Effective Date: January 28, 2010

Administrative Rules
Residential Solid Waste & Recycling
Residential Financial Reporting Standards

Part 3.8 Residential Financial Reporting Standards

This section is printed and numbered separately from Part 1.0 through 3.7 of the Residential Solid Waste, Recycling and Yard Debris Collection Administrative Rules. These standards apply to annual financial reports submitted to the City by Franchisees.

To receive a copy of the other portion of the Residential Administrative Rules, or Commercial Administrative Rules, please contact the City of Portland, Bureau of Planning and Sustainability, (503) 823-7202 email wasteinfo@ci.portland.or.us or visit our website at www.sustainableportland.org

A. General

Franchisee and Approved Recycler shall maintain records and reports required by the City as noted herein and promptly respond to periodic requests for such records and reports, which are directly pertinent to requirements of the Franchise Agreement. Section 6.7 in the Franchise Agreement provides that the City shall have the right to inspect at any time, upon at least 24 hours notice and during normal business hours, at an office of the Franchisee all books, records, maps, plans, income tax returns, financial statements and other like materials of the Franchisee which are directly related to the operation of the franchise.

B. Financial Reports

1. **Quarterly Reports**. As required in Section 6.8 of the Franchise Agreement, within 30 days of the end of each Calendar Quarter, the Franchisee shall provide the City with a revenue report, minican report and labor hour report for the previous Calendar Quarter, verified by an officer or manager of the Franchisee, on forms provided by the City. When the 30th day falls on a Saturday, Sunday or legal holiday, the report is due by the next Business Day. This report shall consist of an accurate summary statement of all receipts from all sources related to residential collection services, including, but not limited to, revenues for the collection of residential solid waste, recyclable materials and yard debris. Should a Franchisee or Approved Recycler fail to submit a required report by the due date then BPS will send a Delinquent Notice within five Business Days following the due date**,** as specified under DELINQUENT REPORTS, INCOMPLETE REPORTS, INCORRECT REPORTS, ENFORCEMENT in Part 3.3 **(C/I)**

2. **Annual Financial Report** (Annual Detail Cost Report) and Other Financial Reports. By March 15th, the Franchisee shall submit to the City a written Financial Report (Annual Detail Cost Report) verified by an officer or manager of the Franchisee. When 15th this due date falls on a Saturday, Sunday or legal holiday, the report is due by the next Business Day. If requested by the City, representative Franchisees selected by the City pursuant to Section 8.2 of the Franchise Agreement shall submit a statement of income, a balance sheet and a statement of cash flow (sources and application of funds). **(C/I)**

Accounting records shall be kept in a manner consistent with the instructions provided by the City in the Annual Detail Cost Report and in the attached "Uniform System of Operational and Financial Reporting Manual."

For additional reporting requirements, see Part 3.3 of the Residential Administrative Rules, entitled "Residential Program Reporting."

C. Annual Rate Review

1. **Number of Franchisees Selected**. On or about March 15th of each year, the City shall select a representative number of franchisees for the purpose of determining the reasonableness of the allowable expenses in the preceding rate period, and the projected allowable expenses and pass-through expenses for the next succeeding rate period. The number of franchisees selected by the City shall be the lesser of either one-half of the number of franchisees, or a number great enough such that the solid waste customers of the selected franchisees comprise at least 75% of the total number of solid waste customers.

2. **Selection Process**. The City shall select the representative franchisees using a weighted random sampling technique. Franchisees will be sequentially selected in a series of draws, with a franchisee's probability of selection in each draw proportional to the franchisee's share of solid waste customers served. Selection will continue until a sufficient number of franchisees, as specified above, have been selected. The recycling districts shall be included with the sample of representative franchisees.

City of Portland
Residential Solid Waste Collection Franchisees
Uniform System of Operational and Financial Reporting Manual

Contents:

A. Required Uniform System of Accounts and Financial Reports for Franchisees

Purpose – All Franchisees are required to keep their financial records according to a uniform system or "chart" of accounts. A uniform system of keeping accounts establishes standard forms and account classifications to guide Franchisees in preparing financial reports required by the City and other agencies. The standardization made possible by a uniform chart of accounts permits internal and external users of the information to compare the financial position and operating performance of a particular operator to other operators in the City. For the Franchisee beginning operations under the City Franchise Agreement a uniform chart of accounts will also serve as an accounting system that can be adapted to the unique needs of the business.

B. Required Accounting Policies Under the Portland Franchise

1. **Background – Generally Accepted Accounting Principles (GAAP)**

Section 6.8 of the Franchise Agreement requires all Franchisees to submit an Annual Income Statement (Annual Detail Cost Report) prepared in accordance with "generally accepted accounting principles."

To assist in rate setting, the Franchise Agreement also provides that the City may at its discretion require representative Franchisees to submit other financial information including a statement of income, a balance sheet and a statement of cash flow (sources and application of funds).

Generally accepted accounting principles (GAAP) are a common set of accounting concepts, standards, and procedures established to provide common accounting practices within the accounting profession. Without a common set of rules, each company would be free to adopt its own particular accounting and reporting practices, requiring users of financial reports to become familiar with all the different practices. Comparability would be nearly impossible.

Although this manual outlines the reporting conventions required by the City, it cannot present the body of knowledge that comprises GAAP. Accordingly, it is expected that the Franchisee will need the services of an accounting professional to fully comply with the Franchise Agreement.

2. **City Required Basis of Accounting for Annual Report**

Franchisees shall report using the accrual basis of accounting. Rates for franchised collection are based on the revenues and costs associated with the franchised operations over a twelve-month period. To properly present the income and expenses that belong within a year and exclude income and expenses that do not belong within a year, an accrual basis of accounting is used. An alternative for businesses wishing to use a cash basis of accounting, but to report annually on an accrual basis, is to prepare annual reports after having made accrual adjustments at the year-end. The Annual Detail Cost Report includes worksheets for Franchisees to make accrual adjustments to financial information prepared on a cash basis.

3. **Depreciation Policies**

Depreciation should be provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Financial reporting standards require that the method used be "systematic and rational."

In order to achieve accounting comparability among the operations of the numerous haulers, the City has adopted the straight-line method for reporting depreciation. This method allows equal depreciation expense each year. The depreciation terms specified below are to be used for reporting depreciation expense in the Detail Cost Report for vehicles and equipment whether owned or leased.

For solid waste collection vehicles, including, but not limited to, front loaders, rear loaders, side loaders, other packers, drop box vehicles and satellite and support vehicles, the City requires Franchisees to use a seven-year straight-line depreciation schedule.

For multi-material recycling vehicles and other vehicles exclusively designed and intended for recycling collection only, the City requires Franchisees and Recycling Districts to use a five-year straight-line depreciation schedule.

For residential rollcarts and cubic yard containers owned by Franchisees and provided to customers, the City requires a five-year straight-line depreciation schedule.

For other assets not mentioned above, generally buildings and facilities should be depreciated over 40 years, and equipment such as computers and other equipment should be depreciated over five years or over the useful life of the asset.

Leasehold improvements should be amortized over the life of the lease.

The City reserves the right to determine the depreciation term allowed for any building, facility, improvement, vehicle or piece of equipment not specified above.

4. **Salvage Values**

The standardized depreciation methods prescribed by the City of Portland call for depreciation on collection and recycling vehicles to use a 10% salvage value. Total depreciation allowed should not exceed 90% of the cost of the asset.

5. **Capitalization of Leases**

Generally accepted accounting principles require that a lease that transfers substantially all of the risks and benefits of ownership be capitalized. To be capitalized, an asset is set up on the books, with a corresponding liability, as well. The asset is depreciated as any other capital asset, and the liability is treated as a lease payable with an imputed interest rate. Leases should be capitalized when any one of four conditions is met (consult your accountant for specific guidance):

A. The ownership of the property transfers to the lessee at the end of the lease term;
B. The property transfers at a bargain purchase amount;
C. The lease term exceeds 75% of the useful life of the asset; and
D. The present value of the minimum lease payments exceeds 90% of the market value (the purchase price) of the asset.

C. Chart of Accounts from Portland Franchised Operations

1. **Revenue Centers, Costs Centers, Profit Centers**

The City's Franchise Agreement directs the collection of residential Solid Waste, Recyclable Materials, and Yard Debris within the Portland Urban Service Boundary. Rates and charges for these services are principally based upon the cost of providing each category of service. As such, financial reporting on the three collection activities requires that their costs be segregated. Companies are required to report costs by these activity centers. Company revenues and operating margin will also be reported by Franchisees on the Annual Detail Cost Report and other financial reports. Accordingly, the company must adopt a chart of accounts that allows for separate reporting of these activities.

Some operators will have non-regulated “commercial/large multifamily” Solid Waste and Recycling collection activities and/or hauling activities in other jurisdictions mingled with their regulated “residential” collection activities. Where routes are serving both regulated and non-regulated customers, an allocation of direct and indirect costs must be made to distinguish these non-franchised operations from the Portland residential operations. Accordingly, the chart of accounts must allow for the separate posting of revenues and costs between Portland franchised operations and non-franchised operations to reflect these additional activity centers. (See “Allocation of Direct Operating Costs by Activity” and “Allocation of General and Administrative Expenses” herein.)

Some operators will have routes that provide services to customers both inside and outside the City franchised area. Allocation methods and procedures must be adopted to segregate these revenues and costs from the aforementioned revenues and costs. Again, where a route is serving customers both inside the franchise area and outside the franchise area, revenue and cost centers must be established to segregate these activity costs.

The reporting requirements of other jurisdictions, where the franchisee may also be operating, may necessitate additional activity centers and allocations.

2. **Uniform Chart of Accounts**

The following chart of accounts reflects the accounts to be listed in the Annual Detail Cost Report, and is the minimum detail required by the City under the Franchise Agreement. The ordering of the accounts conforms with the methodologies the City will use to set collection rates.

The accounts present the minimum detail for segregating costs of operations. Additional detail in record keeping is encouraged to the extent that the detail accounts can be combined into the reporting categories. The Annual Detail Cost Report requires that Franchisees use the supplemental schedules contained in the report to itemize revenues and costs reported in the “Other” and “Miscellaneous” accounts.

An account numbering system is not listed for the following chart of accounts, although Franchisees are encouraged to utilize an account number system. Given the flexibilities or limitations of computer accounting software, it is unrealistic to require each Franchisee to subscribe to one set of account numbers. Before adopting a set of account numbers, each Franchisee should consult with their accountant. Most computer accounting software has powerful capabilities to track multiple revenue/cost/profit centers, which will aid reporting of allocated costs between franchised and non-franchised operations.

ASSETS

Cash on Hand
Cash In Bank-checking
Cash in Bank-savings
Accounts Receivable
Allowance for Bad Debt
Wage Advances
Prepaid Expenses
Vehicles
Vehicles - Collection
Vehicles - Recycling
Equipment
Containers - Collection
Bins – Recycling
Office Equipment
Building
Accumulated Depreciation
Deposits
Goodwill
Covenant Not to Compete
Customer List

LIABILITIES

Accounts Payable
Deferred Revenue
Accrued Payroll
Accrued Payroll Taxes
Accrued Workers' Comp.
Accrued Interest
Accrued Insurance
Accrued Income Tax
Current Maturities L/T Debt
Note Payable
Lease Payable
Less Current Maturities
Deferred Taxes
Common Stock
Retained Earnings
Year-to-Date Net Income

REVENUES

Collection Revenues
Recyclable Material Sales
Other Revenues
Customer Refunds

SOLID WASTE, RECYCLING, AND YARD DEBRIS – DIRECT AND INDIRECT COSTS OF OPERATIONS

Wages - Route Drivers
Wages - Mechanic
Payroll Tax Expense
Medical Insurance
Pension Plan Expense
Workers' Compensation Insurance
Other Benefits
Training and Worker Safety
Fuel
Repairs & Maintenance - Vehicle
Repairs & Maintenance - Containers & Carts
Repairs & Maintenance - Other Equipment
Repairs & Maintenance - Yard/Buildings
Depreciation - Vehicles
Depreciation - Containers & Carts
Depreciation - Other Equipment
Depreciation - Yard/Buildings
Disposal Fees
Recycling Co-op Payments
Recycling Bins
Supplies
Yard Rent
Vehicle Rent
Other Equipment Rent
Insurance
Property Taxes
PUC/Licenses/Fees
Franchise Fees/Commercial Permit Fees
Surcharges
Interest - Vehicles
Interest - Containers & Carts
Interest - Other Equipment
Interest - Yard/Buildings
Other Operational Expenses
Management Salaries
Management Payroll Tax Expense
Management Medical Insurance
Management Pension Plan Expense
Management Workers' Comp Insurance
Management Other Benefits
Administrative Salaries
Administrative Payroll Tax Expense
Administrative Medical Insurance
Administrative Pension Plan Expense
Administrative Workers' Comp Insurance
Administrative Other Benefits
Office Rent
Advertising and Public Education

Contributions
Professional Fees
Training & Worker Safety
Insurance
Telephone
Utilities
Property Taxes/Licenses/Fees
Federal/State/Local Income Taxes
Dues & Subscriptions
Depreciation – Office Building
Depreciation – Office Equipment
Repairs & Maintenance - Office
Cleaning & Maintenance
Equipment Rental
Office Supplies
Postage & Freight
Miscellaneous Expense
Travel/Meals/Lodging
Professional Meetings and Seminars
Bad Debts
Amortization – Route and Intangibles
Amortization – Other
Interest - Other
Interest-Route

OTHER INCOME AND EXPENSES

Gain/Loss on Sale of Assets
Interest Income
Fines and Penalties
Customer Refunds
Officers' Life Insurance Premiums
Directors' Fees

INCOME TAXES

Income Taxes - Currently Payable
Income Taxes - Deferred

D. **Account Posting Reference**

1. **Accounts Receivable**. At the balance sheet date, the amount reported as "accounts receivable" should represent the total amount due from customers. The account is increased by amounts billed to customers, decreased by cash received on customer accounts, and adjusted for credits, finance charges, and customer bad debts.

2. **Deferred Revenues**. At the balance sheet date, the amount reported as "deferred revenue" should represent the total amount billed customers for which services have not yet been provided.

The Administrative Rules governing billing allow no less often than a “once every two months” billing cycle. A company may adopt a policy of billing for services two months in advance. In this case, where issuing invoices on the last day of an accounting period (end of the month), for the coming two months, a company would set up the full amount of the billing as “deferred revenue.” The full amount of the billing would represent revenue for services yet to be provided and therefore unearned at that time. At the end of the first month one-half of the billing would be recognized as revenue. At the end of the second month, the remaining one-half would be recognized as revenue.

A company may elect to bill one-half of its customers each month. In that event, the billing at the end of that period would be “deferred revenue” in addition to one-half (one of the two months) of the amount billed at the end of the previous month.

E. Revenues

Collection Revenues. All revenues billed through the residential customer billing system (including recycling and yard debris), including, but not limited to, charges for can service, roll cart service, container service, cleanup container service, multifamily recycling surcharges, solid waste and yard debris extras, recycling only, yard debris only, on-call solid waste and yard debris services. Revenues reported must also include non-curb services, excess distance charges, terrain differential charges and any other revenue received for performance of a hauling or recycling related service.

For Collection Revenues in non-franchised operations, records should be maintained for waste and recycling activities only, excluding revenues from any other lines of business not related to waste and recycling in which the Franchisee may be involved.

Recyclable Material Sales. Revenues received from the sale of recyclables. Recycling charges included in the standard rates are included with Collection Revenues.

Other Revenue From Portland Franchised Operations. If not reported in Collection Revenues, include roll cart and container rental charges, finance charges, late fees, account reinstatements, unused service and other customer account adjustments. Include revenues from special projects which the company wishes to track separately. Include investment income and gain on the sale of assets.

F. Direct Costs of Operations

Wages – route drivers and mechanics. Includes regular pay, overtime pay, vacation pay, severance pay, incentive pay, holiday pay, and bonuses paid to employees.

Payroll Tax Expense. Includes employer paid portion of social security (FICA), state unemployment insurance (SUI), federal unemployment insurance (FUTA), and wage-based taxes payable to Tri-Met.

Franchisees paying self-employment taxes should report self-employment taxes to the Direct Costs of Operations for Solid Waste, Recycling and Yard Debris based on the portion of salary/wages paid. Report self-employment taxes for management and administrative salary/wages in General and Administrative Expenses under Management and/or Administrative Payroll Tax Expense.

Medical Insurance. Qualified premiums payable for group health and dental insurance plans associated with direct operations employees – route drivers, helpers and mechanics.

Pension Plan Contributions. Contributions payable to qualified retirement plans associated with direct operations employees – route drivers, helpers and mechanics.

Compensation Insurance. Workers' compensation insurance premiums associated with direct operations employees – route drivers, helpers and mechanics.

Other Benefits. Qualified premiums payable for group life insurance plans associated with direct operations employees – route drivers, helpers and mechanics. Also, payments for other non-taxable fringe benefits programs not included above. At least 80% of these costs must be itemized on a supplemental schedule in the Annual Detail Cost Report.

Training and Worker Safety. Expenditures for worker safety training and information for route drivers, helpers and mechanics. Expenditures to comply with OR-OSHA requirements.

Vehicle Operating Costs – Fuel. Gasoline or diesel fuel costs associated with the operation of collection and satellite vehicles.

Repairs and Maintenance - Vehicles. This includes collection and satellite vehicles repair and maintenance, including replacement of parts, tires, lubricating and adjusting of equipment, repainting, and cleaning. Include all routine and non-routine repair and maintenance costs.

Repairs and Maintenance – Containers and Carts. Container and cart repair and maintenance, replacement of parts, assembly, cleaning, repainting, and delivery.

Repairs and Maintenance – Other Equipment. Repair and maintenance of other equipment such as packers, lifts and recycling equipment not reported above. Include replacement of parts and cleaning.

Repairs and Maintenance – Yard/Buildings. Yard and facilities repair and maintenance.

Depreciation – Vehicles, Containers and Carts, Other Equipment and Yard/Buildings. The recognition of the cost of vehicles, equipment and facilities over the estimated useful life of the assets. See "Depreciation Policies" and "Salvage Values" under Section B "Required Accounting Policies under the Portland Franchise" in these Administrative Rules for depreciation requirements for vehicles, roll carts and containers. For depreciation of assets not covered in Section B, the amount of depreciation recorded should be determined by the accounting policy of the company for reporting depreciation and IRS regulations.

Also included is the depreciation associated with costs expended which significantly add to a vehicle's or other asset's value or appreciably prolong its useful life.

Recycling Co-op Payments. Includes payments to the Eastside and Westside Recycling Districts by member Franchisees.

Disposal Fees. Fees charged at approved facilities for the disposal of Solid Waste or processing of Yard Debris.

Supplies. Includes charges for consumable supplies that are used during day-to-day operations. Also includes supplies that have a longer life or are not consumable, but have negligible value to warrant treatment as capital assets.

Rentals – Yard, Vehicles, and Other Equipment. Lease and rental payments for yard and storage space, vehicles and other equipment. See “Capitalization of Leases” in Section B “Required Accounting Policies Under the Portland Franchise” for more information on the accounting treatment of certain leases.

Insurance. The amount of general and vehicle liability insurance coverage incurred during the period.

Property Taxes. Amounts payable for real property taxes and personal property taxes for yard, garages and other fleet facilities, hauling equipment, and other assets associated with the Direct Cost of Operations.

PUC/Licenses/Fees. Vehicle license and registration fees and Public Utility Commission (PUC) permit and weight mile fees.

Franchise Fees. Include Franchise Fees paid to the City of Portland under the terms of the Franchise Agreement. The City of Portland will invoice the company for the amount due on a quarterly basis.

Interest – Vehicles, Containers and Carts, Other Equipment and Yard/Buildings. Interest paid on debt associated with the purchase of equipment or facilities.

Other Operational Expenses. Other direct costs of operations that do not seem to fit the other expense categories. At least 80% of these costs must be itemized on a supplemental schedule in the Annual Detail Cost Report.

G. General and Administrative Expenses

Management Salaries. Salaries and wages, including regular pay, overtime pay, vacation pay, severance pay, incentive pay, holiday pay and bonuses, for management and supervisory responsibilities associated with the overall operations of the company.

Administrative Salaries. Salaries and wages, including regular pay, overtime pay, vacation pay, severance pay, incentive pay, holiday pay and bonuses, for general office, bookkeeping, clerical, telephone, and billing system duties.

Management and Administrative Payroll Tax Expense. Includes employer paid portion of social security (FICA), state unemployment insurance (SUI), federal unemployment insurance (FUTA), and wage-based taxes payable to Tri Met.

Franchisees paying self-employment taxes should report self-employment taxes for management and administrative costs in this line item based on the portion of salary/wages paid. Report self-employment taxes for Direct Costs of Operations for Solid Waste, Recycling and Yard Debris under Payroll Tax Expense in Direct Cost of Operations.

Management and Administrative Medical Insurance. Qualified premiums payable for group health and dental insurance plans associated with management and administrative employees.

Management and Administrative Pension Plan Contributions. Contributions payable to qualified retirement plans associated with management and administrative employees.

Workers' Compensation Insurance. Workers' compensation insurance premiums associated with management and administrative employees.

Management and Administrative Other Benefits. Qualified premiums payable for group life insurance plans associated with management and administrative employees. Also, payments for other non-taxable fringe benefits programs.

Office Rent. Lease and rental payment for office space.

Advertising and Public Education. Expenses associated with public awareness of the company including, for example, yellow page ad charges and media advertising. Also, costs associated with promotion and education on Solid Waste, Recycling, and Yard Debris issues produced, approved or required by the City.

Contributions. Contributions are non-allowable expenses. They should be reported on the Annual Detail Cost Report and then deducted when making adjustments to costs to arrive at allowable franchise costs.

Professional Fees. Amounts payable for legal services, accounting services (including tax return and financial report preparation), payroll services, management advisory services, and consulting on the company's information reporting systems.

Also includes amounts payable for other consulting services, including advisory services for compliance with government regulation, information systems (computers), or industry specialists contracted for specific company needs.

Training and Worker Safety. Expenditures for worker safety training and information. Expenditures to comply with OR-OSHA requirements.

Insurance. The amount of general liability, property, and other indemnity coverage incurred during the period. Do not include vehicle and liability insurance reported in the "Direct Cost of Operations" section.

Telephone. Amounts payable for telephone services including base fees and line charges, answering services, and pager services.

Utilities. Amounts payable for electricity, heating, water and sewer.

Property Taxes/Licenses/Fees. Amounts payable for real property taxes and personal property taxes for office buildings, office equipment, and other General and Administrative assets. Also include other taxes, and other state licenses and fees not reported elsewhere in the Annual Detail Cost Report.

Federal/State/Local Income Taxes. Federal, state and local income taxes are non-allowable expenses. They should be reported on the Annual Detail Cost Report and then deducted when making adjustments to costs to arrive at allowable franchise costs. Report income taxes from Portland Franchised Operations for the current year. Use estimated amounts if necessary. Back out all reported actual and estimated income taxes on the summary page of the Detail Cost Report per its instructions.

Dues and Subscriptions. Includes amounts payable for membership in industry or trade associations, and subscriptions to industry or trade publications.

Depreciation – Office Building and Other Equipment. The recognition of the cost of facilities and equipment over the estimated useful life of the assets. See “Depreciation Policies” and “Salvage Values” under Section B “Required Accounting Policies Under the Portland Franchise” in the Administrative Rules for depreciation requirements for vehicles, roll carts and containers. For depreciation of assets not covered in Section B, the amount of depreciation recorded should be determined by the accounting policy of the company for reporting depreciation and IRS regulations.

Also included is the depreciation associated with expenditures which significantly add to an asset’s value or appreciably prolong its useful life.

Repairs and Maintenance – Office. Office equipment repair and maintenance.

Cleaning and Maintenance. Includes amounts payable for janitorial services, window cleaning, building landscaping, and supplies.

Equipment Rental. Amounts payable for office equipment rented generally on a short-term basis. Rentals with longer lease terms or that transfer ownership at the end of the lease term should be capitalized and depreciated. See “Capitalization of Leases” in Section B “Required Accounting Policies Under the Portland Franchise” for more information on the accounting treatment of certain leases.

Office Supplies. Includes charges for office supplies that are used in the day-to-day operation of the office, including, for example, paper, pencils, pens, stationery, computer supplies, and coffee. Also included are supplies that have a longer life or are not consumed, but have negligible value to warrant treatment as capital assets, such as staplers, hole punches, scissors, etc.

Postage and Freight. Primarily will consist of the costs for postage for the periodic mailing of customer invoices and notices.

Miscellaneous Expense. Indirect cost of business operations that do not seem to fit the other expense categories. At least 80% of these costs must be itemized on a supplemental schedule in the Annual Detail Cost Report.

Travel/Meals/Lodging. Costs associated with out-of-town travel, including, for example, lodging, airfare, cab fare, parking, hotel, etc. Also include the costs of meals directly related to the active conduct of business. Travel, meal and lodging expenses will be allowed up to limits prescribed by federal tax regulations.

Professional Meetings and Seminars. Includes fees for attendance at industry or trade conventions or seminars, and other professional meetings.

Bad Debts. Adjustments to amounts included in revenues in Line 18 “Collection Revenues” on the Annual Detail Cost Report for which cash is not expected to be received. Subsequent receipt of amounts written off as bad debts should be credited to Line No. 89 “Bad Debts” as bad debt recoveries.

Amortization – Route and Intangible Assets. Non Allowable – Amortization of costs associated with the acquisition of collection routes. Non-allowable intangible assets include: customer lists, goodwill, and covenants not to compete associated with the purchase of residential and other routes.

Amortization – Other. Allowable – The recognition of the costs of allowable intangible assets (leasehold improvements on real property) over the periods in which they provide benefits. Leasehold improvements generally are amortized over the life of the lease.

Interest Expense – Route and Certain Equipment and Facilities. Non Allowable – Interest paid on debt associated with the acquisition of residential collection routes or debt associated with the purchase of equipment or facilities to the extent that the debt exceeds the fair market value of the purchase at the date of the purchase.

Interest Expense – Other. Allowable – Interest paid on debt associated with the purchase of equipment or facilities. Also included is interest paid on operating loans associated with providing working capital for franchised services.

Customer Refunds. Customer Refunds – payments to customers for unused service or adjustment to billed amounts (these payments will offset collected revenues).

H. Allocation Methods – Franchised vs. Non-Franchised Operations

Franchised residential collection charges are based on the costs of providing those services within the City Urban Services Boundary. Each Franchisee must maintain records for these costs separately from costs of operations or services the company provides to commercial customers or customers outside the Urban Services Boundary.

A Franchisee may have operations comprised of:

1. Only **residential** routes within the Portland Urban Services Boundary.

2. Separate residential routes and commercial routes within the City only (truck routes service residential or commercial customers exclusively).

3. Mixed routes (mixed load) servicing both commercial and residential customers.

4. Mixed routes (mixed load) servicing customers both inside the Portland Urban Services Boundary and outside the Portland Urban Services Boundary.

Obviously, a company that can segregate franchised operating activities from non-franchised operating activities can simplify its accounting system and the completion of the annual report due to the City. Accordingly, each Franchisee should analyze its routes to determine whether they can be restructured to eliminate providing franchised and non-franchised services on the same route.

The City encourages Franchisees to set up systems which allow, to the greatest extent possible, costs to be reported directly to specific line items.

Direct or actual costs are costs which can be specifically and solely applied to an account in the chart of accounts within Portland franchised operations or non-franchised operations. For example, Franchisees who do not commingle their loads (with waste from commercial customers or with waste from collection in other jurisdictions) can report disposal costs as direct or actual costs. Franchisees who operate only a Portland residential franchise, or operate their Portland franchised operations and non-franchised operations completely separately will likely be able to allocate most, if not all, of their cost of operations on an actual basis.

Revenues received by Franchisees should be reported as **actual** revenues received for the activity (e.g., Collection Revenues for Portland franchised operations).

If allocation of costs between Portland franchised operations and non-franchised operations is necessary to complete the Annual Detail Cost Report, the City specifies three separate allocation methods. The three allocation methods are as follows:

	Franchised	Non-franchised	Total
By Customer Count:	Total & Percent	Total & Percent	Total & 100%
By Annual Total Driver Labor Hours:	Total & Percent	Total & Percent	Total & 100%
By Collection Revenues (Dollars):	Total & Percent	Total & Percent	Total & 100%

The above allocation data can then be used to derive allocation rates to separate costs between Portland franchised operations and non-franchised operations. The Annual Detail Cost Report will include instructions on which of the three allocation methods to use for each account in the chart of accounts.

I. Allocation of Costs by Activity

Procedures:

1. Identify routes that require allocation of direct costs.
2. Identify the trucks that are affected by those routes.
3. Summarize the activities and costs for those trucks.
4. Assign costs based on the allocation method for each activity.
5. Report the segregated franchised costs and maintain records on how franchised and non-franchised costs were derived and allocated.

The following are three cost allocation methodologies approved by the City. If costs for any particular activity cannot be assigned as direct or actual cost (which is the method preferred by the City), the Annual Detail Cost Report includes instructions on which allocation method to use for each line item in the chart of accounts.

The use of other allocation methods is possible to the extent that the method is 1) reasonable; 2) verifiable (auditable); and 3) approved in advance by the City.

Allocation by Customer Count. Calculate the average customer count for both the hauler's Portland franchised operations and non-franchised operations for the period, determine the percentage of each to the total number of customers, multiply the percentages by total cost of the activity and allocate the corresponding totals to the activity between the Portland franchised operations and non-franchised operations.

For example, if Company A has an average total customer count of 5000 during the period, with 3500 customers in the residential franchise and 1500 commercial customers, then the Franchisee can allocate 70% of its activity costs to Portland franchised operations and 30% to non-franchised operations.

Allocation by Driver Labor Hours. As required in the Franchise Agreement, Franchisees report driver labor hours to the City each quarter. Based on these reports, Franchisees can calculate the percentage of driver labor hours reported for Portland franchised operations and the percentage for non-franchised operations. Multiply the percentages by total cost of the activity and allocate the corresponding totals to the activity between the franchised operations and non-franchised operations.

The exception to this allocation method is allocating labor related costs for the direct costs of operations. These include:

Line 22 – Wages - Route Drivers
Line 23 – Wages - Mechanic
Line 24 – Payroll Tax Expense
Line 25 – Medical Insurance
Line 26 – Pension Plan Expense
Line 27 – Workers' Comp. Insurance
Line 28 – Other Benefits

Make sure to allocate all driver, helper and trainee labor costs **directly** to Portland Franchised Operations or non-franchised operations based on the actual number of hours worked for each.

For determining other non-direct labor cost allocation percentages, use only **driver** labor hours reported in the quarterly reports. If Franchisees report **helper or driver trainee** hours, these hours will need to be backed out for calculating the allocation. Another way to think of driver labor hours is **truck hours** – the number of hours primary collection vehicles are used for Franchised solid waste, recycling and yard debris collection versus time the vehicles are used for non-franchised operations. Use the percentage of driver labor hours from the Portland franchised operations to allocate costs.

For example, if Company B has 8,000 total driver labor hours for the year, with 4,800 hours for the Portland residential franchise and 3,200 hours for commercial collection and collection activities in other jurisdictions, then the Franchisee can allocate 60% of the activity costs to Portland franchised operations and 40% to non-franchised operations.

Allocation by Revenues. Franchisees are to maintain records on Collection Revenues for the year by Portland franchised operations and non-franchised operations. Based on these Collection Revenue amounts, Franchisees can determine the percentage of revenues attributable to franchised operations and the percentage attributable to non-franchised operations. Multiply the percentages by total cost of the activity and allocate the corresponding totals to the activity between the Portland franchised operations and non-franchised operations.

For example, if Company C has $1,000,000 in total Collection Revenue, with $500,000 in residential franchise revenues and $500,000 in commercial revenues, then the Franchisee can allocate 50% of the activity costs to Portland franchised operations and 50% to non-franchised operations.

J. Allocation of General and Administrative Expenses

General and administrative expenses (indirect operating costs) are to be allocated between Portland franchised operations and non-franchised operations by line item, or activity according to the allocation method for each as specified by the City in the instructions of the Annual Detail Cost Report. Some activities will be allocated by driver labor hours, others by customer counts and others by revenues. See the instructions in the Annual Detail Cost Report to determine which allocation method to use for each activity.

If the Franchisee has **only** a Portland residential franchise and no other hauling operations, then all general and administrative expenses can be reported as direct costs. No allocation factor is necessary.

Additionally, some general and administrative expenses are easily identifiable as being associated with either franchised or non-franchised activities. For example, attorney fees may be incurred that are associated with an occurrence on a route that provides only franchised services. In that event, all of the cost of the attorney fees for that occurrence can be allocated to franchised operations.

SAMPLE COMPANY, INC.
BALANCE SHEET
DECEMBER 31, 20XX

ASSETS

CURRENT ASSETS	
Cash	$XXX,XXX
Accounts receivable (net of allowance for Doubtful accounts)	XXX,XXX
Prepaid expenses and other current assets	XXX,XXX
TOTAL CURRENT ASSETS	XXX,XXX
PROPERTY AND EQUIPMENT – AT COST	
Vehicles and equipment	XXX,XXX
Collection containers	XXX,XXX
Office furniture and equipment	XXX,XXX
Less accumulated depreciation	(XXX,XXX)
	XXX,XXX
INTANGIBLES AND OTHER ASSETS	
Intangibles	
Goodwill	XXX,XXX
Customer lists	XXX,XXX
Non-competition agreements	XXX,XXX
Less accumulated amortization	(XXX,XXX)
	XXX,XXX
Other	XXX,XXX
TOTAL ASSETS	$XXX,XXX

SAMPLE COMPANY, INC.
BALANCE SHEET (continued)
DECEMBER 31, 20XX

LIABILITIES

CURRENT LIABILITIES	
Accounts payable	$XXX,XXX
Notes payable	
Accrued expenses	XXX,XXX
Deferred revenues	XXX,XXX
Federal and state income taxes payable	XXX,XXX
Current maturities of long-term debt	XXX,XXX
TOTAL CURRENT LIABILITIES	XXX,XXX
LONG-TERM DEBT, less current maturities	XXX,XXX
DEFERRED INCOME TAXES	XXX,XXX
STOCKHOLDERS' EQUITY	
Common Stock, $XX par value, XXX shares authorized, XXX shares issued and outstanding	XXX,XXX
Additional paid-in capital	XXX,XXX
Retained earnings	XXX,XXX
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$XXX,XXX

SAMPLE COMPANY, INC.
STATEMENT OF EARNINGS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 20XX

	Amount	Percent
Revenues	$XXX,XXX	100.0
Operating costs	XXX,XXX	X.X
Gross profit	XXX,XXX	X.X
General and administrative expenses	XXX,XXX	X.X
Earnings from operations	XXX,XXX	X.X
Other income (expense)		
Interest Income	XXX,XXX	X.X
Interest expense	(XXX,XXX)	(X.X)
Gain (loss) on sale of assets	XXX,XXX	X.X
	XXX,XXX	X.X
Earnings before income taxes	XXX,XXX	X.X
Income taxes		
Currently payable	XXX,XXX	X.X
Deferred	XXX,XXX	X.X
	XXX,XXX	X.X
Net earnings	XXX,XXX	X.X
RETAINED EARNINGS – beginning	XXX,XXX	
Less: Dividends paid	XXX,XXX	
RETAINED EARNINGS – ending	$XXX,XXX	

SAMPLE COMPANY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 20XX

Cash flows from operating activities:	
Net earnings	$XXX,XXX
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation and amortization	XXX,XXX
Gain on sale of assets	(XXX,XXX)
Increase in accounts receivable	(XXX,XXX)
Decrease in prepaid expenses	XXX,XXX
Increase in accounts payable	XXX,XXX
Decrease in accrued expenses	(XXX,XXX)
Total Adjustments	XXX,XXX
Net cash provided by operating activities	XXX,XXX
Cash flows from investing activities:	
Proceeds from sale of assets	$XXX,XXX
Purchase of equipment	(XXX,XXX)
Net cash used by investing activities	XXX,XXX
Cash flows from financing activities:	
Borrowing from long-term notes	XXX,XXX
Dividends paid	(XXX,XXX)
Net cash provided by financing activities	XXX,XXX
NET INCREASE IN CASH	XXX,XXX
CASH at beginning of year	XXX,XXX
CASH at end of year	$XXX,XXX