

METRO TRANSIT SYSTEM

An Enterprise Fund of the
City of Madison, Wisconsin

FINANCIAL STATEMENTS

December 31, 2006 and 2005

METRO TRANSIT SYSTEM
An Enterprise Fund of the City of Madison, Wisconsin

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Common Council
Metro Transit System
Madison, Wisconsin

We have audited the accompanying financial statements of Metro Transit System, an enterprise fund of the City of Madison, Wisconsin as of December 31, 2006 and 2005, and for the years then ended as listed in the table of contents. These financial statements are the responsibility of Metro Transit System's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Metro Transit System and are not intended to present fairly the financial position of the City of Madison, Wisconsin and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metro Transit System as of December 31, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and Common Council
Metro Transit System

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 grants, including those systems applicable to the Metro Transit System. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The Management's Discussion and Analysis on pages 3 through 14 is not a required part of the financial statements but is supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Vuchow Krause & Company LLP

Madison, Wisconsin
June 28, 2007

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, 2006. 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 of this report.

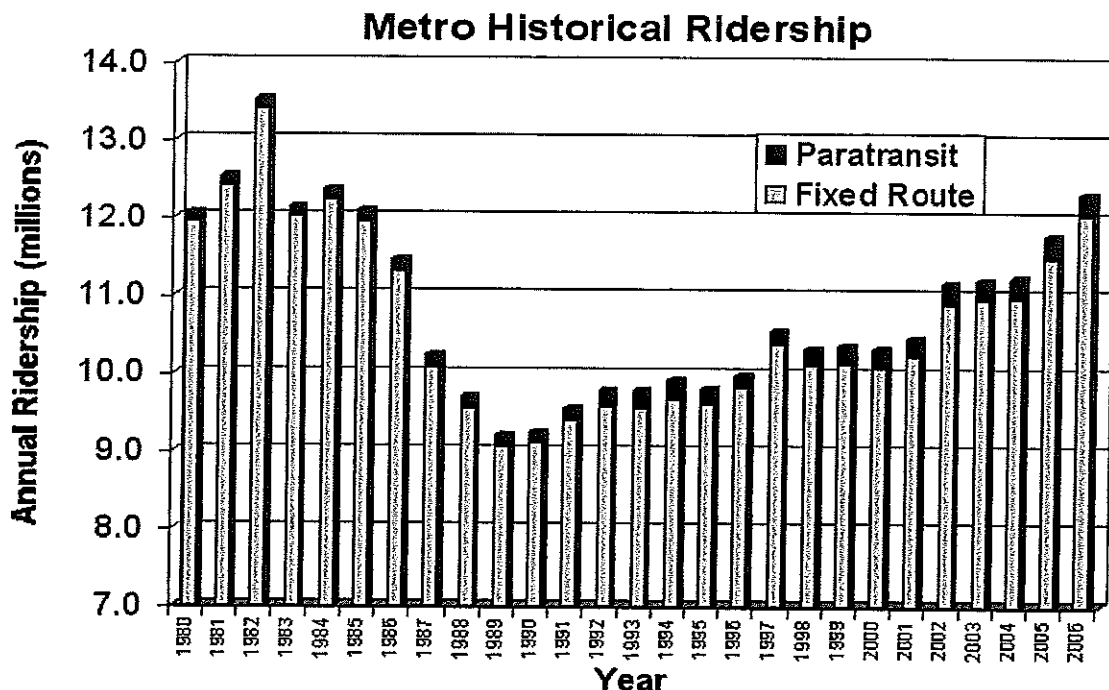
Mission

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 60 square mile regional service area with a population of 234,073, 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 RSVP programs in the Metro service area. Metro is an Enterprise Fund of the City of Madison. Local funding partners include the City of Fitchburg, City of Middleton, City of Verona, Town of Madison, Dane County, Edgewood College, Madison Area Technical College, Madison Metropolitan School District, St. Mary's Hospital, the University of Wisconsin-Madison, and the Village of Shorewood Hills.

Annual Overview

In 2006, Metro ridership continued to grow. Annual ridership for fixed route service reached over 12.0 million rides; the highest level since 1985.



METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

In order to increase ridership, Metro successfully pursued the following 2006 Annual Strategic Plan initiatives:

- Conducted service planning discussions with the communities of Sun Prairie, Stoughton, Oregon, Cross Plains, and other communities indicating an interest in public transportation services.
- Implemented West and South-side service changes in the fall of 2006
- Improved passenger amenities such as rehabilitation of the North and South transfer points and continuation of the bus stop replacement program.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

2006 Financial Highlights

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

Madison Metro Transit Income Statement For the Year Ended December 31, 2006

	All Modes		Fixed Route		Paratransit	
	Actual 2006	Budget 2006	Actual 2006	Budget 2006	Actual 2006	Budget 2006
Revenue						
Farebox & Ticket Revenue	\$ 2,704,271	\$ 2,593,231	\$ 2,528,311	\$ 2,395,926	\$ 175,960	\$ 197,305
Pass Revenue	\$ 1,338,001	\$ 1,290,046	\$ 1,338,001	\$ 1,290,046	\$ -	\$ -
Other Passenger Revenue	\$ 4,181,074	\$ 3,826,273	\$ 4,045,857	\$ 3,703,329	\$ 135,217	\$ 122,944
Sub Total	\$ 8,223,346	\$ 7,709,550	\$ 7,912,169	\$ 7,389,301	\$ 311,177	\$ 320,249
Misc Operating Revenue	\$ 323,997	\$ 355,890	\$ 316,038	\$ 349,500	\$ 7,959	\$ 6,390
Non-Operating Revenue	\$ 124,091	\$ 120,983	\$ 121,826	\$ 117,938	\$ 2,265	\$ 3,045
Misc Revenue/County/Reserves	\$ 2,621,636	\$ 2,668,586	\$ 19,280	\$ 19,280	\$ 2,602,356	\$ 2,649,306
Local Subsidies	\$ 2,523,260	\$ 2,455,538	\$ 2,189,557	\$ 2,123,454	\$ 333,703	\$ 332,084
State Assistance	\$ 15,862,871	\$ 16,037,108	\$ 13,718,869	\$ 13,388,326	\$ 2,143,802	\$ 2,648,782
Federal Assistance	\$ 5,174,433	\$ 5,354,446	\$ 4,527,657	\$ 4,715,266	\$ 646,776	\$ 639,180
Total Revenue	\$ 34,853,434	\$ 34,702,101	\$ 28,805,396	\$ 28,103,065	\$ 6,048,038	\$ 6,599,036
Expenditures						
Salaries	\$ 21,528,086	\$ 21,454,633	\$ 19,971,458	\$ 19,804,270	\$ 1,556,628	\$ 1,650,363
Benefits	\$ 9,826,913	\$ 9,684,780	\$ 9,087,529	\$ 8,809,079	\$ 759,384	\$ 875,701
Utilities/Telephone	\$ 694,032	\$ 622,800	\$ 631,279	\$ 568,716	\$ 62,753	\$ 54,084
Repairs & Maint B&G	\$ 42,129	\$ 66,200	\$ 40,162	\$ 64,066	\$ 1,967	\$ 2,134
Repairs & Maint Equip	\$ 152,919	\$ 163,965	\$ 123,244	\$ 136,989	\$ 29,675	\$ 26,976
Rentals	\$ 65,579	\$ 59,956	\$ 60,607	\$ 54,560	\$ 4,972	\$ 5,396
Employee Services	\$ 58,785	\$ 62,850	\$ 52,842	\$ 57,805	\$ 5,943	\$ 5,045
Insurance & Financial	\$ 689,508	\$ 654,070	\$ 624,763	\$ 596,436	\$ 64,745	\$ 57,634
Waste Management	\$ 10,215	\$ 11,850	\$ 9,256	\$ 10,783	\$ 959	\$ 1,067
Other Services	\$ 4,808,688	\$ 4,668,632	\$ 360,598	\$ 278,351	\$ 4,448,092	\$ 4,390,281
Office Supplies	\$ 40,593	\$ 48,100	\$ 36,781	\$ 43,498	\$ 3,812	\$ 4,602
Equipment Supplies	\$ 878,915	\$ 971,664	\$ 813,859	\$ 909,882	\$ 65,056	\$ 61,782
Bldg & Const Supplies	\$ 19,654	\$ 66,479	\$ 18,375	\$ 64,264	\$ 1,279	\$ 2,215
Fuels, Oils & Lubricants	\$ 3,278,722	\$ 2,406,501	\$ 3,152,578	\$ 2,216,496	\$ 126,144	\$ 190,005
Work Supplies	\$ 231,580	\$ 252,225	\$ 218,557	\$ 232,838	\$ 13,023	\$ 19,387
Inter Departmental Charges	\$ 663,442	\$ 679,181	\$ 623,347	\$ 632,279	\$ 40,095	\$ 48,902
Depreciation	\$ 5,492,831	\$ 5,500,000	\$ 4,977,055	\$ 5,005,000	\$ 515,777	\$ 495,000
Interest & Bad Debt Expense	\$ 443,011	\$ 434,272	\$ 403,536	\$ 396,988	\$ 39,475	\$ 37,284
Total Expenditures	\$ 48,925,602	\$ 47,608,168	\$ 41,186,824	\$ 39,882,300	\$ 7,739,779	\$ 7,926,858
Operating Income/(Deficit)	\$ (14,072,169)	\$ (13,108,067)	\$ (12,380,428)	\$ (11,779,235)	\$ (1,691,741)	\$ (1,326,822)
Less: Depreciation	\$ (5,492,831)	\$ (5,500,000)	\$ (4,977,055)	\$ (5,005,000)	\$ (515,777)	\$ (495,000)
Debt	\$ 939,963	\$ 937,663	\$ 851,700	\$ 853,273	\$ 88,263	\$ 84,390
Fixed Assets	\$ 471,890	\$ 695,000	\$ 59,074	\$ 55,000	\$ 412,816	\$ 640,000
Total Expenditures (City)	\$ 44,844,624	\$ 43,940,821	\$ 37,119,643	\$ 35,785,673	\$ 7,725,081	\$ 8,166,248
Added To/(Taken From) Reserves	\$ (146,045)	\$ -	\$ (146,045)	\$ -	\$ -	\$ -
Income/(Deficit) (City)	\$ (9,846,146)	\$ (9,238,720)	\$ (8,168,102)	\$ (7,692,508)	\$ (1,677,043)	\$ (1,566,212)

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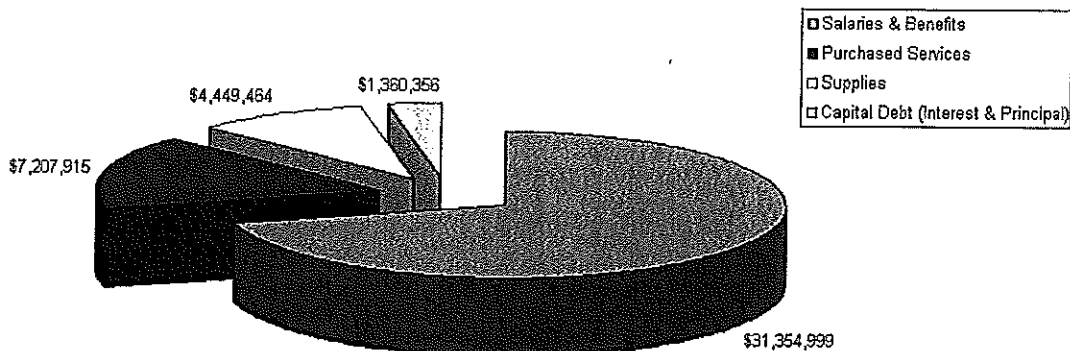
MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Metro drew upon its Contingency Reserve in the amount of \$146,045 to balance revenues and expenses in 2006. The Contingent Reserve is traditionally used as a "rainy day" fund and for the purchase of fixed assets. In 2006, no fixed assets were acquired with the use of Contingent Reserve funds. See historical information about Metro's Contingent Reserve below.

Fiscal Year	Beginning Balance	Reserves +/-	Ending Balance
2002	\$1,974,536	\$314,040	\$2,288,576
2003	\$2,288,576	(\$141,809)	\$2,146,767
2004	\$2,146,767	(\$1,187,338)	\$959,429
2005	\$959,429	(\$690,000)	\$269,429
2006	\$269,429	(\$146,045)	\$123,384

As can be seen from the following chart, employee compensation and benefits accounted for more than 70 percent of the overall operating expenses in 2006.

2006 Operating Expenses



When revenues are applied against operating expenses, as they are in the following chart, several observations can be made:

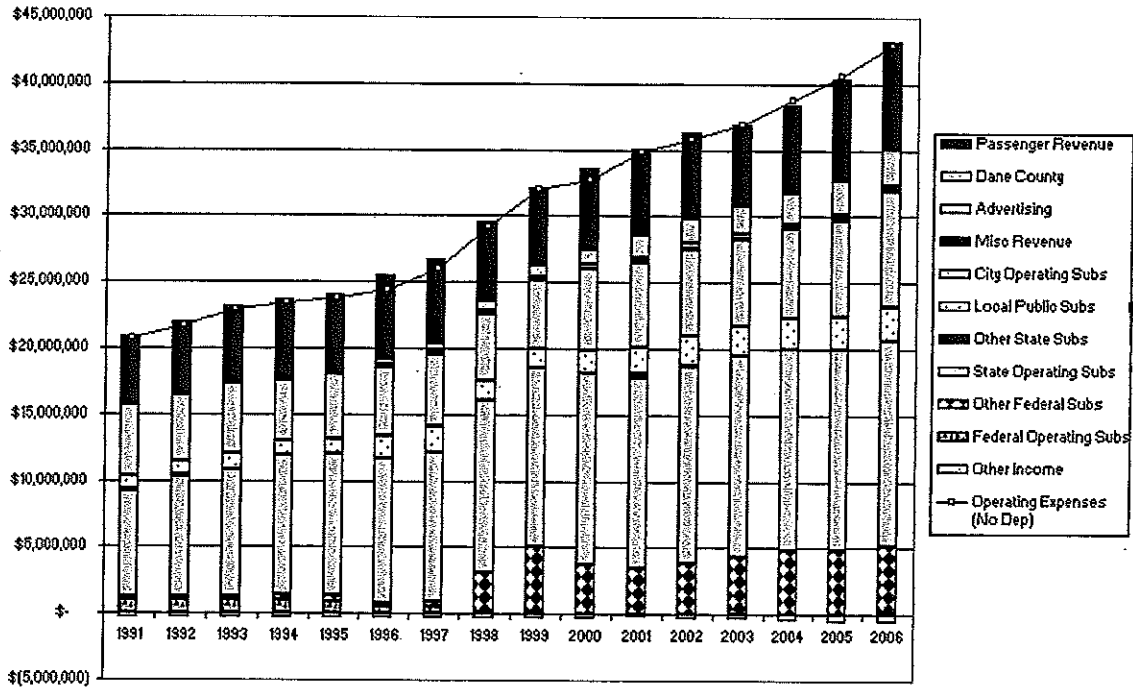
- Operating expenses continue to show a steady increase. Beginning in 2004, fuel cost increases were exceptionally high bringing increasing operating cost growth to over 4 percent each year.
- Passenger revenues increased 6.8 percent in 2006, reflecting increases in ridership under the unlimited ride pass agreements. As part of the agreements, participants are charged a per trip rate for unlimited ride pass agreements. This has permitted an increase in revenues based on increases in ridership.
- Metro has not been eligible for federal operating assistance since 1997 because the population is over the 200,000 threshold established by the

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Federal Transit Administration. However, Metro is eligible to use Federal 5307 funds for reimbursement of maintenance related expenses. Metro has been utilizing these funds for its operating budget to the maximum extent allowable since 2003. Funds not used for operating budget purposes are used for capitol equipment purchases.

Madison Metro Transit
Revenue & Expense 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 expenses were charged during the year. Note that where balances are available as of 12/31/06, future capital project plans are budgeted to draw down those balances.

Madison Metro Transit

Year End Grant Status as of 12/31/06

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

Funding Year	Total Funds Apportionment	Prior years expenditures	Beginning Balance 1/1/06	2006 expenditures	Balance available as of 12/31/06	Future Budgeted projects	Balance after budgeted projects	Detail of future budgeted projects - see page 2 & 3.
Federal Section 5307 Grants								
W190X357	\$ 6,663,878	\$ 6,639,951	\$ 23,927	\$ 23,927	\$ -	\$ -	\$ -	close grant
W190X419	\$ 5,655,256	\$ 5,616,643	\$ 38,613	\$ 25,602	\$ 13,011	\$ 13,011	\$ -	transit fleet Software (part)
W190X438	\$ 7,611,755	\$ 6,483,977	\$ 1,127,778	\$ 716,225	\$ 411,553	\$ 411,553	\$ -	Buildg Rehab,software, ACM, TE, equip, etc.
W190X452	\$ 7,364,618	\$ -	\$ 7,364,618	\$ 6,266,662	\$ 1,097,956	\$ 1,097,956	\$ -	ACM, MPO, TE, buses, P&R.
FFY07 Grant	\$ 7,778,055	\$ -	\$ -	\$ -	\$ 7,778,055	\$ 7,778,055	\$ -	ACM, MPO, PM, leases, TE, buses, equip, etc
Total Section 5307	\$ 35,073,562	\$ 18,740,571	\$ 8,554,936	\$ 7,032,416	\$ 9,300,575	\$ 9,300,575	\$ -	0
Federal Section 5309 Grants (Fixed Guideway)								
W1050001	\$ 981,141	\$ -	\$ 981,141	\$ -	\$ 981,141	\$ 981,141	\$ -	2007 Hybrids
FFY07 Grant	\$ 1,100,323	\$ -	\$ -	\$ -	\$ 1,100,323	\$ 1,100,323	\$ -	2008 buses
Total Section 5309	\$ 2,081,464	\$ -	\$ 981,141	\$ -	\$ 2,081,464	\$ 2,081,464	\$ -	0
State Section 5309 Grants (discretionary)								
W1030080	\$ 2,029,539	\$ 1,863,853	\$ 165,686	\$ 75,682	\$ 90,004	\$ 90,004	\$ -	2008 buses
W1030084	\$ 3,530,037	\$ 3,518,681	\$ 11,356	\$ 11,356	\$ (0)	\$ -	\$ (0)	close grant
W1030087	\$ 3,564,187	\$ 2,068,710	\$ 1,495,477	\$ 1,250,000	\$ 245,477	\$ 245,477	\$ -	Building rehab projects
W1030091	\$ 3,793,204	\$ -	\$ 3,793,204	\$ 3,106,020	\$ 687,184	\$ 687,184	\$ -	2008 buses & 2007 Curaways
W1040003	\$ 2,139,534	\$ -	\$ 2,139,534	\$ -	\$ 2,139,534	\$ 2,139,534	\$ -	2008 buses & 2007 Hybrids
FFY07 Grant	\$ 1,135,766	\$ -	\$ -	\$ -	\$ 1,135,766	\$ 1,135,766	\$ -	2008 buses
Total State 5309	\$ 16,192,267	\$ 7,451,244	\$ 7,605,257	\$ 4,443,058	\$ 4,297,965	\$ 4,297,965	\$ (0)	0
Total Capital Grants	\$ 53,347,293	\$ 26,191,815	\$ 17,141,333	\$ 11,475,474	\$ 15,680,004	\$ 15,680,004	\$ (0)	0

OTHER GRANTS:

Transport 2020 Grants								
WI170002	\$ 491,964	\$ -	\$ 491,964	\$ 491,964	\$ -	\$ -	\$ -	close grant
WI260012	\$ 1,980,000	\$ -	\$ 1,980,000	\$ -	\$ 1,980,000	\$ 1,980,000	\$ -	HNTB transport 2020 contract
WI390001	\$ 1,485,000	\$ -	\$ 1,485,000	\$ 627,998	\$ 857,002	\$ 857,002	\$ -	HNTB transport 2020 contract
FFY07 Grant	\$ 750,000	\$ -	\$ 750,000	\$ -	\$ 750,000	\$ 293,036	\$ 456,964	HNTB transport 2020 contract
Total Transport 2020 (SG67)	\$ 4,706,964	\$ -	\$ 4,706,964	\$ 1,119,962	\$ 3,587,002	\$ 3,130,038	\$ 456,964	0
Other Grants								
TDM Grants	\$ 64,775	\$ 44,616	\$ 20,159	\$ -	\$ 20,159	\$ -	\$ 20,159	no projects - close grant?
WI37X011	\$ 223,680	\$ 23,232	\$ 200,448	\$ 110,986	\$ 89,462	\$ 89,462	\$ -	JARC - operating exp/rev
Total Other	\$ 288,455	\$ 67,848	\$ 220,607	\$ 110,986	\$ 109,621	\$ 89,462	\$ 20,159	0

Madison Metro Transit
Year End Grant Status as of 12/31/06

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

	TE projects-1% of grant-repair WTP purchase display signs	Repair ETP (TE-1%-grant)	STP Lighting (TE-1% of grant)	Security cameras - 15 buses - 1% grant	Security cameras- NTP/ETP-1% grant	Garage ductwork & overhead doors	temp cntrls, doors & cages & HVAC makeupt units	ETP Park & Ride Lease/Construction	Transitfleet software and misc software	SHOP- Hybrid diag, jet eng wash, lawnmower, Hybrid overhd crn
Federal Section 5307 Grants										
WI90X357										
WI90X419										
WI90X438										
WI90X452			\$ 10,000.00			\$ 24,000.00	\$ 30,000.00	\$ 27,763.00	\$ 70,672.00	\$ 13,011.00
FFY07 Grant	\$ 61,000.00	\$ 35,000.00		\$ 50,000.00	\$ 25,000.00			\$ 74,501.00	\$ 210,000.00	\$ 49,118.00
Total Section 5307	\$ 61,000.00	\$ 35,000.00	\$ 10,000.00	\$ 50,000.00	\$ 25,000.00	\$ 24,000.00	\$ 30,000.00	\$ 27,763.00	\$ 145,173.00	\$ 223,011.00
Federal Section 5309 Grants (Fixed Guideway)										
WI050001										
FFY07 Grant										
Total Section 5309	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State Section 5309 Grants (discretionary)										
WI030080										
WI030084										
WI030087										
WI030091										
WI040003										
FFY07 Grant										
Total State 5309	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 190,000.00	\$ 43,240.00	\$ 12,237.00	\$ -	\$ -
Total Capital Grants	\$ 61,000.00	\$ 35,000.00	\$ 10,000.00	\$ 50,000.00	\$ 25,000.00	\$ 214,000.00	\$ 73,240.00	\$ 40,000.00	\$ 145,173.00	\$ 223,011.00
OTHER GRANTS:										
Transport 2020 Grants										
WI170002										
WI260012										
WI390001										
FFY07 Grant										
Total Transport 2020 (SG67)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Grants										
TDM Grants										
WI37X011										
Total Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Madison Metro Transit

Year End Grant Status as of 12/31/06

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

	driver relief vehicles	Computer hardware & software repl & Metro security	Transport 2020 HNTB Consultants	2008 buses	2007 Hybrid Buses	2007 Cutaway Buses	2007 MPO	Prev Maint, tires, office lease, Paramsit & ACM	Total Budgeted Projects
Federal Section 5307 Grants									
WI90X357									\$ -
WI90X419									\$ 13,011.00
WI90X438									\$ 411,553.00
WI90X452					\$ 541,784.00		\$ 47,000.00	\$ 424,671.00	\$ 1,097,956.00
FFY07 Grant	\$ 15,000.00	\$ 70,000.00		\$ 1,639,913.00				\$ 5,859,142.00	\$ 7,778,055.00
Total Section 5307	\$ 15,000.00	\$ 70,000.00		\$ 1,639,913.00	\$ 541,784.00	\$ -	\$ 47,000.00	\$ 6,283,813.00	\$ 9,300,575.00
Federal Section 5309 Grants (Fixed Guideway)									
WI050001					\$ 981,141.00				\$ -
FFY07 Grant			\$ 1,100,323.00						\$ 981,141.00
Total Section 5309	\$ -	\$ -	\$ 1,100,323.00	\$ 981,141.00	\$ -	\$ -	\$ -	\$ -	\$ 1,100,323.00
State Section 5309 Grants (discretionary)									
WI030080		\$ 90,004.00							\$ 90,004.00
WI030084									\$ -
WI030087									\$ -
WI030091				\$ 275,288.00		\$ 413,896.00			\$ 245,477.00
WI040003				\$ 1,287,459.00					\$ 687,184.00
FFY07 Grant			\$ 1,135,766.00						\$ 2,139,534.00
Total State 5309	\$ -	\$ -	\$ 2,786,517.00	\$ 852,075.00	\$ 413,896.00	\$ -	\$ -	\$ -	\$ 1,135,766.00
Total Capital Grants	\$ 15,000.00	\$ 70,000.00	\$ -	\$ 5,526,753.00	\$ 2,375,000.00	\$ 413,896.00	\$ 47,000.00	\$ 6,283,813.00	\$ 15,680,004.00
OTHER GRANTS:									
Transport 2020 Grants									
WI170002			\$ -						\$ -
WI260012			\$ 1,980,000.00						\$ 1,980,000.00
WI390001			\$ 857,002.00						\$ 857,002.00
FFY07 Grant			\$ 293,036.00						\$ 293,036.00
Total Transport 2020 (SG67)			\$ 3,130,038.00						\$ 3,130,038.00
Other Grants									
TDM Grants									
WI37X011									\$ 89,462.00
Total Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 89,462.00

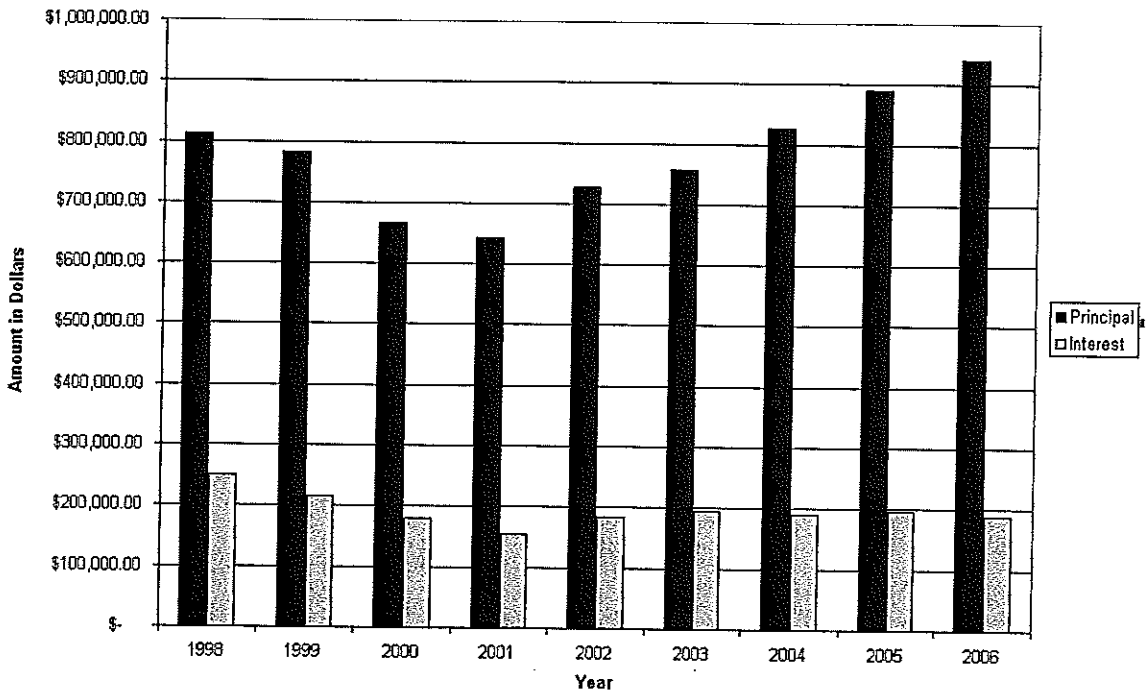
METRO TRANSIT SYSTEM

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 percent of funding is derived from federal grant sources and the balance from local borrowing. The City has a Triple A bond rating. Borrowing and debt service is carefully managed by the City.

Principal & Interest



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 Governmental 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 notes to the financial report for a summary of Metro's significant accounting policies.

Condensed Statements

The following Condensed Statements found in Table 1 and Table 2 below are 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.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Table 1

Condensed Statements of Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current and Other Assets	\$ 10,923,454	\$ 7,414,568	\$ 9,077,105
Capital Assets ¹	<u>39,043,836</u>	<u>39,470,159</u>	<u>39,583,691</u>
Total Assets	<u>49,967,290</u>	<u>46,884,727</u>	<u>48,660,796</u>
Long-Term Debt ²	9,435,805	9,625,768	10,008,410
Other Liabilities	<u>11,250,926</u>	<u>7,424,645</u>	<u>7,914,659</u>
Total Liabilities	<u>20,686,731</u>	<u>17,050,413</u>	<u>17,923,069</u>
Investment in Capital Assets, Net of Related Debt ³	34,102,845	34,547,560	34,853,890
-Unrestricted (Deficit)	<u>(4,822,286)</u>	<u>(4,713,246)</u>	<u>(4,116,163)</u>
Total Net Assets	<u>\$ 29,280,559</u>	<u>\$ 29,834,314</u>	<u>\$ 30,737,727</u>

¹ See page 26, Note 2 for details in this Audit report

² See page 28, Note 4 for details in this Audit report

³ See page 24, 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 Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Revenues	\$ <u>11,275,078</u>	\$ <u>10,593,577</u>	\$ <u>9,314,517</u>
Depreciation Expense	5,492,831	5,562,700	5,220,947
Other Operating Expenses	43,012,377	40,550,177	38,791,198
Non-Operating Expenses ¹	<u>420,395</u>	<u>431,205</u>	<u>310,032</u>
Total Expenses	<u>48,925,603</u>	<u>46,544,082</u>	<u>44,322,177</u>
Operating Subsidies ¹	<u>23,182,850</u>	<u>22,397,531</u>	<u>22,328,238</u>
Income Before Capital Contributions and Transfers	(14,467,675)	(13,552,974)	(12,679,422)
Capital Contributions ²	5,085,122	5,317,290	7,426,129
Transfers	<u>8,828,798</u>	<u>7,332,271</u>	<u>6,221,944</u>
Changes in Net Assets	<u>(553,755)</u>	<u>(903,413)</u>	<u>968,651</u>
Beginning Net Assets	<u>29,834,314</u>	<u>30,737,727</u>	<u>29,769,076</u>
Ending Net Assets	<u>\$ 29,280,559</u>	<u>\$ 29,834,314</u>	<u>\$ 30,737,727</u>

¹ See page 5 (Income Statement) and page 7 (Revenue and Expense Comparison Graph) in this MD&A report for more detail.

² See pages 8-10 (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, 1101 East Washington Avenue, Madison WI 53703 or by e-mail to ckamp@cityofmadison.com.

Respectfully submitted,

Charles L. Kamp
Metro Transit General Manager

METRO TRANSIT SYSTEM

STATEMENTS OF NET ASSETS December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ -	\$ 1,938,375
Restricted cash - retiree health insurance escrow	134,135	138,403
Receivable from State of Wisconsin and FTA - capital and maintenance	5,773,464	429,969
Receivable from other governmental units	1,476,178	1,702,591
Accounts receivable	1,383,134	1,241,303
Materials and supplies	557,000	571,754
Prepaid expenses	460,558	423,683
Current portion of prepaid expense - land and tower lease	<u>30,287</u>	<u>31,477</u>
Total Current Assets	<u>9,814,756</u>	<u>6,477,555</u>
NON-CURRENT ASSETS		
Restricted cash - retiree health insurance escrow	802,170	600,198
Other Assets		
Prepaid expenses - land and tower lease	306,528	336,815
Capital Assets		
Transit plant in service	80,778,546	76,970,688
Accumulated depreciation	(41,777,115)	(38,002,216)
Construction work in progress	<u>42,405</u>	<u>501,687</u>
Total Non-Current Assets	<u>40,152,534</u>	<u>40,407,172</u>
Total Assets	<u>49,967,290</u>	<u>46,884,727</u>

LIABILITIES

	<u>2006</u>	<u>2005</u>
CURRENT LIABILITIES		
Due to city	\$ 3,883,238	\$ -
Current portion of general obligation debt	901,674	900,531
Current portion of advance from other funds	52,175	39,432
Current portion of deferred revenue - land and tower lease	27,928	29,050
Accounts payable	896,557	1,031,558
Accrued compensation and vacation	1,505,096	1,451,233
Accrued interest	239,675	243,873
Deferred revenue - MGE Ultra Low Sulfur Diesel Subsidy	-	65,513
Retiree health insurance escrow	134,135	138,403
Other deferred credits	<u>22,648</u>	<u>502,364</u>
Total Current Liabilities	<u>7,663,126</u>	<u>4,401,957</u>
NON CURRENT LIABILITIES		
General obligation debt	4,111,553	4,263,227
Advance from other funds	4,370,403	4,422,578
Retiree health insurance escrow	802,170	600,198
Accrued sick leave	3,463,040	3,058,086
Deferred revenue - land and tower lease	<u>276,439</u>	<u>304,367</u>
Total Non-Current Liabilities	<u>13,023,605</u>	<u>12,648,456</u>
 Total Liabilities	 <u>20,686,731</u>	 <u>17,050,413</u>
	NET ASSETS	
NET ASSETS		
Invested in capital assets, net of related debt	34,102,845	34,547,560
Unrestricted (Deficit)	<u>(4,822,286)</u>	<u>(4,713,246)</u>
 TOTAL NET ASSETS	 <u>\$ 29,280,559</u>	 <u>\$ 29,834,314</u>

See accompanying notes to financial statements.

METRO TRANSIT SYSTEM

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES	\$ 11,275,078	\$ 10,593,577
OPERATING EXPENSES		
Employee compensation and benefits	31,354,998	30,199,502
Materials and supplies	4,449,464	3,712,784
Purchased services	6,544,473	6,045,880
Interagency charges	663,442	592,011
Total Operation and Maintenance Expenses	<u>43,012,377</u>	<u>40,550,177</u>
Depreciation expense	<u>5,492,831</u>	<u>5,562,700</u>
Total Operating Expenses	<u>48,505,208</u>	<u>46,112,877</u>
Operating Loss	<u>(37,230,130)</u>	<u>(35,519,300)</u>
OPERATING SUBSIDIES		
Federal subsidies	5,127,174	4,840,216
State operating subsidies	15,470,200	15,180,839
Other state subsidies	62,217	9,983
Local public subsidies	<u>2,523,259</u>	<u>2,366,493</u>
Total Operating Subsidies	<u>23,182,850</u>	<u>22,397,531</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest expense	<u>(420,395)</u>	<u>(431,205)</u>
Loss Before Contributions and Transfers	<u>(14,467,675)</u>	<u>(13,552,974)</u>
CAPITAL CONTRIBUTIONS - CITY & OTHER	1,031,914	983,146
CAPITAL CONTRIBUTIONS - FEDERAL & STATE	4,053,208	4,334,144
TRANSFERS IN - MPO	9,534	9,097
TRANSFERS IN - CITY OPERATING SUBSIDIES	<u>8,819,264</u>	<u>7,323,174</u>
Total Contributions and Transfers	<u>13,913,920</u>	<u>12,649,561</u>
CHANGE IN NET ASSETS	(553,755)	(903,413)
NET ASSETS - Beginning of Year	<u>29,834,314</u>	<u>30,737,727</u>
NET ASSETS - End of Year	<u>\$ 29,280,559</u>	<u>\$ 29,834,314</u>

See accompanying notes to financial statements.

METRO TRANSIT SYSTEM

STATEMENTS OF CASH FLOWS December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 10,558,968	\$ 10,724,680
Paid to suppliers for goods and services	(20,950,990)	(20,004,448)
Paid to employees for services	(21,528,085)	(20,914,603)
Cash Flows from Operating Activities	<u>(31,920,107)</u>	<u>(30,194,371)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Received from city for implicit financing	3,883,238	-
Operating subsidies received - federal	301,997	4,993,790
Operating subsidies received - state	15,493,845	15,176,883
Operating subsidies received - local	2,756,781	1,858,664
Operating transfer from city	8,819,264	7,323,174
Cash Flows from Noncapital Financing Activities	<u>31,255,125</u>	<u>29,352,511</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt retired	(939,963)	(985,642)
Interest paid	(424,593)	(367,757)
Proceeds from issuance of general obligation debt	750,000	603,000
Acquisition and construction of capital assets	(5,066,509)	(5,969,870)
Capital contributions - city	1,031,914	983,146
Capital contributions - federal and state	3,573,462	6,156,816
Cash Flows From Capital and Related Financing Activities	<u>(1,075,689)</u>	<u>419,693</u>
Net Change in Cash and Cash Equivalents	(1,740,671)	(422,167)
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>2,676,976</u>	<u>3,099,143</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ <u>936,305</u>	\$ <u>2,676,976</u>

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH		
FLOW FROM OPERATING ACTIVITIES		
Operating loss	\$ (37,230,130)	\$ (35,519,300)
Noncash items included in operating loss		
Depreciation expense	5,492,831	5,562,700
Changes in Assets and Liabilities		
Accounts receivable	(141,831)	(220,524)
Materials and supplies	14,754	(22,637)
Prepaid expenses	(5,399)	(868)
Accrued payroll liabilities	53,863	71,176
Accrued compensated absences	602,658	213,322
Accounts payable	(135,001)	(632,363)
Other deferred credits	(571,852)	354,123
	<u>(571,852)</u>	<u>354,123</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ (31,920,107)	\$ (30,194,371)
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO		
STATEMENT OF NET ASSETS ACCOUNTS		
Cash	\$ -	\$ 1,938,375
Restricted Cash - Retiree Health Insurance Escrow	936,305	738,601
	<u>936,305</u>	<u>738,601</u>
CASH AND CASH EQUIVALENTS	\$ 936,305	\$ 2,676,976

See accompanying notes to financial statements.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

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, Verona, Town of Madison, Shorewood Hills, the Madison Metropolitan School District, and the University of Wisconsin. 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 approximately 200 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 the 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 the 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Metro's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Transits also have the option of following subsequent private-sector guidance subject to this same limitation. Metro has elected not to follow subsequent private-sector guidance.

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, 2006 and 2005

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

ASSETS, LIABILITIES, AND NET ASSETS

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, 2006 and 2005

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

ASSETS, LIABILITIES, AND NET ASSETS (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 \$19,482 and \$12,215 are included in 2006 and 2005, 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 average prices and charged to operation and maintenance expense when used. An allowance of \$50,000 for obsolete materials is included in 2006 and 2005.

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 \$2,000 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.

The provision for depreciation shown in the financial statements results from the application of straight-line rates to original costs.

A summary of capital assets and depreciation lives follows:

	Balance <u>12/31/06</u>	Balance <u>12/31/05</u>	Years
Land	\$ 2,753,812	\$ 2,753,812	
Building	11,472,331	11,309,946	5 – 40
Curb and land improvements	6,384,000	6,017,059	5
Revenue equipment	50,285,696	47,118,542	8 – 20
Service vehicles	523,765	520,115	4 – 5
Shop and garage equipment	1,503,702	1,488,418	3 – 10
Furniture and office equipment	1,289,699	1,200,362	3 – 10
Miscellaneous and farebox	<u>6,565,541</u>	<u>6,562,434</u>	3 – 15
Total Capital Assets	<u>\$ 80,778,546</u>	<u>\$ 76,970,688</u>	

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

ASSETS, LIABILITIES, AND NET ASSETS (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 the operating revenues of Metro. The estimated liability for current employees at December 31, 2006 and 2005 is \$3,463,040 and \$3,058,086, respectively.

Employees earn varying amounts of vacation depending on the number of years of service. Vacation time 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.

For financial reporting purposes, accrued sick leave for retired employees and accrued vacation time are shown as part of accrued compensation and vacation.

Retiree Health Insurance Escrow

Metro will pay the health insurance premiums for full-time employees in a position represented by Teamsters Local 695, who elect to retire on or after reaching age 55 and having completed ten (10) continuous years of full-time service with Metro. The benefits are available for employees under the Wisconsin Public Employers' Group Health Insurance Plans and are subject to the terms and conditions of the chosen health plan. The cost of those premiums is recognized as an expenditure as the premiums are paid. Funding for those costs is provided out of the current operating budget of the Metro. On an annual basis, Metro will deposit \$303,000 into an escrow account, which will be used for contributions toward the premiums. Interest earned on the account, less an administrative fee to the city, will be added annually. The contributions are financed on a pay-as-you-go basis. Total expenditures for such premiums during the year were \$303,000. The number of participants currently eligible to receive benefits is 74. The total amount outstanding at December 31, 2006 and 2005 to be paid in the future is approximately \$936,305 and \$738,601, respectively. Retirees will be eligible for premium contributions to the extent that funds are available in the escrow account. Metro will not be required to make any additional payments to the account should the cost of providing premium contributions exceed the amount deposited.

Other Deferred Credits

Other deferred credits at December 31, 2005 consist of advanced ticket and pass sales for 2006 from Madison Metropolitan School District and the City of Verona for \$253,439 and insurance proceeds for a new bus that will be purchased in 2006 for \$248,925. At December 31, 2006 deferred credits related solely to advanced ticket and pass sales.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

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

ASSETS, LIABILITIES, AND NET ASSETS (cont.)

Long-Term Obligations

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

Net Assets

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

- *Invested in capital assets, net of related debt* – This component of net assets 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 invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted* – This component of net assets consists of constraints placed on net asset 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 currently has no restricted assets or restricted net assets.

- *Unrestricted net assets* – The component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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.

The following calculation supports the net assets invested in capital assets, net of related debt:

	2006	2005
Plant in service	\$ 80,778,546	\$ 76,970,688
Accumulated depreciation	(41,777,115)	(38,002,216)
Construction work in progress	42,405	501,687
Sub-Totals	39,043,836	39,470,159
Less: Capital related debt		
Current portion of general obligation bonds	901,674	900,531
Long-term portion of capital related general obligation bonds	4,111,553	4,263,227
Sub-Totals	5,013,227	5,163,758
Add unspent proceeds of capital-related debt included above	72,236	241,159
Total Net Assets Invested in Capital Assets, Net of Related Debt	\$ 34,102,845	\$ 34,547,560

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

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 4, Metro also receives operating revenues 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 assets.

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.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 2 – CHANGES IN CAPITAL ASSETS

A summary of changes in Metro capital assets for 2006 and 2005 follows:

	Balance 1/1/06	Additions	Retirements	Adjustments	Balance 12/31/06
Capital assets, not being depreciated					
Land	\$ 2,753,812	\$ -	\$ -	\$ -	\$ 2,753,812
Capital assets being depreciated					
Building and improvements	11,309,946	162,385	-	-	11,472,331
Curb and land improvements	6,017,059	373,728	(6,787)	-	6,384,000
Revenue vehicles	47,118,542	4,777,582	(1,610,428)	-	50,285,696
Service vehicles	520,115	10,100	(6,450)	-	523,765
Shop and garage equipment	1,488,418	15,575	(291)	-	1,503,702
Office equipment	1,200,362	109,081	(19,744)	-	1,289,699
Miscellaneous and farebox	6,562,434	77,339	(74,232)	-	6,565,541
Total Capital Assets Being Depreciated	74,216,876	5,525,790	(1,717,932)	-	78,024,734
Total Capital Assets	76,970,688	5,525,790	(1,717,932)	-	80,778,546
Less: Accumulated depreciation					
Building and improvements	(6,415,989)	(372,943)	-	-	(6,788,932)
Curb and land improvements	(3,432,172)	(422,977)	6,787	-	(3,848,362)
Revenue vehicles	(24,885,256)	(3,729,874)	1,610,428	5,394	(26,999,308)
Service vehicles	(470,981)	(35,281)	6,450	-	(499,812)
Shop and garage equipment	(1,331,288)	(79,542)	291	-	(1,410,539)
Office equipment	(615,576)	(140,898)	19,744	-	(736,730)
Miscellaneous and farebox	(850,954)	(717,258)	74,232	548	(1,493,432)
Total Accumulated Depreciation	(38,002,216)	(5,498,773)	1,717,932	5,942	(41,777,115)
Construction in progress	501,687	97,634	(556,916)	-	42,405
Net Transit System Plant	\$ 39,470,159				\$ 39,043,836

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE 2 – CHANGES IN CAPITAL ASSETS (cont.)

	Balance 1/1/05	Additions	Retirements	Balance 12/31/05
Capital assets, not being depreciated				
Land	\$ 2,753,812	\$ -	\$ -	\$ 2,753,812
Capital assets being depreciated				
Building and improvements	11,107,313	237,629	(34,996)	11,309,946
Curb and land improvements	6,023,233	-	(6,174)	6,017,059
Revenue vehicles	45,541,079	4,087,260	(2,509,797)	47,118,542
Service vehicles	520,115	-	-	520,115
Shop and garage equipment	1,496,725	2,285	(10,592)	1,488,418
Office equipment	800,846	437,680	(38,164)	1,200,362
Miscellaneous and farebox	3,302,100	5,253,539	(1,993,205)	6,562,434
Total Capital Assets Being Depreciated	68,791,411	10,018,393	(4,592,928)	74,216,876
Total Capital Assets	71,545,223	10,018,393	(4,592,928)	76,970,688
Less: Accumulated depreciation				
Building and improvements	(6,076,774)	(374,211)	34,996	(6,415,989)
Curb and land improvements	(3,007,721)	(430,625)	6,174	(3,432,172)
Revenue vehicles	(23,450,843)	(3,944,210)	2,509,797	(24,885,256)
Service vehicles	(430,308)	(40,673)	-	(470,981)
Shop and garage equipment	(1,235,634)	(106,246)	10,592	(1,331,288)
Office equipment	(521,143)	(132,597)	38,164	(615,576)
Miscellaneous and farebox	(2,310,021)	(534,138)	1,993,205	(850,954)
Total Accumulated Depreciation	(37,032,444)	(5,562,700)	4,592,928	(38,002,216)
Construction in progress	5,070,913	783,426	5,352,652	501,687
Net Transit System Plant	\$ 39,583,692			\$ 39,470,159

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 3 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances for the years ended December 31, 2006 and 2005:

Due To	Due From	2006		2005	
		Amount	Purpose	Amount	Purpose
City of Madison	Metro	\$ 3,883,238	Implicit cash financing	\$ -	

The following is a schedule of transfer balances as of December 31, 2006 and 2005.

To	From	2006		2005	
		Amount	Principal Purpose	Amount	Principal Purpose
Metro	City of Madison	\$ 8,819,264	City operating subsidy	\$ 7,323,174	City operating subsidy
Metro	City of Madison	9,534	Local share of MPO grant	9,097	Local share of MPO grant

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 12/31/06
Promissory note	8-1-96	11-1-06	5.50 -4.50%	\$ 739,000	\$ -
Promissory note	5-1-97	5-1-07	5.10 -5.60%	1,196,050	119,605
Promissory note	5-1-98	5-1-08	4.05 -4.35%	802,560	160,512
Promissory note	7-1-99	7-1-09	4.00 -4.45%	682,900	204,870
Promissory note	7-1-00	7-1-10	5.25 -5.50%	238,000	95,200
Promissory note	8-1-01	8-1-11	4.00 -4.38%	844,400	422,200
Promissory note	8-1-02	8-1-12	3.00 -4.00%	1,314,400	788,640
Promissory note	9-15-03	9-1-13	2.00 -4.00%	1,385,000	969,500
Promissory note	10-1-04	10-1-14	3.00 -3.65%	1,200,000	960,000
Promissory note	10-1-05	10-1-15	3.50 -5.00%	603,000	542,700
Promissory note	10-1-06	10-1-16	4.00%	750,000	750,000
Total					\$ 5,013,227

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

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 4 -- LONG-TERM OBLIGATIONS (cont.)

Year	5-1-97		5-1-98		7-1-99		7-1-00		8-1-01		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2007	\$ 119,605	\$ 3,588	\$ 80,256	\$ 5,216	\$ 68,290	\$ 7,614	\$ 23,800	\$ 4,582	\$ 84,440	\$ 17,796	
2008	-	-	80,256	1,745	68,290	4,592	23,800	3,273	84,440	14,334	
2009	-	-	-	-	68,290	1,537	23,800	1,934	84,440	10,872	
2010	-	-	-	-	-	-	23,800	565	84,440	7,283	
2011	-	-	-	-	-	-	-	-	84,440	3,693	
Totals	\$ 119,605	\$ 3,588	\$ 160,512	\$ 6,961	\$ 204,870	\$ 13,743	\$ 95,200	\$ 10,354	\$ 422,200	\$ 53,978	

Year	8-1-02		9-15-03		10-1-04		10-1-05		10-1-06		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2007	\$ 131,440	\$ 28,095	\$ 138,500	\$ 33,413	\$ 120,000	\$ 30,180	\$ 60,300	\$ 23,517	\$ 75,043	\$ 30,000	\$ 901,674
2008	131,440	24,152	138,500	29,258	120,000	26,580	60,300	20,804	75,043	26,998	782,069
2009	131,440	19,880	138,500	25,103	120,000	22,980	60,300	17,788	75,043	23,997	701,813
2010	131,440	15,280	138,500	20,948	120,000	19,380	60,300	14,774	75,043	20,995	633,523
2011	131,440	10,351	138,500	16,274	120,000	15,780	60,300	11,758	75,043	17,993	609,723
2012	131,440	5,258	138,500	11,080	120,000	12,180	60,300	9,648	75,043	14,991	525,283
2013	-	-	138,500	5,540	120,000	8,340	60,300	7,236	75,042	11,990	393,842
2014	-	-	-	-	120,000	4,380	60,300	4,824	74,900	8,988	255,200
2015	-	-	-	-	-	-	60,300	2,412	74,900	5,992	135,200
2016	-	-	-	-	-	-	-	-	74,900	2,996	74,900
Totals	\$ 788,640	\$ 103,016	\$ 969,500	\$ 141,616	\$ 960,000	\$ 139,800	\$ 542,700	\$ 112,761	\$ 750,000	\$ 164,940	\$ 5,013,227

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

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 12/31/06
May 1, 1997	Capital expenses	May 1, 2007	5.0 – 6.0%	\$ 21,138	\$ 2,113
July 1, 2004	Pay off WRS Prior Service Liability	March 15, 2024	5.25%	4,551,081	4,420,465

Advance from other funds debt service requirements to maturity follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 52,175	\$ 232,137	\$ 284,312
2008	64,170	230,075	294,245
2009	79,189	226,077	305,266
2010	96,028	221,920	317,948
2011	113,322	216,878	330,200
2012	132,436	211,507	343,943
2013	153,371	203,976	357,347
2014	176,582	195,924	372,506
2015	201,613	186,654	388,267
2016	228,464	176,551	405,015
2017	258,501	164,074	422,575
2018	289,904	150,503	440,407
2019	324,947	135,283	460,230
2020	362,721	118,547	481,268
2021	403,226	99,181	502,407
2022	446,916	78,011	524,927
2023	493,337	54,548	547,885
2024	545,676	28,726	574,402
Totals	<u>\$ 4,422,578</u>	<u>\$ 2,930,572</u>	<u>\$ 7,353,150</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

Metro's long-term obligation activity for the years ended December 31, 2006 and 2005 is as follows:

	<u>Balance</u> <u>1/1/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/06</u>	<u>Due Within</u> <u>One Year</u>
General obligation notes	\$ 5,163,758	\$ 750,000	\$ 900,531	\$ 5,013,227	\$ 901,674
Advance from other funds	4,462,010	-	39,432	4,422,578	52,175
Retiree health insurance escrow	738,601	336,107	138,403	936,305	134,135
Accrued sick leave	3,058,086	536,365	131,411	3,463,040	131,411
Deferred revenue-land and tower lease	<u>333,417</u>	<u>-</u>	<u>29,050</u>	<u>304,367</u>	<u>27,928</u>
Totals	<u>\$ 13,755,872</u>	<u>\$ 1,622,472</u>	<u>\$ 1,238,827</u>	<u>\$ 14,139,517</u>	<u>\$ 1,247,323</u>

	<u>Balance</u> <u>1/1/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/05</u>	<u>Due Within</u> <u>One Year</u>
General obligation notes	\$ 5,450,989	\$ 603,000	\$ 890,231	\$ 5,163,758	\$ 900,531
Advance from other funds	4,557,421	-	95,411	4,462,010	39,432
Retiree health insurance escrow	505,838	316,108	83,345	738,601	138,403
Accrued sick leave	3,077,527	271,011	290,452	3,058,086	105,919
Deferred revenue – Land and tower lease	<u>363,653</u>	<u>-</u>	<u>30,236</u>	<u>333,417</u>	<u>29,050</u>
Totals	<u>\$ 13,955,428</u>	<u>\$ 1,190,119</u>	<u>\$ 1,389,675</u>	<u>\$ 13,755,872</u>	<u>\$ 1,213,335</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE 5 – OPERATING SUBSIDIES

Metro receives operating subsidies from state and local governments. Federal subsidies are received for operating 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, and the Village of Shorewood Hills. Metro has additional contracts with the University of Wisconsin, Madison Area Technical College, Madison Metropolitan School District and Dane County. Contracts are executed with all entities defining subsidy amounts and procedures.

The following are the operating subsidies for the years 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Federal	\$ 5,127,174	\$ 4,840,216
State	15,470,200	15,180,839
Other state subsidies	62,217	9,983
Local public subsidies	2,523,259	2,366,493
City of Madison	8,819,264	7,323,174
Dane County	2,653,136*	2,496,480*

* Amount shown with total operating revenues as directed by the FTA guidance for these types of programs. Detail located on page 39.

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 the statements.

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

During 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 is \$96,250. The lease is 25 years in length and has been fully prepaid. The revenues received to pay for the lease has been deferred and will be recognized using the straight-line method over the life of the lease.

During 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 have been fully prepaid. The revenues received to pay for the two leases have been deferred and will be recognized using the straight-line method over the life of the leases.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

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

During 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 have been fully prepaid. The revenues received to pay for these leases have been deferred and will be recognized using the straight-line method over the life of the leases.

NOTE 7 – EMPLOYEES RETIREMENT SYSTEMS

All eligible Metro employees participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees in the General category are required by statute to contribute 5.0% for 2006 and 5.0% for 2005 of their salary to the plan. Employers generally make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

	Year Ended December 31, 2005		
	2006	2005	2004
Total Covered Metro Payroll	\$ 20,823,995	\$ 20,698,310	\$ 20,113,952
Total Required Contributions	\$ 1,978,279	\$ 1,945,641	\$ 1,890,712
Total Required Contributions (%)	9.5%	9.4%	9.4%

Total Metro payroll is substantially the same as payroll covered by the Wisconsin Retirement System. Details of the plan are disclosed in the general purpose financial statements of the City of Madison for the years ended December 31, 2006 and 2005.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 8 – RISK MANAGEMENT

The city 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.

The city is self-insured for worker's compensation claims. The city is partially self-funded and participates in public entity risk pool for liability and transit system property losses.

TRANSIT MUTUAL INSURANCE CORPORATION OF WISCONSIN (TMI)

The Transit Mutual Insurance Corporation of Wisconsin is an organization of Wisconsin municipalities which have joined together for the managing and funding of the first party property losses and third party liability claims of its member municipalities mass transit funds.

In 2006, the TMI is protected by a \$2,000,000 self-insurance policy. In addition to the TMI protection, the City of Madison, combined together with other members of Wisconsin Municipal Transit Insurance Commission, are covered by a \$5,000,000 excess insurance policy issued by General Reinsurance Corporation effective January 1, 2006 through January 1, 2007.

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

Initial contributions are determined in advance of each membership year. 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 membership year. Members have a contractual obligation to fund any deficit attributable to a membership year during which they were a member. The city's share of this organization is 34.79%. A list of the other members is available in the TMI report.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 9 – BASIS FOR EXISTING FARES

Current fares were made effective September 14, 2006 as approved by the Transit and Parking Commission.

NOTE 10 – COMMITMENTS

In 2006 and 2005, Metro provided funding through various grants and provided grant management functions for a number of transportation services and studies in the greater Madison area, including:

METROPOLITAN PLANNING ORGANIZATION (MPO) PLANNING

In 2006, Metro provided \$40,149 to the MPO of Transportation System Management (TSM) planning, short-range studies, Transportation Improvement Program (TIP) development, ridesharing, bikeways and other corridor studies, from its annual FTA Section 5307 appropriation. The MPO provided the local share of \$9,534, for a total of \$49,683.

In 2005, Metro provided \$36,397 to the MPO of Transportation System Management (TSM) planning, short-range studies, Transportation Improvement Program (TIP) development, ridesharing, bikeways and other corridor studies, from its annual FTA Section 5307 appropriation. The MPO provided the local share of \$9,097, for a total of \$45,494.

RETIRED SENIOR VOLUNTEER PERSONS (RSVP) OF DANE COUNTY

In 2006, Metro provided \$58,159 in Wisconsin Department of Transportation Section 85.20 funds to Dane County for door-to-door volunteer driver escort services for the elderly and disabled in the Metro Transit System service area. Dane County provided \$78,609 toward this program for a total expense of \$136,768. The Dane County share was recorded as revenue.

In 2005, Metro provided \$58,159 in Wisconsin Department of Transportation Section 85.20 funds to Dane County for door-to-door volunteer driver escort services for the elderly and disabled in the Metro Transit System service area. Dane County provided \$76,505 toward this program for a total expense of \$134,664. The Dane County share was recorded as revenue.

GROUP ACCESS SERVICE

In 2006, Metro provided \$134,594 in Section 85.20 funds to Dane County for Group Access Transportation to the elderly and disabled in the Metro Transit System service area. Dane County provided \$158,002 toward this program for a total expense of \$292,596. The Dane County share was recorded as revenue.

In 2005, Metro provided \$130,175 in Section 85.20 funds to Dane County for Group Access Transportation to the elderly and disabled in the Metro Transit System service area. Dane County provided \$152,814 toward this program for a total expense of \$282,989. The Dane County share was recorded as revenue.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE 10 – COMMITMENTS (cont.)

PARATRANSIT SERVICE CONTRACTS

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

NOTE 11 – MGE SUBSIDY FOR THE USE OF ULTRA LOW SULFUR DIESEL

In July of 2003, the City of Madison entered into a contract with MGE Energy, Inc. Part of this contract provided for a subsidy of \$200,000 from MGE Energy, Inc to help cover the increased cost of switching to Ultra Low Sulfur Diesel (ULSD) for Madison Metro's Fleet. Only \$134,487 of this subsidy was utilized in 2005. The remaining \$65,513 was utilized in 2006.

SUPPLEMENTAL INFORMATION



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Common Council
Metro Transit System
Madison, Wisconsin

We have audited the financial statements of Metro Transit System as of and for the year ended December 31, 2006, and have issued our report thereon dated June 28, 2007. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Metro Transit System (Metro) as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered Metro's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Metro's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Metro's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Metro's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Metro's financial statements that is more than inconsequential will not be prevented or detected by Metro's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Metro's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in Metro's internal control over financial reporting that might be significant deficiencies or material weaknesses. As outlined in the report on internal controls to management, we identified a material weakness in financial reporting as management was unable to provide financial statements requiring no significant modifications by the auditor.

To the Honorable Mayor and Common Council
Metro Transit System

Compliance

As part of obtaining reasonable assurance about whether Metro Transit System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Honorable Mayor and Common Council, management, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Madison, Wisconsin
June 28, 2007

Verchow Krause & Company LLP

METRO TRANSIT SYSTEM

OPERATING REVENUES AND EXPENSES

December 31, 2006 and 2005

OPERATING REVENUES	2006	2005
Passenger Fares for Transit Services		
Farebox revenues	\$ 1,301,370	\$ 1,126,704
Adult ticket revenue	821,332	878,206
Student ticket revenue	347,808	307,401
Elderly and handicapped revenue	233,763	231,500
Monthly/Daily Pass revenue	1,043,530	1,109,674
Summer youth passes	19,930	18,460
Easy rider pass - all days	274,541	240,552
UW Student Unlimited Ride Pass agreement revenue	1,944,571	1,899,824
UW Routes 80-82 and 53	197,195	190,000
UW/UW Hospital Employee Unlimited Ride Pass agreement	997,997	869,832
Edgewood College Unlimited Ride Pass agreement	42,552	27,113
MMSD passes	521,890	369,025
MATC Unlimited Ride Pass agreement	273,093	232,979
St Marys Unlimited Ride Pass agreement	19,295	18,333
City of Madison Employee Unlimited Ride Pass agreement	70,777	32,413
Supplemental taxi revenue	67,677	61,052
Group Access Service	14,528	16,270
Total Passenger Fares for Transit Service	8,191,849	7,629,338
Other Operating Revenues		
Advertising revenue	256,414	169,112
Sale of scrap and parts	10,926	4,762
Other operating revenues - New Year's Eve contributions and other	162,753	293,885
Other operating revenue - Dane County - MA Waiver	2,193,249	2,057,602
Other operating revenue - Dane County - Elderly & Handicapped	109,105	88,059
Other operating revenue - Dane County - Group Access Service	158,002	152,814
Other operating revenue - Dane County - Group RSVP Service	78,609	76,505
Other operating revenue - Dane County - Exceptional Rides	94,891	102,220
Other operating revenue - Dane County - Highway (Marketing)	19,280	19,280
Total Other Operating Revenues	3,083,229	2,964,239
Total Operating Revenues	11,275,078	10,593,577
OPERATING EXPENSES		
Operation and Maintenance Expenses		
Employee compensation and benefits		
Salaries and wages	21,528,085	20,914,603
Pensions and benefits	9,826,913	9,284,899
Total Employee Compensation and Benefits	31,354,998	30,199,502
Materials and supplies	4,449,464	3,712,784
Purchased services	6,544,473	6,045,880
Interagency charges	663,442	592,011
Total Operation and Maintenance Expenses	43,012,377	40,550,177
Depreciation expense	5,492,831	5,562,700
Total Operating Expenses	48,505,208	46,112,877
 NET OPERATING LOSS	 \$ (37,230,130)	 \$ (35,519,300)

METRO TRANSIT SYSTEM

DETAILED SCHEDULE OF REVENUES AND EXPENSES - REGULATORY BASIS December 31, 2006 and 2005

		2006	2005
REVENUES			
401.0	Passenger fares for transit service	\$ 8,191,849	\$ 7,629,338
402.0	Special transit fares - New Year's Eve contributions and other	17,956	21,632
402.1	Service charges, NSF charges, etc.	144,797	272,254
406.0	Auxiliary transportation revenue - advertising	256,414	169,112
407.1	Contra-expense for scrap and parts	10,926	4,762
409.1	Local public subsidies	2,523,259	2,366,493
409.3	City of Madison operating subsidy	8,819,264	7,323,174
409.4	Dane County specialized transportation programs	2,653,136	2,496,480
409.99	MPO Local Subsidy	9,534	9,097
411.0	State cash grants and reimbursements	15,532,417	15,190,822
413.0	Federal cash grants and reimbursements	5,127,174	4,840,216
	Total Eligible Revenues	43,286,726	40,323,380
EXPENSES - BY OBJECT CLASS TOTAL			
501.01	Operators' salaries and wages	11,850,066	11,632,735
501.02	Other salaries and wages	6,035,560	5,819,048
502.00	Fringe benefits	13,558,947	12,836,580
503.00	Services	477,410	916,334
504.01	Fuel and lubricants	3,274,176	2,587,341
504.02	Tires and tubes	150,957	129,239
504.99	Other materials and supplies	1,122,810	1,093,858
505.00	Utilities	692,165	665,800
506.00	Casualty and liability costs	598,680	526,058
507.00	Taxes	4,546	3,659
508.00	Purchased transportation	4,440,227	4,201,218
509.00	Miscellaneous expense	77,812	76,554
511.00	Interest expense	420,395	431,205
512.00	Leases and rentals	65,579	61,754
513.00	Depreciation	5,492,831	5,562,700
	Less: Ineligible depreciation on fixed assets	(5,492,831)	(5,562,700)
516.0	Other Reconciling Items	663,442	-
	Total Eligible Expenses	43,432,772	40,981,383
NET INCOME (excluding capital contributions and depreciation on fixed assets)		\$ (146,046)	\$ (658,003)

METRO TRANSIT SYSTEM

RECONCILIATION OF REVENUES AND EXPENSES TO WISDOT AND FEDERAL RECOGNIZED REVENUES AND EXPENSES For the Year Ended December 31, 2006

	Per WisDOT Guidelines
Revenues including subsidies and operating transfer	\$ 43,286,726
Less: Non-recognized revenues	
City operating transfer	\$ 8,819,264
Local public subsidies	5,176,395
MPO Local Subsidy	9,534
Other federal subsidy	5,127,174
State operating subsidy	15,532,417
Nontransportation revenues	
Sale of scrap and parts	10,926
Service charges, NSF charges, etc.	144,797
Total Non-Recognized Revenues	34,820,507
WisDOT Eligible Operating Revenues	\$ 8,466,219
Total Expenses per statement including interest expense	\$ 48,925,603
Add: Fixed assets eligible for operating assistance	-
Total Expenses	\$ 48,925,603
Less: Non-recognized expenses	
Depreciation	5,492,831
Interest expense	420,395
Bad debts	22,618
Offset of scrap sales and miscellaneous reimbursements	155,723
Capital Maintenance Grant @ 100%	6,408,968
Total WisDOT Non-Recognized Expenses	12,500,535
WisDOT Eligible Operating Expenses	\$ 36,425,068
WisDOT Recognized Deficit	\$ (27,958,849)
Less Operating revenues ineligible for federal assistance:	
Advertising revenue	256,414
Less Operating expenses ineligible for federal assistance:	
Leases and rentals	12,133
Interagency indirect charges without approved allocation plan (excludes MPO of \$49,683)	613,759
Federal Recognized Deficit	\$ (27,076,543)

METRO TRANSIT SYSTEM

COMPUTATION OF THE DEFICIT DISTRIBUTION AMONG THE SUBSIDY GRANTORS For the Year Ended December 31, 2006

STATE FUNDS

WisDOT Recognized Deficit	<u>\$ 27,958,849</u>	
WisDOT Contract Amount	<u>\$ 15,470,200</u>	
City of Madison and Other Local Subsidies	<u>\$ 11,342,523</u>	
5 Times Operating Subsidy	<u>\$ 56,712,615</u>	
State Share - Least of the Three		<u>\$ 15,470,200</u>

FEDERAL FUNDS

Federally Recognized Deficit	<u>\$ 27,076,543</u>	
50% of Federal Deficit		<u>\$ 13,538,272</u>
Federal Recognized Deficit	\$ 27,076,543	
Less: State share	<u>(15,470,200)</u>	
Non-State Share		<u>\$ 11,606,343</u>
Maximum Federal Share Per Grant Award	<u>\$ -</u>	
Federal Share - Least of the Three		<u>\$ -</u>
Federal operating revenue for current year capital maintenance		<u>\$ 5,127,174</u>

SUMMARY OF FUNDING (2006 only)

	<u>Received in 2006</u>	<u>Receivable 12/31/06</u>	<u>Totals</u>
Federal Operating Funds	\$ -	\$ -	\$ -
Federal Capital Maintenance	2,907,255	2,219,919	5,127,174
State Funds	15,479,906	52,511	15,532,417
Local Public Subsidies	2,447,862	75,397	2,523,259
City of Madison	<u>8,819,264</u>	<u>-</u>	<u>8,819,264</u>
Total Funding	<u>\$ 29,654,287</u>	<u>\$ 2,347,827</u>	<u>\$ 32,002,114</u>