Certification and Assurances

The Accounting Manager prints and completes the Annual Certifications and Assurances for the Federal fiscal year from the Federal Register and retains in the

Finance Department. The certifications and assurances are executed electronically in TRAMS by the Executive Director and Attorney.

D. Grants Management

The Accounting Manager submits a copy of the executed grant contract and budget to project managers and the Chief Financial Officer. Federal reimbursements can now be requested for eligible project costs. As provided under FTA circular 9030.1B(6), eligible project costs (section 5307) can include those incurred prior to grant award.

1. Establishing Account Numbers

The Accounting Manager is informed of new awards and an account number is established within the capital fund grant accounts.

Project managers are asked to provide a defined budget or a cost allocation plan concerning administrative costs in connection with capital projects. This information is included in the chart of accounts for each project and provides the mechanism to incur and track project costs.

The Chart of Account is printed and distributed to Project Managers and to the Finance Department.

2. Developing Cost Allocation Plan / Indirect Cost Rate Proposal

The Finance Department develops a direct cost rate at the close of the annual independent audit. This rate is used to request reimbursement on Job Access Reverse Commute eligible routes.

E. Incurring Project Cost

All grant funded vendor purchases must be reviewed and approved by the CFO. The project managers initiate Grant Invoice Approvals or Purchase Orders for procurement of goods and/or services. Finance staff reviews the documentation for funding availability and adequate support documentation. Sign-off by the Finance Department indicates its approval to proceed with the grant funded purchase.

Purchase Orders / Contractual Invoices

Grant funded contracts are copied and maintained by the Accounting Manager. A spreadsheet is developed to track the encumbered amount, change order(s), individual invoices, and retainage amount. Invoices produced by the contractor are forwarded by the project managers to Finance for compliance review and pay recommendation. The outcome of the review is summarized and the recommendation sent to the project manager.

F. <u>Recovery of Grant Funds</u>

Electronic Clearing House Operation (ECHO)

Eligible drawdown expenses are extracted from the accounting system and documentation copied to support each draw activity. Drawdowns are prepared on a cash basis of accounting – after checks have been printed. The drawdowns are summarized by grant number, activity line item, vendor, check number and date. The Accounting Manager prepares an Electronic Clearing House Operations (ECHO) form for the CFO signature. The Chief Financial Officer or his designee – the Accounting Manager, processes the ECHO document. Federal Reimbursements are usually received in CAT's bank account within forty-eight hours of the ECHO request.

To ensure that all grants funds drawn are disbursed within the 72 hours of receipt, no grant reimbursement request will be made before payment has been processed by

Accounts Payable. A copy of the check must be included in the Reimbursement Request Package before final approval is received and the ECHO draw is processed. All grant fund assisted payments will be sent by Federal Express, or similar carrier, in order to independently document the date payment was released. These payments will be released on the same day as grant funds are received from the ECHO system. Documentation of release date will be retained as part of the permanent Reimbursement Request Package.

G. Reports

Quarterly Financial Status Report (SF270) – an FTA requirement to report accrual and actual expenditures information, narrative discussion, and a schedule to update project milestones. Prepared by the Accounting Manager and reviewed by the CFO, the report is signed by the Chief Financial Officer prior to submission. The report is due to the FTA thirty days after each quarter ends.

The Finance Department is responsible for developing monthly management reports to provide up to date information regarding projects activity. Monthly reports are distributed to CAT Management staff as well as project managers.

H. Monthly Reviews and Reconciliations

Grants administration staff reviews the General ledger transactions on a monthly basis to ensure that entries are posted to the correct account and activity line item, and that the transactions are in line with FTA's approved budget.

Variances are discussed with the project manager and if necessary, a journal entry is prepared by the Accounting Manager to correct mis-codings. The Authority Accountant processes the journal entry request after further review by its staff.

I. Budget Revisions / Amendments

The Finance Department is responsible for the preparation and submission of project amendments and revisions to the Federal Transit Administration. Modifications to approved grant budgets are precipitated by excess or less requirements than previously projected within activity line items, amounts being added to an existing line item as a result of additional fiscal year allocation, or an expansion in the project's scope. Project managers submit a written request to the Grants staff informing them of the desired changes. Budget Revisions and amendments are electronically transmitted to the FTA. Hard copies of the proposed modifications are retained in the grant files.

Grant Amendments are treated as new applications and the Board Chairman must authorize request submittal to the FTA.

J. Annual Audit

As a condition of receiving FTA funding, an annual single audit of CAT's grant program is required. The Finance Department makes its records available for the review TRAMS and participates as needed.

K. FTA Reviews

The Finance Department is responsible for the coordination and oversight of all reviews that are mandated by the FTA. The Board's office and Executive Director receives the initial notification concerning proposed reviews and communicates this information with the CFO. Reviews common to the CAT include Financial Management Oversight (FMO), Procurement System Review (PSR), and the Triennial Review.

Once informed of pending reviews, the CFO contacts the FTA region IV office and the contractor hired by the FTA to coordinate a schedule for on-site interviews and inspections. Simultaneously, CAT staff affected by the reviews are put on alert and asked to appraise their department's documentation and procedures that will be reviewed by the contractor. If requested, the CFO will transmit documentation to the contractor before the on-site visit.

The CFO continues to be the point of contact in further discussions throughout review completion. After the final report is received, a corrective action plan based on review commendations is prepared for the Executive Director to review and approve. Documentation to support implementation of corrective action is forward to the reviewer and the FTA.

L. Project Close-out

Upon completion of grant projects, project managers are required to submit to the Accounting Manager final project close-out information. The information requested includes a final project budget, a listing of items purchased using the grant funds, and a brief discussion of the project's activities and conclusion. Additionally, the Finance Department maintains the single audit report that confirms the dollar amount expended. The report is reviewed by the Accounting Manager and the CFO, and then electronically closed out in FTA's TRAMS system.