### *Strategic Planning Tips*

Start the process early in the TMA's life and keep the cycle going through the year.

- Establish a solid policy and strategic planning framework including setting clear goals and objectives.
- Make planning sessions informal and fun - get away from the routine.
- Leave each planning session with steps to be accomplished and individual assignments for follow-through.
- Utilize committees to develop background information and prepare recommendations, and create ownership among members.
- Train yourself and your members to think strategically all year—not just during planning sessions.

As the final step, develop a contingency plan. Goals and objectives were developed under a set of assumptions. Contingency planning tries to prepare for unexpected and unlikely occurrences. In constructing a contingency plan, consider potential variations in the assumptions used in developing the original plan. Plan what to do if a variation occurs. For example:

- What if a market doesn't materialize or changes dramatically?
- What if competition is encountered?
- What if the regulatory climate changes?
- What if the economic environment changes?
- What if expected financial support does not appear?

All of the questions might not be answered immediately, but simply asking them can be useful to identify where the TMA might encounter problems. Continue to review these contingencies as the year passes, then refine, add, or delete them as new information becomes available.

## *Host a Planning Retreat*

Planning is not a quick exercise. Assume at least two full days will be needed, even to establish the basic framework.

Ideally this time will be scheduled as a single session, perhaps over a weekend. A retreat might not be feasible for all TMAs, but it is highly preferable to conduct planning in as few working sessions as possible. By concentrating the planning time, the time is minimized for review of previous sessions and for members to "get into the mood."

***Establish a Planning Agenda***—If members cannot devote two days of uninterrupted time, then hold several sessions each, at least four or five hours long. Schedule them closely together, such as over a two or three week period. Since each session must build on the ones before it, members will be more likely to remember the discussion from previous sessions if they are held over a shorter time period.

Don't rush through the planning process. Each step is an important building block to developing a plan that is reasonable, realistic, and acceptable to all members. If members need additional time to feel comfortable with their decisions, stretch the process to additional sessions. Avoid however, "paralysis by analysis" that can occur if members are reluctant to commit to any given course of action. Endless discussion and delays in completing the plan can lead to frustration for those who want to move ahead.

Described below is a possible outline for three planning sessions. Progress in any single session depends on the TMA's stage of development (newer TMAs might need more time), the amount of preparation staff, members, and committees are able to do before the meeting, and the ability of the group to discuss issues freely and openly and to reach consensus.

- Session One—During the first session, acquaint the members with the planning process, identify key issues, and create a common vision of direction. Review the TMA's internal and external environment. Discuss likely challenges and opportunities during the coming year. Emphasize the need to recruit potential markets, develop new programs, and achieve the mission and goals.
- Session Two—Begin by reviewing the mission and goals defined earlier. Then review the TMA's strengths and weaknesses. With this as background, define key objectives and brainstorm activities to support the objectives.
- Session Three—Review the objectives and activities defined in session two and continue development of the action plan. Prioritize activities and assign responsibility and resources to each. Outline a schedule for completing each activity. Explore contingency strategies and establish a process for staff to monitor the plan periodically and report progress and problems to the board.
- Follow-up—An important step in any planning process is follow-through on the previous planning session discussions and decisions. Planning is not an end in itself. Rather, it is the first step in an ongoing process. Simply identifying key issues, or even solutions, is meaningless unless decisions are implemented. During the meetings, members might need more background information on a topic before proceeding with a decision. If so, hold that decision to the next session, or make a conditional decision subject to change if new information warrants. Assign a staff, board member or group of members to research the topic and prepare materials for the next meeting.

After each session, summarize the discussion, decisions made, and assignments for follow-up. Prior to the next session, circulate the summary, with any additional materials produced. Use the summary as a springboard for the next session.

After the plan is complete, the board should present the plan to the full membership for their review and comments. It may be desirable to present key planning decisions, such as mission statement, goals and objectives, and activities to the members during the planning process, but avoid having this turn into another full planning session.

***Create a Supportive Planning Environment***—The environment in which planning sessions are held can influence their success. Here are some suggestions for organizing effective planning sessions.

***Encourage Open Discussion and Teamwork***—Use settings and seating arrangements that encourage eye contact, teamwork, and easy conversation.

***Make it Informal and Fun***—Hold the session in an informal setting completely removed from the usual meeting locations to allow members to concentrate on issues with few distractions. Meet at a board members' home or a hotel conference location. Encourage casual dress. Use games and exercises to build teamwork and keep members interested.

***Use An Outside Facilitator***—Consider asking a trained facilitator to conduct the session instead of the president or other officers. A skilled facilitator might be better able to draw out issues from members, smooth any arguments or dissension, and build consensus. Staff should participate in the discussion rather than conduct or facilitate the session.

***Provide Background Materials and Record the Discussion***—Provide any background materials prior to each session so members can prepare for productive discussions. Use flip charts to record members' thoughts and ideas.

Section 5

# TMA Development—Financial Management and Service Delivery

- Section Overview
- TMA Budgets and Funding
- Financial Management Issues for TMAs
- Delivering TMA Services

## Section Overview

The previous section discussed considerations of program monitoring and evaluation and data collection for purposes of market research, measuring baseline conditions and program results. The previous section also discussed important considerations regarding communicating evaluation findings and developing a strategic work plan.

Section 5 builds upon these previous discussions by adding the next set of considerations that make the strategic work plan a reality: translating the plan into effective service delivery, finding the funds to pay for it and establishing accounting methods to track financial status.

## TMA Budgets and Funding

At one time or another, nearly all TMAs worry about funding, or more accurately the lack of it. Budgets vary dramatically by the size of the area served, number of members, stage of development, services offered, and sources of funding.

Cash flow is often a big problem in the TMA's early months. This means TMAs do not start out with a sufficient reserve to support the start-up and ongoing expenses of staff, office equipment and upkeep, research and marketing, and other business development functions until revenue from sales (membership) grows.

In later months and years, lack of funding can limit services provided. Members may want shuttle services, transit discounts, vanpool programs, information materials and other services, but the TMA's budget may not support these services. The TMA must expand services to increase membership, but to expand services, the TMA must have a larger membership base.

A TMA must ultimately work within its budget or find additional sources of funding. Potential problems can be minimized, however, if finances are planned and managed properly. Accurately and realistically estimating revenues and expenses, seeking out and developing all possible sources of funding, and carefully monitoring financial progress are keys to assuring financial stability.

Most TMAs seek advice from a competent accountant to establish a financial system. Most directors do, however, keep their TMA's financial records without substantial difficulty. It is not necessary to acquire an overly sophisticated financial system but the following minimum elements should be included:

- Annual and multi-year (2 to 4 year) budgets
- Cash flow projection

### Annual and Multi-Year Budgets

Annual and multi-year budgets are important financial documents. A budget is simply a list of the projected income and expenses for a time period, generally one or more years, but with income and expenses balanced to avoid overspending.

Budgets show both expenses and income. Expenses generally are divided into three basic categories:

- Operations
- Marketing and promotions
- Member services

Income categories can include both private and public sources:

- Membership dues
- Fees for services
- Public seed funding grants and private start-up contributions
- Public service operation and study grants, and private contributions
- In-kind contributions

Define categories and sub-categories of income and expenses in sufficient detail to track financial progress, but not in so much detail that excessive time is spent tracking expenditures. Whenever possible, large expense categories should be broken down into more easily monitored sub-categories. For example, an item of "office expenses" is too broad, but "paper clips" is too detailed. Compromise with a few office expense items (rent, telephone/utilities, office supplies, and office equipment).

It is often difficult to develop a realistic budget in the first year because there may be unknowns in both expenses and revenues. Therefore, budget conservatively and monitor everything closely. This experience will help to prepare more accurate budgets in future years.

Develop budgets for both short-term (one year) and longer-term (two to four year) periods. The multi-year budget will include the current year's budget and project revenues and expenses beyond the current year. The short-term budget is clearly important for day-to-day financial management, but for financial stability and self-sufficiency, it is necessary to plan for multiple years of operation. Revenue and expense items for later years will not be as detailed as the current year, but will give an early warning about potential financial problems and allow adequate lead time to seek and develop additional sources of funding to support new services.

The 1998 ACT Survey of TMAs collected data on the breakdown of expenses incurred. Interestingly, the results show such a wide variation in budgeting that it is difficult to generalize. Among TMA respondents, the percent of the budget programmed for marketing and promotions ranged from 2-70 percent, with an even distribution between this high and low. Similarly, the surveyed TMAs alloted anywhere from 3-85 percent of their budgets for member services, with an even distribution between this high and low.

## TMA Operations

Operations expenses are those incurred in administering the day-to-day activities of the TMA. Staff salaries are the largest operations expense item, and the largest single expense item for most TMAs. This is not surprising, since most TMAs provide labor-intensive commute management information and support services.

Related overhead can also absorb a substantial portion of the budget. This includes: office space, furniture, equipment, telephone and other utilities, postage, office supplies, insurance, staff travel, dues and subscriptions, and other office management functions.

Typical first year staff include a full-time director and part-time assistant. Director's salaries vary by location, but generally range from $30,000 to $60,000 per year.

Staff expenses also generally include payroll "burden" or "fringe." Payroll burden covers federal and state payroll taxes, but also expenses for staff vacation and sick leave, health insurance, and other employee benefits. Common fringe benefits provided to TMA staff include:

- Paid holidays

- Medical insurance
- Professional membership dues
- Transportation allowance
- Life and/or disability insurance

Payroll burdens for employers are typically 30 to 50 percent of the cost of salaries for full-time staff. Therefore, if staff salaries are $50,000 per year, expect to spend an additional $15,000 to $25,000 for payroll burden. If self-employed consultants are hired who receive no direct fringe benefits and pay all payroll taxes themselves, the payroll burden will be smaller, but the base salary will probably be higher.

## Marketing and Promotion

Expenses for marketing include developing and printing information materials, staging promotional events, and producing newsletters and other communication. Marketing expenses are generally highest during the first year the TMA is forming, while establishing an identity and marketing initial services. These expenses are usually paid early in the formation stage and the cash flow projection should reflect this expense.

## Transportation, TDM, and Member Services

Programs such as guaranteed ride home and transit pass discounts would fall into this category. Expenses for transportation studies performed by consultants could also be included here.

Most TMAs fund some services, especially during the operation stage. Guaranteed ride home programs and ridematching services are commonly offered by the TMA. Less common and more expensive items include operating transit and vanpool services, direct carpool and transit subsidies to members' employees, funding of bus shelters, bicycle racks, and other supporting facilities, and other services that expand commuting alternatives.

## Funding Sources

Funding sources and amounts vary substantially from one TMA to another. These sources include:

- Membership dues/assessments
- Fees for services/user fees
- Seed funding and start-up grants
- Ongoing service operation and study grants
- Private contributions
- In-kind contributions (non-cash)
- Other revenue sources

### Membership Dues/Assessments

Most TMAs receive some portion of their funding from membership dues. Membership dues typically account for 30 to 75 percent of a TMA's income. Dues structures vary for each TMA. Examine the potential member market and the value of the TMA's services in order to create a dues schedule that is appropriate and reasonable for members. Also examine the TMA's projected expenses to determine if the proposed dues will provide sufficient resources for activities.

Most TMAs establish pre-determined dues categories. The advantage of this structure is that members know how much they will pay. The disadvantage is that the TMA's ability to cover expenses is uncertain and dependent on the number of members the TMA can attract. A small number of TMAs use an "expense sharing" dues structure, in which the TMA determines the amount of revenue needed to cover expenses and then divides that amount among members (current and projected).

Most TMAs set different dues for distinctly different types of members. Common dues categories are: employers, developers/property owners, local governments, and sometimes others such as non-profit groups and business associations. By structuring dues in this way, the TMA can account for differences in benefits offered to each group. Ideas for possible dues structures for each of these groups are as follows:

***Employers and Developers***—Employers' and developers' dues are most often determined by the size of their company or development project. TMAs located in areas with large amounts of undeveloped land might also assess dues for landowners based on the amount of land owned.

Some TMAs require all members to pay the same fee while others require companies to pay the same small base membership dues, plus additional fees for certain special services performed by the TMA, such as employee surveys and rideshare matching.

Graduated fees are commonly assessed in one of three ways:

- $"X" per employee (for employers), $"X" per square foot of building space (for employers or developers), or $ "X" per parking space
- Range of size, such as $500 for companies with 1-50 employees and $1,000 for 51-150 employees
- A small flat fee plus a graduated portion, such as $250 plus $5 per employee

***Local Governments***—Local government groups or agencies are often TMA members. Local governments are both employers who can benefit from the TMA's services, and important players in the TMA's public-private partnership. Because of this dual role, local governments often do not fit easily into an employer member category and local governments might pay a flat fee dues rate, if they are voting members. If local governments do not vote, they pay no dues. Most local governments pay no dues if they have no employees able to use TMA services.

***Other Members***—Many TMAs have other members, including groups and individuals, to whom the TMA provides few direct services. Often they are grouped under a category such as "associates," "affiliates," or "supporters." Dues for these groups, when covered by a separate membership category, are usually set at a lower annual level. This category is often designated as non-voting. While it is important to evaluate each member individually to determine the most appropriate membership category, affiliate groups might generally include private transportation service providers, transportation and real estate consultants and attorneys, realtors, and business groups such as chambers of commerce. Members of an affiliate category for whom voting is important can join as employer members with an appropriate fee.

## *Fees for Services/User Fees*

Some TMAs generate income from fees charged for services, which can be an important source of private funding. Fees are generally charged for special services, such as employee surveys or preparing trip-reduction plans that are time-intensive and needed by only a segment of the membership. The TMA could also offer some or all of these services to non-members at higher fees.

Some services for which TMAs charge fees include:

- Employee surveys
- Trip-reduction plan preparation
- Ridematching
- Workshops and seminars
- On-site TDM promotions
- Vanpool leasing
- ETC training
- Shuttle operation

### *Seed Funding and Start-up Grants*

Federal and some state governments, regional agencies, and cities have implemented programs to provide start-up funding for new TMAs. Some programs require private sector match funding. As a general rule, government funds are not intended to support ongoing operations, but serve as seed funding (one to three years) to start a new TMA. The federal Congestion Mitigation and Air Quality (CMAQ) program is an example of a funding source that has been used for this purpose.

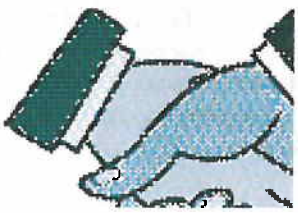
Public seed funding has played a significant role in the evolution of many TMAs. Prior to 1995, the Federal Transit Administration funded the development of several TMAs, ranging from $25,000 to over $100,000 per year. Several states also implemented formal programs providing grants (most 50/50 match) to qualifying private organizations or emerging TMAs.

More recently, the State of New Jersey provides a total of $2.8 million annually to its TMA Program, 100 percent of which is from the federal CMAQ program. Eight TMAs are eligible for $350,000 each. The State of Colorado now requires TDM as part of all corridor studies. As a result, TMAs in the Denver area expect to receive $40,000 to $70,000 per year for the next seven years to mitigate construction impacts of a light rail corridor. In the State of Florida, seed funding has been available for the initial three years of TMA start-up, with up to 50 percent of the TMA budget provided by state funds during year 1. During years 2 and 3, the state match drops to 40 percent and 30 percent respectively. Ongoing funding at the level of 25 percent of the TMA budget, up to $50,000, whichever is less, is available based upon meeting eligibility criteria.

In the State of California, TDM used to be addressed on a state-wide basis, but is now addressed at the county level. The Southern California Association of Governments (SCAG) is providing three TMAs up to $40,000 annually for a number of years to promote a regional ridesharing incentive program. It is possible to secure Air Quality Management District funding if TMA program results are properly quantified. In Colorado, four TMAs have been seed funded for up to three years with regional funds.

The City of Denver, Colorado offers $25,000 per year to TMAs indefinitely, based upon eligibility. In the City of Sacramento, California, TMAs receive some funds from development ordinances or special taxes. Four TMAs in Atlanta, Georgia, obtain funds as being part of a community improvement district, in which property owners are taxed based on square footage.

The Tri-County Metropolitan Transportation District of Oregon (Tri-Met) in Portland offers matching funds totaling $250,000 per year to TMAs that have secured CMAQ grants for vanpooling programs. The annual matching proportions are 10% for the first year, 33% for the second, and 67% for the third year that the CMAQ funding is in place. Receipt of matching funds from the city are conditioned upon the TMA meeting CMAQ requirements, completing a feasibility study, securing a letter of funding commitment, and having a business champion.



Several TMAs have received substantial contributions from local developers, business associations, and/or large employers to assist in the initial development of the TMA. In later years, these supporters typically have continued paying dues, either along with other businesses or as the sole TMA funder. Although seed funding can be a valuable source of funding for a newly established TMA, the TMA should strive to establish funding sources that ensure stable, predictable funding.

### Ongoing Service Operation and Study Grants

Few TMAs are able to support operation expenses such as shuttles and vanpools, demonstration projects or conduct special planning studies from general revenues. Instead, TMAs generally fund these services and activities through public grants and private contributions from employers and developers. Some public agencies offer grants for delivery of specific services, such as ridematching. The support can be provided as cash or in-kind donations. In other cases, public agencies contract with a TMA to perform services, such as bus pass sales and promotions.

Public agencies also provide one-time grants, often funded through developer impact fees, other traffic mitigation funds, or tax revenues earmarked for transportation programs. Because the sources of these grant funds often restrict their use, most of these grants are used for planning or evaluation studies, purchasing capital equipment (e.g., shuttle buses), or marketing. Service operation grants are typically given for a short demonstration period rather than for ongoing operation.

### Private Contributions

Employers, developers, merchants, and other businesses can also be sources for funding services. Contributions from private groups primarily take one of two forms: direct cash contributions or subsidies to employees or patrons through purchase of passes or other vouchers. Employers and developers can also fund special studies

### In-Kind Contributions

Many TMAs receive in-kind contributions from members, public agencies, business groups, and others. In-kind contributions can include: office space, furniture, equipment, postage, printing, clerical and professional services (legal, accounting, graphic design), and TDM planning assistance (local governments). Maximize the use of in-kind services and donations to reserve cash resources and minimize potential cash flow problems. However, be sure to assess potential impacts of in-kind funding on public grants. Some public agencies restrict the amount of in-kind services a TMA can claim as a match against public funds.

### Other Revenue Sources

TMAs have become very creative in searching for funding sources. Some have been able to take advantage of tax revenues or developer funds for ongoing operation. A few TMAs receive ongoing funding from local tax sources. Another possible revenue source is the Common Area Maintenance (CAM) assessments included in employer tenants' leases. These assessments, generally used for grounds keeping, building maintenance, utilities, and other facilities, have been expanded to provide revenue for several TMAs. Employers join the TMA when they sign a lease, pay dues through the CAM, and have access to all the TMA's services.

# Financial Management Issues for TMAs

Though similar to a small for-profit business, nonprofit TMAs face different challenges from an accounting and financial management point of view. At the same time, the accounting systems for nonprofits have much in common with their for-profit brethren, though there are some significant differences.

The discussion below is not intended to be the definitive source for all the financial issues and accounting procedures to be followed by a TMA. It is not a substitute for qualified legal and accounting expertise. The discussion highlights the major issues of nonprofit financial management so a new TMA Board or a new TMA executive director with limited accounting experience can begin to understand the financial management processes and issues that can have a direct bearing on the long term success of that TMA.

## *Difference—Source of Income*

One noted difference between the for-profit and nonprofit accounting world is the source of the income. Nonprofit TMAs receive much of their funds through donations and grants. Donors who make contributions to TMAs that qualify for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code are entitled to receive tax deductions. These donations can come to TMAs in one of three general types: in-kind contributions, special events and membership dues, and pledges.

***In-Kind Contribution***—Accounting standards require that nonprofits account for contributions of donated materials and services. In addition, volunteer time must be included in the financial statements when either the volunteer time results in the creation or enhancement of non-financial assets, such as volunteer labor to renovate a commuter center or the services volunteered are specialized skills, such as those provided by accountants, lawyers, and craftsmen.

***Special Events and Membership Dues***—People who pay to attend TMA fundraisers (such as golf tournaments, dinners, etc.) often receive a tangible benefit in return (a round of golf, a meal, etc.). Similarly, membership dues may entitle individuals to use facilities, receive services, etc. The portion of the special event charge or membership dues that represents the fair market value of the benefit received is not tax deductible to the donor. A latter section of this chapter will discuss this fair market value issue and the issue of unrelated business income.

***Pledges (Promises to Give)***—Industry standards also set down firm guidelines for pledge accounting, requiring that legally enforceable, unconditional pledges be recorded in the accounting records. An unconditional pledge is defined as a contribution that is not reliant on some uncertain future event, such as receiving a matching grant from another source. In addition, the accounting profession has established guidelines for responsibly tracking donations that have been restricted by the donor for a specific use (e.g., starting a new program). The nature of the restriction will determine how these funds are tracked and reported.

## Differences and Similarities Between For-Profit and Nonprofit Accounting

### Difference—Method for Tracking Income and Expenses

Another common difference between small businesses and small nonprofits is the method selected for tracking all income and expenses. Most businesses track all revenues and expenses by using accrual accounting where revenues are recorded when they are earned and expenses are recorded when the obligations are incurred. A TMA, like many small nonprofits, may choose a simpler method — cash-basis accounting method — to record expenses and revenues. Under a cash-basis system, TMAs only record revenue when the cash is received, and only record expenses when the bills are paid, similar to maintaining one's personal checkbook.

### Difference—Reporting Requirements

Reporting requirements are also different for nonprofits. Nonprofits are required to report their expenses by what is known as their functional expense classifications. The two primary functional expense classifications are program services and supporting activities. Supporting activities typically include management and general activities, fundraising, and membership development. Practices vary widely from organization to organization in the nonprofit sector as to how expenses are categorized by functional areas. In addition, financial information for nonprofits is interpreted differently from for-profit financial statements.

### Similarity—Capitalize and Depreciate Fixed Assets

Similar to for-profit organizations, nonprofits must capitalize and depreciate fixed assets (i.e., purchase of long-lasting, substantial property and equipment such as vans, computers, etc.). Nonprofits must charge a portion of the cost of those items in each year of its useful life.

TMAs can expect their accounting system to change as its needs and resources change. For example, a new TMA may only need to keep an accurate record of activity in its checkbook. However, as the number of transactions increases, the TMA will add manual cash disbursements and receipts journals, but may still prepare monthly reports using a summary sheet of income and expense items. Finally, as the TMA acquires assets other than cash, such as vehicles, accruals are added, and transactions become more complex, a full general ledger system will need to be incorporated.

As their volume and complexity grow, the financial management activities will also require increasingly sophisticated staffing, whether by paid or volunteer staff or a combination of staff and outside service providers. An accounting system is only as good as the staff's ability to put it into practice, and should be designed with its users in mind.

## Overview of an Accounting System

An accounting system consists of records and a series of processes and procedures. The primary goal of the accounting system is to make certain that financial data and transactions are properly recorded and timely, accurate reports necessary for management oversight and planning are produced.

Traditionally, the accounting system includes the following components:

### Chart of Accounts

The chart of accounts is a list of each item which the accounting system tracks. It serves as the table of contents to the general ledger (described below). The chart of accounts is divided into five major categories:

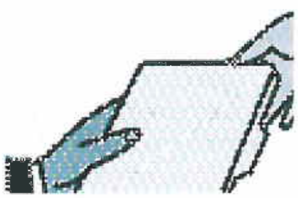
- Assets
- Liabilities
- Net Assets or Fund Balances
- Revenues
- Expenses

Each account is assigned an identifying number for use within the accounting system. At the end of this section, a sample chart of accounts is included.

### General Ledger

The general ledger organizes information by chart of account numbers. In a manual system, summary totals from all of the journals are entered into the general ledger each month, which maintains a year-to-date balance for each account. Data is usually entered into a computerized system only once. The software includes the information in all related reports upon user approval of the entry.

### Journals and Subsidiary Journals



Journals are used to methodically record all accounting transactions before they are entered into the general ledger. Journals organize information sequentially and by transaction type (receipts, disbursements, other). There are several types of journals.

***Cash Disbursement Journal***—This is a chronological record of checks that are written, categorized using the chart of accounts.

***Cash Receipts Journal***—This is a chronological record of all deposits that are made, categorized using the chart of accounts.

***General Journal***—This is a record of all transactions that do not pass through the checkbook, including non-cash transactions (such as accrual entries and depreciation) and corrections to previous journal entries.

***Payroll Journal***—This is a subsidiary journal, which records all payroll-related transactions. This may be useful as the number of payroll transactions increases and becomes too large to handle reasonably within the cash disbursements journal.

***Accounts Receivable Journal***—This tracks income accruals. It is used when there are too many entries to track effectively through the general journal.

***Accounts Payable Journal***—This journal allows a TMA to group expense accruals (e.g., bills) that are too numerous for the general journal.

The process of transferring information from the journals to the general ledger is called *posting*. Computerized accounting systems often require users to post all income and expense transactions through the accounts receivable and payable journals.

### Checkbook

In very small organizations like some self-standing TMAs, the checkbook may serve as a combined ledger and journal. Most financial transactions will be made through the checkbook, where receipts are deposited and from which payments are made. Not surprisingly, small organizations receiving few or no restricted contributions find it much easier to keep track of financial activity by running all of their financial transactions through a single checking account. Very small organizations, with few deposits and disbursements, may prepare reports directly from the checkbook after the balance has been reconciled with the bank balance.

### Accounting Procedures Manual

The accounting procedures manual is a record of the policies and procedures for handling financial transactions. The manual can be a simple description of how financial functions are handled (e.g., paying bills, depositing cash and transferring money between funds) and who is responsible for what. The accounting procedures manual is also useful when there is a changeover in financial management staff. One of the sections of this manual is a detailed "internal control procedure" that states who, how, and when various members of a nonprofit will manage the process.

Each of the above journals plays an important role in the accounting process. The chronological steps below describe the process.

1) Financial transaction
2) Analyze transaction
3) Record transaction in journals
4) Post journal information to general ledger
5) Analyze general ledger account and make corrections
6) Prepare financial statements from general ledger information

The routine aspects of the accounting process (recording transactions, posting, etc.) are generally done by bookkeepers or data entry clerks. Accountants focus on the more analytical aspects of the accounting cycle (analyzing transactions, preparing financial statements). Many TMAs rely on a single individual to perform all of these functions.

## Setting Up the Chart of Accounts

A TMA's chart of accounts should be designed to keep track of financial transactions for reporting and making good financial decisions. Apart from certain practices regarding the numbering system and the order in which information is presented (see below), a TMA can tailor its chart of accounts to its specific needs.

In order to decide what to include in the TMA's chart of accounts, consideration should be given to the following issues:

- TMA's capacity for tracking financial information
- Level of detail required by Board of Directors and funding agencies
- Types of reports that will be prepared
- Financial decisions TMAs will need to make on a regular basis

### Essential Reports

A TMA should begin the design of a chart of accounts by first considering what reports it will need to satisfy contractual requirements as well as help the board of directors manage the organization's finances and make sound decisions. Identification of those reporting requirements will help the TMA determine which categories to include in the reports. For example, the chart of accounts should correlate to the categories in the TMA's budget so a comparison can be made between the budgeted amounts and the actual income and expenses.

### *Sources of Income*

The sources of income the TMA receives or hopes to receive may need to be considered. Will the TMA need to distinguish between corporate dues and public sector grants so it can monitor private sector match requirements for public sector grants? Are some contributions restricted to particular programs or types of expenses? Does the TMA expect to earn fees for some services?

### *Level of Expense Tracking*

The TMA should determine the lowest level of detailed information that it would like from its financial records. Consideration should also be given to how the tracking information would be used. For example, the TMA may wish to track the postage expenses for its marketing efforts separately than general office postage for planning purposes. If the TMA does not plan to analyze its expenditures at this level of detail, it is recommended to combine the two categories. If the TMA operates more than one program, it may wish to track expenses such as long distance phone charges, copying, etc. for each program. Accounting standards for nonprofits require them to report revenues and expenses in three categories: unrestricted, temporarily restricted, and permanently restricted. Therefore, the chart of accounts should support these reporting requirements.

### *Information Tracking*

The ability and availability of the TMA's bookkeeper to manage a complex number of variables is another major consideration. Training is likely to be required for the bookkeeper to use a TMA's potentially complex chart of accounts. Simpler is better. The TMA can revise the chart of accounts over time as required.

## *Overview of a Sample Chart of Accounts*

The sample chart of accounts provided at the end of this section shows how a TMA might track revenue and expense items. This sample is intended to be a guide to use for developing a chart of accounts. It is not comprehensive and some of the accounts included in the sample may not be useful to every TMA. Note the following structure of the sample chart of accounts.

Account categories are presented in a standard order, beginning with the accounts presented in the Statement of Position or Balance Sheet. These are described below.

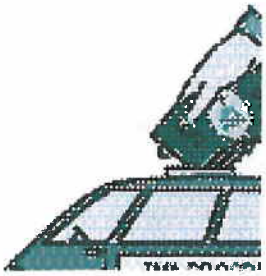
### *Assets*

Assets are the tangible items an organization has as resources, including cash, accounts receivable, equipment and property. Assets are usually listed in descending order of liquidity from cash to fixed assets such as property and equipment. Traditionally, asset accounts usually start with the number "1."

### *Liabilities*

Liabilities are obligations due to creditors, such as accounts payable. Obligations that fall due within the next year, called "current liabilities," are usually listed first, followed by long-term liabilities. Accounts payable and payroll taxes payable are usually listed before other payables. Deferred revenue and other liabilities are often further down on the list. Liabilities often begin with the number "2."

### *Net Assets*



Net assets, formerly referred to as the fund balance(s), reflect the financial worth of the organization. They represent the balance remaining after obligations are subtracted from an organization's assets. Net asset accounts begin with the number "3."

Statement of Income and Expense accounts follow the Statement of Position Accounts.

Account numbers progress from lowest to highest, with an opportunity to add more numbers between the account categories to allow for additional levels of detail over time.

Related accounts are grouped together with related numbers. For example, the general number for Accounting Fees is 7520. However, each type of accounting fee has been assigned its own account number. Audit expenses, for example, are 7521. This type of expense grouping simplifies consolidating information for reports (e.g., all accounting fees can be combined manually or by computer on the heading account number 7520).

## Statement of Position (Balance Sheet)

***Assets***

| | |
|---|---|
| 1010 | Cash<br>1011 Checking Account<br>1012 Petty Cash |
| 1020 | Savings and Temporary Cash Investment |
| 1030 | Accounts Receivable |
| 1040 | Allowance for Doubtful Accounts |
| 1050 | Pledges Receivable |
| 1060 | Grants Receivable |
| 1130 | Prepaid Expenses |
| 1610 | Land |
| 1620 | Building |
| 1640 | Equipment |

***Liabilities***

| | |
|---|---|
| 2010 | Accounts Payable |
| 2410 | Loans from Trustees & Employees |
| 2510 | Mortgage Payable |

***Net Assets***

| | |
|---|---|
| 3100 | Current unrestricted net assets |

## Statement of Income and Expenses

*Income*

4010 Contributions (Direct Mail)

4050 Special Events (Gift Portion)

4100 Donated Services and Use of Facilities

4220 Corporate Grants

4230 Foundation Grants

4510 Government Contributions

5040 Sales to Public of Program-Related Inventory

5060 Other Program Service Fees

5110 Membership Dues - Individuals

*Expenses*

7110 Salaries & Wages of Officers, Directors, etc.

7210 Other Salaries & Wages

7310 Payroll Taxes, etc.
- 7311 FICA Payments (Employer's Share)
- 7312 Unemployment Insurance & Taxes
- 7313 Workers' Compensation Insurance

7314 Disability Insurance

7520 Accounting Fees

7521 Audit & Accounting Fees
- 7522 Bookkeeping Services - Outside
- 7523 Payroll Services - Outside
- 7524 Bank Service Charges

7710 Supplies

7810 Telephone

7910 Postage & Shipping

8010 Occupancy
- 8011 Office Rent
- 8012 Janitorial & Similar Service Fees

8110 Equipment Rental & Maintenance

8210 Printing & Duplicating

8220 Publications

8310 Travel

8710 Insurance

## *Maintaining the Accounting System*

Key tasks for maintaining the integrity of an accounting system include the following:

### *Trial Balance*

In a manual system, all balances from the general ledger are computed on a monthly basis to check that debit balances equal credit balances. Financial statements can be prepared using trial balance amounts if debit balances equal credit balances. Computerized systems produce a trial balance as a standard report.

### *Bank Reconciliation*

Each month, the TMA will need to reconcile the balance in its checkbook with the balance in its account according to its bank. This process has two basic steps:

1. Checkbook entries for deposits and checks are compared with those shown in the bank statement.
2. Bank charges or interest earned are included in the checkbook balance. Outstanding checks are subtracted from the bank's balance and deposited checks not yet reflected in the statement are added in.

### *Reporting by Functional Classification*

The equivalent of an individual's 1040 Form, the Federal Form 990, requires nonprofits to report expenses by their functional classification. Two primary functional classifications are program services and supporting activities. Supporting activities are typically comprised of management and general activities, fundraising, and membership development.

A TMA's program services are the services and goods being provided to employers, commuters, or members that fulfill the purposes or mission for which the TMA exists. Supporting activities are all activities of a not-for-profit organization other than program services such as contract administration, accounting, etc. Fund-raising activities include publicizing and conducting special fund-raising events such as golf tournaments and conducting other activities involved with soliciting contributions from corporations, foundations, government agencies and others. Membership development activities include seeking new members, collecting membership dues, and maintaining membership relations.

The above classification system was developed to help assess an organization's efforts, including the costs of its services and how it uses resources. Since donors make contributions or provide funds in order to further the TMA's mission, they are concerned that funds are used to achieve the TMA's service goals efficiently.

The practice of allocating expenses can vary from organization to organization. Some expenses for what might seem to be mainly an administrative function, such as the executive director's salary and benefits, may be equitably divided among a range of functional classifications, including individual programs. Generally, reasonable and justifiable methods for allocating the expenses among the various functions should be accepted by auditors.

TMAs may use different allocation methods for various line items. Office expenses such as postage, printing, and advertising can be identified to a specific program. However, some costs such as rent probably apply to the total program. In this case, the TMA can apply an indirect cost rate to spread the expenses over each functional category. The following provides a sample cost allocation methodology to show how this is done.

## The Sample TMA: A Sample Cost Allocation Methodology

Here, the Sample TMA has two major programs: Shuttle Operations and Employee Transportation Coordinator Training. The total expenses are:

| | |
|---|---|
| Executive Director | $59,000 |
| Shuttle Program Manager | $45,000 |
| Training Coordinator | $38,000 |
| Office Manager | $27,000 |
| Rent | $12,000 |
| Supplies | $6,500 |
| Telephone | $3,450 |
| Postage | $8,100 |
| Copying | $9,700 |
| **Total Expenses** | **$208,750** |

The Sample TMA uses the following methods for allocating its expenses into functional categories.

### Salaries and Fringe

The Shuttle Program Manager and the Training Coordinator salaries are allocated entirely to programs. The organization calculates hourly pay rates for the Executive Director and Office Manager by dividing their salary and fringe benefits by the number of hours each works in a year. They track their hours using a time sheet and multiplying the number of hours spent on each functional area by the hourly rate to determine how to allocate their salaries to each benefiting functional area.

### Rent

Rent is allocated based on the percent of staff time that serves each function (as determined by staff time sheets). Since 77 percent of staff time supports the program function, 77 percent of the rent is charged to the program function, as well.

### Supplies

Some supplies are clearly related to a specific program (training materials, markers and easels, etc.). These are charged directly to the benefiting programs. Other supplies are allocated using the indirect cost rate.

### Telephone

Telephone expenses are allocated using the indirect cost rate, though if sufficient long distance charges would be incurred, a portion of these costs could be allocated to the particular program.

### Postage

Bulk mailings such as newsletters to shuttle riders that can be easily traced to the shuttle program, would be charged to that program. The remaining postage expenses are distributed using the indirect cost rate.

### Copying

Copying an ETC Handbook, for example, done at the local copy center, would be charged to the training program. Other copying expenses are distributed using the indirect cost rate.

## Statement of Functional Expenses

| | *Shuttle Program* | *ETC Training Program* | *Total Program* | *Mgmt. General* | *Membership* | *Total Supporting* | *Total* |
|---|---|---|---|---|---|---|---|
| Salaries and Fringe | | | | | | | |
| Executive Director | $14,750 | $14,750 | $29,500 | $17,400 | $12,100 | $29,500 | $59,000 |
| Shuttle Program Manager | 45,000 | | 45,000 | | | | 45,000 |
| Training Coordinator | | 38,000 | 38,000 | | | | 38,000 |
| Office Manager | 7,000 | 10,000 | 17,000 | 8,000 | 2,000 | 10,000 | 27,000 |
| Expenses | | | | | | | |
| Rent | 4,598 | 4,598 | 9,195 | 1,870 | 935 | 2,805 | 12,000 |
| Supplies | 2,000 | 500 | 2,500 | 3,000 | 1,000 | 4,000 | 6,500 |
| Telephone | 750 | 1,500 | 2,250 | 1,000 | 200 | 1,200 | 3,450 |
| Postage | 500 | 5,000 | 5,500 | 600 | 2000 | 2,600 | 8,100 |
| Copying | 300 | 8,500 | 8,800 | 750 | 150 | 900 | 9,700 |
| Total Expenses | $74,898 | $82,848 | $157,745 | $32,620 | $18,385 | $51,005 | $208,750 |

| | |
|---|---|
| Total Program Costs | 157,745 |
| Total Supporting Costs | 51,005 |
| Total Costs | $208,750 |

Based on these allocation methodologies, the distribution of expenses to functional activities is as follows:

## Financial Statements

Financial statements are the final products of the accounting process, consolidating all of the TMA's financial transactions for the period. Nonprofits like TMAs are required to prepare three primary financial statements:

1. Statement of Financial Position (Balance Sheets)
2. Statement of Activities (Income Statement)
3. Statement of Cash Flows

Examples for these three financial statements for the Sample TMA, using the accrual-basis method of accounting, is included at the end of this discussion of financial management issues.

In addition, nonprofits must provide information about expenses as reported in their functional classifications (program services and supporting services). Included in each statement is the Statement of Financial Position, current assets, fixed assets, current liabilities, long-term liabilities, and net assets.

The Statement of Financial Position reports amounts of the organization's assets, liabilities and net assets (fund balances) at a specified date. This statement is also known as the Balance Sheet. Assets are property, equipment, and tangible resources the TMA owns and can use to achieve its goals. Current assets include cash accounts, investments, receivables and other items that could be converted to cash within one year. Fixed assets include land, buildings and equipment.

Liabilities are debts of the organization, or what is owed by the TMA to others. Current liabilities typically include accounts payable to vendors, short-term loans due, withheld payroll taxes due, etc. Long term liabilities include long term debt, etc. Net Assets or Fund Balances represent the net difference between the TMA's assets and liabilities. Three classes of net assets must be reported on unrestricted, temporarily restricted, and permanently restricted. Restrictions are determined by the conditions which donors place on their contributions.

## Difference Between Cash-Basis and Accrual-Basis of Accounting

Cash-basis and accrual-basis accounting use different criteria for determining when to recognize and record revenue and expenses in the financial records. Depending on the TMA's sensitivity to variations in cash flow, the method used may prove critical to the long-term viability of the organization. Under a cash-basis system, TMA revenues would be recorded when cash is received and deposited. Expenses are recorded in the accounting period when bills are paid. In accrual-basis accounting, income is realized in the accounting period in which it is earned (e.g., once contracted services are provided, grant provisions are met, etc.), regardless of when the cash from these fees and donations is received. Expenses are recorded as they are owed (e.g. when supplies are ordered, the printer finishes your brochure, employees actually perform the work, etc.) instead of when they are paid.

The following example compares the cash-basis versus accrual basis statement. At the end of the TMA's fiscal year (July to June), the TMA's bookkeeper has recorded the deposits and expenditures from its checkbook. A Balance Sheet has also been prepared to show the TMA's assets, liabilities and fund balance. The Statement of Activities, also known as the Income Statement or Statement of Revenue, Expenses and Changes in Fund Balances, reports revenues, expenses, and the resulting change in net assets for the year. Charges are reported for each of the three classes of net assets (unrestricted, temporarily restricted, and permanently restricted).

The bookkeeper prepared these financial statements using a cash basis since the information was taken from the checkbook. The next column of figures (accruals) displays some important information that has not been recorded when using the cash basis. For example,

- The state Department of Transportation has given the TMA a grant of up to $166,364 to provide employer outreach services and shuttle services in the area (on a monthly reimbursable basis). The TMA provided the services in June for $16,266 in eligible costs, but the state DOT check has not been received as of June 30.
- To help manage the cash flow, the TMA's policy is to hold invoices for at least 30 days in order to receive reimbursement from the state DOT. Therefore, the TMA has not paid the advertising agency $8,000 for media buys in June or the printer for the new shuttle schedules that go into effect in July. The TMA owes the printer $1,439.
- The board and officers' liability insurance premium ($4,200) was paid in March, and covers the period April through March. So, the premium covers another nine months in the next fiscal year ($3,150). Also, as of the end of this period, the TMA has already paid for another five months on the hardware and software maintenance agreement at $253 per month or $1,265. The TMA also paid $1,000 in advance for health insurance benefits for the staff.

To take these factors into consideration on the financial statements, revenues and expenses need to be recorded on an accrual basis. Several line items need to be added to the balance sheet in order to update the financial statements. These are:

### *Accounts Receivable*

This category reports revenues which have been earned, but not yet received. For example, a payment from the state Department of Transportation that has been invoiced, but not yet received is an account receivable. In this case, the TMA has a grant receivable of $16,266, since the services have already been provided.

IMPACT:

- Increase grant income from the state Department of Transportation by $16,266 to $150,128
- Increase grants receivable to $16,266

### *Accounts Payable*

Report expenses that are owed to others. The money owed to the advertising agency plus the printer is a $9,439 account payable.

IMPACT:

- Increase advertising expenses by $8,000 to $39,560
- Increase the printing expenses by $1,439 to $10,810
  Increase accounts payable to $9,439

## *Prepaid Expenses*

Prepaid expenses report expenses that have already been paid, but are for a future period. In this example, three months of insurance is considered a prepaid, rather than a current, expense.

IMPACT:

- Decrease Salaries and Benefits by $1,000 for the prepaid health insurance fringe benefit.
- Decrease board and officers' insurance expense by $3,150 ($4,200/12 months x 9 months) to $3,357.
- Decrease repairs and maintenance expense by $1,265 to $3,065.

Reported on an accrual basis, using the categories described above, the TMA's financial statements now look quite different—and give a different snapshot of the financial health of the TMA—as the following side-by-side comparison demonstrates. For example, the cash basis reporting shows that expenses exceeded revenues by over $16,000, whereas the actual "loss" was less than $4,000.

This example shows accrual basis statements will give the Board and others a much more accurate and complete picture of the TMA's financial condition. This factor needs to be considered along with the ease of preparing cash-basis statements.

**Factors to Consider When Selecting an Accounting Method**

| Factor to Consider | If the TMA has... | Then use this method: |
|---|---|---|
| The extent to which the organization has payables, receivables, etc. on an ongoing basis | Few bills or outstanding grants throughout the year | Cash-basis |
| Expertise and time constraints of bookkeeping staff | Tightly constrained or lack of expertise | Cash-basis |
| The extent to which the TMA needs to monitor cash flow to pay bills, meet payroll, acquire services, etc. | Need to closely track accounts payable and receivable to manage cash flow | Accrual basis |

## Sample TMA Balance Sheets
## Cash vs Accrual

| | Cash | Accrual |
|---|---|---|
| ***Assets*** | | |
| Current Assets | | |
| Cash | $43,046 | $43,046 |
| Grants receivable | NA | 16,266 |
| Prepaid expenses | NA | 5,415 |
| ***Total Current Assets*** | ***43,046*** | ***64,727*** |
| Property and Equipment | | |
| Computer equipment | 59,170 | 59,170 |
| Furniture and fixtures | 15,713 | 15,713 |
| Highway signs | 2,322 | 2,322 |
| ***Total Property and Equipment*** | ***77,205*** | ***77,205*** |
| Less accumulated depreciation | 61,900 | 61,900 |
| Net property and equipment | 15,305 | 15,305 |
| ***Total Depreciation*** | ***58,351*** | ***80,032*** |
| ***Liability and Fund Balance*** | | |
| Current liability – accounts payable and accrued expenses | NA | 9,439 |
| Unrestricted fund balance | 58,351 | 70,593 |
| ***Total Liability and Fund Balance*** | ***$58,351*** | ***$80,032*** |

NA = not applicable for cash-basis accounting systems

## Sample TMA Statement of Revenues, Expenses and Changes in Fund Balance Cash vs Accrual

| | Cash | Accrual |
|---|---|---|
| ***Revenues*** | | |
| Grants | | |
| State Department of Transportation | $133,862 | $150,128 |
| Transit company | 15,000 | 15,000 |
| City | 7,500 | 7,500 |
| County | 7,500 | 7,500 |
| Membership dues | 8,250 | 8,250 |
| State Department of Transportation Demonstration grant | 6,279 | 6,279 |
| In-kind contributions | 17,040 | 17,040 |
| Other | 5,217 | 5,217 |
| ***Total Revenues*** | ***$200,648*** | ***$216,914*** |
| *Expenses* | | |
| Salaries and benefits | $102,496 | $101,496 |
| Advertising and promotion | 31,560 | 39,560 |
| Printing and duplications | 9,371 | 10,810 |
| Telephone | 2,666 | 2,666 |
| Repairs and maintenance | 4,330 | 3,065 |
| Materials and supplies | 1,921 | 1,921 |
| Depreciation | 4,422 | 4,422 |
| Rent | 9,581 | 9,581 |
| Postage | 5,941 | 5,941 |
| Travel | 3,502 | 3,502 |
| Insurance | 6,507 | 3,357 |
| Professional services | 14,253 | 14,253 |
| In-kind expenses | 17,040 | 17,040 |
| Other | 3,268 | 3,268 |
| ***Total expenses*** | ***$216,858*** | ***$220,882*** |
| Excess of expenses over revenues | $(16,210) | $(3,968) |
| Fund balance at beginning of year | $74,561 | $74,561 |
| Fund balance at end of year | $58,351 | $70,593 |

Financial reports must be prepared according to generally accepted accounting principles regardless of the accounting system used throughout the year.

## Statement of Cash Flows

The third basic financial report, the Statement of Cash Flows, shows how the organization's cash position changed during the year. Cash flow information is divided among receipts and disbursements from investing, financing, and operating activities. A cash flow budget or projection should not be confused with a financial statement called "Statement of Cash Flows." The statement describes changes in cash from year-to-year due to operating surpluses or deficits, makes adjustments for non-cash items such as depreciation, and shows increases or decreases in accounts payable and accounts receivable. This statement and other financial statements are usually prepared by your auditor.

Sample TMA
Statement of Cash Flows
Year Ending June 30, 20##

| | 20## |
|---|---|
| Cash flows from operating activities: | |
| Excess of expenses over revenues | $(3,968) |
| Adjustments to reconcile excess of expenses over revenues to net cash provided by operating activities: | |
| Depreciation | $4,422 |
| (Increase) decrease in grants receivable | $4,744 |
| (Increase) decrease in prepaid expenses | $(656) |
| Increase (decrease) in accounts payable and accrued expenses | $(287) |
| Total adjustments | $8,223 |
| Net cash provided by operating activities | $4,255 |
| Cash flows used in investing activities—purchases of property and equipment | $(1,034) |
| Net increase (decrease) in cash and cash equivalents | $3,221 |
| Cash and cash equivalents at beginning of year | $39,825 |
| Cash and cash equivalents at end of year | $43,046 |

## Managing Cash Flow

Cash flow refers to the timing for received income and disbursing expenses. A budget projects the total income and expenses for a period of time but says nothing about when funds are received or spent. This can lead to problems if income and expenses are not balanced over time. A TMA might have annual income of $100,000 and expenses of $90,000, but if $50,000 is expended in the first three months and only $10,000 of the income is received, there will be insufficient cash flow.

The ability to manage the revenue and expenses streams or "cash flow" will allow the TMA to have cash available to pay when needed. Most TMA budgets are prepared on a yearly basis and usually show that income exceeds expenses over the year. However, the TMA could still face financial difficulty and impede its progress toward carrying out its mission if it doesn't consider how monthly or even weekly cash flow fluctuations can impact its ability to deliver services.

Cash flow can be a particular problem for membership organizations because dues are generally paid annually and at the same time of year for all members. Although this simplifies invoicing and record keeping, the TMA can experience serious year-end cashflow problems until dues for the coming year are received. New TMAs are particularly susceptible to cash deficits because many expenses fall early in the first year. Office furniture and equipment, marketing materials, promotional events, and other one-time costs generally are incurred in the first few months of the TMA's operation. To avoid this distraction from the business of the TMA, cash flow should be projected, monitored, and managed.

### *Projecting Cash Flow*

As part of the budget process, TMAs can forecast receipts and expenditures by month (or more frequently if necessary). This recognizes where and when sources of income are expected and how much the TMA will spend in each category so that the TMA's management and board of directors can anticipate problems or shortfalls and develop financial strategies for funding the shortages or even investing the surpluses.

This examination begins with a review of the track history of the sources of income and when that income appears. It continues with allowing for adjustments for any anticipated changes that will affect the timing and amount of payments and deposits. These changes might include when the TMA may offer programs or begin an activity (e.g., introduction of a new shuttle service). Other changes could be the identification of new funding sources or the end of previous funding, etc. While the cash flow projection for the coming year will largely correspond to the TMA's budget, accounts receivables from the prior year should come in and some cash may go out for payments made for last year's bills.

For TMAs receiving significant amounts of reimbursable government grants, monitoring cash flow may be critical. Reimbursement processes are known to be notoriously slow and subject to additional delays over disputes, eligibility or arithmetic errors.

As the year progresses, cash flow projections should be updated to reflect changes in plans and programs (e.g., introduction of new service is delayed two months). Over time, the TMA's ability to project cash flow should improve as it compares budgeted cash flows to actual deposits and expenditures.

### *Useful Strategies for Adjusting the Timing of Cash Flow*

The importance of understanding cash flow can be shown in a simple example. Assume the TMA is a new organization with no cash in the bank in its first month, but expects to receive $25,000 in revenue from a larger developer and spend $25,000 in expenses in its first month, paying salary and equipping the office until additional revenue is available. If the check from the developer is received first, the TMA will be able to spend it down as expenses are incurred. If, however, the expenses come in before the check comes, the TMA cannot pay its bills until the cash is received. In this case, the TMA has a problem with the timing of cash flow rather than a shortage of revenue or an excess in expenses.

There are common strategies for dealing with the timing of cash flows, whether it is a cash shortage or a cash surplus.

#### *A Temporary Cash Shortage*

In order to meet a projected temporary cash shortage, a TMA may want to consider any of the following strategies.

- Obtain a loan or line of credit, usually from a bank.
- Time purchases of equipment and other discretionary items to coincide with strong cash balances or finance the purchase of equipment by leasing it or paying for it over time.
- Delay payments to vendors.

- Speed up the collection of receivables (money owed or pledged to the TMA).
- Move up a fundraising event.
- Liquidate investments.
- Factor the TMAs' receivables. Factoring involves selling the TMAs' receivable at a discount to an organization that will wait for the payment. Interest charged by the factoring group will depend on the credit worthiness of the organization paying (i.e., not based on the credit worthiness of the TMA) and time between cash is received by the TMA from the factor firm and when the cash is received by the factor firm from the TMA's creditor.
- For dues-paying membership organizations, stagger payment dates throughout the year or bill members in two or more installments.
- Discount dues for members who renew early. A bit of revenue will be lost, but the added interest received from depositing the dues early may offset some of the loss and the improved cash flow will provide peace of mind.
- If the TMA will receive public grants and the money will not be provided as a lump sum at the beginning of the grant period, try to negotiate an arrangement that minimizes potential cash deficits. For example, create a payment schedule of several installments through the year, with the first as an up-front payment. Alternatively, the agency could establish an account against which the TMA could draw funds as needed.

### *A Temporary Cash Surplus*

A TMA may take one or more steps to take advantage of a projected temporary cash surplus.

- Accelerate purchases such as buying supplies on sale that the TMA will use over the course of the year.
- Make short-term investments in secure investments (certificates of deposit, U.S. Treasury Bonds.)

In summary, when reviewing the TMA's revenue and expense budget, the board should also review the organization's cash flow budget. The review should include any measures related to managing cash flow which involve commitments on the part of the TMA, such as loans or revised terms with vendors.

## *Other Related Documents*

In addition to the financial statements required for audit purposes, nonprofits are required by federal and state governments to file various information returns to maintain their tax-exempt status and document tax compliance. The primary federal reports are the annual Form 990 and Schedule A to the 990. State governments may require additional reports.

## *Financial Reports Needed by the Board and Staff*

At different times an organization will need different reports to provide information to support its decision making. The reports needed will depend on several things, including the TMA's financial stability, changes during the period, cash flow requirements, and the availability of staff or other professionals to prepare reports, etc.

On an annual basis, most nonprofits, like many TMAs, are required to file the 990 Form and Schedule A with the Internal Revenue Service. Other reports may be necessary at the state or local level to meet its reporting requirements.

**Internal Management Purposes**

- Assess performance over the year
- Identify significant departures from prior year
- Plan for the upcoming year
- Improve the internal control procedures and financial planning of the organization
- Reports needed: Financial statements including the Statement of Activities, Statement of Position, Income Statement for each program, and management letter from the auditor

**External Accountability Purposes**

- Financial disclosure to funding and reporting agencies
- Financial disclosure to members and the general public
- Reports needed: audited financial statements for the entire organization, including Statement of Position, Statement of Activities, Statement of Cash Flows, and Statement of Functional Expenses

In a small nonprofit like most TMAs, the board treasurer or outside accountant/bookkeeper might prepare the financial information for all in-house financial statements, and work with the executive director to prepare the narrative with financial highlights to be presented to the board.

The TMA's director should review all reports prior to presenting them to board members to ensure that the financial information makes sense and can be translated into issues and opportunities facing the organization.

The audit and management letter are addressed directly to the board of directors because of its oversight function. Typically, the auditor works with the finance staff to prepare federal and state reports and may be included at board meetings during which presentations are given.

## *Using TMA Financial Statements*

TMA board members, funding agencies and others can learn much about the TMA by examining the financial statements.

Measure the organization's efficiency, using factors such as:

- Units of service such as number of employers or commuter population serviced compared to costs
- Net income from fee-producing programs such as shuttles, carsharing and Employee Transportation Coordinator training programs compared to the fees received from riders, etc.

Evaluate the adequacy of financial resources, often through:

- Cash flow projections
- Comparison of total liabilities or total assets with net assets (formerly called fund balance)
- Liquidity ratios

Analyze significant financial trends by:

- Vertical analysis (looking at a simple line item as a percentage of total revenue or expense)

- Horizontal analysis (comparing prior periods with the current period)

TMAs and funding agencies should remember that similar results may have different meanings. For example, the Sample TMA's Statement of Cash Flows shows an operating deficit for the year of $3,968. For some, any loss may be a cause for concern. However, a closer examination found that the fund balance was sufficiently high at the beginning of the year. The board may have elected to begin to spend down the balance and this "deficit" may represent that decision.

Ratio analysis can be used to evaluate the TMA's financial health just as they are used in the for-profit world. Ratios are a tool for comparing numbers representing different aspects of a TMA's financial status. The value of the tool is in identifying which numbers to compare, and determining what the comparison might indicate. It is most important to identify the trends in each TMA and analyze changes over time, rather than compare to other nonprofits or TMAs. Accordingly, the significance of the numbers is limited to discussion of "high" and "low" ratios simply to help indicate what the ratio means.

## *Financial Indicators*

### *Surplus or Deficit*

In the pursuit of the "bottom line," reviewers of financial statements may naturally check the Statement of Activity first. If income is greater than expenses within a given period the organization has generated a "profit" or rather "net income." Similarly, if expenses exceed revenue, then the TMA has had a "loss" for the period.

Nonprofits are not required to break even for any given period. However, nonprofit organizations may deliberately seek to develop a cash reserve to handle future "rainy days" or even decide to spend down their cash reserves for a specific purpose such as starting a new program. Under the former situation, the TMA's Statement of Activity should reflect an operating surplus. The TMA should analyze the causes of significant unexpected surpluses or deficits and plan for the ramifications.

### *Budget to Actual for Revenue and Expense*

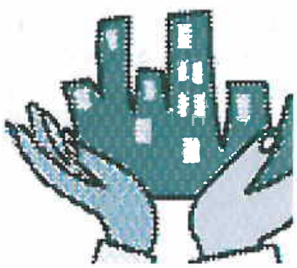
The comparison of budget to actual revenues and expenses is one of the most commonly used financial health indicators. These comparisons should be made on both a monthly and a year-to-date basis. Significant variations from budget to planned year-to-budget amounts can provide sufficient opportunity to adjust the budget before the situation worsens. Comparison with only the annual budget can cause relatively insignificant variations early in the fiscal year to compound over time. Given the requirements of some TMAs to provide local match money to secure government grants, this may mean that the $2,000 less in membership dues than expected in the second month may have a negative multiplier effect when the government grant it was to match cannot be fully tapped. For example, if the TMA was to contribute $2,000 in revenues from membership dues to receive $8,000 in state funds then this $2,000 loss in the second month may actually mean that the TMA will have $10,000 less in revenue than originally budgeted.

### *Functional Expense Ratios*

When completing Federal Form 990, nonprofits must report expenses functionally, broken down into the categories of Program, Management and General Activities, and Fundraising. Donors and agencies that evaluate nonprofit performance often look to see if most of the organization's funds are being used for programmatic purposes. However, different sources recommend differing practices and policies for allocating expenses among the functional expense categories. As a result, it is important to develop consistent guidelines within each organization to determine which expenses go to program support, and which to management and general activities or fundraising. The following is a summary of some functional expense ratios.

***Program-To-Total Expense Ratio***—The program-to-total expense ratio can be calculated by dividing program expense by total expense. If high, most of the expenses are related to program, relatively little is spent on management or fundraising.

***Fundraising-to-Total Expense Ratio***—The fundraising-to-total expense ratio can be calculated by dividing fundraising expense by total expense. If low, a small percentage of expenses are spent on fundraising efforts. Prospective donors may draw the conclusion that too high a portion of their contribution will be spent on fundraising, rather than on program services.



***Quick Ratio***—From the Statement of Position or Balance Sheet, the quick ratio or the short term liabilities coverage ratio helps assess whether or not there will be enough cash to pay bills in the immediate or near future. This is calculated by adding all assets that can be used to pay bills over a specific short period of time (e.g., month or quarter) and compare this with the bills that must be paid within that same period of time. If the quick ratio is high, there may be too much in cash. Some of the assets could be earning more if invested. If the ratio is too low, the TMA may be on the verge of a cash flow crisis and may find itself unable to pay creditors.

***Current Ratio***—Similar to the quick ratio, the current ratio uses the Statement of Position to determine whether the cash flow is sufficient to cover bills over the next year. This is calculated by dividing the current assets by the current liabilities. The implications are the same as the quick ratio, though caution should be exercised since fluctuations in cash needs during the course of the year may be disguised.

***Deferred Revenue Ratio or Net Temporarily Restricted Assets***—Deferred revenue traditionally refers to cash that has been received for some restricted purpose that has not yet been met. Under accounting standards, most of these funds will be treated as an addition to temporarily restricted net assets.

To determine the ratio, divide temporarily restricted net assets by the total of cash and savings. If this ratio exceeds 1, then the TMA may be spending restricted cash for purposes other than those for which the funding agency intended, or using monies designated for future purposes (such as vanpool rider subscriptions) to meet current expenses.

***Fund Balance Ratio or Unrestricted Net Assets Ratio***—The fund balance ratio, also called the unrestricted net assets ratio, measures the amount of unrestricted, spendable equity to the organization's annual operating expense. To determine the ratio, divide the expendable unrestricted net assets by annual expenses. If the ratio is low then the organization has little unrestricted, spendable equity available to meet temporary cash shortages, an emergency, or deficit situation in the future. This may be the case even in organizations with significant unrestricted net assets, if the major portion of equity is tied up in fixed assets.

***Days Receivables Ratio***—How long it takes to receive funds once invoiced can be critical to TMAs facing cash flow uncertainty. The days receivables ratio measures the average number of days it takes to collect on the service performed. This ratio is useful to organizations that earn significant portions of their revenue from reimbursable contracts, fees charged to developers or employers for services, etc.

To determine this ratio multiply the accounts payable by 365 days and divide by purchases. If high, payments taking longer than 30 or 60 days are inconsiderate and may result in friction with community vendors. In addition, the organization may be incurring additional costs as a result of late or deferred payments (e.g., late fees, interest expense, etc.). A very long days payables ratio or a sudden increase in days payable may indicate an inability to pay bills.

**TMA Financial Management Tips**

- Get expert legal and accounting advice.
- Develop a detailed working budget and cash flow projection.
- Assess expenses and funding needs - be realistic.
- Budget resources carefully and monitor revenue and expenditures regularly.
- Explore various membership classifications and all possible sources of funding.
- Utilize seed funding, if available and needed.
- Assure key funding commitments prior to initiating services.
- Maximize use of in-kind resources and donations.
- Establish strict accounting procedures and maintain detailed, accurate financial records.
- Develop a financial contingency plan.

## Financial Management in Perspective

Ultimately, the success of the TMA is not solely found in the financial statements; it is found in the TMA's performance against its goals. For example, perhaps a TMA has set a goal to provide shuttle services for 1,000 commuters to a rail station to decrease congestion and air pollution. Determining how many commuters used the shuttle and at what cost is not difficult. These calculations show how efficient the TMA has been in providing the service—not how effective the group has been at improving the quality of life for these commuters by reducing their stress and pollution inhaled. TMA staff, board of directors and fund agencies must not lose sight of the fact that financial indicators are powerful tools for managing, when used in quest of important goals.

## Sample TMA Balance Sheets
## June 30, 2000 and 1999

| | *2000* | *1999* |
|---|---|---|
| ***Assets*** | | |
| Current Assets | | |
| Cash | $43,046 | $39,825 |
| Grants receivable | 16,266 | 21,010 |
| Prepaid expenses | 5,415 | 4,759 |
| | $64,727 | $65,594 |
| Property and Equipment | | |
| Computer equipment | $ 59,170 | $58,313 |
| Furniture and fixtures | 15,713 | 15,536 |
| Highway signs | 2,322 | 2,322 |
| | $77,205 | $76,171 |
| Less accumulated depreciation | $61,900 | $57,478 |
| Net property and equipment | 15,305 | 18,693 |
| | $80,032 | $84,287 |
| ***Liability and Fund Balance*** | | |
| Current liability - accounts payable and accrued expenses | $9439 | $9726 |
| Unrestricted fund balance | $70,593 | $74561 |
| | $80,032 | $84,287 |

## Sample TMA Statement of Revenues, Expenses and Changes in Fund Balance
## Years ended June 30, 2000 and 1999

| | *2000* | *1999* |
|---|---|---|
| ***Revenues*** | | |
| Grants | | |
| State Department of Transportation | $150,128 | $151,968 |
| Transit company | 15,000 | 15,000 |
| City | 7,500 | 7,500 |
| County | 7,500 | 0 |
| Membership dues | 8,250 | 2,700 |
| State Department of Transportation Demonstration grant | 6,279 | 0 |
| In-kind contributions | 17,040 | 0 |
| Other | 5,217 | 3,664 |
| | $216,914 | $180,832 |
| ***Expenses*** | | |
| Salaries and benefits | $101,496 | $97,959 |
| Advertising and promotion | 39,560 | 39,882 |
| Printing and duplications | 10,810 | 7,946 |
| Telephone | 2,666 | 2,442 |
| Repairs and maintenance | 3,065 | 4,285 |
| Materials and supplies | 1,921 | 2,102 |
| Depreciation | 4,422 | 2,590 |
| Rent | 9,581 | 9,581 |
| Postage | 5,941 | 6,037 |
| Travel | 3,502 | 2,273 |
| Insurance | 3,357 | 3,644 |
| Professional services | 14,253 | 3,700 |
| In-kind expenses | 17,040 | 0 |
| Other | 3,268 | 3,834 |
| Total expenses | $220,882 | $186,275 |
| | | |
| Excess of expenses over revenues | $(3,968) | $(5,443) |
| Fund balance at beginning of year | 74,561 | 80,004 |
| Fund balance at end of year | $70,593 | $74,561 |

**Sample TMA Statements of Cash Flows**
**Years ended June 30, 2000 and 1999**

| | *2000* | *1999* |
|---|---|---|
| Cash flows from operating activities: | | |
| Excess of expenses over revenues | $(3,968) | $(5,443) |
| Adjustments to reconcile excess of expenses over revenues to net cash provided by operating activities | | |
| Depreciation | 4,422 | 2,590 |
| (Increase) decrease in grants receivable | 4,744 | (969) |
| (Increase) decrease in prepaid expenses | (656) | 703 |
| Increase (decrease) in accounts payable and accrued expenses | (287) | 7,634 |
| Total adjustments | 8,223 | 9,958 |
| Net cash provided by operating activities | 4,255 | 4,515 |
| Cash flows used in investing activities - purchases of property and equipment | (1,034) | (10,581) |
| Net increase (decrease) in cash and cash equivalents | 3,221 | (6,066) |
| Cash and cash equivalents at beginning of year | 39,825 | 45,891 |
| Cash and cash equivalents at end of year | $43,046 | $39,825 |

## *Delivering TMA Services*

Many TMAs choose their initial package of TDM strategies and member services casually. Services are unfortunately selected just because other TMAs have implemented them or because the services are easy or inexpensive to implement. TMAs commonly make the mistake of deciding what actions to take without clearly determining whether these actions will address the particular transportation issue(s) of concern.

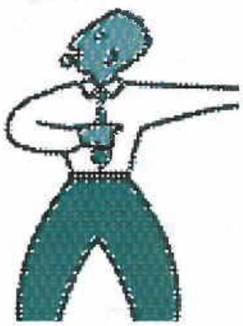
It is critical to begin the process of service development with a keen understanding of the membership's mobility problems. Services should directly address TMA members' transportation issues. Prior to development and delivery of services, the TMA strategic work plan process (as discussed in a previous section, "Developing a Strategic Work Plan") will have been completed, in which the TMA has identified its organizational strengths and weaknesses, resources and support, mobility problems within the service area and related services of other organizations and agencies. Based upon this assessment, the TMA has adopted goals, objectives, and selected performance measures, and has identified actions to accomplish the objectives. Some of these actions will be services that solve member mobility needs.

A young TMA with a small budget might determine that their greatest initial utility to the TMA membership is to serve as an information clearinghouse, provide a forum to address transportation issues and build consensus, be a liaison between the private sector and government agencies, provide advocacy for overlooked transportation and access solutions, represent the interests of the service area in long range transportation planning, and serve as a watchdog for transportation problems. Examples of initial TMA services might include organizing transportation fairs and other commuter information services, hosting information meetings, developing a network of employee transportation coordinators, and publishing a newsletter.

It is also important to deliver tangible, money and time-saving benefits, delivered in a cost-effective manner.

Effective service delivery can include:

- Identifying service concepts that meet membership needs
- Defining service operation and administration
- Promoting services effectively
- Monitoring, evaluating, and refining services



Service design and delivery is a challenge for many TMAs. Some lack the technical expertise to design the services, market them effectively, or evaluate their results. Others do not have the financial or political resources to implement services members want, or that have the greatest impact.

Therefore, it is important to be creative in seeking out assistance and solutions. For example, draw on the expertise of a member's market research staff for guidance in developing or analyzing a survey to identify services most in demand. Or, ask your regional rideshare agency for vanpool formation assistance. Address questions of TMA liability for a shuttle service to a member's attorney or the legal staff of a transit agency.

Obtain funding for a bus stop shelter program from a local tax earmarked for transportation projects. Examine possible sources of assistance and draw on relationships with local agencies and members to create and implement effective services.

Regardless of what members want, most TMAs find their wish list exceeds their pocket book, necessitating tough decisions about which services to provide. Many factors might enter into the decision:

- Total cost of the service, availability of funding and conditions placed upon use of grant funds
- Number of current and potential members that will benefit and the level of benefit the service provides
- Contribution of the service to the TMA's overall goals
- Synergism with complementary services already offered by the TMA
- Potential complement or conflict with services offered by other local programs, such as the transit agency
- Ease and speed with which the service can be implemented and benefits that can be realized

After a decision is made to implement a new service, develop a plan that defines how to provide it. The plan should define the objectives, operations, administration, and sources of funding.

## Service Objectives

An important first step in developing a new service is defining service objectives. Describe how the service will work, identify who will use the service, determine implementation or operation costs, and consider what will ensure quality. Service objectives are devised as part of the goals and objectives that are established during development of the strategic work plan, discussed in Section 4.

Service objectives serve several purposes. First, it is possible to measure the expected performance against a set of minimum requirements and against the likely performance of other services that could be offered. Second, there will be a clearer idea of the effectiveness of the service as its actual performance is monitored and evaluated. And third, if delivery of the service is contracted, your expectations can be conveyed more clearly to a private vendor.

Service objectives and performance measures will differ among various services. Performance measures can include numbers of people using the services, employer members' costs to operate work site commute programs, the level of influence the TMA has on local planning processes, the number of members of a particular type, or any other criteria related to benefits the service provides. If a TMA operates a midday shuttle, the service objective might be to reach an average ridership of 30 riders per hour by the third month of operation at a pre-determined cost per trip. (Please refer in this section to a previous discussion on setting objectives, selecting performance measures, identifying actions and benchmarking in "Developing Objectives and Choosing Performance Measures.")

## *Service Operation and Administration*

After defining service objectives and selecting performance measures, develop a written service plan to convey specific details to users or contractors.

Assume, for example that shuttle ridership retention is a problem and one action to accomplish the service objective is to implement a guaranteed ride home program. The service plan should answer the following:

- Who will be able to use the service? Will it be restricted to only those who use alternative modes five days per week, or will those who use alternative modes less frequently also be eligible?
- How will program eligibility be verified?
- Will it be available only for daytime emergencies or for overtime use as well?
- Will the service be provided by taxi cabs, rental cars, or another method?
- Will there be a maximum dollar benefit or maximum number of rides per budgeted time period?
- Will pre-paid vouchers be provided or will users pay and be reimbursed?
- Will users be required to sign up in advance? Will they sign a liability waiver?

Within the plan, define the responsibilities of each party involved. If contracting with a taxi company for the service, define minimum standards for timeliness of the taxi arrival. If using rental cars, define policies on employees' use of the rental vehicles, and the type of vehicle (e.g., compact car) for which the TMA will pay.

Finally, identify and address legal and liability issues to protect both the TMA and users of the service from damages, for example, requiring potential users to register in advance for the program and sign a service agreement and waiver of liability before they use the service.

## *Service Financing*

Next, determine what it will cost to provide the service, what fee will be charged for the service, if any, and the source of any additional funding needed. Carefully identify both capital and operating costs. Capital costs refer to one-time, up-front costs to purchase equipment, vehicles, and other items that will not recur. Operating costs are ongoing costs such as labor, maintenance, marketing/promotion, administration, and direct incentives.

Include any savings to the TMA, members, and employees. Also incorporate any user fees that may be charged. These savings and revenues should be counted against the total cost of the service to define the service's net cost.

Next, identify potential funding sources. Can the service be funded from the TMA's operating budget or will it need funds from another source? Some local, state, and federal government agencies provide service demonstration funding from general revenues or sales taxes dedicated to transportation uses. For example, some TMAs are using federal Congestion Mitigation Air Quality (CMAQ) program funding to initiate new projects.

Members of the business community, employers, developers and merchants can also provide funding, especially if the service directly benefits their employees, tenants, and patrons.

After planning and working out all the details of a new service, develop an advertising strategy.

### *Tips for Effective Service Delivery*

- Establish objectives for new services and compare expected service performance against the objectives.
- Examine all sources of technical and financial assistance from members and outside groups to ensure the success of your services.
- Before implementing the service, develop a comprehensive plan for its operation and administration; define how it will be provided and used.
- Solicit ideas for new services from TMA members and non-members.
- Market your services thoroughly and creatively.
- Track service use and evaluate service effectiveness.

## *Service Advertising*

Let potential users know the service exists, especially during the start-up period in order to generate enthusiasm for it. Depending upon the degree of confidence with various aspects of the new service, consider quietly testing the service on a small subset of the overall market to make sure there are no fatal flaws in design and to work out the "kinks" before presenting it to the entire target market through a full-blown advertising campaign.

Service advertising might include the following activities:

- Devise an initial information campaign
- Offer introductory "try it" incentives
- Host special promotional events
- Relate the new service to current programs

### *Devise an initial information campaign*

Information is an essential element of all advertising programs. But how it is disseminated will depend on the target market. If targeting this new service to existing members, provide information through regular communication channels, such as meetings and newsletters, and special bulletins designed to capture members' attention. If the service also benefits the general business community, broaden advertising channels to include announcements in local publications and other media, presentations to business groups, mailings to businesses, and notices distributed through building managers.

To reach employees, for example, identify the best channels through which to work within the company in order to spread the word. No two companies are alike in this regard. Depending upon the company's organization and hierarchy, best results might be obtained through working with the personnel, human resources, or benefits offices. It may also be the parking/security office or some other office within the company.

Generally, the higher the contact is on the organizational ladder, the better. A top manager or CEO can not only identify the best channels for disseminating information, but also ensure managerial support for internal promotion of the service, as well as giving alert to special considerations, such as procedures for working with employee unions. The promotion of a new or existing service can be greatly enhanced with the assistance of an enthusiastic Employee Transportation Coordinator.

Begin to promote a new service three to five weeks before it begins. This is soon enough for the word to spread, but not so far in advance that employees feel they are waiting for the service to begin.

One week before start-up, distribute a second wave of notices, using the same channels as before. These notices should repeat the information, and might also invite employers and/or employees to a TMA-sponsored "kick-off" event.

Explore partnering opportunities with the local transit agency for mutual advertising support. For example, the TMA promotes transit service while the transit agency adds information about the TMA's new guaranteed ride home program on its web site.

***Introductory "Try It" Incentives***

Offer incentives that encourage potential users to try the service. These incentives are most often used for "on-the-street" services, such as vanpools and express buses, but could be extended to others as well. Distribute these incentives with information flyers. These incentives could include:

- Coupons for one or more free rides
- Coupons from local merchants for discounts on meals, products, or services to customers who use the service
- Coupons for prize drawings donated by employers or local merchants
- "Bring-a-friend" incentives to encourage current users to tell friends and colleagues about the service

***Special Promotional Events***

An important day for any new service is the day it officially begins operation. If the new service is an express bus, a highly visible event could be held. Invite local elected officials, corporate executives, merchants, the media, employees, and any others. Offer free food, hold prize drawings, and include attention-getting activities.

Continue to use special promotions such as periodic prize drawings, contests, and anniversary parties even after the service begins operation. Consider holding a special promotion in conjunction with the annual "Try Transit Week" or other transportation-related events.

Relate the new service to current programs. For example, during the 1990's, federal legislation and actions enabled and expanded the range of commute benefits that employers could offer their employees. Commonly referred to as "Commuter Choice," the Internal

Revenue Code provides rules to ensure that qualified transportation fringe benefits provided to employees are excludable from gross income. Qualified transportation fringe benefits include transit passes and vanpool benefits. TEA-21 allows for transit and vanpool benefits to be provided in lieu of taxable income, and established a cap of $100 for tax-free transit and vanpool benefits in 2002. Promotion of such tax incentives can bolster the appeal of the new service.

## Review Results

The beginning of any new service also means the beginning of monitoring and evaluation. Periodically ask, "Is this service working?" and "Why or why not?" If a service is not producing expected results, shift resources elsewhere by examining the impact of the service and comparing it to the pre-defined objectives.

Collect data to measure whether the service met the objectives. For example, conduct surveys of users and non-users, keep a log tracking use on an ongoing basis, conduct periodic field checks to assess service quality, or use any other system that allows data collection to analyze and measure results. (Please refer to the earlier discussion in this section, "Initial Work Plan Development Considerations—Data Collection.")

Periodically review the data collected and look for changes resulting from the service. Questions asked could include:

- Who uses the service?
- How many use the service?
- Under what conditions do they use it?
- What did they use before the service was in place?

In addition to examining what change occurred, examine why the change occurred. Was it due to a feature of the service or something else? If no change occurred, were potential users unaware of the service, unable to take advantage of it, or was the service simply not appealing? The evaluation will determine whether the service needs to be modified to make it more effective and increase its appeal. Questions to ask include:

- How well do members, employers, commuters and others know the service?
- What are the reasons for using the service? What are reasons for not using the service?
- What benefits does the service provide to users and others?
- What qualities and features do they like and what would they change?

### *Identify Changes in the External Environment*

Examine the service environment. Changes in factors outside the TMA's control can influence results. Has the economy taken a turn for the worse? If so, local businesses could be financially strapped and find it difficult to participate in any TMA service, no matter how much they might like the concept.

Additionally, be cautious about attributing the change solely to the service. Has a local transit operator added service since the program started? Do other groups provide TDM incentives that were not provided before? Services provided by others can complement, or compete with a program, dramatically affecting results. Although it can be difficult to quantify the influences of external factors, account for them as much as possible.

## *Estimate Program Costs and Savings*

Finally, estimate the financial impact of the program. Examine the effectiveness of the service—Is the service having the desired impact?—and its cost-effectiveness. This requires the total cost, including the cost of planning and implementing the service, and its ongoing promotion and administration. Estimate any revenue the service generates (membership dues or fees for service, for example) and any savings that result from the program, such as employer members' commuter program cost savings.

**TMA Service Development Tips**

- Provide services that address the needs of established members and new members—be creative.
- Match services realistically to staff capabilities and resources—do not over-extend staff.
- Target a few early, tangible successes.
- Periodically reassess members' needs through surveys and individual discussions, and develop services tailored to members' needs.

# Appendix

- Sample TMA Feasibility Study Format
- TMA Formation—Typical First Year Activities
- Board and Staff Roles and Responsibilities, Activity Answer Key
- Examples of Membership Dues Structures
- Business Management Reference Texts
- Sample TMA Articles of Incorporation for a 501(c)4 organization
- Sample TMA Bylaws
- Example, Office Procedures
- Job Descriptions—TMA Executive Director/Manager
- Job Descriptions—Other Positions
- Case Studies
- "The Evolving TMA: Results from the 1998 ACT TMA Council Operational Survey"
- Helpful Resources

## Sample TMA Feasibility Study Format

***Adapted from a feasibility study prepared by the Nevada County Business Association in the Sacramento, CA area.***

I. Executive Summary and Recommendations

II. Study Area, Proposed TMA Boundaries and Rationale for Selecting Boundaries

III. Existing Conditions
- Growth patterns: population and employment
- Travel patterns and congestion levels
- Parking conditions
- Transportation infrastructure and services

IV. Existing Transportation Alternatives
- Public transportation
- Rideshare matching and promotion
- Employer-based TDM programs
- Other programs and services

V. Travel Patterns and Options of Employees or Other Selected Market(s)

VI. Regulations Affecting Study Area

VII. Transportation Problems and Solutions as Perceived by Key Stakeholders

VIII. Strategies to Address Local Transportation Problems
- Potential TDM, TSM and other strategies
- Relative effectiveness
- Implementation timing and costs

IX. Organizational Options and Recommendations
- Formation of TMA, legally incorporated private nonprofit organization
- Formation of TMA, some other organizational structure
- Expanded services of ridesharing agency
- Enhanced ETC Network
- Other
- Status quo

X. TMA Implementation Plan
- Proposed two-year work plan
- Proposed two-year budget and cash flow
- Proposed implementation schedule

XI. Appendix

# TMA Formation—Typical First Year Activities

## Months 1-3

**TMA Organization and Administration:**

- Formalize steering committee, establish TMA office, and hire TMA staff.
- Adopt bylaws and establish legal status.
- Establish fiscal structure (budget, cash flow, accounting procedures).
- Initiate publicity opportunities.

**Membership and Marketing:**

- Identify potential TMA members.
- Establish membership dues structure.
- Initiate contacts with priority potential members and establish "core" TMA membership.

**Service Development:**

- Conduct baseline employee survey.
- Establish partnerships with transportation planning/service organizations.

## Months 4-6

**TMA Administration:**

- Develop detailed work plan of activities and services to achieve goals.
- Begin development of long-term financial plan.

**Membership and Marketing:**

- Establish TMA "identity" for outreach to employers and commuters.
- Prepare TMA membership development and TDM promotion materials.
- *Continue outreach to potential members.
- Host first special membership development event.
- Convene initial TMA members' meeting.

**Service Development:**

- Identify and begin implementation of initial TMA services for members.
- Develop program to monitor and evaluate TMA activities and services.
- Begin individual employment site commuter promotions.

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*denotes ongoing activity

## *Months 7-12*

**TMA Administration:**

- Develop 3-5 year financial plan for self-sufficiency.
- *Expand publicity opportunities.
- *Maintain office functions.

**Membership and Marketing:**

- *Host special membership development events.
- *Host periodic TMA members' meetings.

**Service Development:**

- Develop long-term service development plan.
- *Initiate new member services as appropriate.
- *Monitor and evaluate program.

# Board and Staff Roles and Responsibilities

### Activity Answer Key for Exercise in Section 3, Creating an Effective Board of Directors

B = only the **board** may make the decision

A = **administrator** (director) has complete authority to make the decision

I = administrator has authority to act and then **inform** the board

P = administrator must seek **prior approval** from the board to act

1 A____Write a grant proposal
2 I____Submit a grant proposal to a funding source
3 B____Change board meeting times or frequencies
4 A____Decide the administrator will represent your organization at a business function
5 B____Initiate a total ban on smoking in agency offices
6 P____Set minimum salary for new staff
7 P____Hire a consultant for a project
8 I____Purchase a new telephone system with budgeted funds
9 I____Send an office secretary to a three-day leadership conference at the organization's expense
10 A____Plan a board/staff retreat to revise the long range plan
11 B____Select a firm to audit your organization's finances
12 I____Hold a press conference to announce a new program
13 A____Have the administrator's office redecorated and refurnished
14 I____Decide the administrator can go to a weeklong seminar
15 P____Hire an employee for an unbudgeted position
16 P____Approach citizens about serving on an advisory committee
17 I____Communicate information to another board
18 A____Notify contractors of bidding results
19 B____Decide in which bank(s) to deposit organization funds
20 A____Decide how to invest $20,000 of surplus funds
21 P____Decide which items or services to cut to meet budget demands
22 A____Change office records to a computerized system
23 B____Give recognition awards to community members for their contributions
24 A____Lay off a staff member to meet budget
25 A____Develop the agenda for board meetings
26 B____Award contracts to vendors
27 A____Establish guidelines for evaluation of employees
28 P____Change the administrator evaluation form
29 I____Determine the type and number of clerical positions for the office
30 B____Retain legal counsel for the agency
31 I____Select a person for an administrative assistant position
32 P____Establish a flexible work schedule for the administrator
33 I____Fire a popular, long-time employee for poor job performance

*Exercise adapted from 1993 Board Member Manual, Aspen Publishers, Frederick, Maryland, pp.31-32.*

# Examples of TMA Membership Dues Structure

## Examples: Predetermined Dues by Number of Employees

### The Sacramento TMA

917 7th Street
Sacramento, CA 95814
Phone: (916) 441-7074
Fax: (916) 443-2672
*www.sacramento-tma.org/app-mem.html*

*The developer's fee is based on the size of the project and is negotiable with the board.

| Annual TMA Fee Schedule | |
|---|---|
| Number of Employees | Fee |
| 1-99 | $300 |
| 100-199 | $500 |
| 200-499 | $750 |
| 500-749 | $1,000 |
| 750-999 | $1,250 |
| 1,000-1,999 | $1,500 |
| 2000-2,999 | $2,000 |
| 3,000+ | $2,000 |
| Developer's Fee | $500-$5,000* |
| Sponsor's Fee | $5000 or more |

### Folsom Rancho Cordova El Dorado

271 Turnpike Drive
Folsom, CA 95670
Phone: (916) 351-3975
Fax: (916) 351-3984
*www.fredtma.org/memberbenefits.html*

## Example: Expense Sharing

| Annual TMA Fee Schedule | |
|---|---|
| Number of Employees | Fee |
| 1-4 | $50 |
| 5-14 | $75 |
| 15-24 | $100 |
| 25-49 | $150 |
| 50-74 | $250 |
| 75-99 | $350 |
| 100-199 | $500 |
| 200-399 | $700 |
| 400-999 | $1,000 |
| 1000+ | $1,800 |
| Developer's Fee | $500 |
| Sponsor's Fee | $5000 or more |

### *TranSComm (formerly the Interinstitutional TMA)*

609 Albany Street, Basement
Boston, MA 02118-2393
Phone: (617) 638-7473
Fax: (617) 638-4193
*www.masscommute.com/tmas/itma/index.htm*

TranSComm is an example of an "expense sharing " TMA. It was founded in 1991 to coordinate the transportation needs of thousands of people who receive care from, are employed by, or study at one of the sponsoring institutions: Boston Medical Center and Boston University Schools of Medicine, Public Health and Dental Medicine and the Boston Public Health Commission. The operating and staffing costs of the TMA are equally divided among the three members.

## *Example: Developers*

### *South Natomas Transportation Management Association*

2295 Gateway Oaks Drive, Suite 250
Sacramento, CA 95833-3225
Phone: (916) 646-0928
Fax: (916) 929-6380
*www.SouthNatomasTMA.org*

| Annual TMA Fee Schedule | |
|---|---|
| Members | Dues |
| Member Companies | $.07 per rentable square foot with annual minimum due of $250 |
| Developers | $.04 per entitled square foot |

## *Example: Local Government*

### *Cross County Connection Transportation Management Association*

2002D Lincoln Drive West
Marlton, NJ 08053-1530
Phone: (856) 596-8228
Fax: (856) 983-0388
*www.ridetheshuttle.com/*

| Government & Organizations Townships* | Dues |
|---|---|
| Less than 10,000 employees | $1,250 |
| 10,000+ employees | $2,500 |
| County | $10,000 |

| Employees | Dues |
|---|---|
| 1 to 10 | $100 |
| 11 to 25 | $150 |
| 25 to 50 | $300 |
| 51 to 75 | $400 |
| 76 to 100 | $500 |
| 101 to 200 | $1,000 |
| 201 to 300 | $1,500 |
| 301 to 500 | $2,000 |
| 501 to 1000 | $2,500 |
| 1001 to 1500 | $3,000 |
| 1501 to 2000 | $3,500 |
| 2001+ | $4,000 |

*Membership dues are based on the employees working within the municipality

*Membership dues are based on the average number of employees placed in jobs over the past two years.

| Temporary/Employment Agencies* | Dues |
|---|---|
| Less than 1,500 employees | $1,500 |
| 1,500+ employees | $2,000 |

## *Example: Graduated Fee by Employees and Flat Fee for Municipalities*

### *Airport Corridor Transportation Management Association*

Two Penn Center West Suite 120
Pittsburgh, PA 15276
Phone: (412) 788-1199
Fax: (412) 788-2051
*http://trfn.clpgh.org/acta/*
* minimum of $250

| Members | Dues |
|---|---|
| Companies | $2.00 per employee* |
| Municipalities | $2,000 |

## *Example: Other Members/Associate Members*

### *The Anaheim Transportation Network*

94 South Anaheim Boulevard
Anaheim, CA 92805
Phone: (714) 563-5287
Fax: (714) 563-5289
*www.atnetwork.org*

**Employer:**
*(Based on total number of employees)*
*$1.30 per employee*
*$150.00 Minimum*
*$3,250.00 Maximum*

**Hotel/Motel:**
*(Based on total number of rooms)*
*$1.50 per room*
*$150.00 Minimum*
*$1,000.00 Maximum*

**Event Centers:**
*(Based on estimated annual number of guests - most recently compiled figure. Event Centers pay both as event centers and as employers.)*
*$65.00 per million visitors per venue*
*$150.00 Minimum*
*$650.00 Maximum*

**Associate Members:** *(non-voting, available to public agencies and companies outside Anaheim)*
*$150.00 per year.*

# Business Management Reference Texts

**Non-Profits**:

- *Starting and Managing a Nonprofit Organization: A Legal* Guide, Bruce R. Hopkins, John Wiley & Sons, 2000.
- *How to Form Your Own Non-Profit Corporation 4th Ed.*, Anthony Mancuso, Nolo Press, 1998.
- *How to Form a Non-Profit in California (book and CD-ROM)*, Anthony Mancuso, Nolo Press, 2000.
- *Managing a Nonprofit Organization in the Twenty-First Century*, Thomas Wolf & Barbara Carter, Fireside Publishing, 1999.
- "The Legal Obligations of Nonprofit Boards: A Guidebook for Board Members," written by Jacqueline Covey Leifer and Michael B. Glomb. National Center for Nonprofit Boards, Washington, D.C., revised 1997.
- IRS Publication No. 557, Tax Exempt Status for Your Organization, can be found at http://www.irs.ustreas.gov/forms_pubs/pubs/p557toc.htm

**Marketing**:

- *Kellogg on Marketing: The Kellogg Marketing Faculty Northwestern University*, Dawn Iacobucci and Philip Kotler, John Wiley & Sons, 2000.
- *Marketing Without Advertising 3rd Ed.*, Marcia Phillips et al, Nolo Press, 2001.

**Market Research**:

- *Marketing Research: A Practical Approach for the New Millennium*, Joseph F. Hair et al, Irwin/McGraw Hill Publishing, 1999.
- *Focus Groups: A Practical Guide for Applied Research 3rd Ed.*, Richard A. Krueger, Mary Anne Casey, Sage Publications, 2000.
- *Constructing Effective Questionnaires*, Robert A. Peterson, Sage Publications, 1999.

**Business Plans**:

- *The Successful Business Plan: Secrets & Strategies 3rd Ed.*, Rhonda M. Abrams, Oasis Press, 2000.
- *The Start-Up Guide: A One-Year Plan for Entrepreneurs*, David H. Bangs Jr., Upstart Publishing Co., 1998.
- *Starting and Operating a Business in the U.S.*, Michael D. Jenkins, Running R Media, 1999.

**Financial Management**:

- *The Complete Guide to Getting a Grant*, Laurie Blum, John Wiley & Sons, 1996.
- *Finance & Accounting for Non Financial Managers*, William G. Droms, Prentice Hall, 1998.
- *Cash Rules: Learn and Manage the 7 Cash-Flow Drivers for Your Company's Success*, Bill McGuiness, Kiplinger Books, 2000.
- *Finance & Accounting for Non Financial Executives*, J. Fred Weston & Samuel C. Weaver, McGraw Hill, 2001.

# Sample TMA Articles of Incorporation

## *This sample is for a 501(c)4 organization*

**1. Name**

The name of the Corporation is "Sample TMA."

**2. Purpose**

The Corporation is formed for educational and social welfare purposes, and is not organized for the private gain of any person, as those terms are defined in Section 501(c)(4) of the Internal Revenue Code, 1954, as amended. It is organized for the purpose of:

(a) Providing a forum for private developers, employers, and commercial and residential property owners to address common transaction concerns and to work cooperatively with local government to mitigate traffic congestion through a transportation demand management program;

(b) Reducing traffic congestion, air pollution and parking needs by organizing transportation programs including, but not limited to, transit, carpooling, vanpooling, flexible work hour programs and parking management programs and other related transportation alternatives;

(c) Promoting efficient transportation systems that will enhance the area's competitiveness and economic vitality and continue its image as an attractive place in which to live, work, and do business;

(d) Administering contributions and grants to the Corporation from public and private sources and funds under contracts with public agencies and private organizations, in accordance with the terms and conditions of such contributions, grants and contracts and in keeping with the carrying out of the purposes of the Corporation as stated in this Certificate of Incorporation and the bylaws of the Corporation; and,

(e) Exercising all rights and powers granted to non-profit corporations to fulfill its purposes, subject to such limitations as may be contained herein or in the bylaws of the Corporations.

**3. Duration**

The duration of the Corporation is perpetual.

**4. Class**

The Corporation is a non-stock corporation and shall have the classes of membership as set forth in the bylaws.

**5. Tax Status**

It is intended that this Corporation shall have the status of a corporation that is exempt from federal income taxation under Section 501(c)(4) of the Internal Revenue Code of 1954, as amended.

**6. Limitations**

Notwithstanding any other provisions of this Certificate, the Corporation shall not carry on any other activities not permitted to be carried on by a corporation exempt from federal income tax under Section 501(c)(4). The Corporation shall not make loans to its directors, officers, employees or members. No dividends or earnings shall ever be paid by the Corporation and no part of its net earnings shall be distributed to or incur to the benefit of its directors, officers, members or any private person, firm, corporation or association except in reasonable amounts for services rendered or reimbursement of reasonable expenses incurred in connection with the Corporation's affairs.

**7. Principal Office**

The location of the principal office is at______________________. The name of the agent therein is *Board Chairman*_______________.

**8. Directors**

The activities, property, and affairs of the Corporation shall be managed by a board of directors, the number of which are determined from time to time in accordance with the bylaws. The following persons whose names and addresses are listed below shall constitute the initial board of directors:

Name and Address

______________________________________________

______________________________________________

______________________________________________

______________________________________________

**9. Dissolution**

Upon the dissolution of this Corporation, the provisions of the (State) Non-Profit Corporation Act shall apply. The assets, if any, shall be distributed to such organization(s) formed and operated for similar purposes to which are determined to be exempt under the provisions of Section 501(c)(4) of the Internal Revenue Code.

IN WITNESS WHEREOF, we have made, signed, and acknowledged this Certificate of Incorporation, this (date) day of (month, year).

______________________
Incorporator

______________________
Incorporator

______________________
Incorporator

## *Sample TMA Bylaws*