

METRO TRANSIT SYSTEM

An Enterprise Fund of the
City of Madison, Wisconsin

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2013 and 2012

METRO TRANSIT SYSTEM

An Enterprise Fund of the City of Madison, Wisconsin

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INDEPENDENT AUDITORS' REPORT

To the Transit and Parking Commission
Metro Transit System
Madison, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Metro Transit System, an enterprise fund of the City of Madison, Wisconsin, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Metro Transit System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Metro Transit System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Metro Transit System as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and Common Council
Metro Transit System

Emphasis of Matter

As discussed in Note 1, the financial statements present only Metro Transit System enterprise fund and do not purport to, and do not present fairly the financial position of the City of Madison, Wisconsin, as of December 31, 2013 and 2012 and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Management has elected to include more information in the Management's Discussion and Analysis than is required by the standards. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Metro Transit System has not presented the Schedule of Funding Progress for the post employment benefit program that accounting principles generally accepted in the United States require to supplement, although not be part of, the financial statements. We note that this information is included in the City of Madison's financial statements. Our opinion is not affected by the omission of this information

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The operating revenues and expenses and regulatory basis schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the overall City of Madison's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, including those systems applicable to Metro Transit System. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Madison's internal control over financial reporting and compliance.

Baker Tilly Voichow Krause, LLP

Madison, Wisconsin
June 26, 2014

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

The following report of Metro Transit's activities and financial performance provides the reader with an introduction and overview to the financial statements for the fiscal year ended December 31, 2013 and 2012.

The information contained in this report should be considered in conjunction with the information contained in the other historical summaries and activities and financial performance section of this report.

Mission

It is the mission of Metro Transit (Metro), through the efforts of dedicated, well-trained employees to provide safe, reliable, convenient and efficient public transportation to the citizens and visitors of the Metro service area.

Metro provides extensive fixed route and ADA paratransit service in a 72 square mile regional service area with a population of 253,075 and also provides contributions to Dane County for the delivery of Group Access Services (providing transportation of the elder to meal-sites), Exceptional Rides Services and Volunteer Driver Escort programs in the Metro service area. Metro is an Enterprise Fund of the City of Madison. Local investment partners are the Cities of Fitchburg, Middleton, and Verona, Town of Madison, Madison Area Technical College, Madison Metropolitan School District, the University of Wisconsin-Madison and the Village of Shorewood Hills. Unlimited ride pass program participants include the UW-Madison, Madison College, Edgewood College, St. Mary's and Meriter Hospitals and the City of Madison.

Annual Overview

In 2013, Metro experienced its second-highest ridership of all time, recording more than 14.7 million rides. This ridership is up 1% compared to 2012, but slightly down from Metro's record ridership in 2011. Staff attribute the slight dip from 2011 to 2012 to a 10% reduction of service made in 2012 to circulator routes that operate on the University of Wisconsin campus. Excluding these campus circulator routes, Metro's 2013 ridership on the rest of the fixed route system increased 2.7%.

With this 1% overall increase in 2013, Metro continues to head in an extremely positive direction. The many factors contributing to this success include the large number of rides generated by its unlimited ride pass program, the continued trends of young people driving less, continued high costs of fuel, and an ever-increasing community value placed on environmental sustainability.

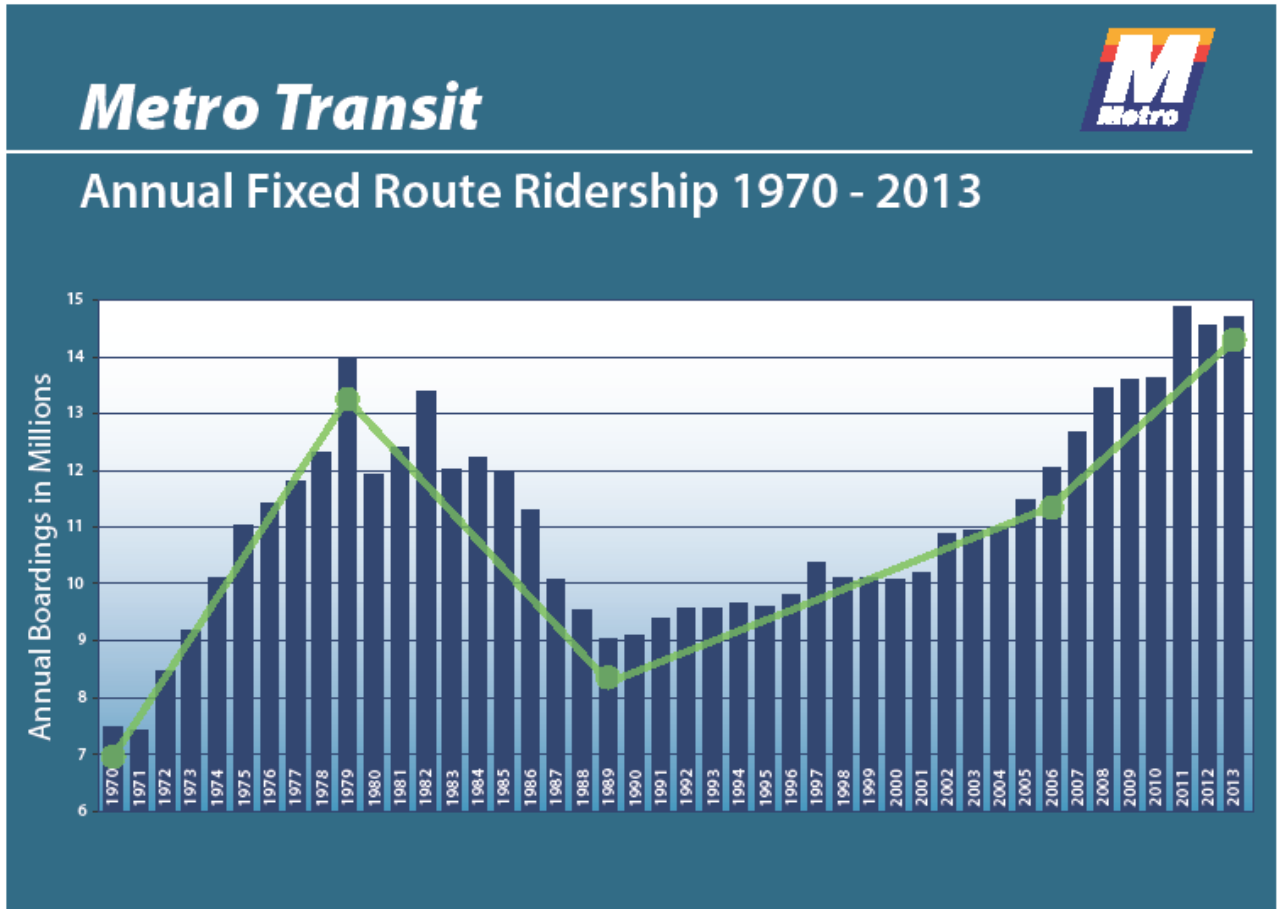
In August of 2013, Metro Transit was one of the only transit systems in Wisconsin to implement a service expansion. Given the current limits on public funding, and the prevalence of transit service cuts occurring throughout the country, Metro staff were very pleased to be offering increased levels of service. It was noted that this reflected positively on riders who

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MANAGEMENT’S DISCUSSION AND ANALYSIS REPORT

are increasingly using Metro, as well as community leaders who helped provide the necessary funding resources.

Passenger and neighborhood input were the driving forces behind making these increases happen. The City of Madison’s Neighborhood Resource Team (NRT) initiative helped identify an equity need in an underserved neighborhood, and passenger feedback raised concern over bus overcrowding in the University Avenue corridor.



Metro continues to work with the Madison Police Department in an effort to create a safer environment at transfer points. From 2012 to 2013, overall police calls to transfer points decreased 12.5%. Calls to Metro’s South Transfer Point, which generates the highest number of calls, decreased 30.6%.

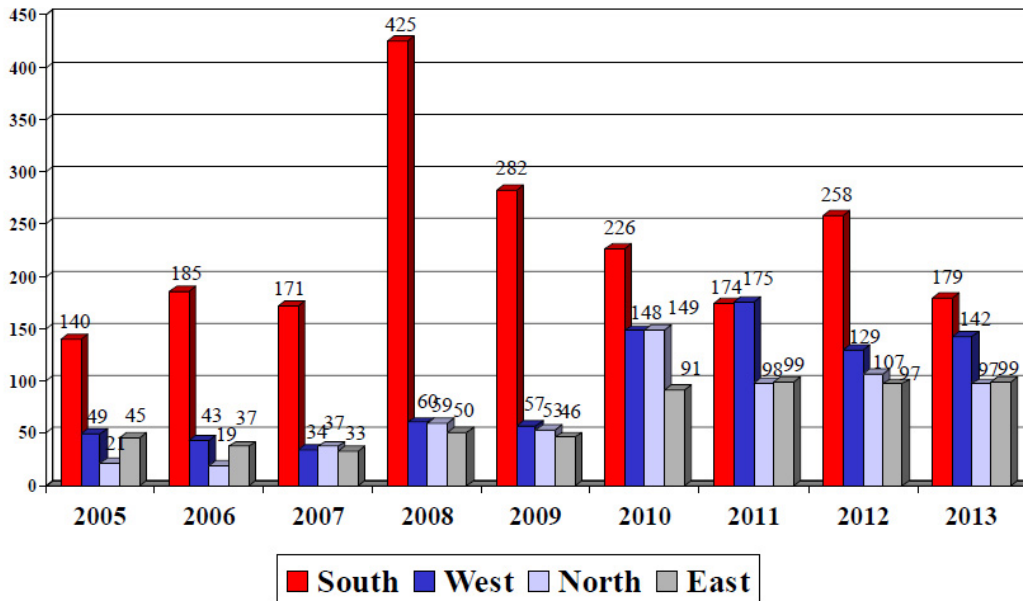
Since 2008, police calls to the South Transfer point have decreased 57.8%. Staff feel this significant drop is a great example of how funding for security helps maintain ridership, improves the passenger experience, and overall is money well spent.

METRO TRANSIT SYSTEM

MANAGEMENT’S DISCUSSION AND ANALYSIS REPORT



Madison Police Department Calls for Service Incident Analysis at Metro Transfer Points (2005 through 2013)



Between 2005 and 2012, Metro Transit’s ridership has increased 30%, while at the same time annual service hours have only increased 5%. Since 2000, Metro’s ridership has increased nearly 50%. In addition, the largest volume of complaints Metro Transit receives is in regards to overcrowding on buses and as a result, passengers passed up at their stops. A second complaint Metro receives on a routine basis is that travel times across the city are too long.

In 2008, Metro Transit officials worked with members of the community to create a long range transit plan. Some of the biggest items to come out of this transit plan were the need to address this overcrowding and to reduce travel times. In 2012, Madison Mayor Paul Soglin challenged Metro Transit to meet a goal of doubling its ridership in the next 10 – 20 years.

In 2013, a study was completed that examined the possibility of implementing a Bus Rapid Transit System (BRT) in the Madison area. This study was undertaken to investigate and identify ways to alleviate overcrowded buses, reduce travel times, and provide enough capacity that it might be possible to meet the mayor’s goal of doubling ridership in the coming years.

The Proposed BRT would feature frequent all-day service, direct routing using fewer stops, transit signal priority, dedicated bus lanes, off-board fare payments and the use of 60-foot

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MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

articulated buses. This type of system is estimated to be able to decrease travel times by 20-40% and increase capacity on Metro's busiest corridors by more than 75%.

The next step is for the City Transportation Master Plan to evaluate the possibilities of a Madison BRT system and to make it a priority in the city's transportation infrastructure for the next 20 years.

Also, a recent Wisconsin Department of Transportation analysis shows that Metro has grown from the 20th highest per capita ridership in 2006 to 17th for systems serving populations greater than 200,000 (see opposite page). Metro Transit staff has concluded that future significant increases in ridership will require BRT high capacity transit.

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MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Top 50 United States Transit Systems (UZA Population >200,000) Ranked by Transit Trips per Capita - per 2012 NTD Data

	System Name	Location	Sq. Miles	Population	Unlinked Passenger Trips	Unlinked Passenger Trips per Capita
1	MTA New York City Transit	NY-NJ-CT	3,450	18,351,295	3,381,062,033	184.2
2	City and County of Honolulu DOT	Urban Honolulu, HI	170	802,459	77,276,485	96.3
3	Massachusetts Bay Transportation Authority	Boston, MA-NH-RI	1,873	4,181,019	401,616,849	96.1
4	Washington Metropolitan Area Transit Authority	Washington, DC-VA-MD	1,322	4,586,770	424,184,885	92.5
5	San Francisco Municipal Railway	San Francisco-Oakland, CA	524	3,281,212	222,936,607	67.9
6	Southeastern Pennsylvania Transportation Authority	Philadelphia, PA-NJ-DE-MD	1,981	5,441,567	363,497,594	66.8
7	Chicago Transit Authority	Chicago, IL-IN	2,443	8,608,208	545,577,917	63.4
8	Tri-County Metropolitan Transportation District	Portland, OR-WA	524	1,849,898	103,218,538	55.8
9	Maryland Transit Administration	Baltimore, MD	717	2,203,663	112,276,909	51.0
10	Lane Transit District	Eugene, OR	87	247,421	11,820,144	47.8
11	Denver Regional Transportation District	Denver-Aurora, CO	668	2,374,203	98,518,888	41.5
12	Utah Transit Authority	Salt Lake City, UT	278	1,021,243	42,365,346	41.5
13	King County Department of Transportation	Seattle, WA	1,010	3,059,393	119,952,268	39.2
14	Los Angeles County Metro	Los Angeles, CA	1,736	12,150,996	464,875,164	38.3
15	Port Authority of Allegheny County	Pittsburgh, PA	905	1,733,853	65,854,009	38.0
16	Capital Area Transportation Authority	Lansing, MI	158	313,532	11,861,560	37.8
17	Metro Transit System	Madison, WI	151	401,661	14,852,159	37.0
18	San Francisco Bay Area Rapid Transit District	San Francisco-Oakland, CA	524	3,281,212	118,674,764	36.2
19	Milwaukee County Transit System	Milwaukee, WI	546	1,376,476	45,717,441	33.2
20	Niagara Frontier Transportation Authority	Buffalo, NY	380	935,906	30,754,679	32.9
21	Regional Transportation Commission of Nevada	Las Vegas-Henderson, NV	417	1,886,011	61,016,792	32.4
22	Regional Transit Service, Inc. and Lift Line, Inc.	Rochester, NY	324	720,572	22,714,997	31.5
23	Metro Transit	Minneapolis-St. Paul, MN-WI	1,022	2,650,890	81,053,506	30.6
24	Spokane Transit Authority	Spokane, WA	164	387,847	11,771,880	30.4
25	Metropolitan Atlanta Rapid Transit Authority	Atlanta, GA	2,645	4,515,419	134,889,690	29.9
26	VIA Metropolitan Transit	San Antonio, TX	597	1,758,210	50,804,540	28.9
27	San Diego Metropolitan Transit System	San Diego, CA	732	2,956,746	85,235,926	28.8
28	The Greater Cleveland Regional Transit Authority	Cleveland, OH	772	1,780,673	48,234,103	27.1
29	New Orleans Regional Transit Authority	New Orleans, LA	251	899,703	23,812,738	26.5
30	Santa Clara Valley Transportation Authority	San Jose, CA	286	1,664,496	43,486,793	26.1
31	Capital Metropolitan Transportation Authority	Austin, TX	523	1,362,416	35,512,338	26.1
32	CNY Centro, Inc.	Syracuse, NY	195	412,317	10,385,770	25.2
33	Capital District Transportation Authority	Albany-Schenectady, NY	296	594,962	14,881,818	25.0
34	City of Tucson	Tucson, AZ	353	843,168	20,464,273	24.3
35	University of Michigan Transportation Services	Ann Arbor, MI	160	306,022	7,275,257	23.8
36	Charlotte Area Transit System	Charlotte, NC-SC	741	1,249,442	28,243,662	22.6
37	Ben Franklin Transit	Kennewick-Pasco, WA	102	210,975	4,678,656	22.2
38	Fresno Area Express	Fresno, CA	171	654,628	14,513,695	22.2
39	St. Louis Metro	St. Louis, MO-IL	924	2,150,706	46,704,766	21.7
40	Ann Arbor Transportation Authority	Ann Arbor, MI	160	306,022	6,606,838	21.6
41	Regional Transportation of Washoe County	Reno, NV-CA	164	392,141	8,277,735	21.1
42	Interurban Transit Partnership	Grand Rapids, MI	281	569,935	11,980,418	21.0
43	Mass Transit Department - City of El Paso	El Paso, TX-NM	251	803,086	16,655,904	20.7
44	Chapel Hill Transit	Durham, NC	182	347,602	6,944,066	20.0
45	Miami-Dade Transit	Miami, FL	1,239	5,502,379	107,339,867	19.5
46	City of Tallahassee	Tallahassee, FL	127	240,223	4,664,858	19.4
47	Central Florida Regional Transportation Authority	Orlando, FL	598	1,510,516	29,250,069	19.4
48	Corpus Christi Regional Transportation Authority	Corpus Christi, TX	120	320,069	6,054,440	18.9
49	Durham Area Transit Authority	Durham, NC	182	347,602	6,502,151	18.7
50	Pioneer Valley Transit Authority	Springfield, MA-CT	349	621,300	11,487,956	18.5

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MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

A significant accomplishment in 2013 was bringing Metro Transit's contingency reserve from \$784,150 to \$2,673,292, achieving for the first time a goal set by the 2008 Long Range Metro Transit Ad Hoc Planning Committee. That plan recommended that Metro's contingency fund be approximately 15% of the local operating budget of approximately \$15 million. Metro met and exceeded that in 2013 and will strive to continue to have a contingency fund at this level to help deal with extreme variations in expense items like diesel, and to provide stability overall to Metro Transit's financial status.

2013 Financial Highlights

A breakdown of revenues and expenses by mode is shown in the following chart.

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MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Madison Metro Transit
Income Statement
For the Year Ended December 31, 2013

	All Modes		Fixed Route		Paratransit	
	Actual	Budget	Actual	Budget	Actual	Budget
Revenue						
Farebox	\$ 1,627,558	\$ 1,464,523	\$ 1,609,584	\$ 1,429,523	\$ 17,974	\$ 35,000
Passes & Tickets	\$ 5,001,650	\$ 4,436,000	\$ 4,752,917	\$ 4,176,000	\$ 248,733	\$ 260,000
Unlimited Ride Programs	\$ 6,270,825	\$ 6,319,700	\$ 6,234,466	\$ 6,286,200	\$ 36,360	\$ 33,500
Passenger Revenue	\$ 12,900,033	\$ 12,220,223	\$ 12,596,966	\$ 11,891,723	\$ 303,067	\$ 328,500
County Programs	\$ 3,845,725	\$ 3,650,000	\$ 19,280	\$ 19,280	\$ 3,826,445	\$ 3,630,720
Federal Operating Assistance	\$ 6,118,984	\$ 6,145,600	\$ 5,384,706	\$ 5,408,128	\$ 734,278	\$ 737,472
State Operating Assistance	\$ 16,613,746	\$ 16,600,000	\$ 14,620,097	\$ 14,608,000	\$ 1,993,650	\$ 1,992,000
Local Subsidies	\$ 3,182,295	\$ 2,762,000	\$ 2,800,420	\$ 2,430,560	\$ 381,875	\$ 331,440
Other Subsidies	\$ 26,045	\$ 9,000	\$ 26,045	\$ 9,000	\$ -	\$ -
Advertising	\$ 589,467	\$ 450,000	\$ 589,467	\$ 450,000	\$ -	\$ -
Miscellaneous	\$ 132,945	\$ 103,000	\$ 132,945	\$ 103,000	\$ -	\$ -
Total Revenue	\$ 43,409,240	\$ 41,939,823	\$ 36,169,925	\$ 34,919,691	\$ 7,239,315	\$ 7,020,132
Expenditures						
Salaries	\$ 26,404,155	\$ 26,477,621	\$ 24,291,822	\$ 24,359,411	\$ 2,112,332	\$ 2,118,210
Benefits	\$ 11,834,109	\$ 11,383,063	\$ 10,887,381	\$ 10,472,418	\$ 946,729	\$ 910,645
Utilities/Telephone	\$ 549,236	\$ 491,000	\$ 505,297	\$ 451,720	\$ 43,939	\$ 39,280
Repairs & Maint B&G	\$ 109,561	\$ 89,000	\$ 100,796	\$ 81,880	\$ 8,765	\$ 7,120
Repairs & Maint Equip	\$ 436,883	\$ 419,200	\$ 401,932	\$ 385,664	\$ 34,951	\$ 33,536
Rentals	\$ 202,928	\$ 173,200	\$ 186,693	\$ 159,344	\$ 16,234	\$ 13,856
Employee Services	\$ 81,135	\$ 55,900	\$ 74,644	\$ 51,428	\$ 6,491	\$ 4,472
Insurance & Financial	\$ 944,773	\$ 1,054,133	\$ 869,191	\$ 969,802	\$ 75,582	\$ 84,331
Purchased Transportation	\$ 5,119,096	\$ 5,259,000	\$ -	\$ -	\$ 5,119,096	\$ 5,259,000
Other Services	\$ 513,890	\$ 241,200	\$ 480,424	\$ 221,904	\$ 33,466	\$ 19,296
Office Supplies	\$ 57,493	\$ 73,500	\$ 52,894	\$ 67,620	\$ 4,599	\$ 5,880
Equipment Supplies	\$ 1,063,316	\$ 919,064	\$ 978,251	\$ 845,539	\$ 85,065	\$ 73,525
Bldg & Const Supplies	\$ 170,093	\$ 155,000	\$ 156,485	\$ 142,600	\$ 13,607	\$ 12,400
Fuels, Oils & Lubricants	\$ 3,702,964	\$ 3,539,193	\$ 3,406,726	\$ 3,256,058	\$ 296,237	\$ 283,135
Other Supplies	\$ 271,899	\$ 181,000	\$ 250,147	\$ 166,520	\$ 21,752	\$ 14,480
Interdepartmental Charges	\$ 811,305	\$ 821,700	\$ 752,401	\$ 761,964	\$ 58,904	\$ 59,736
Depreciation	\$ 6,258,427	\$ 6,250,000	\$ 5,789,045	\$ 5,781,250	\$ 469,382	\$ 468,750
Interest & Bad Expenses	\$ 318,353	\$ 338,600	\$ 292,885	\$ 311,512	\$ 25,468	\$ 27,088
Total Expenses	\$ 58,849,616	\$ 57,921,374	\$ 49,477,016	\$ 48,486,635	\$ 9,372,601	\$ 9,434,740
Income(Deficit)	\$ (15,440,377)	\$ (15,981,551)	\$ (13,307,091)	\$ (13,566,944)	\$ (2,133,286)	\$ (2,414,608)
Less: Depreciation	\$ (6,258,427)	\$ (6,250,000)	\$ (5,789,045)	\$ (5,781,250)	\$ (469,382)	\$ (468,750)
Less: Unfunded OPEB	\$ (559,479)	\$ -	\$ (514,721)	\$ -	\$ (44,758)	\$ -
Debt	\$ 1,169,030	\$ 1,168,900	\$ 1,133,959	\$ 1,133,833	\$ 35,071	\$ 35,067
Fixed Assets	\$ 947,971	\$ 1,299,000	\$ 189,594	\$ 259,800	\$ 758,377	\$ 1,039,200
Federal Portion of Fixed Assets	\$ (717,532)	\$ (1,039,300)	\$ (143,506)	\$ (207,860)	\$ (574,025)	\$ (831,440)
Total Expenditures(City)	\$ 53,431,180	\$ 53,099,974	\$ 44,353,297	\$ 43,891,158	\$ 9,077,883	\$ 9,208,817
Added To/(Taken From)Reserves	\$ 1,889,142	\$ 75,300	\$ 1,405,049	\$ 174,191	\$ 484,093	\$ (98,891)
Income/(Deficit) (City)	\$ (11,911,082)	\$ (11,235,451)	\$ (9,588,421)	\$ (9,145,658)	\$ (2,322,661)	\$ (2,089,794)

Please refer to Independent Auditors' report.

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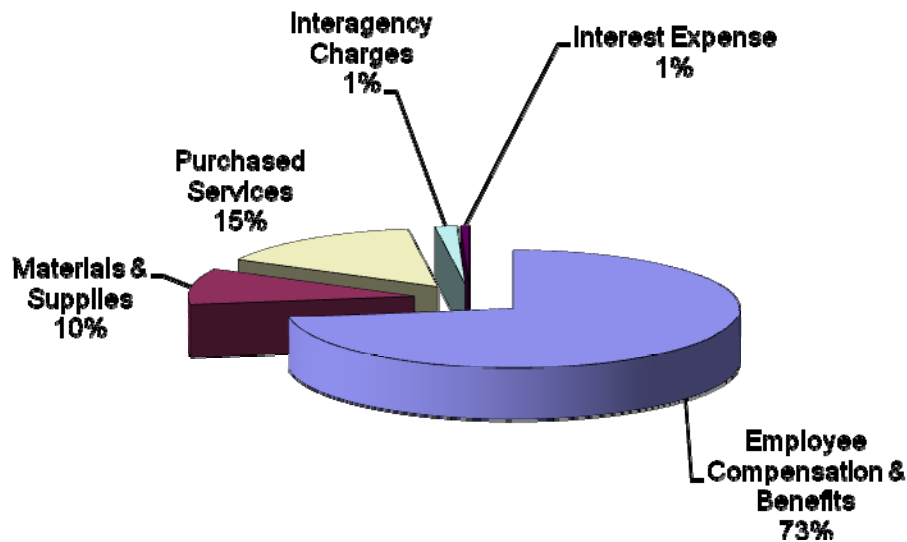
MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Metro added to its contingent reserve in the amount of \$1,889,142 in 2013 to balance revenues and expenses. The following table shows Metro's contingent reserve balances and changes in those balances over the past six years.

Year	Beginning Balance	Reserves +/-	Ending Balance
2008	\$733,221	(\$254,975)	\$478,246
2009	\$478,246	\$388,710	\$866,956
2010	\$866,956	(\$770,603)	\$96,353
2011	\$96,353	\$101,830	\$198,183
2012	\$198,183	\$585,967	\$784,150
2013	\$784,150	\$1,889,142	\$2,673,292

As can be seen from the following chart, employee compensation and benefits accounted for 73% of total expenses excluding depreciation in 2013.

2013 Expenses excluding Depreciation

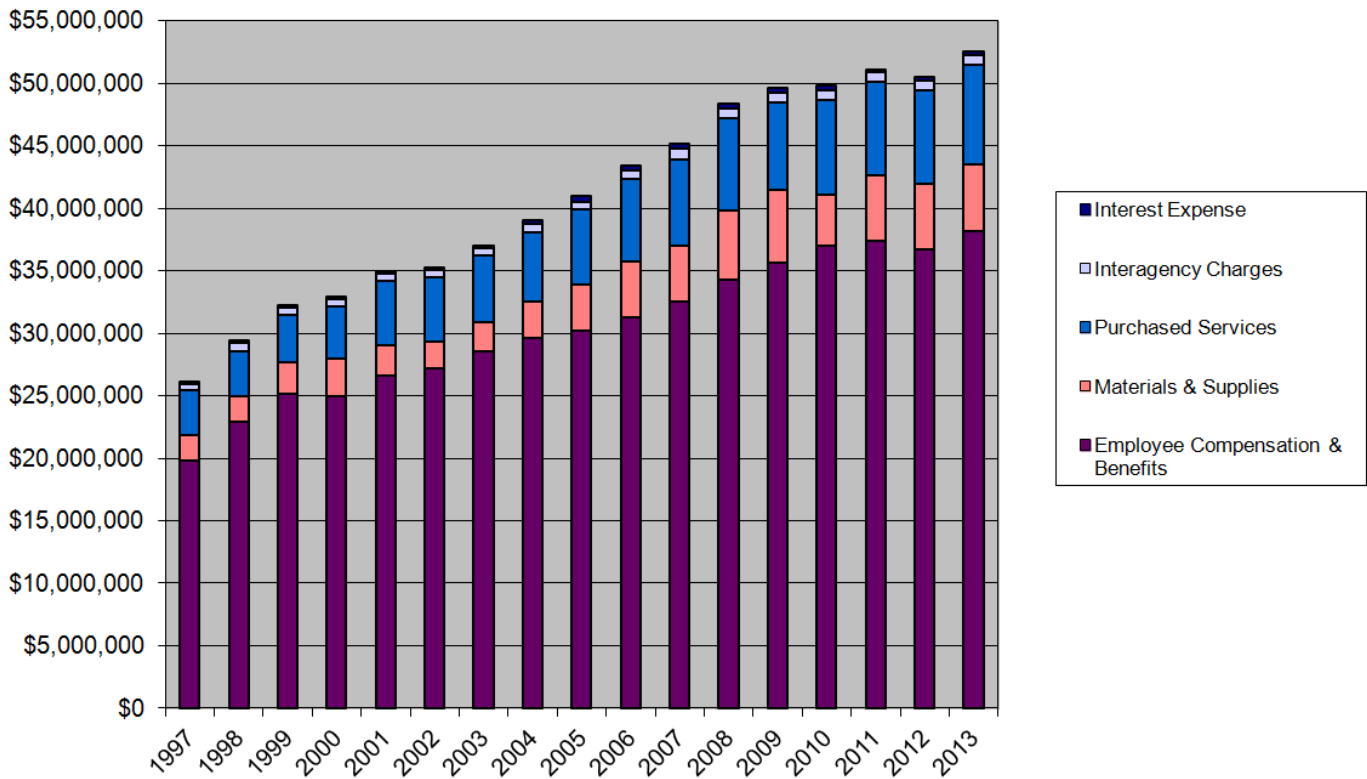


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MANAGEMENT’S DISCUSSION AND ANALYSIS REPORT

The first of the following charts shows that total operating expenses increased by 4.0% between 2012 and 2013. Between 2008 and 2013 Metro experienced an average increase in total operating costs of 1.7% per year. The second chart compares Metro’s revenue sources for the same period of time. Passenger revenue has increased by an average of 7.5% per year during the last 5 years whereas state aid, which provides the largest portion of Metro’s revenue, decreased 0.2% per year during the same time period.

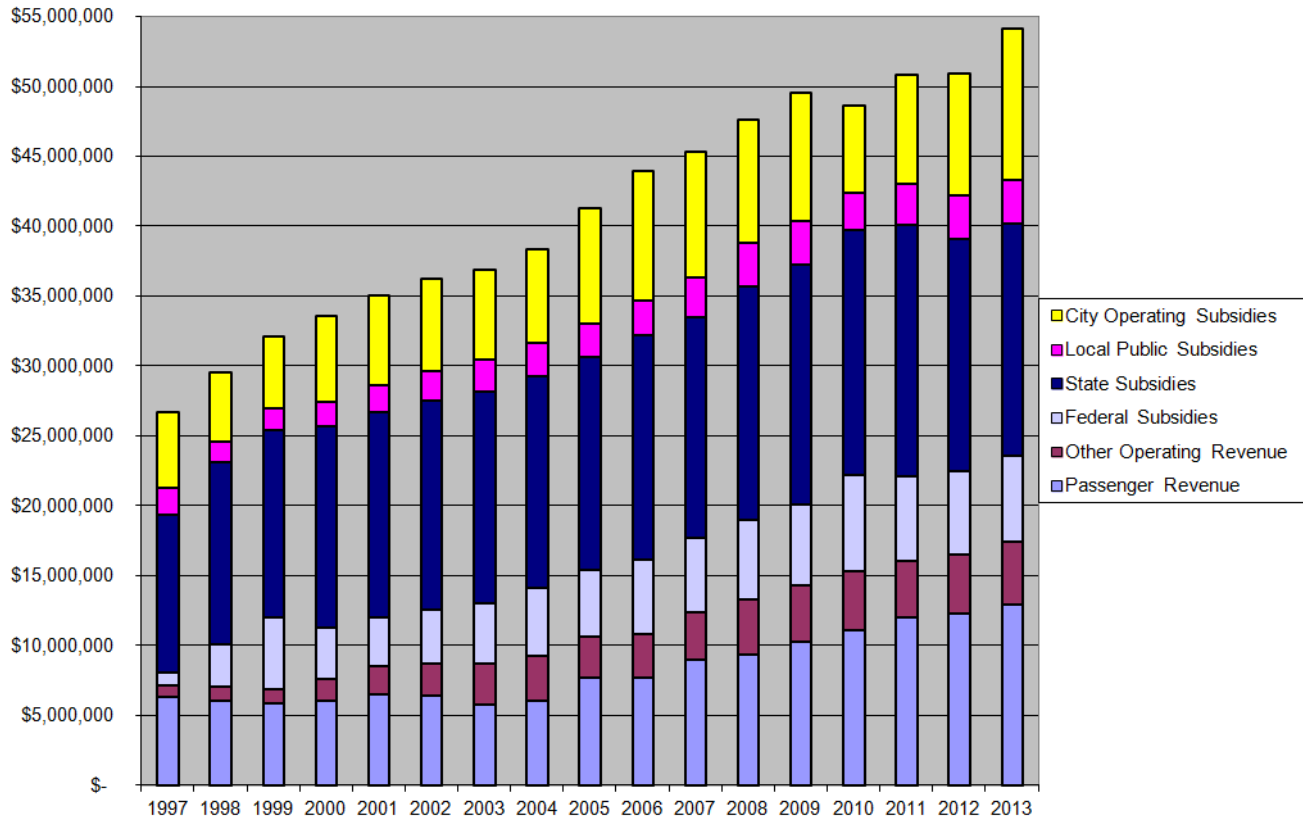
Madison Metro Transit
Historical Expense Comparison Excluding Depreciation



METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Madison Metro Transit Historical Revenue Comparison



GRANT STATUS

Metro is fortunate to have strong federal and state support for capital funding for rolling stock (buses), ITS hardware/software, transit enhancements, facilities improvements and other capital projects. The following chart shows the year-end grant status of each grant against which expenditures were charged during the year. Note that where balances are available as of 12/31/13 future capital project plans are budgeted to draw down those balances.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Madison Metro Transit

Year End Grant Status as of 12/31/13

Note: All amounts listed are "Eligible Funds" at 100 % of cost not the FTA or State amount.

CAPITAL GRANTS	Funding Year	Total Funds Apportionment	Prior years expenditures	Beginning Balance	2013 expenditures	Balance available as of 12/31/13	Future Budgeted projects	Balance after budgeted projects	Detail of future budgeted projects- see page 2.
Federal Section 5307 Grants									
WI900549	2009	\$ 8,980,667	\$ 8,066,746	\$ 913,921	\$ -	\$ 913,921	\$ 913,921	\$ -	Farebox system.
WI960011 (ARRA)	2009	\$ 9,502,302	\$ 9,317,038	\$ 185,264	\$ 185,264	\$ -	\$ -	\$ -	
WI900573	2010	\$ 8,832,424	\$ 7,969,492	\$ 862,932	\$ 26,797	\$ 836,135	\$ 836,135	\$ -	Shelters & farebox system
WI900630	2011	\$ 8,785,588	\$ 7,483,006	\$ 1,302,582	\$ -	\$ 1,302,582	\$ 1,302,582	\$ -	Shelters & farebox system
WI900735	2012	\$ 8,854,944	\$ 8,442,374	\$ 412,570	\$ 308,582	\$ 103,988	\$ 103,988	\$ -	Software & shelters
WI900595	2013	\$ 8,673,864	\$ 60	\$ 8,673,804	\$ 8,013,995	\$ 659,809	\$ 659,809	\$ -	ACM, shop equipment, software & hardware
WI900765	2014	\$ 9,395,530	\$ -	\$ 9,395,530	\$ 13,808	\$ 9,381,722	\$ 9,381,722	\$ -	Various
Total Section 5307		\$ 63,025,319	\$ 41,278,716	\$ 21,746,603	\$ 8,548,446	\$ 13,198,157	\$ 13,198,157	\$ -	
Federal Section 5309 Grants									
WI050051 (fixed guideway)	2012	\$ 1,121,781	\$ -	\$ 1,121,781	\$ -	\$ 1,121,781	\$ 1,121,781	\$ -	Buses
WI030087 (WI discretionary)						\$ 103,009	\$ 103,009	\$ -	Buses
WI030091 (WI discretionary)						\$ 7,508	\$ 7,508	\$ -	Buses
WI040009 (WI discretionary)						\$ 80,246	\$ 80,246	\$ -	Buses
WI040043 (WI discretionary)	2010	\$ 414,054	\$ 381,054	\$ 33,000	\$ 33,000	\$ -	\$ -	\$ -	
WI040042 (Wi discretionary)	2010	\$ 187,500	\$ -	\$ 187,500	\$ -	\$ 187,500	\$ 187,500	\$ -	New facility
WI040059 (state of good repair)	2011	\$ 6,451,000	\$ 4,389,739	\$ 2,061,261	\$ -	\$ 2,061,261	\$ 2,061,261	\$ -	Buses & shelters
WI040062 (state of good repair)	2012	\$ 4,733,125	\$ -	\$ 4,733,125	\$ 600,000	\$ 4,133,125	\$ 4,133,125	\$ -	Buses
Total Section 5309		\$ 12,907,460	\$ 4,770,793	\$ 8,136,667	\$ 633,000	\$ 7,694,430	\$ 7,694,430	\$ -	
Federal Section 5337 Grants									
WI540001	2013	\$ 631,788	\$ -	\$ 631,788	\$ -	\$ 631,788	\$ 631,788	\$ -	Buses
FFY14	2014	\$ 937,964	\$ -	\$ 937,964	\$ -	\$ 937,964	\$ 937,964	\$ -	Buses
Total Section 5337		\$ 1,569,752	\$ -	\$ 1,569,752	\$ -	\$ 1,569,752	\$ 1,569,752	\$ -	
Federal Section 5339 Grants									
WI340001	2013	\$ 1,314,952	\$ -	\$ 1,314,952	\$ -	\$ 1,314,952	\$ 1,314,952	\$ -	Buses
FFY14	2014	\$ 1,226,151	\$ -	\$ 1,226,151	\$ -	\$ 1,226,151	\$ 1,226,151	\$ -	Buses
Total Section 5339		\$ 2,541,103	\$ -	\$ 2,541,103	\$ -	\$ 2,541,103	\$ 2,541,103	\$ -	
Total Capital Grants		\$ 80,043,634	\$ 46,049,509	\$ 33,994,125	\$ 9,181,446	\$ 25,003,442	\$ 25,003,442	\$ -	
OTHER GRANTS									
WI260012 (recorded in fund SG67)	2006	\$ 1,980,000	\$ -	\$ 1,980,000	\$ -	\$ 1,980,000	\$ 1,980,000	\$ -	Preferred alternative study
WI390001 (recorded in fund SG67)	2006	\$ 1,485,000	\$ 1,360,001	\$ 124,999	\$ -	\$ 124,999	\$ 124,999	\$ -	Preferred alternative study
WI390002 (recorded in fund SG67)	2007	\$ 1,500,000	\$ -	\$ 1,500,000	\$ -	\$ 1,500,000	\$ 1,500,000	\$ -	Preferred alternative study
WI791000 (recorded in fund CD21)	2011	\$ 2,250,000	\$ 388,000	\$ 1,862,000	\$ 367,625	\$ 1,494,375	\$ 1,494,375	\$ -	Intermodal terminal study (TIGER II)
WI800006	2011	\$ 125,000	\$ 6,443	\$ 118,557	\$ 113,045	\$ 5,512	\$ 5,512	\$ -	Bus size study
Total Other Grants		\$ 7,340,000	\$ 1,754,444	\$ 5,585,556	\$ 480,670	\$ 5,104,886	\$ 5,104,886	\$ -	

Please refer to Independent Auditors' report.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

CAPITAL GRANTS	Shelters	Security cameras Systems	Support vehicles	Farebox System	Shop Equip	Facility	Computer hardware & software	Consultants	Buses -Fixed Route	Associated capital maintenance	Total Budgeted Projects
Federal Section 5307 Grants											
WI900549	\$ -		\$ -	\$ 913,921			\$ -		\$ -		\$ 913,921
WI960011 (ARRA)	\$ -	\$ -							\$ -		\$ -
WI900573	\$ 13,117	\$ -	\$ -	\$ 823,018	\$ -		\$ -	\$ -		\$ -	\$ 836,135
WI900630	\$ 87,856	\$ -	\$ -	\$ 1,214,726	\$ -		\$ -	\$ -	\$ -	\$ -	\$ 1,302,582
WI900735	\$ 77,285	\$ -	\$ -	\$ -	\$ -		\$ 26,703	\$ -	\$ -	\$ -	\$ 103,988
WI900595	\$ -	\$ -	\$ -	\$ -	\$ 17,768		\$ 363,005		\$ -	\$ 279,036	\$ 659,809
WI900765	\$ -	\$ -	\$ 36,000	\$ -	\$ 150,000	\$ 90,000	\$ 100,000		\$ 1,455,722	\$ 7,550,000	\$ 9,381,722
Total Section 5307	\$ 178,258	\$ -	\$ 36,000	\$ 2,951,665	\$ 167,768	\$ 90,000	\$ -	\$ -	\$ -	\$ -	\$ 13,198,157
Federal Section 5309 Grants											
WI050051 (fixed guideway)									\$ 1,121,781		\$ 1,121,781
WI030087 (WI discretionary)									\$ 103,009		\$ 103,009
WI030091 (WI discretionary)									\$ 7,508		\$ 7,508
WI040009 (WI discretionary)									\$ 80,246		\$ 80,246
WI040043 (WI discretionary)									\$ -		\$ -
WI040042 (Wi discretionary)						\$ 187,500			\$ -		\$ 187,500
WI040059 (state of good repair)	\$ 24,660			\$ -					\$ 2,036,601		\$ 2,061,261
WI040062 (state of good repair)									\$ 4,133,125		\$ 4,133,125
Total Section 5309	\$ 24,660	\$ -	\$ -	\$ -	\$ -	\$ 187,500	\$ -	\$ -	\$ 7,482,270	\$ -	\$ 7,694,430
Federal Section 5337 Grants											
WI540001	\$ -			\$ -					\$ 631,788		\$ 631,788
FFY14	\$ -			\$ -					\$ 937,964		\$ 937,964
Total Section 5337	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,569,752	\$ -	\$ 1,569,752
Federal Section 5339 Grants											
WI340001									\$ 1,314,952		\$ 1,314,952
FFY14	\$ -			\$ -					\$ 1,226,151		\$ 1,226,151
Total Section 5339	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,541,103	\$ -	\$ 2,541,103
Total Capital Grants	\$ 202,918	\$ -	\$ 36,000	\$ 2,951,665	\$ 167,768	\$ 277,500	\$ -	\$ -	\$ 11,593,125	\$ -	\$ 25,003,442
OTHER GRANTS											
WI260012 (recorded in fund SG67)							\$ 1,980,000				\$ 1,980,000
WI390001 (recorded in fund SG67)							\$ 124,999				\$ 124,999
WI390002 (recorded in fund SG67)							\$ 1,500,000				\$ 1,500,000
WI791000 (recorded in fund CD21)							\$ 1,494,375				\$ 1,494,375
WI800006							\$ 5,512				\$ 5,512
Total Other Grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,104,886	\$ -	\$ -	\$ -	\$ 5,104,886

Please refer to Independent Auditors' report.

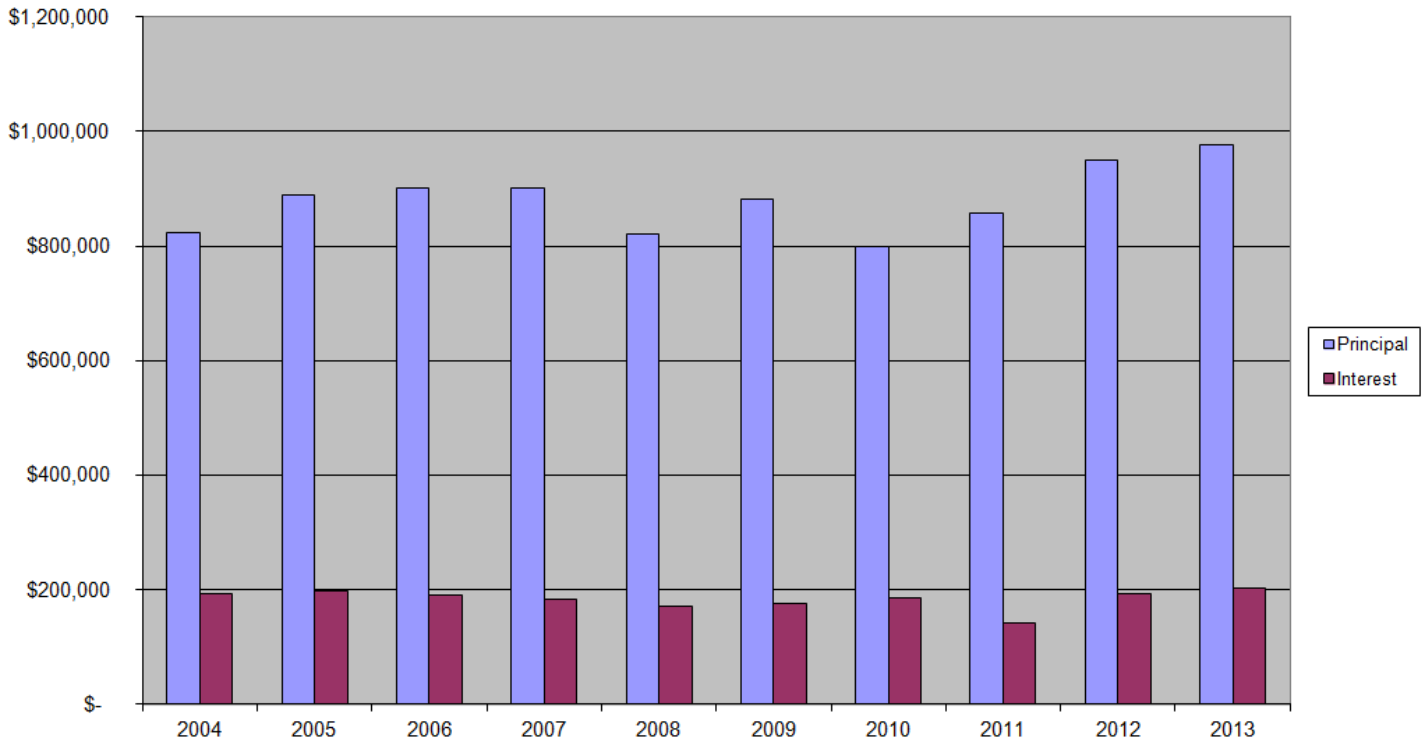
METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Borrowing

As is shown in the information provided below, Metro's debt through the City's General Obligation borrowing (G.O. debt) has been kept to manageable levels. Most borrowing is related to capital purchases where 80 per cent of funding is derived from federal grant sources and the balance from local borrowing. The City has a Aaa bond rating. The City carefully manages the borrowing and debt service.

**Madison Metro Transit
Principal & Interest
Payments
General Obligation Debt**



Financial Statements

Metro's basic financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America, promulgated by the Government Accounting Standards Board (GASB). Revenues are recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets, except land, are depreciated over their useful lives. See the notes to the financial report for a summary of Metro's significant accounting policies.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Condensed Statements

The following condensed Statements found in Table 1 and Table 2 below is information required to appear in the Management Discussion and Analysis (MD & A) report. The footnoted references will assist in locating more details in the MD & A and Audit Report.

Table 1

Condensed Statements of Net Position

	2013	2012	2011
Current and Other Assets	\$ 11,085,586	\$ 12,766,340	\$ 9,462,916
Capital Assets ¹	<u>35,544,949</u>	<u>40,184,210</u>	<u>40,193,260</u>
Total Assets	<u>46,630,535</u>	<u>52,950,550</u>	<u>49,656,176</u>
Long-Term Debt ²	8,205,025	10,956,806	9,394,917
Other Liabilities	<u>11,571,058</u>	<u>12,458,946</u>	<u>10,964,641</u>
Total Liabilities	<u>19,776,083</u>	<u>23,415,752</u>	<u>20,359,558</u>
Net Investment in Capital			
Assets ³	31,313,176	35,589,523	35,729,656
Unrestricted (Deficit)	<u>(4,458,724)</u>	<u>(6,054,725)</u>	<u>(6,433,038)</u>
Total Net Position	<u>\$ 26,854,452</u>	<u>\$ 29,534,798</u>	<u>\$ 29,296,618</u>

¹ See Note 2 for details in this Audit report

² See Note 4 for details in this Audit report

³ See Note 1 for details in this Audit report

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Table 2

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	2011
Operating Revenues	\$ 17,468,166	\$ 16,515,060	\$ 16,178,584
Depreciation Expense	6,258,427	6,627,945	6,594,868
Other Operating Expenses	52,272,836	50,248,314	50,875,199
Non-operating Expenses ¹	<u>318,353</u>	<u>320,537</u>	<u>277,723</u>
Total Expenses	<u>58,849,616</u>	<u>57,196,796</u>	<u>57,747,790</u>
Operating Subsidies ¹	25,915,025	25,697,964	26,941,035
Loss Before Capital			
Contributions and Transfers	(15,466,425)	(14,983,772)	(14,628,171)
Capital Contributions ²	1,978,644	6,502,259	5,525,833
Transfers	<u>10,807,435</u>	<u>8,719,693</u>	<u>7,853,699</u>
Changes in Net Position	<u>(2,680,346)</u>	<u>238,180</u>	<u>(1,248,639)</u>
Beginning Net Position	29,534,798	29,296,618	30,545,257
Ending Net Position	<u>\$ 26,854,452</u>	<u>\$ 29,534,798</u>	<u>\$ 29,296,618</u>

¹ See Statements of Revenues, Expenses and Changes in Net Position for more detail

² See Year End Grant Status in this MD&A report for more detail

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Request for Information

This financial report is designed to provide a general overview of Metro's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to Charles Kamp, General Manager, Metro Transit 1245 East Washington Avenue, Suite 201, Madison, WI 53703 or by e-mail to: ckamp@cityofmadison.com

Respectfully submitted

A handwritten signature in cursive script that reads "Chuck Kamp".

Charles L. Kamp
Metro Transit General Manager

Statements of Net Position Follows

METRO TRANSIT SYSTEM

STATEMENTS OF NET POSITION December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,490,050	\$ -
Restricted cash - retiree health insurance escrow	434,338	360,725
Receivable from State of Wisconsin and FTA - capital and maintenance	1,442,304	4,131,937
Receivable from other governmental units	4,588,827	4,627,228
Accounts receivable (net)	654,742	829,568
Materials and supplies	413,090	456,844
Prepaid expenses	633,262	853,611
Current portion of prepaid expense - land and tower lease	25,782	26,665
Total Current Assets	<u>9,682,395</u>	<u>11,286,578</u>
NON-CURRENT ASSETS		
Restricted cash - retiree health insurance escrow	1,284,756	1,335,545
Other Assets		
Prepaid expenses - land and tower lease	118,435	144,217
Capital Assets		
Transit plant in service	99,056,879	99,375,333
Accumulated depreciation	(64,297,301)	(59,425,380)
Construction work in progress	785,371	234,257
Total Non-Current Assets	<u>36,948,140</u>	<u>41,663,972</u>
Total Assets	<u>46,630,535</u>	<u>52,950,550</u>

LIABILITIES

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Due to city	\$ -	\$ 1,775,221
Current portion of general obligation debt	871,710	976,560
Current portion of advance from other funds	210,374	192,470
Current portion of unearned revenue - land and tower lease	22,441	23,228
Accounts payable	861,446	1,972,812
Unearned revenue	910,050	1,001,053
Accrued compensation, vacation and sick leave	1,128,685	1,268,204
Accrued interest	73,119	81,634
Retiree health insurance escrow payable from restricted assets	434,338	360,725
Total Current Liabilities	<u>4,512,163</u>	<u>7,651,907</u>
NON-CURRENT LIABILITIES		
General obligation debt	3,540,311	4,412,021
Advance from other funds	3,582,630	3,793,004
Retiree health insurance escrow payable from restricted assets	1,284,756	1,335,545
Accrued sick leave	3,219,364	3,107,081
Deposits from other governments	448,794	465,167
Other post-employment benefits	3,082,092	2,522,613
Unearned revenue - land and tower lease	105,973	128,414
Total Non-Current Liabilities	<u>15,263,920</u>	<u>15,763,845</u>
 Total Liabilities	 <u>19,776,083</u>	 <u>23,415,752</u>
	NET POSITION	
NET POSITION		
Net investment in capital assets	31,313,176	35,589,523
Unrestricted (Deficit)	<u>(4,458,724)</u>	<u>(6,054,725)</u>
 TOTAL NET POSITION	 <u>\$ 26,854,452</u>	 <u>\$ 29,534,798</u>

See accompanying notes to financial statements.

METRO TRANSIT SYSTEM

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES	\$ 17,468,166	\$ 16,515,060
OPERATING EXPENSES		
Employee compensation and benefits	38,238,265	36,724,780
Materials and supplies	5,265,765	5,301,924
Purchased services	7,957,501	7,468,495
Interagency charges	811,305	753,115
Total Operation and Maintenance Expenses	<u>52,272,836</u>	<u>50,248,314</u>
Depreciation expense	6,258,427	6,627,945
Total Operating Expenses	<u>58,531,263</u>	<u>56,876,259</u>
Operating Loss	<u>(41,063,097)</u>	<u>(40,361,199)</u>
OPERATING SUBSIDIES		
Federal subsidies	6,145,384	5,988,679
Federal subsidies pass-through to sub recipient	(26,400)	-
State operating subsidies	16,600,000	16,599,975
Other state subsidies	13,746	8,197
Local public subsidies	3,182,295	3,101,113
Total Operating Subsidies	<u>25,915,025</u>	<u>25,697,964</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest expense	<u>(318,353)</u>	<u>(320,537)</u>
Loss Before Contributions and Transfers	<u>(15,466,425)</u>	<u>(14,983,772)</u>
CAPITAL CONTRIBUTIONS - CITY & OTHER	1,126,256	1,177,496
CAPITAL CONTRIBUTIONS - FEDERAL & STATE	852,388	5,324,763
TRANSFERS IN - MPO	12,556	9,741
TRANSFERS IN - CITY OTHER	13,489	-
TRANSFERS IN - CITY OPERATING SUBSIDIES	<u>10,781,390</u>	<u>8,709,952</u>
Total Contributions and Transfers	<u>12,786,079</u>	<u>15,221,952</u>
CHANGE IN NET POSITION	(2,680,346)	238,180
NET POSITION - Beginning of Year	<u>29,534,798</u>	<u>29,296,618</u>
NET POSITION - End of Year	<u>\$ 26,854,452</u>	<u>\$ 29,534,798</u>

See accompanying notes to financial statements.

Statements of Cash Flows Follows

METRO TRANSIT SYSTEM

STATEMENTS OF CASH FLOWS Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 18,242,163	\$ 16,039,365
Paid to suppliers for goods and services	(24,958,680)	(24,936,000)
Paid to employees for services	(26,408,567)	(25,508,511)
Cash Flows from Operating Activities	(33,125,084)	(34,405,146)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Received from (paid to) city for implicit financing	(1,775,221)	749,401
Operating subsidies received - federal	7,380,658	5,943,376
Federal subsidies pass-through to sub recipient	(26,400)	-
Operating subsidies received - state	16,994,546	16,227,487
Operating subsidies received - local	2,298,912	3,305,179
Deposits received from other governments	(16,373)	115,732
Repayment of non-capital advances from other funds	(192,470)	(178,147)
Interest paid on non-capital advances from other funds	(124,717)	(126,231)
Operating transfer from city	10,781,390	8,709,952
Other transfer in from city	13,489	-
Cash Flows from Noncapital Financing Activities	35,333,814	34,746,749
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt retired	(976,560)	(950,990)
Interest paid	(202,151)	(192,307)
Proceeds from issuance of general obligation debt	-	1,108,275
Acquisition and construction of capital assets	(2,569,347)	(5,685,212)
Capital contributions - city and other	1,126,256	1,177,496
Capital contributions - federal and state	1,925,946	4,267,086
Cash Flows From Capital and Related Financing Activities	(695,856)	(275,652)
Net Change in Cash and Cash Equivalents	1,512,874	65,951
CASH AND CASH EQUIVALENTS – Beginning of Year	1,696,270	1,630,319
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,209,144	\$ 1,696,270
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
None		

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (41,063,097)	\$ (40,361,199)
Noncash items included in operating loss		
Depreciation expense	6,258,427	6,627,945
Loss on retirement of assets	-	16,497
Changes in Assets and Liabilities		
Accounts receivable	888,227	(1,468,078)
Materials and supplies	43,754	5,336
Prepaid expenses	247,014	(291,066)
Accrued payroll liabilities	(27,236)	(8,515)
Retiree health insurance escrow payable from restricted assets	22,824	65,951
Other post-employment benefits	559,479	385,803
Accounts payable	59,755	(355,755)
Unearned revenue	(91,003)	1,001,053
Unearned revenue - land and tower lease	(23,228)	(23,118)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (33,125,084)</u>	<u>\$ (34,405,146)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION ACCOUNTS		
Cash	\$ 1,490,050	\$ -
Restricted Cash - Retiree Health Insurance Escrow	<u>1,719,094</u>	<u>1,696,270</u>
CASH AND CASH EQUIVALENTS	<u>\$ 3,209,144</u>	<u>\$ 1,696,270</u>

See accompanying notes to financial statements.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Metro Transit System (Metro) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by Metro are described below:

REPORTING ENTITY

Metro provides public bus transportation in the Cities of Madison, Middleton, Fitchburg and Verona, the Town of Madison and the Village of Shorewood Hills. Metro is governed by the City Transit and Parking Commission which consists of City Council members and citizen representatives. Service is provided in two major areas: fixed route service utilizing 220 coaches and paratransit services for the elderly and handicapped using both directly operated and purchased transportation services.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The term measurement focus is used to denote what is being measured and reported in Metro's operating statement. Metro is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether Metro is better or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on Metro's operating statement. Metro uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Metro is presented as an enterprise fund of the municipality. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and net income is necessary for management accountability.

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES, AND NET POSITION

Cash and Cash Equivalents

All Metro cash is commingled with the city cash and investments, which are managed by the City Treasurer. The disclosures regarding deposit and investment risks, as required by Statement No. 40 of the Governmental Accounting Standards Board are included in the general-purpose financial statements of the city, since it is not possible to segregate them by fund.

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

Deposits and Investments

State statutes restrict investment of transit funds. Investments are limited to:

1. Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
2. Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, local professional baseball park district, local professional football stadium district, local cultural arts district or by the University of Wisconsin Hospitals and Clinics Authority.
3. Bonds or securities issued or guaranteed by the federal government.
4. The local government investment pool.
5. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
6. Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
7. Repurchase agreements with public depositories, with certain conditions.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES, AND NET POSITION (cont.)

Accounts Receivable

Metro considers receivables from government units to be fully collectible; accordingly, no allowance for doubtful accounts from governmental units is presented. Allowances of \$21,482 and \$27,479 are included in 2013 and 2012, respectively, for general accounts receivable.

Materials and Supplies

Materials and supplies are generally used for operation and maintenance work, not for resale. They are valued at lower of cost or market based on the FIFO method and charged to operation and maintenance expense when used. An allowance of \$50,000 for obsolete materials is included in 2013 and 2012.

Prepaid Expenses

This represents amounts paid for services or coverage to be provided in future periods.

Capital Assets

Capital assets are defined by Metro as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Additions to and replacements of Metro capital assets are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. The cost of renewals and betterments relating to retirement units is added to capital asset accounts. The cost of property replaced, retired or otherwise disposed of is deducted from capital asset accounts and is charged to accumulated depreciation.

Fixed assets other than land are depreciated using the straight line method over their estimated useful life.

A summary of capital assets and estimated useful lives follows:

	Balance 12/31/13	Balance 12/31/12	Years
Land	\$ 2,604,992	\$ 2,604,992	N/A
Building	11,981,580	11,981,580	5 – 40
Curb and land improvements	6,732,726	6,737,994	5
Revenue equipment	66,135,416	66,174,688	8 – 20
Service vehicles	753,147	825,300	4 – 5
Shop and garage equipment	1,888,587	1,962,789	3 – 10
Furniture and office equipment	1,447,187	1,650,330	3 – 10
Miscellaneous and farebox	7,513,244	7,437,660	3 – 15
Total Capital Assets	<u>\$99,056,879</u>	<u>\$ 99,375,333</u>	

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES, AND NET POSITION (cont.)

Accrued Compensation, Sick Leave and Vacation

Employees are allowed to accumulate up to 150 days of sick time. For office employees and drivers one day is equivalent to eight hours; for all other employees one day is equivalent to 8-36/60 hours. Upon retirement or disability, Wisconsin Retirement System participants may receive the cash value of the accumulated sick leave subject to the above maximum or use all or a portion for the payment of continued health insurance premiums. Funding for those costs is provided out of Metro's operating revenues. The estimated liability for current employees at December 31, 2013 and 2012 is \$ 3,357,272 and \$3,299,710, respectively.

Employees earn varying amounts of vacation depending on the number of years of service. Vacation time for all non-represented employees and represented employees hired prior to January 1, 1998 is awarded based on the prior year's service and is, therefore, accrued at the end of each year. Represented employees hired after January 1, 1998 are awarded their vacation immediately and can use it once they have completed their probationary period. Represented employees may opt to carry over one week of vacation each year. All other vacation time must be used within the year received.

Retiree Health Insurance Escrow

Metro makes an annual deposit into an escrow account for contributions toward the health insurance premiums for certain eligible retirees. The deposit in 2013 and 2012 was \$402,380 and \$390,660, respectively. To qualify a retiree must have retired on or after reaching age 55, must have completed ten continuous years of full-time service with Metro in a position represented by Teamsters Union Local 695, just prior to retiring and be eligible to retire under the Wisconsin Retirement System (WRS). Retirees receive this benefit for a maximum of five consecutive years or until becoming eligible for Medicare. Retirees will be eligible for premium contributions to the extent that funds are available in the escrow account and Metro will not be required to make any additional payments to the account should the cost of providing premium contributions exceed the amount deposited. Interest income remains with the escrow account less a 1% administrative fee transferred to the City. As of December 31, 2013, 161 current employees have met the eligibility requirements.

Unearned Revenue

Madison Metropolitan School District purchases passes for the school district that are valid for the entire school year. The estimated value of those passes that is related to rides to be provided in the following calendar year have been recorded as unearned revenue at year end.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES, AND NET POSITION (cont.)

Long-Term Obligations

Long-term debt and other obligations are reported as Metro liabilities.

Deposits from Other Governments

Metro received \$115,732 in deposits in 2012 from the entities listed in Note 5 that provide Metro with local operating assistance subsidies. In 2013, \$16,373 was returned to these entities. These deposits will be held by Metro in reserve to help fund unanticipated cost increases in future years.

Net Position

Equity is classified as Net Position and is displayed in three components:

- *Net investment in capital assets* – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislations.

Metro's restricted assets equal liabilities payable from those assets therefore there are no restricted net position.

- *Unrestricted net position* – This component of net position consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets."

When both restricted and unrestricted resources are available for use, it is Metro's policy to use restricted resources first then unrestricted resources as they are needed.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES, AND NET POSITION (cont.)

Net Position (cont.)

The following calculation supports the net investment in capital assets:

	<u>2013</u>	<u>2012</u>
Plant in service	\$ 99,056,879	\$ 99,375,333
Accumulated depreciation	(64,297,301)	(59,425,380)
Construction work in progress	<u>785,371</u>	<u>234,257</u>
Sub-Totals	<u>35,544,949</u>	<u>40,184,210</u>
Less: Capital related debt		
Current portion of general obligation bonds	871,710	976,560
Long-term portion of capital related general obligation bonds	<u>3,540,311</u>	<u>4,412,021</u>
Sub-Totals	<u>4,412,021</u>	<u>5,388,581</u>
Add unspent proceeds of capital-related debt included above	<u>180,248</u>	<u>793,894</u>
Net Investment in Capital Assets	<u>\$ 31,313,176</u>	<u>\$ 35,589,523</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

REVENUES AND EXPENSES

Revenue Recognition

Metro distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services. The principal operating revenues of Metro are charges to customers for services. In addition, as fully described in Note 5, Metro also receives operating subsidies from state, local and federal governments. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Taxes

Municipal transit utilities are exempt from federal and state income taxes and, therefore, no income tax liability is recorded by Metro.

Capital Contributions

Metro has received Federal, State and local funding for acquisition and construction of capital assets. In accordance with GASB Statement No. 33, this funding is reported as an increase in net position.

The Federal and State grants are subject to grantor agency compliance audits. Management believes losses, if any, resulting from those compliance audits are not material to these statements

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*; Statement No. 68, *Accounting and Financial reporting for Pensions - an amendment of GASB Statement No. 27*; Statement No. 69, *Government Combinations and Disposals of Government Operations*; and Statement No. 70, *Accounting and Financial reporting for Nonexchange Financial Guarantees*. Application of these standards may restate portions of these financial statements.

COMPARATIVE DATA

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 2 – CHANGES IN CAPITAL ASSETS

A summary of changes in Metro capital assets for 2013 and 2012 follows:

	Balance 1/1/13	Additions	Retirements	Adjustments	Balance 12/31/13
Capital assets not being depreciated					
Land	\$ 2,604,992	\$ -	\$ -	\$ -	\$ 2,604,992
Capital assets being depreciated					
Building and improvements	11,981,580	-	-	-	11,981,580
Curb and land improvements	6,737,994	-	(5,268)	-	6,732,726
Revenue vehicles	66,174,688	787,440	(826,712)	-	66,135,416
Service vehicles	825,300	36,854	(109,007)	-	753,147
Shop and garage equipment	1,962,789	16,647	(90,849)	-	1,888,587
Office equipment	1,650,330	83,057	(286,200)	-	1,447,187
Miscellaneous and farebox	7,437,660	144,054	(68,470)	-	7,513,244
Total Capital Assets Being Depreciated	96,770,341	1,068,052	(1,386,506)	-	96,451,887
Total Capital Assets	99,375,333	1,068,052	(1,386,506)	-	99,056,879
Less: Accumulated depreciation					
Building and improvements	(9,056,837)	(400,477)	-	-	(9,457,314)
Curb and land improvements	(6,194,007)	(97,264)	5,268	-	(6,286,003)
Revenue vehicles	(34,676,045)	(4,794,496)	826,712	-	(38,643,829)
Service vehicles	(668,169)	(64,051)	109,007	-	(623,213)
Shop and garage equipment	(1,699,358)	(78,223)	90,849	-	(1,686,732)
Office equipment	(1,383,663)	(132,042)	286,200	-	(1,229,505)
Miscellaneous and farebox	(5,747,301)	(691,874)	68,470	-	(6,370,705)
Total Accumulated Depreciation	(59,425,380)	(6,258,427)	1,386,506	-	(64,297,301)
Construction in progress	234,257	706,452	(155,338)	-	785,371
Net Transit System Plant	\$ 40,184,210				\$ 35,544,949

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 2 – CHANGES IN CAPITAL ASSETS (cont.)

	Balance 1/1/12	Additions	Retirements	Adjustments	Balance 12/31/12
Capital assets, not being Depreciated					
Land	\$ 2,604,992	\$ -	\$ -	\$ -	\$ 2,604,992
Capital assets being depreciated					
Building and improvements	12,000,988	105,339	(124,747)	-	11,981,580
Curb and land improvements	6,731,272	10,886	(4,164)	-	6,737,994
Revenue vehicles	65,478,343	6,060,055	(5,363,710)	-	66,174,688
Service vehicles	736,052	89,248	-	-	825,300
Shop and garage equipment	1,880,814	83,839	(1,864)	-	1,962,789
Office equipment	1,644,375	12,830	(6,875)	-	1,650,330
Miscellaneous and farebox	7,270,176	167,484	-	-	7,437,660
Total Capital Assets Being Depreciated	<u>95,742,020</u>	<u>6,529,681</u>	<u>(5,501,360)</u>	<u>-</u>	<u>96,770,341</u>
Total Capital Assets	<u>98,347,012</u>	<u>6,529,681</u>	<u>(5,501,360)</u>	<u>-</u>	<u>99,375,333</u>
Less: Accumulated depreciation					
Building and improvements	(8,698,271)	(466,816)	124,747	(16,497)	(9,056,837)
Curb and land improvements	(5,938,099)	(260,072)	4,164	-	(6,194,007)
Revenue vehicles	(35,123,189)	(4,916,566)	5,363,710	-	(34,676,045)
Service vehicles	(600,612)	(67,557)	-	-	(668,169)
Shop and garage equipment	(1,612,374)	(88,848)	1,864	-	(1,699,358)
Office equipment	(1,242,225)	(148,313)	6,875	-	(1,383,663)
Miscellaneous and farebox	(5,067,528)	(679,773)	-	-	(5,747,301)
Total Accumulated Depreciation	<u>(58,282,298)</u>	<u>(6,627,945)</u>	<u>5,501,360</u>	<u>(16,497)</u>	<u>(59,425,380)</u>
Construction in progress	<u>128,546</u>	<u>176,222</u>	<u>(70,511)</u>	<u>-</u>	<u>234,257</u>
Net Transit System Plant	<u>\$ 41,193,260</u>				<u>\$ 40,184,210</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 3 – INTER-FUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of inter-fund balances as of December 31, 2013 and 2012:

Due To	Due From	2013		2012	
		Amount	Purpose	Amount	Purpose
City of Madison	Metro	\$ -	Implicit cash financing	\$ 1,775,221	Implicit cash financing

The following is a schedule of transfer balances as of December 31, 2013 and 2012:

To	From	2013		2012	
		Amount	Principal Purpose	Amount	Principal Purpose
Metro	City of Madison	\$10,781,390	City operating subsidy	\$8,709,952	City operating subsidy
Metro	City of Madison	12,556	Local share of MPO grant	9,741	Local share of MPO grant
Metro	City of Madison	13,489	Insurance reimbursement transfer	-	

NOTE 4 – LONG-TERM OBLIGATIONS

GENERAL OBLIGATION NOTE

The city on behalf of Metro has borrowed funds for the purpose of capital purchases. The following is a summary of Metro's share of city general obligation note issues:

Title of Issue	Date of Issue	Final Maturity	Interest Rates	Original Amount	Amount Outstanding 12/31/13
Promissory Note	10-1-07	10-1-17	4.00 – 5.00%	\$ 380,648	\$ 152,259
Promissory Note	10-15-08	10-15-18	3.82%	1,420,000	710,000
Promissory Note	10-1-09	10-1-15	2.00 – 3.00%	1,418,700	247,138
Promissory Note	10-1-09	10-1-19	0.90 – 4.35%	805,000	482,850
Promissory Note	10-19-10	10-19-20	2.00 – 3.75%	97,890	97,890
Promissory Note	10-19-10	10-19-16	3.00 – 4.00%	920,047	356,744
Promissory Note	10-1-11	10-1-21	0.45 – 5.00%	1,709,900	1,367,818
Promissory Note	10-1-12	10-1-22	2.00 – 4.00%	1,108,275	997,322
Total					<u>\$ 4,412,021</u>

The repayment schedules for the debt are shown on the following page.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

Year	10-1-07		10-15-08		10-01-09		10-1-09		10-19-10		10-19-10	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 38,065	\$ 6,090	\$ 142,000	\$ 29,181	\$ 123,569	\$ 5,870	\$ 80,537	\$ 11,298	\$ -	\$ 1,835	\$ 205,748	\$ 12,760
2015	38,065	4,568	142,000	23,856	123,569	3,089	80,463	9,793	16,315	1,834	75,348	4,530
2016	38,065	3,045	142,000	18,176	-	-	80,463	8,225	16,315	1,622	75,648	2,269
2017	38,064	1,523	142,000	12,141	-	-	80,463	6,394	16,315	1,379	-	-
2018	-	-	142,000	6,106	-	-	80,462	4,406	16,315	1,087	-	-
2019	-	-	-	-	-	-	80,462	2,249	16,335	769	-	-
2020	-	-	-	-	-	-	-	-	16,295	397	-	-
2021	-	-	-	-	-	-	-	-	-	-	-	-
2022	-	-	-	-	-	-	-	-	-	-	-	-
2023	-	-	-	-	-	-	-	-	-	-	-	-
Totals	\$ 152,259	15,226	\$ 710,000	\$ 89,460	\$ 247,138	\$ 8,959	\$ 482,850	\$ 42,365	\$ 97,890	\$ 8,923	\$ 356,744	\$ 19,559

Year	10-01-11		10-01-12		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 170,977	\$ 64,971	\$ 110,814	\$ 37,677	\$ 871,710	\$ 169,682
2015	170,977	56,422	110,814	33,244	757,551	137,336
2016	170,977	47,874	110,814	28,812	634,282	110,024
2017	170,978	39,325	110,814	24,379	558,634	85,140
2018	170,977	30,776	110,814	19,946	520,569	62,321
2019	170,977	22,227	110,813	15,514	378,587	40,759
2020	170,978	13,678	110,813	11,081	298,085	25,156
2021	170,977	6,839	110,813	6,649	281,790	13,488
2022	-	-	110,813	3,324	110,813	3,324
2023	-	-	-	-	-	-
Totals	\$ 1,367,818	\$ 282,112	\$ 997,322	\$ 180,626	\$ 4,412,021	\$ 647,230

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

ADVANCE FROM OTHER FUNDS

The city has advanced the following to Metro from the debt service fund:

Date	Purpose	Final Maturity	Interest Rates	Original Amount	Amount Outstanding 12/31/13
October 19, 2010	Pay off WRS Prior Service Liability	October 19, 2024	0.55 - 4.00%	\$4,333,711	\$3,793,004

Advance from other funds debt service requirements to maturity follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 210,374	\$ 122,793	\$ 333,167
2015	229,174	120,058	349,232
2016	251,554	116,047	367,601
2017	274,829	110,387	385,216
2018	300,791	103,517	404,308
2019	330,332	94,493	424,825
2020	362,560	83,757	446,317
2021	398,368	71,068	469,436
2022	436,863	56,527	493,390
2023	477,147	39,926	517,073
2024	521,012	20,841	541,853
Totals	<u>\$ 3,793,004</u>	<u>\$ 939,414</u>	<u>\$ 4,732,418</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

Metro's long-term obligations activity for the years ended December 31, 2013 and 2012 is as follows:

	Balance 1/1/13	Additions	Reductions	Balance 12/31/13	Due Within One Year
General obligation notes	\$ 5,388,581	\$ -	\$ 976,560	\$ 4,412,021	\$ 871,710
Advance from other funds	3,985,474	-	192,470	3,793,004	210,374
Retiree health insurance escrow	1,696,270	402,380	379,556	1,719,094	434,338
Accrued sick leave	3,299,710	950,841	893,279	3,357,272	137,908
Deposits from other governments	465,167	-	16,373	448,794	-
Unfunded OPEB liability	2,522,613	559,479	-	3,082,092	-
Unearned revenue-land and tower lease	151,642	-	23,228	128,414	22,441
Totals	\$ 17,509,457	\$ 1,912,700	\$ 2,481,466	\$ 16,940,691	\$ 1,676,771
	Balance 1/1/12	Additions	Reductions	Balance 12/31/12	Due Within One Year
General obligation notes	\$ 5,231,296	\$ 1,108,275	\$ 950,990	\$ 5,388,581	\$ 976,560
Advance from other funds	4,163,621	-	178,147	3,985,474	192,470
Retiree health insurance escrow	1,630,319	390,660	324,709	1,696,270	360,725
Accrued sick leave	3,251,955	916,918	869,163	3,299,710	192,629
Deposits from other governments	349,435	115,732	-	465,167	-
Unfunded OPEB liability	2,136,810	385,803	-	2,522,613	-
Unearned revenue-land and tower lease	174,760	-	23,118	151,642	23,228
Totals	\$ 16,938,196	\$ 2,917,388	\$ 2,346,127	\$ 17,509,457	\$ 1,745,612

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 5 – OPERATING SUBSIDIES

Metro receives operating subsidies from state and local governments. Federal subsidies are received for capital grants as well as capital grants that reimburse outlays recorded as operating expenses.

State operating assistance is received in quarterly payments from the Wisconsin Department of Transportation.

Local operating assistance is in the form of subsidies from the City of Madison, Town of Madison, Cities of Middleton, Fitchburg and Verona, the Village of Shorewood Hills, the University of Wisconsin, Madison Area Technical College and Madison Metropolitan School District. Contracts are executed with all entities defining subsidy amounts and procedures.

The following are the operating subsidies for the years 2013 and 2012:

	2013	2012
Federal	\$ 6,145,384	\$ 5,988,679
Federal operating grant pass-through to sub recipient	(26,400)	
State	16,600,000	16,599,975
Other state subsidies	13,746	8,197
Local public subsidies	3,182,295	3,101,113
City of Madison	10,781,390	8,709,952
Other grants MPO	12,556	9,741
Internal service transfer	13,489	-

Federal and State subsidies are subject to granting agency compliance audits. Management believes losses, if any, resulting from the compliance audits are not material to these statements.

NOTE 6 – UNEARNED REVENUE/PREPAID EXPENSE – LAND AND TOWER LEASE

In 1993 the city on behalf of Metro entered into an operating lease with the University Research Park, Inc. for use of a tower. Metro's share of the lease was \$96,250. The lease is 25 years in length and was fully prepaid. The revenue received to pay for the lease was deferred and is being recognized using the straight-line method over the life of the lease.

In 1997 the city on behalf of Metro entered into two operating leases with Oscar Mayer Foods Division of Kraft Foods, Inc. and University Research Park, Inc. for two parcels of land used in conjunction with bus transfer facilities for \$93,000 and \$214,000, respectively. The operating leases are fifteen and thirty years in length, respectively, and were fully prepaid. The revenue received to pay for the two leases was deferred and is being recognized using the straight-line method over the life of the leases.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 6 – UNEARNED REVENUE/PREPAID EXPENSE – LAND AND TOWER LEASE (cont.)

In 2004, the city on behalf of Metro entered into an operating lease for \$103,488 with Kraft Foods for a parcel of land to be used as the North Park & Ride lot through 2012. At the same time extensions of both the North Transfer Point lease and the North Park & Ride lease were also negotiated through 2018 for an additional \$96,200. These leases were fully prepaid. The revenue received to pay for these leases was unearned and is being recognized using the straight-line method over the life of the leases.

The following table represents the prepaid asset to be amortized over the remaining life of the leases:

	University Research Park	North Park & Ride Lot	Total
2014	\$ 5,226	\$ 20,556	\$ 25,782
2015	4,849	20,092	24,941
2016	4,500	19,641	24,141
2017	4,175	19,202	23,377
2018	3,874	18,185	22,059
2019-2023	15,564	-	15,564
2024-2027	8,353	-	8,353
	<u>\$ 46,541</u>	<u>\$ 97,676</u>	<u>\$ 144,217</u>

The difference between the prepaid and the deferred revenue is equal to the 20% local match on the North Park and Ride Lot which was not deferred. The Oscar Meyer lease was fully recognized in 2012.

NOTE 7 – EMPLOYEES' RETIREMENT SYSTEM

All eligible Metro employees participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All employees, initially employed by a participating WRS employer prior to July 1, 2011, expected to work at least 600 hours a year and expected to be employed for at least one year from the employee's date of hire are eligible to participate in the System. All employees, initially employed by a participating System employer on or after July 1, 2011, and expected to work at least 1,200 hours a year and expected to be employed for at least one year from the employee's date of hire are eligible to participate in the System.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 7 – EMPLOYEES’ RETIREMENT SYSTEM (cont.)

Effective the first day of the first pay period on or after June 29, 2011 the employee required contribution was changed to one-half of the actuarially determined contribution rate for General category employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement. Contribution rates for 2013 and 2012 are:

	Employees	Employer
2013 General Category	6.65%	6.65%
2012 General Category	5.9%	5.9%

Total Metro payroll is substantially the same as payroll covered by the Wisconsin Retirement System.

	Years Ended December 31		
	2013	2012	2011
Total Covered Metro Payroll	<u>\$ 25,755,383</u>	<u>\$ 25,075,424</u>	<u>\$ 24,362,753</u>
Total Required Contributions	<u>\$ 1,712,733</u>	<u>\$ 1,479,450</u>	<u>\$ 2,826,079</u>
Total Required Contributions (%)	<u>6.65%</u>	<u>5.9%</u>	<u>11.6%</u>

Details of the plan are disclosed in the general-purpose financial statements of the City of Madison for the years ended December 31, 2013 and 2012.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS

The city administers a single-employer defined benefit healthcare plan, (the Retiree Health Plan) in which Metro participates. The Plan provides healthcare coverage to city employees and their spouses, which covers both active and eligible retired members. The Plan is affiliated with the Wisconsin Public Employer’s Group Health Insurance – Dane County service area plan, a purchasing plan administered by the State of Wisconsin. Benefit provisions are established through collective bargaining agreements. The Retiree Health Plan does not issue a publicly available financial report.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (cont.)

Contribution requirements are established through collective bargaining agreements and may be amended only through negotiations between the city and the union. The Plan provides eligible retirees with the opportunity to stay on the city's health insurance plan. Eligible retirees and spouses contribute the full amount of the premiums after age 55, except for teamsters who contribute the difference between the rate paid by the city and current year rate. As the eligibility requirements for different classes of employees vary, please see the City of Madison audit report for complete details of all benefits offered.

The city's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the city's annual OPEB cost for 2013 and 2012:

	Entire City		Metro	
	2013	2012	2013	2012
Annual OPEB Cost	\$ 6,728,009	\$ 6,091,079	\$ 1,357,753	\$ 1,061,080
Contributions made	3,090,541	2,788,074	798,274	675,277
Increase in net OPEB obligation	3,637,468	3,303,005	559,479	385,803
Net OPEB Obligation - Beginning of Year	18,284,889	14,981,884	2,522,613	2,136,810
Net OPEB Obligation - End of Year	<u>\$ 21,922,357</u>	<u>\$ 18,284,889</u>	<u>\$ 3,082,092</u>	<u>\$ 2,522,613</u>

The city's and Metro's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB liability for 2013, 2012 and 2011 were as follows:

City			
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Liability</u>
December 31, 2013	\$ 6,728,009	46%	\$21,922,357
December 31, 2012	\$ 6,091,079	46%	\$18,284,889
December 31, 2011	\$ 5,849,408	43%	\$14,981,884
Metro			
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Liability</u>
December 31, 2013	\$ 1,357,753	59%	\$ 3,082,092
December 31, 2012	\$ 1,061,080	64%	\$ 2,522,613
December 31, 2011	\$ 1,014,369	55%	\$ 2,136,810

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (cont.)

The funded status of the plan (for the entire city) as of December 31, 2013, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 57,430,619
Actuarial value of plan assets	<u>1,719,867</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 55,710,752</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>3.0%</u>
Covered payroll (active plan members)	<u>\$ 160,967,237</u>
UAAL as a percentage of covered payroll	<u>34.6%</u>

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return and an annual healthcare cost trend rate of 8.0% for 2014, reduced by decrements to an ultimate rate of 4.5% for 2021 and beyond. Both rates include a 3.0% inflation assumption. The plan's unfunded actuarial accrued liability is being amortized as a level dollar over 30 years based on an open group.

Please see the City of Madison basic financial statements for the required supplemental schedule of funding progress.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 9 – RISK MANAGEMENT

Metro is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, workers compensation, and health care of its employees. The city purchases commercial insurance for health care and most property losses. Settled claims have not exceeded the commercial coverage for health claims in any of the past three years. There has been no reduction in coverage compared to the prior year.

Metro is self-insured for workers' compensation claims. Metro is partially self-funded and participates in a public entity risk pool to provide coverage for liability and transit system property losses.

For its other liability coverage Metro Transit was insured under the City of Madison's liability program with Wisconsin Mutual Insurance Company (WMMIC). Details of the City's participation with WMMIC are provided in the City's financial statements. Metro Transit's workers' compensation program is also included in the City's self-insured workers' compensation program. Metro Transit's property exposures are insured under the City's property coverage through the Local Government Property Insurance Fund.

TRANSIT MUTUAL INSURANCE CORPORATION OF WISCONSIN (TMI)

Transit Mutual Insurance Corporation of Wisconsin (TMI) is a municipal mutual insurance corporation which insures auto liability for municipally-owned transit systems in Wisconsin. Each insured property is an owner of the mutual insurance corporation. Metro insures its transit systems' auto liability with TMI and is an owner of the corporation.

In 2013, TMI issued Metro an auto liability policy with a \$250,000 per person policy limit and a \$7,000,000 per accident policy limit. Of the per accident policy limit, TMI insures \$2,000,000 and reinsures \$5,000,000 with Genesis Insurance. In addition, Metro's policy provides for \$25,000 per person and \$50,000 per accident in uninsured motorist insurance.

Management of TMI consists of a board of directors comprised of one representative for each member. Metro does not exercise any control over the activities of TMI beyond its representation on the board of directors.

Premiums are determined in advance of each premium year, which begins on January 1. TMI is an assessable mutual; accordingly, the board of directors may require that supplemental contributions be made by members to ensure adequate funds are available to meet the obligations applicable to the premium year. Members are required by Wisconsin statute and TMI bylaws to fund any deficit attributable to a premium year during which they were a member. TMI was incorporated in 1985 and began issuing insurance policies in 1986; there has never been a member assessment beyond the annual premiums.

Metro's share of TMI is 42.46% for auto liability. A list of the other members and their share of participation is available in the TMI report which is available from: TMI, PO Box 1135, Appleton, WI 54915-1483 or by email from tmi@transitmutual.com.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2013 and 2012

NOTE 10 – BASIS FOR EXISTING FARES

Current fares (except for regular and senior/disabled 31 day passes) were made effective April 4, 2009 as approved by the Transit and Parking Commission.

A fare increase for regular and senior/disabled 31 day passes took effect on February 4, 2013.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Metro provides FTA Section 5307 appropriation funds to the Metropolitan Planning Organization for planning, short-range studies, Transportation Improvement Program (TIP) development and ridesharing, bikeways and other corridor studies.

Metro provides Wisconsin Department of Transportation Section 85.20 funds to Dane County for door-to-door volunteer driver escort services and Group Access Transportation for the elderly and disabled in the Metro Transit System service area.

Metro contracts with a number of providers for demand-responsive paratransit services. Contract terms and conditions vary for each provider.

In January of 2013 the Transit and Parking Commission approved a contract with Gillig Corp. for the purchase of up to 80 buses over a six-year period.

From time to time Metro is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and Metro's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on Metro's financial position or results of operations.

NOTE 12 – SUBSEQUENT EVENTS

In February, 2014 the Transit and Parking Commission and the City of Madison Common Council authorized Metro to enter into a contract with SPX Genfare for the purchase of a replacement fare collection system for \$3,425,000. The installation of the new fareboxes is anticipated to occur in the summer of 2014.

S U P P L E M E N T A L I N F O R M A T I O N

METRO TRANSIT SYSTEM

OPERATING REVENUES AND EXPENSES December 31, 2013 and 2012

OPERATING REVENUES	<u>2013</u>	<u>2012</u>
Passenger Fares for Transit Services		
Farebox	\$ 1,627,558	\$ 1,504,750
Adult 10 ride and 2 ride passes	870,246	799,347
Youth 10 ride and 2 ride passes	296,710	357,650
Senior & disabled passes	657,064	626,467
Monthly/daily passes	1,324,348	1,164,999
Easy rider passes	338,090	353,460
MMSD passes	1,493,000	1,307,750
Summer youth passes	30,840	27,600
UW ASM unlimited ride pass	3,320,944	3,147,062
UW Staff unlimited ride pass	1,841,716	1,770,944
Edgewood College unlimited ride pass	113,453	119,976
Madison College unlimited ride pass	621,773	754,868
City of Madison Employee unlimited ride pass	128,523	130,683
St Marys Hospital unlimited ride pass	38,289	47,356
Meriter Hospital unlimited ride pass	25,445	41,146
Dane County unlimited ride pass	26,421	23,466
Commuter Pass unlimited ride pass	154,262	113,114
Total Passenger Fares for Transit Service	<u>12,908,682</u>	<u>12,290,638</u>
Other Operating Revenues		
Advertising revenue	589,467	545,149
Sale of buses, scrap and parts	54,385	100,546
Miscellaneous	78,557	72,451
Dane County - MA Waiver	3,277,324	2,970,775
Dane County - Elderly & Handicapped	161,689	143,000
Dane County - Group Access Service	186,543	177,154
Dane County - Group RSVP Service	111,375	106,985
Dane County - Exceptional Rides	80,864	89,082
Dane County - Highway (Marketing)	19,280	19,280
Total Other Operating Revenues	<u>4,559,484</u>	<u>4,224,422</u>
Total Operating Revenues	<u>17,468,166</u>	<u>16,515,060</u>
OPERATING EXPENSES		
Operation and Maintenance Expenses		
Employee compensation and benefits		
Salaries and wages	26,404,155	25,565,947
Pensions and benefits	11,834,110	11,158,833
Total Employee Compensation and Benefits	<u>38,238,265</u>	<u>36,724,780</u>
Materials and supplies	5,265,765	5,301,924
Purchased services	7,957,501	7,468,495
Interagency charges	811,305	753,115
Total Operation and Maintenance Expenses	<u>52,272,836</u>	<u>50,248,314</u>
Depreciation expense	6,258,427	6,627,945
Total Operating Expenses	<u>58,531,263</u>	<u>56,876,259</u>
 NET OPERATING LOSS	 <u>\$ (41,063,097)</u>	 <u>\$ (40,361,199)</u>

METRO TRANSIT SYSTEM

DETAILED SCHEDULE OF REVENUES AND EXPENSES - REGULATORY BASIS December 31, 2013 and 2012

	2013	2012
REVENUES		
401.00 Passenger fares for transit service	\$ 12,908,682	\$ 12,290,638
402.00 Special transit fares - New Year's Eve contributions and other	20,000	10,000
402.10 Service charges, NSF charges, etc.	58,557	62,451
406.00 Auxiliary transportation revenue - advertising	589,467	545,149
407.10 Contra-expense for sale of buses, scrap and parts	54,385	100,546
409.10 Local public subsidies	3,182,295	3,101,113
409.30 City of Madison operating subsidy	10,781,390	8,709,952
409.40 Dane County specialized transportation programs	3,837,075	3,506,276
409.99 MPO Local Subsidy	12,556	9,741
411.00 State cash grants and reimbursements	16,613,746	16,608,172
413.00 Federal cash grants and reimbursements	6,145,384	5,988,679
Federal subsidies pass-through to sub recipient	(26,400)	-
Trasfer in from Internal Service	13,489	-
Total Eligible Revenues	54,190,626	50,932,717
EXPENSES - BY OBJECT CLASS TOTAL		
501.01 Operators' salaries and wages	14,566,401	14,061,578
501.02 Other salaries and wages	7,729,638	7,440,387
502.00 Fringe benefits	15,942,726	15,223,299
503.00 Services	942,803	704,026
504.01 Fuel and lubricants	3,702,964	3,877,854
504.02 Tires and tubes	227,685	209,060
504.99 Other materials and supplies	1,480,152	1,320,364
505.00 Utilities	549,236	473,703
506.00 Casualty and liability costs	863,122	952,434
508.00 Purchased transportation	5,119,096	4,955,612
509.00 Miscellaneous expense	136,936	101,372
511.00 Interest expense	318,353	320,537
512.00 Leases and rentals	200,772	175,510
513.00 Depreciation	6,258,427	6,627,945
Less: Ineligible depreciation on fixed assets	(6,258,427)	(6,627,945)
516.00 Other Reconciling Items	811,305	753,115
Total Eligible Expenses	52,591,189	50,568,851
NET INCOME (excluding capital contributions and depreciation on fixed assets)	\$ 1,599,437	\$ 363,866

METRO TRANSIT SYSTEM

RECONCILIATION OF REVENUES AND EXPENSES TO WISDOT AND FEDERAL RECOGNIZED REVENUES AND EXPENSES For the Year Ended December 31, 2013

		Per WisDOT Guidelines
Revenues including subsidies and operating transfer		\$ 54,190,626
Less: Non-recognized revenues		
City operating transfer	\$ 10,781,390	
Local public subsidies	3,182,295	
Dane County specialized transportation programs	3,837,075	
MPO Local Subsidy	12,556	
Other federal subsidy	6,145,384	
State operating subsidy	16,613,746	
Nontransportation revenues		
Sale of buses, scrap and parts	54,385	
Service charges, NSF charges, etc.	58,557	
Total Non-Recognized Revenues		40,685,388
WisDOT Eligible Operating Revenues		\$ 13,505,238
Total Expenses per statement including interest expense	\$ 58,849,616	
Add: Fixed assets eligible for operating assistance	-	
Total Expenses		\$ 58,849,616
Less: Non-recognized expenses		
Depreciation	6,258,427	
Interest expense	318,353	
Bad debts	-	
Offset of scrap sales and miscellaneous reimbursements	112,942	
Capital Maintenance Grant @ 100%	7,681,730	
Payroll for bus size study grant (in-kind contribution)	17,482	
Leases and rentals	200,772	
Interagency indirect charges without approved allocation plan (excludes MPO of \$62,772)	748,533	
Total WisDOT Non-Recognized Expenses		15,338,239
WisDOT Eligible Operating Expenses		\$ 43,511,377
WisDOT Recognized Deficit		\$ (30,006,139)
Less Operating revenues ineligible for federal assistance:		
Advertising revenue		589,467
Federal Recognized Deficit		\$ (29,416,672)

METRO TRANSIT SYSTEM

COMPUTATION OF THE DEFICIT DISTRIBUTION AMONG THE SUBSIDY GRANTORS For the Year Ended December 31, 2013

STATE FUNDS

WisDOT Recognized Deficit		<u>\$ 30,006,139</u>
WisDOT Contract Amount*		<u>\$ 16,600,000</u>
City of Madison and Other Local Subsidies	<u>\$ 13,989,730</u>	
5 Times Operating Subsidy		<u>\$ 69,948,650</u>
State Share - Least of the Three		<u>\$ 16,600,000</u>

FEDERAL FUNDS

	<u>Eligible Costs</u>	<u>80% Federal Share</u>
Capital maintenance		
Grant WI 90-X573-00	\$ 10,796	\$ 8,637
Grant WI 90-X735-00	101,770	81,416
Grant WI 90-X595-00	7,402,903	5,922,322
Grant WI 90-X765-00	13,808	11,046
Capital investment		
Grant WI 04-0043-00	33,000	26,400
Planning		
Grant WI 80-0006-00	119,455	95,564
Total federal operating revenue		<u>\$ 6,145,384</u>

SUMMARY OF FUNDING (2013 only)

	<u>Received in 2013</u>	<u>Receivable 12/31/13</u>	<u>Totals</u>
Federal Capital Maintenance	\$ 4,765,883	\$ 1,379,501	\$ 6,145,384
State Funds	16,600,000	-	16,600,000
Local Public Subsidies	1,755,200	1,427,095	3,182,295
MPO Local Subsidy	12,556	-	12,556
City of Madison	10,781,390	-	10,781,390
Internal Service Transfer	<u>13,489</u>	<u>-</u>	<u>13,489</u>
Total Funding	<u>\$ 33,928,518</u>	<u>\$ 2,806,596</u>	<u>\$ 36,735,114</u>

*WisDOT Contract Amount includes \$16,219,200 from the 2013 Urban Mass Transit Operating Assistance Contract and \$380,800 from the 2013 Paratransit Aids Contract.